

**ATTACHMENT 1-1**  
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**ATTACHMENT 4-1**  
Project Description – [REDACTED]



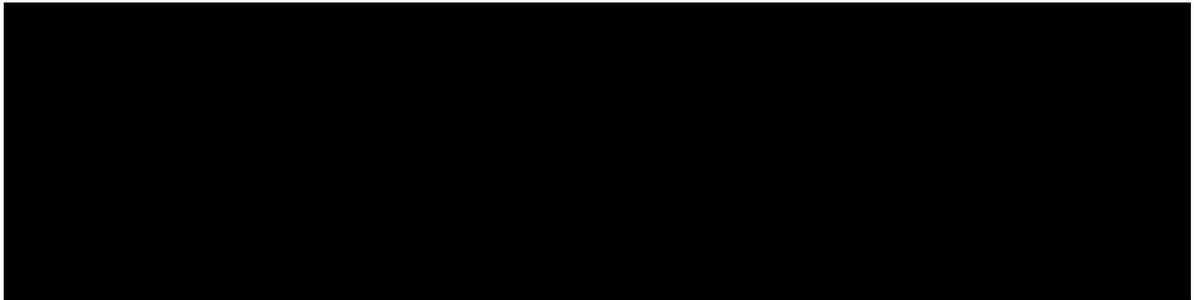
## 4 PROJECT DESCRIPTION AND SITE CONTROL



### 4.1 Project Site Property Rights

6.4.4 Identify the BOEM wind energy area where the proposed Offshore Wind Generation Facility will be located. Provide documentation that Proposer has a valid lease or irrevocable lease option to develop the leased area within this wind energy area over the entire Contract Tenor.

The Proposer has secured full and exclusive site control for its generation site for nearly the entire Contract Delivery Term of the OREC Agreement. Without BOEM granting an extension, all offshore wind leases expire 25 years after COP approval. Per Section 15.09 of the OREC Agreement, the Proposer will seek that extension for at least the balance of the Contract Delivery Term.

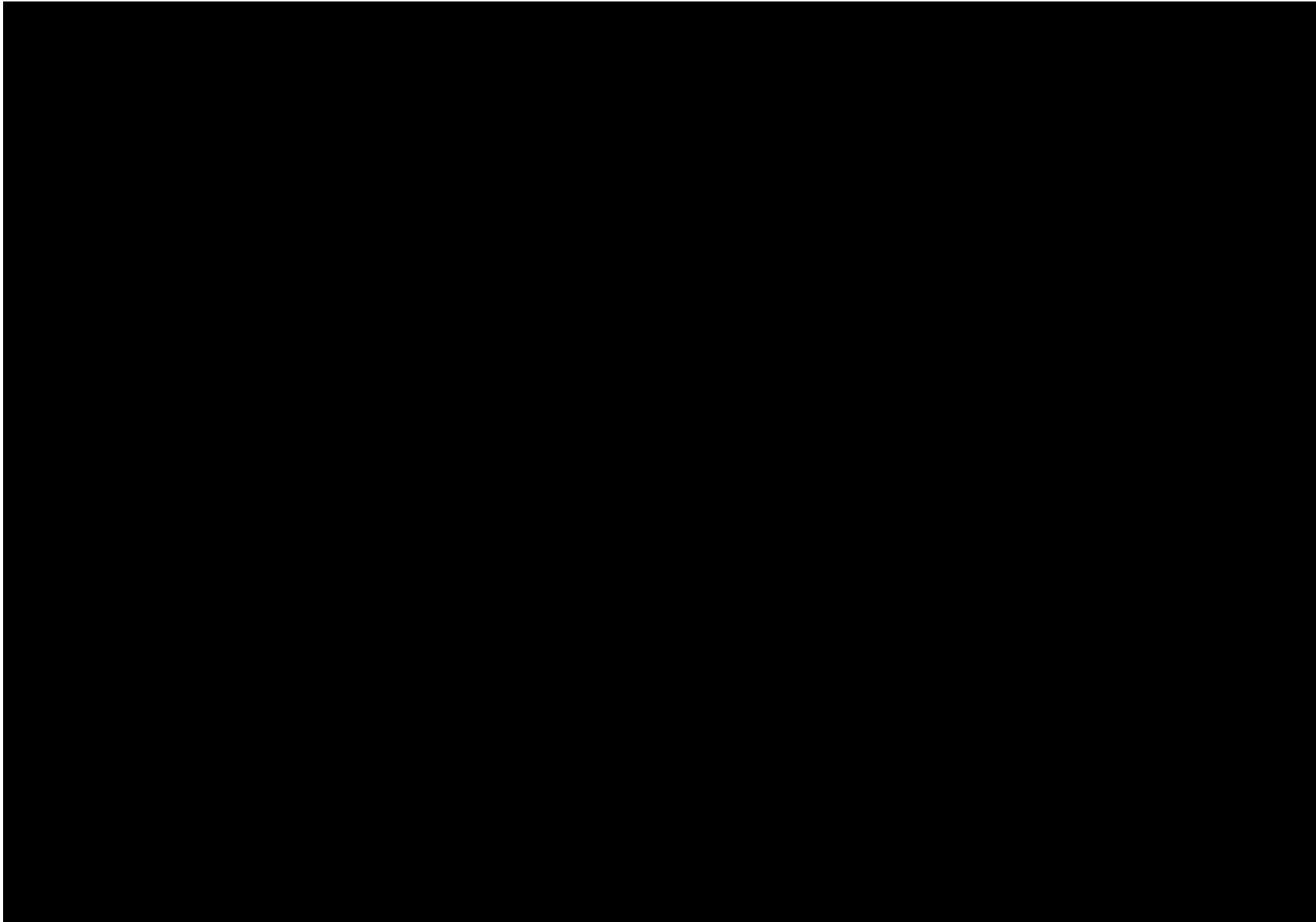


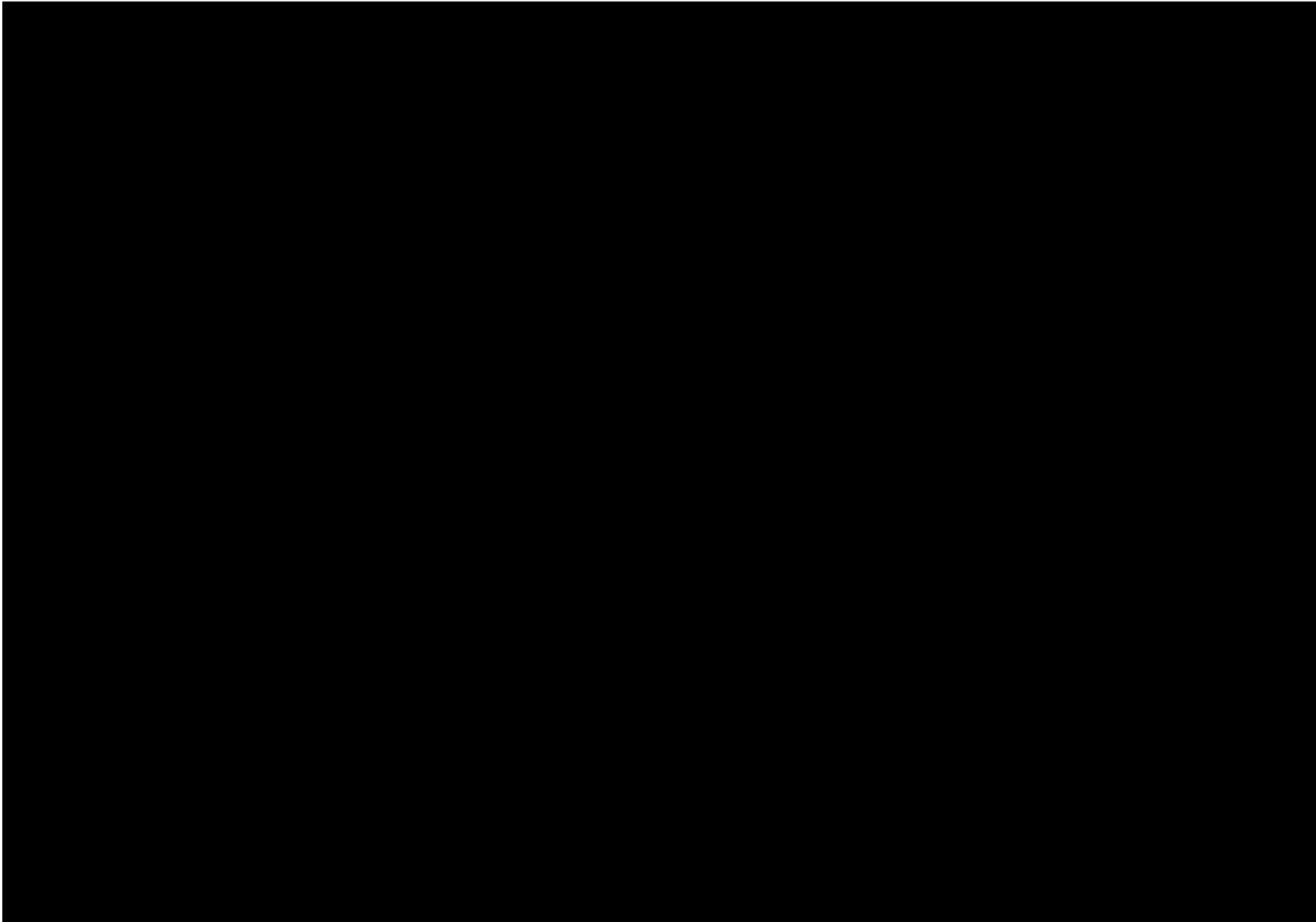


## 4.2 Site Plan

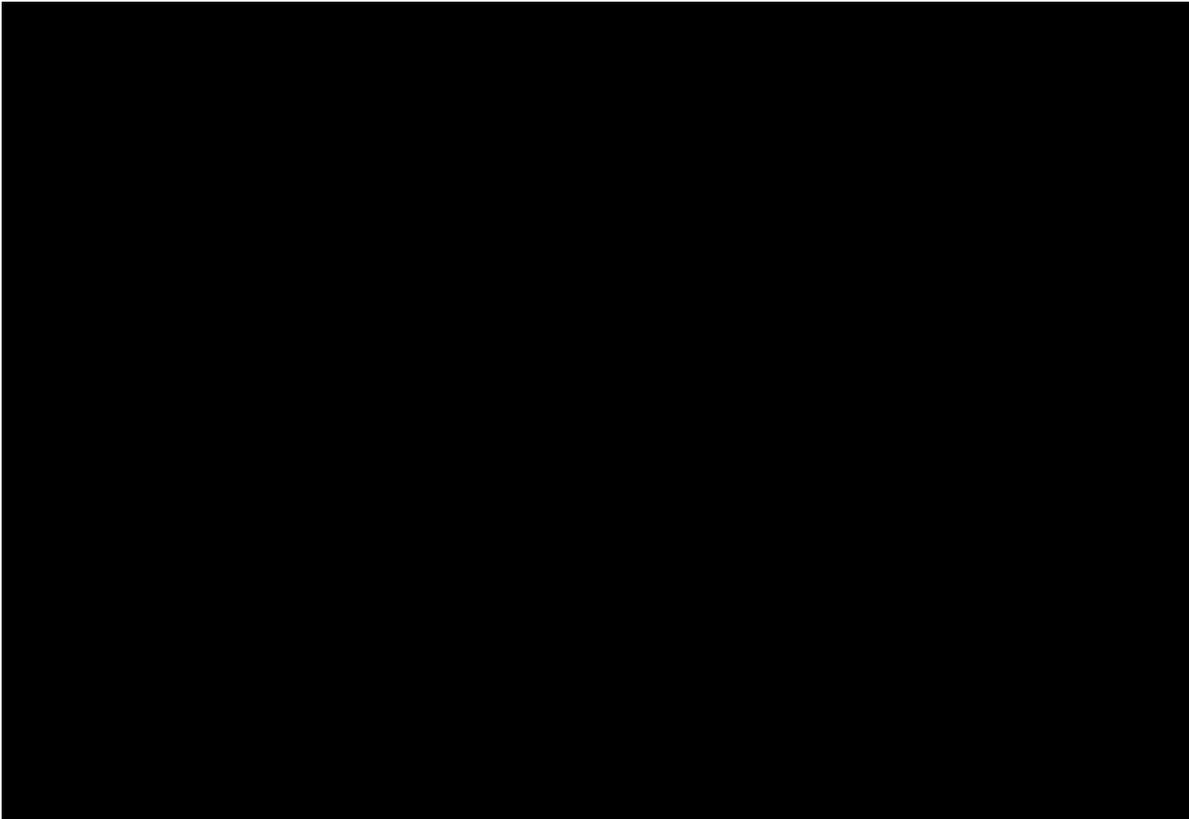
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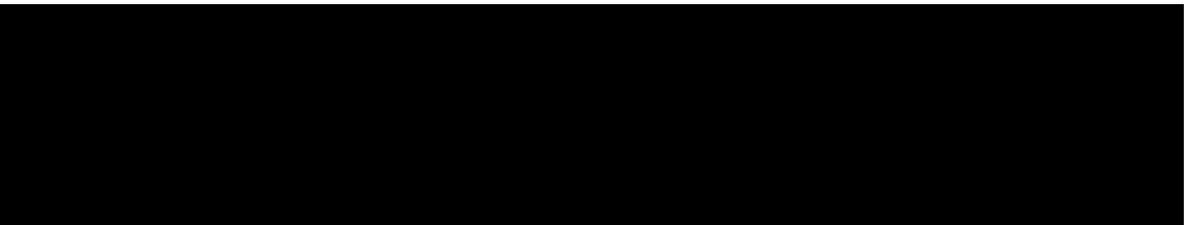
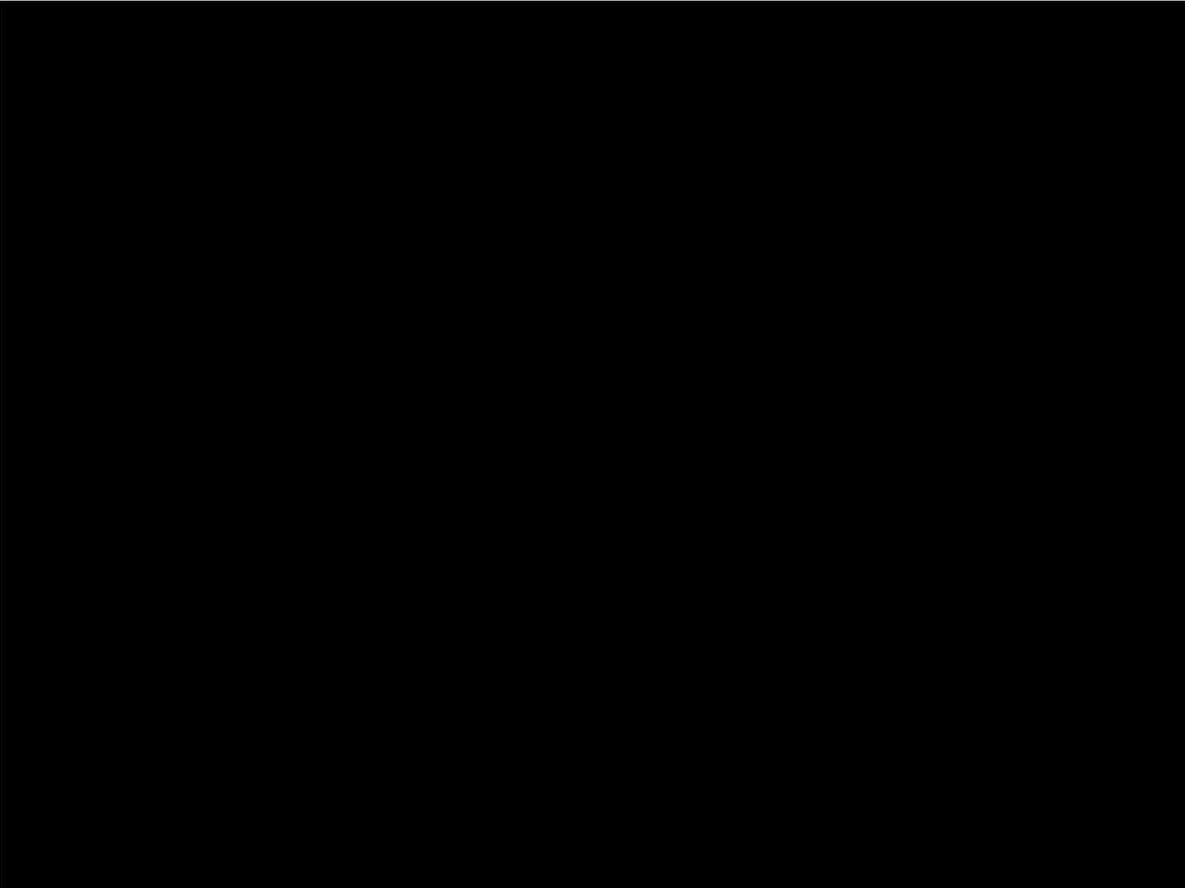




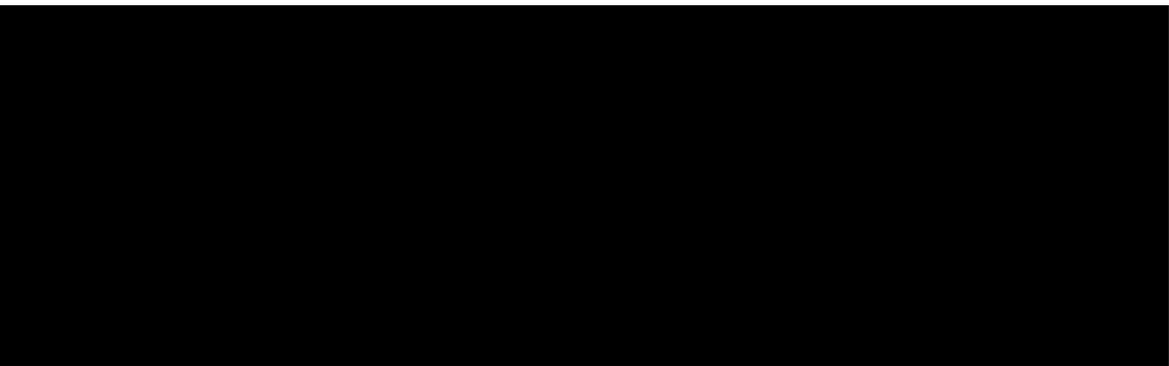
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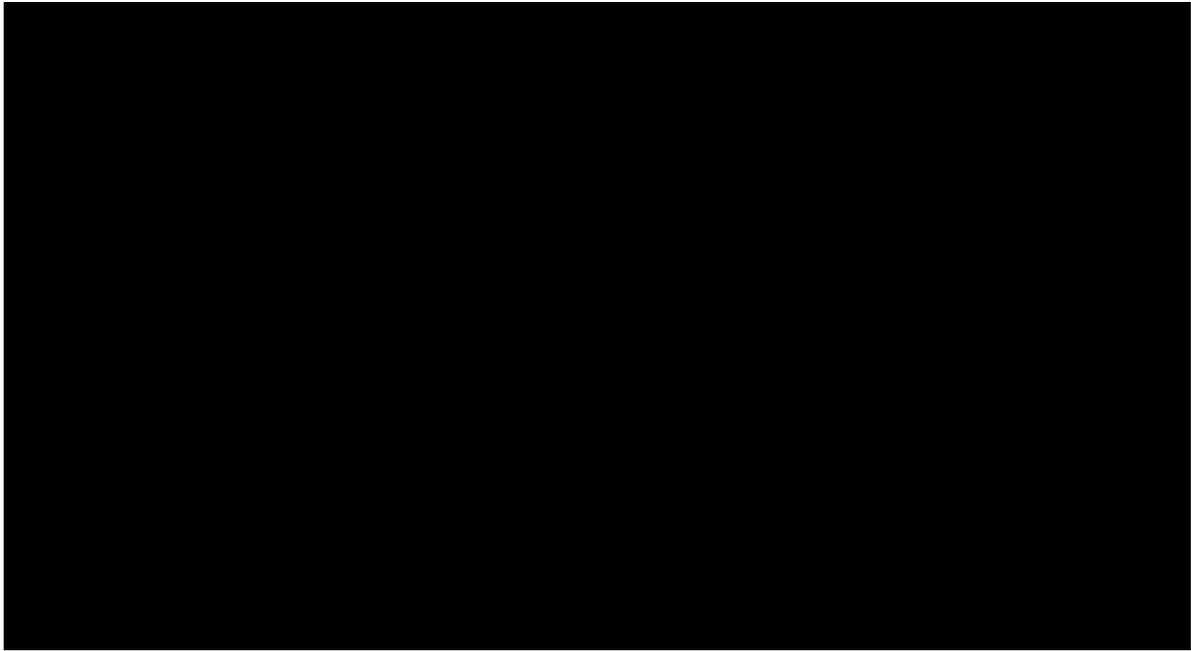


[Redacted]



The WTGs and array cable layouts are all confined within the Lease Area and have been developed to optimize production, maximize safety during operations, and minimize the environmental footprint [Redacted]

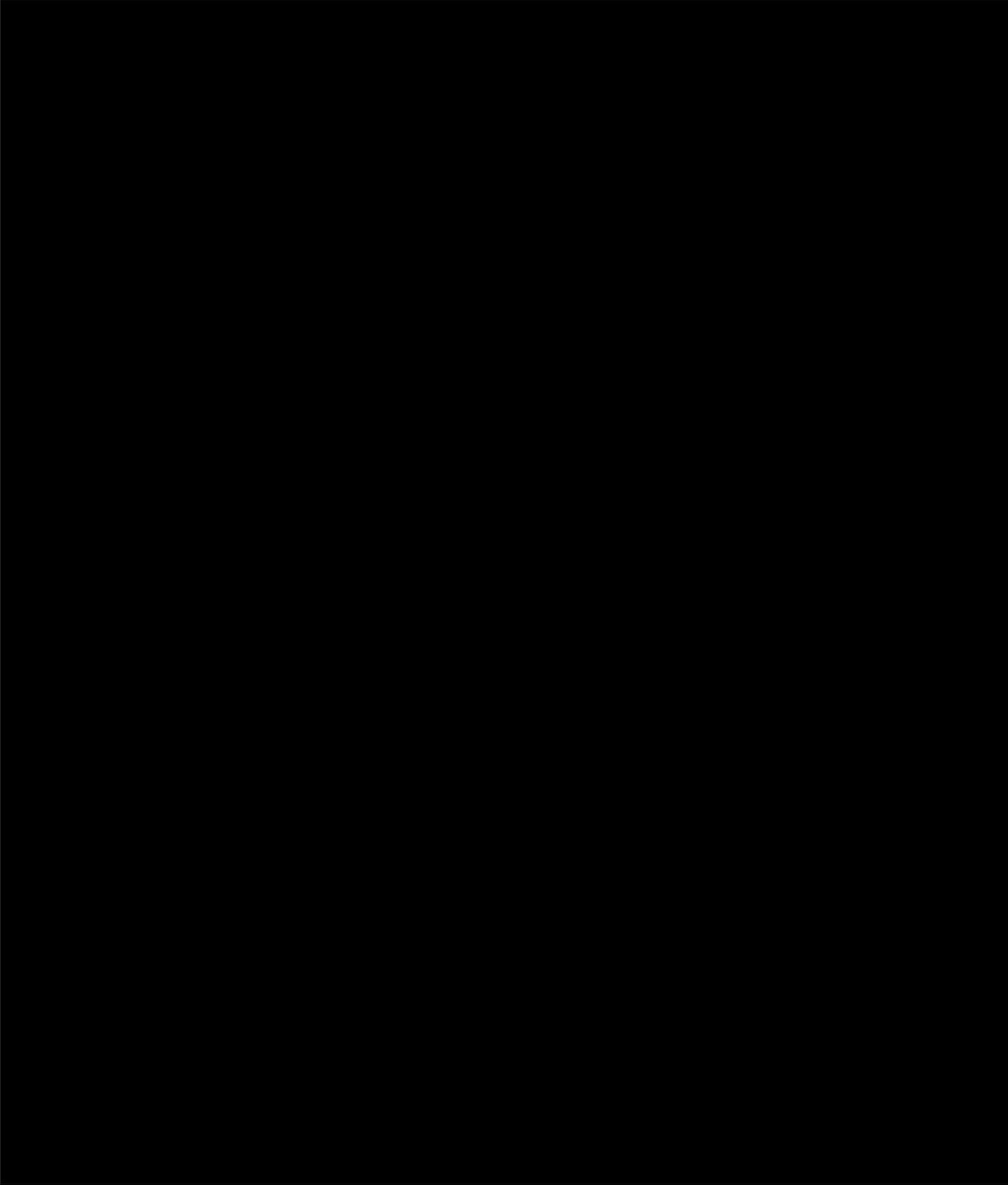


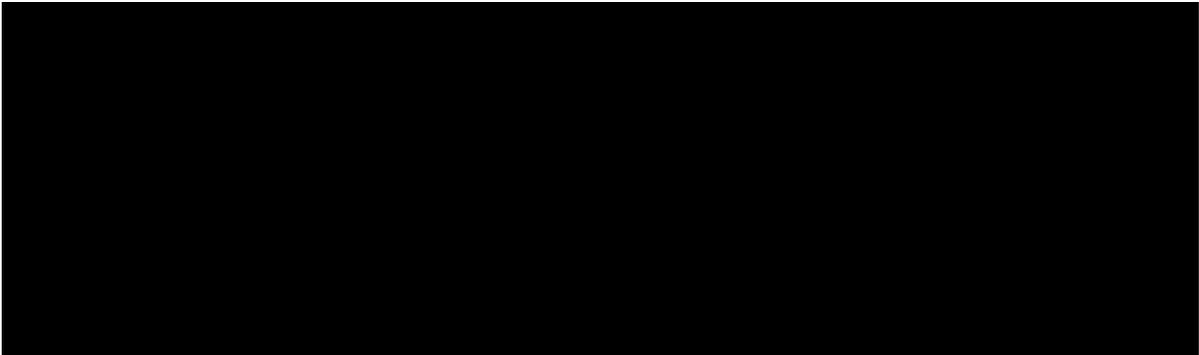


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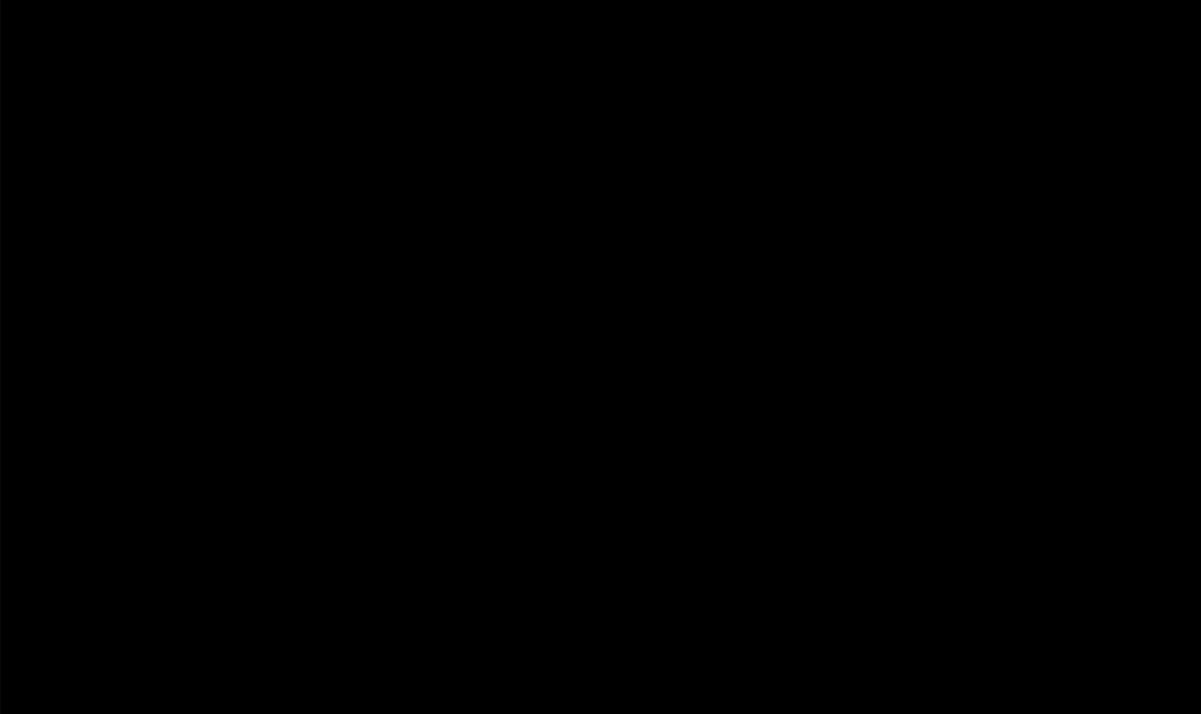


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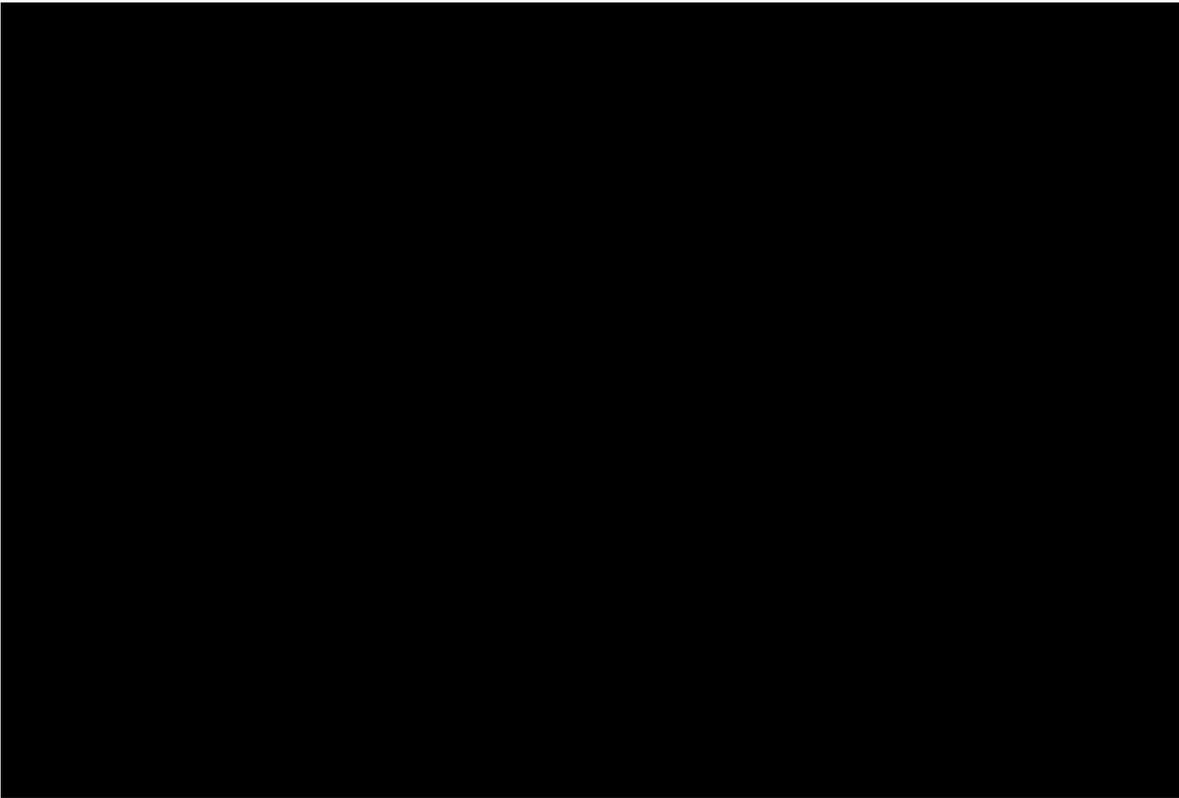




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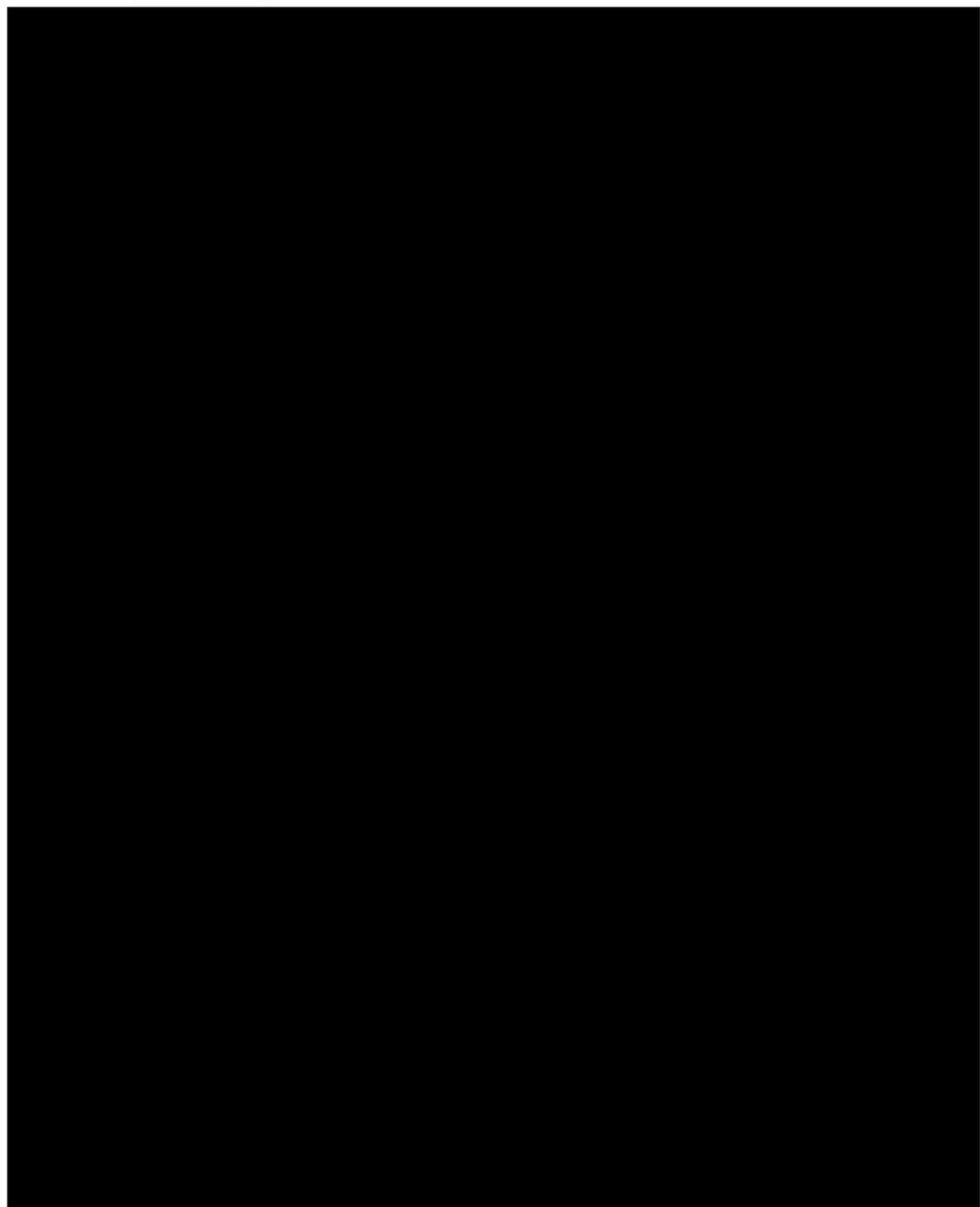


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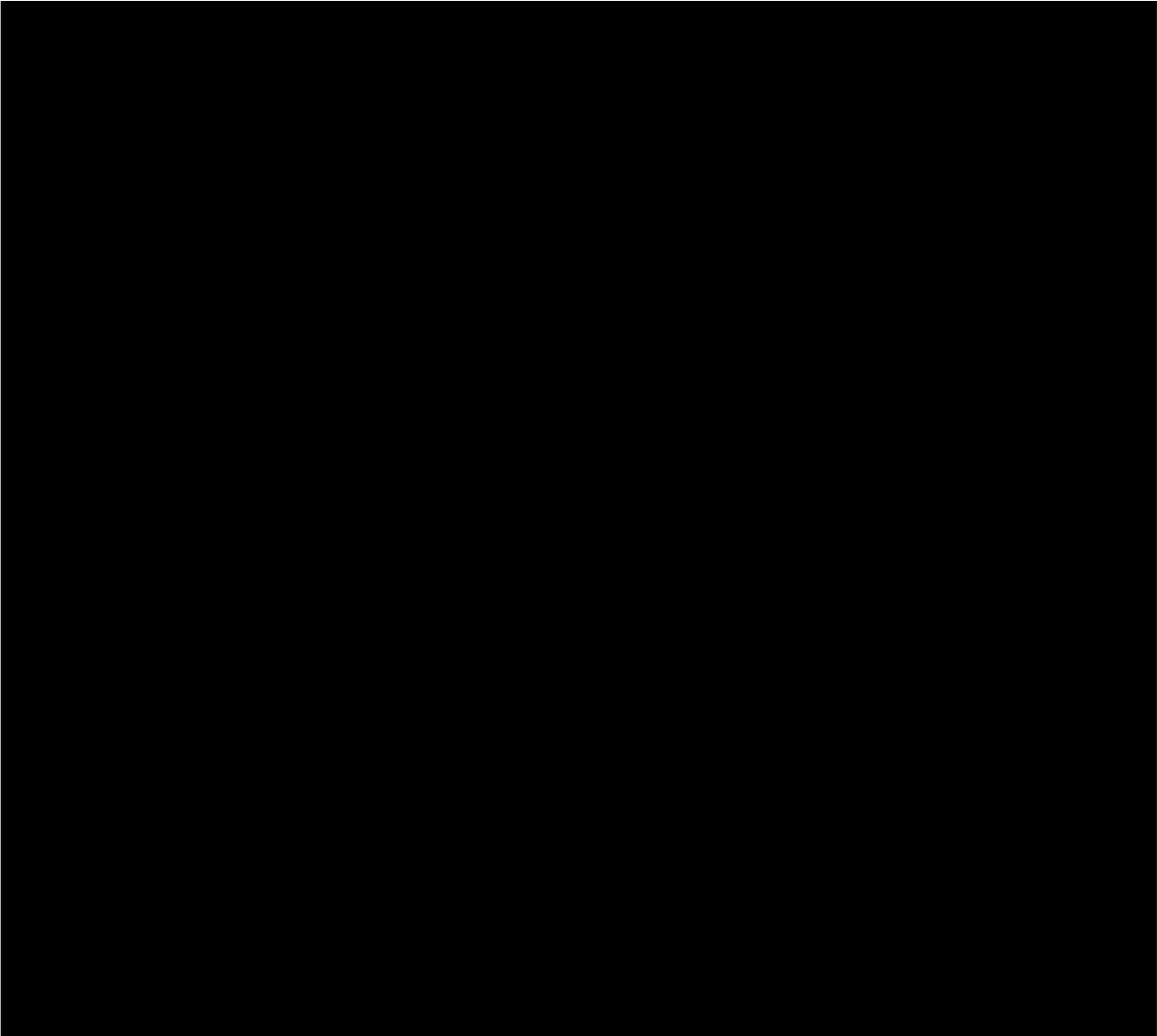


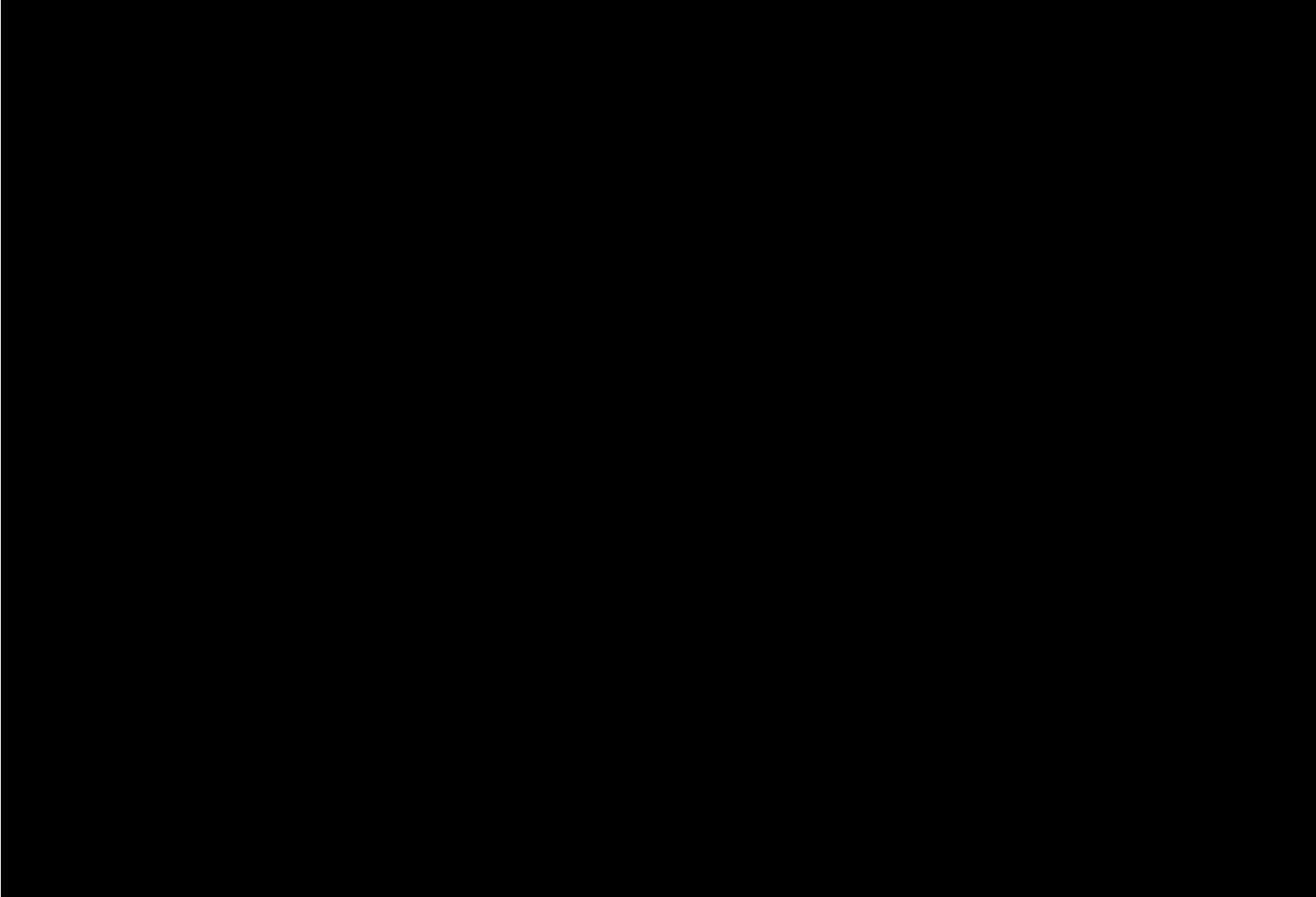
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[Redacted]





[REDACTED]

[REDACTED]

[REDACTED]

Please refer to Section 8 for technical details and additional information regarding how the interconnection at the POI will be completed, and for the status of the Proposer's Interconnection Request with NYISO.

### 4.3 Interconnection Route Property Rights

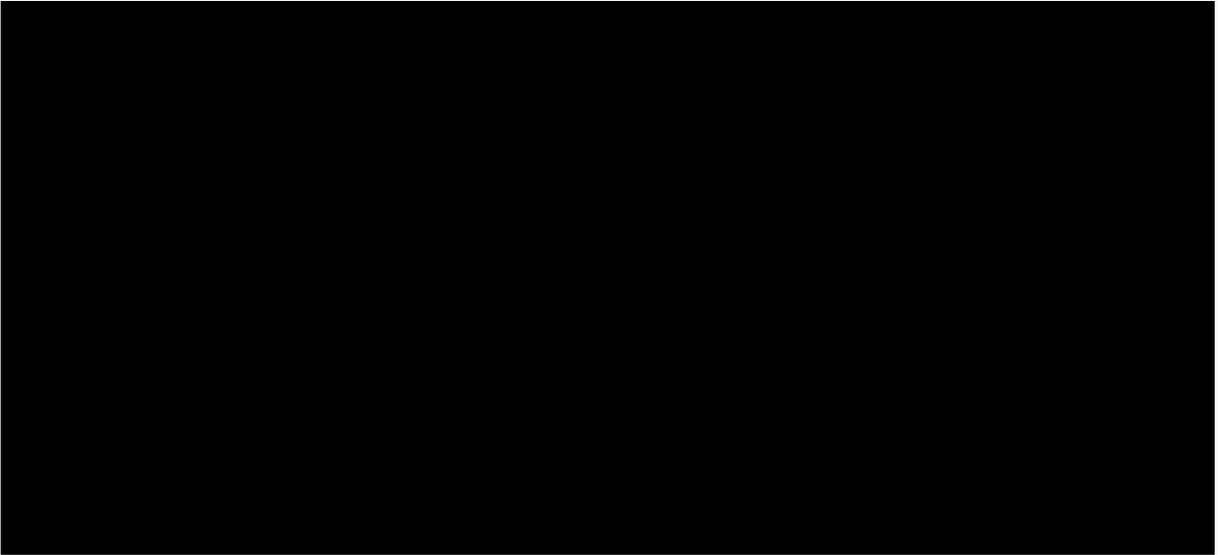
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Identify any rights that Proposer or its development partner has at the interconnection point and for the generator lead line right of way. Provide a detailed plan and timeline for the acquisition of any additional rights necessary for interconnection and for the generator lead line right-of-way. Include these plans and the timeline in the overall Project schedule in Section 6.4.11.

---

#### 4.3.1

[REDACTED] BOEM will grant the rights for the location and operation of the export cable from the Lease Area to the boundary of federal and state waters. That grant will occur in the normal course of the regulatory process in which BOEM approves the Construction and Operations Plan (COP) for the Project and issues a Record of Decision (ROD) on the approval of the COP.



### 4.3.3 Timeline

Section 11 includes a timeline within the overall Project schedule for the acquisition of the additional rights needed for the export cable and interconnection facilities.

## 4.4 Site Layout Plan

---

In addition to providing the required map(s), provide a site layout plan that illustrates the location of all on-shore and offshore equipment and facilities and clearly delineates the perimeter of the area in which offshore wind turbines will be placed. Identify the distance in statute miles between the nearest shoreline point and the nearest Offshore Wind Generation Facility turbines.

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**ATTACHMENT 4-2**  
Project Description – [REDACTED]

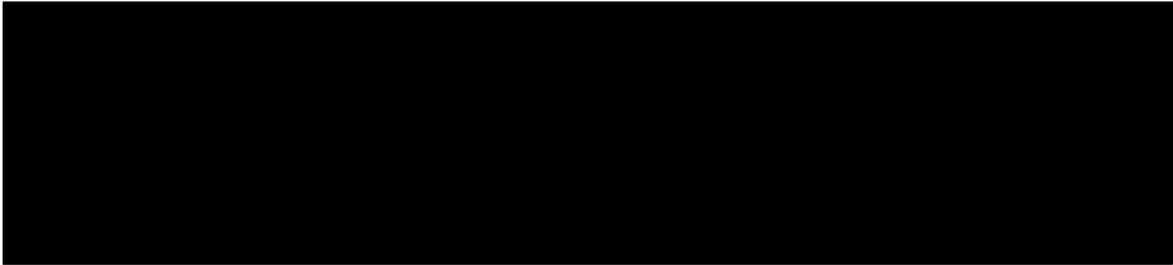
## 4 PROJECT DESCRIPTION AND SITE CONTROL

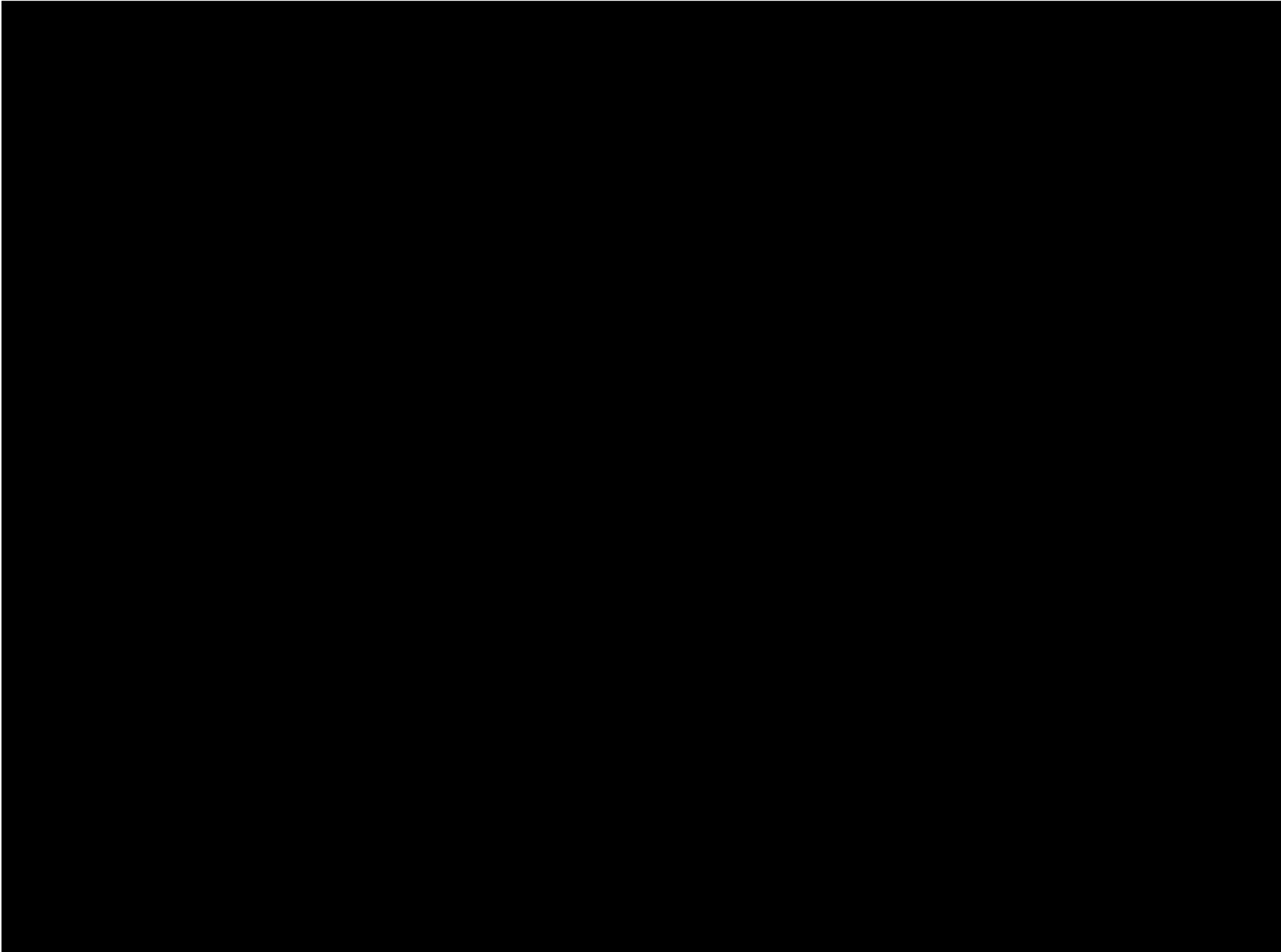


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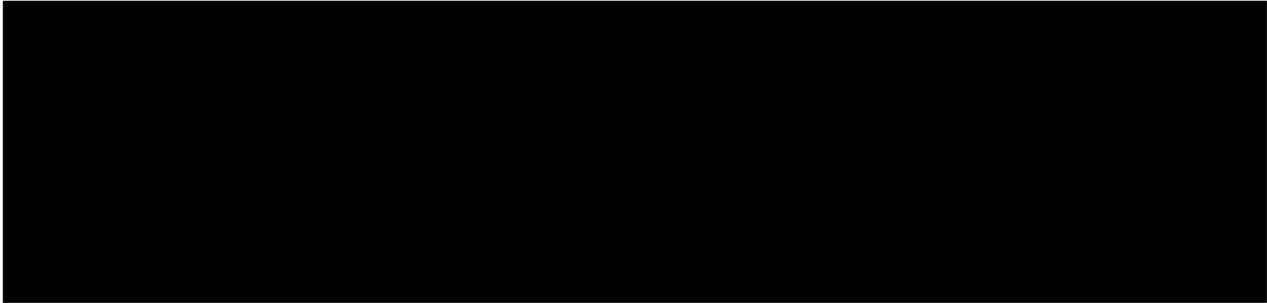
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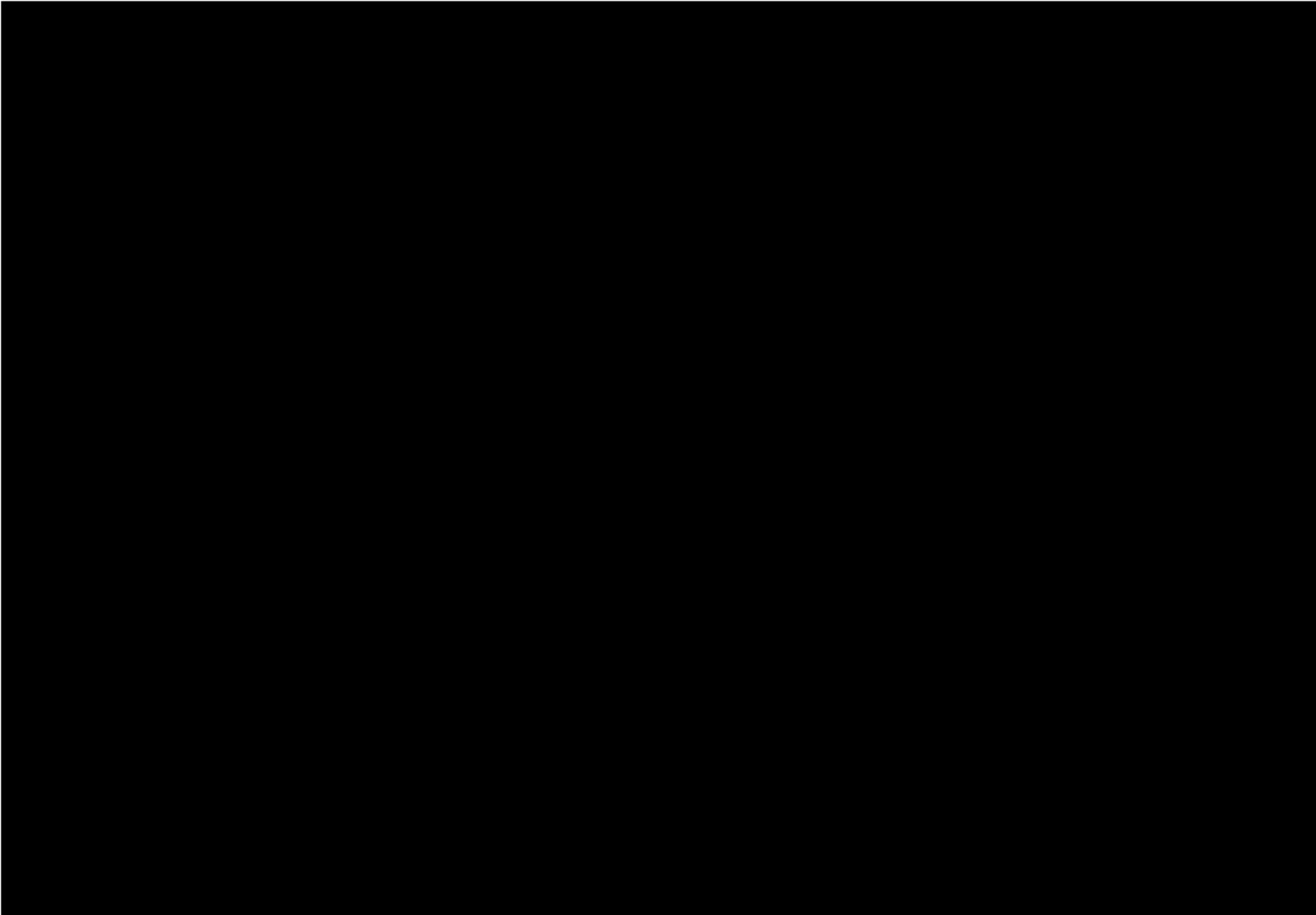
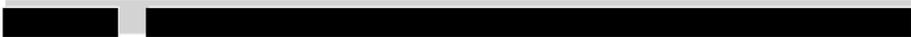




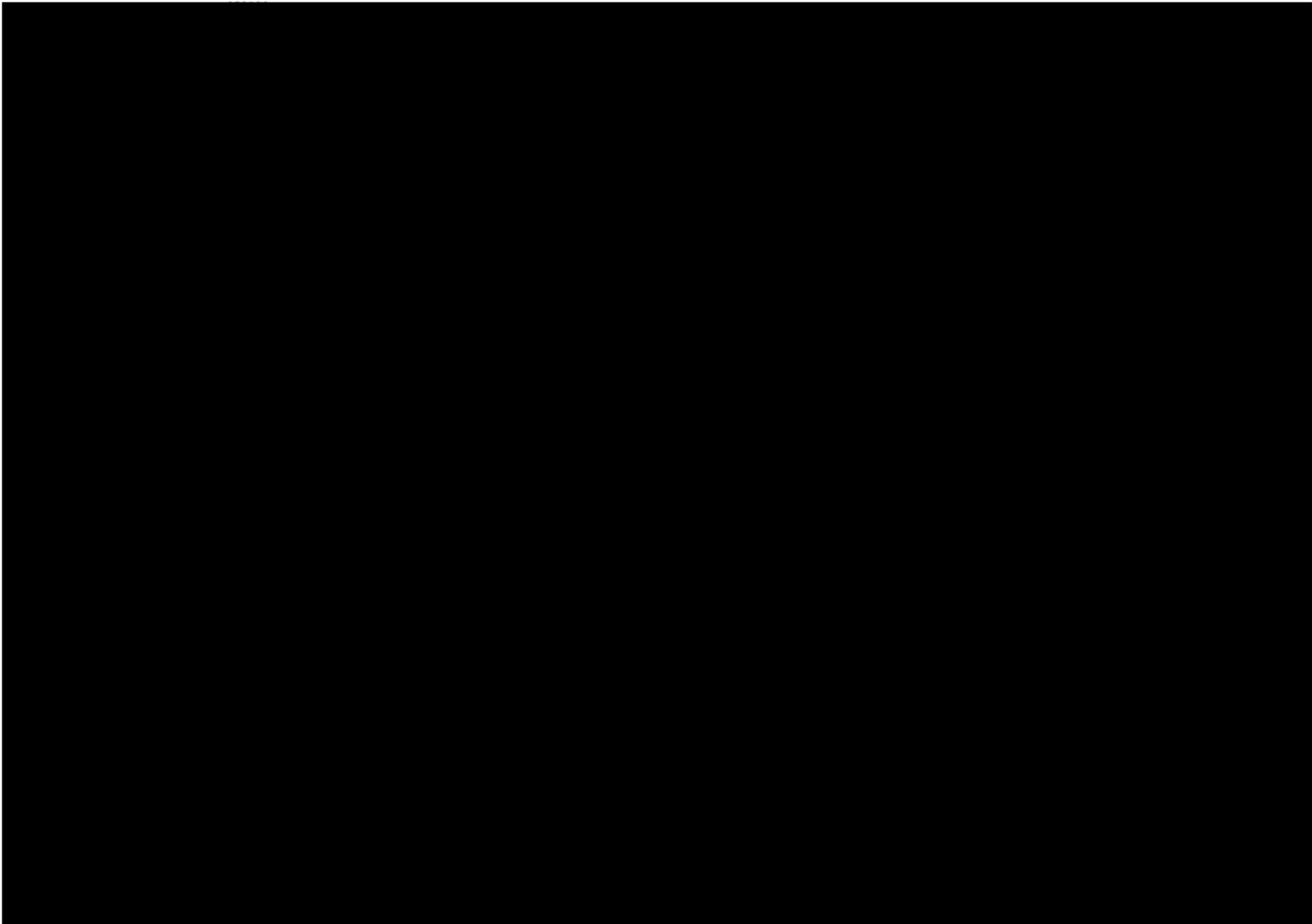
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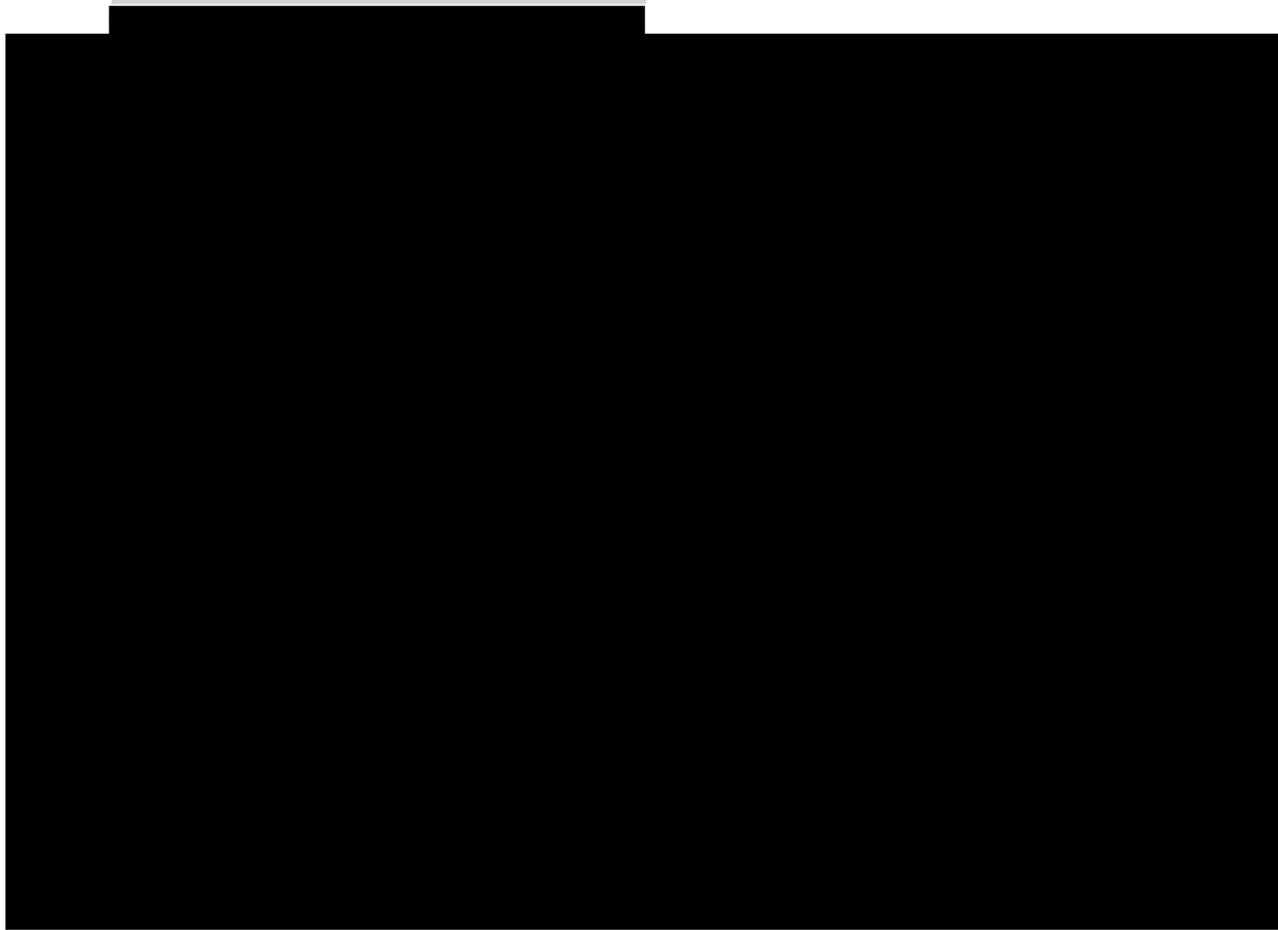
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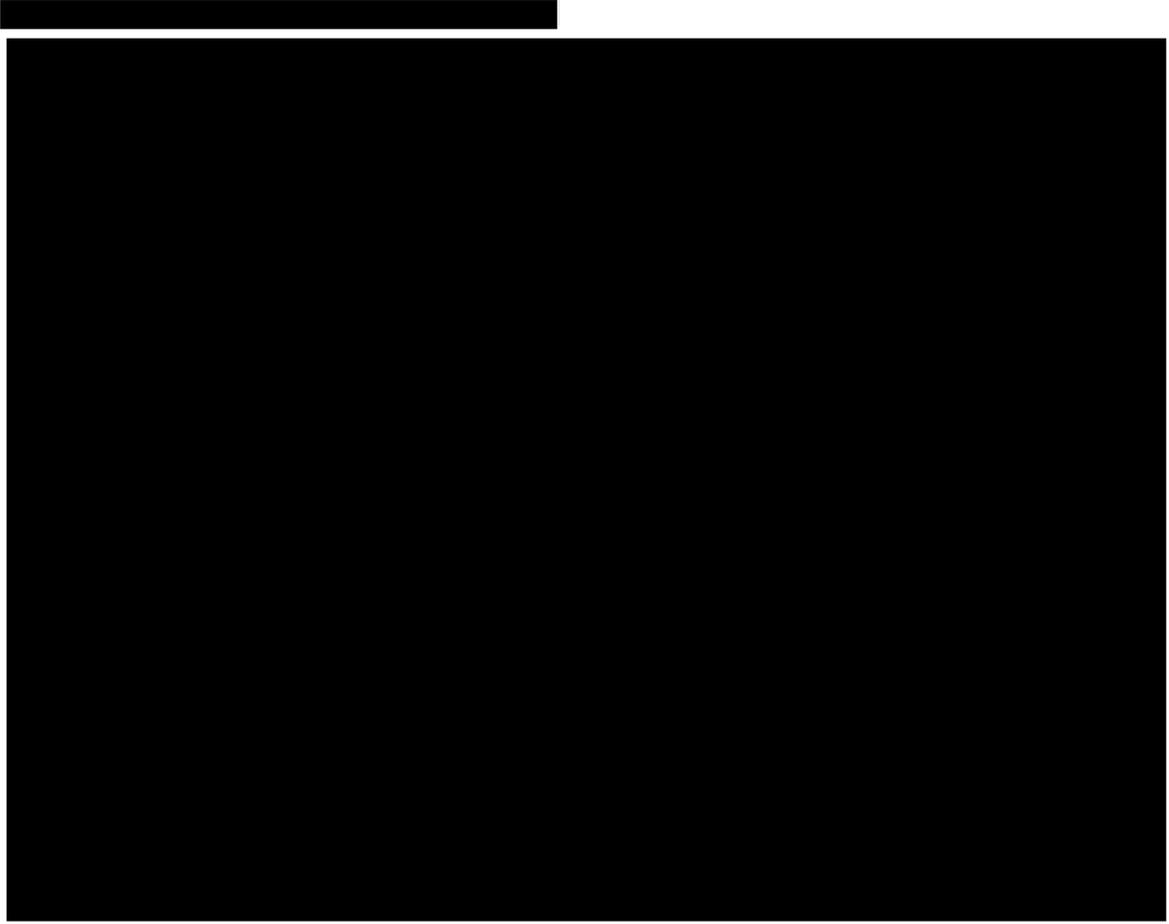




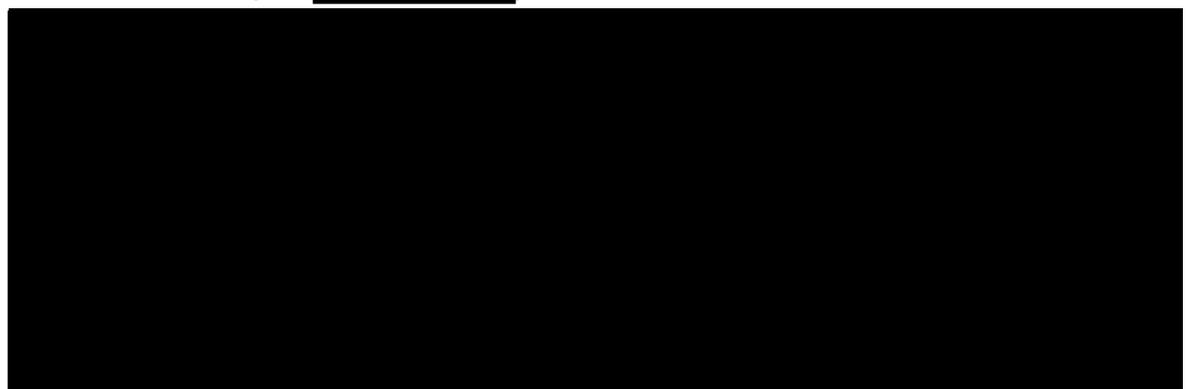
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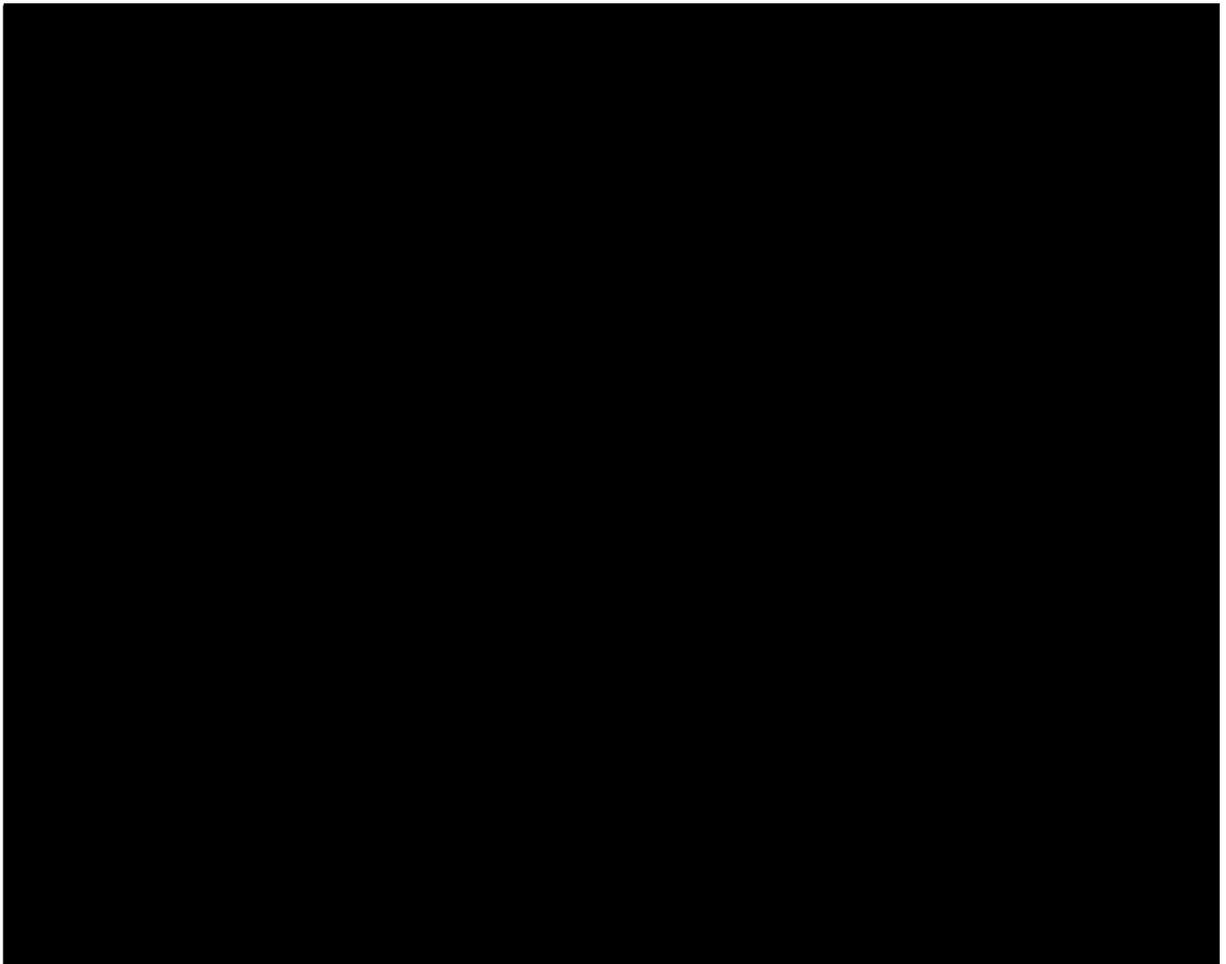
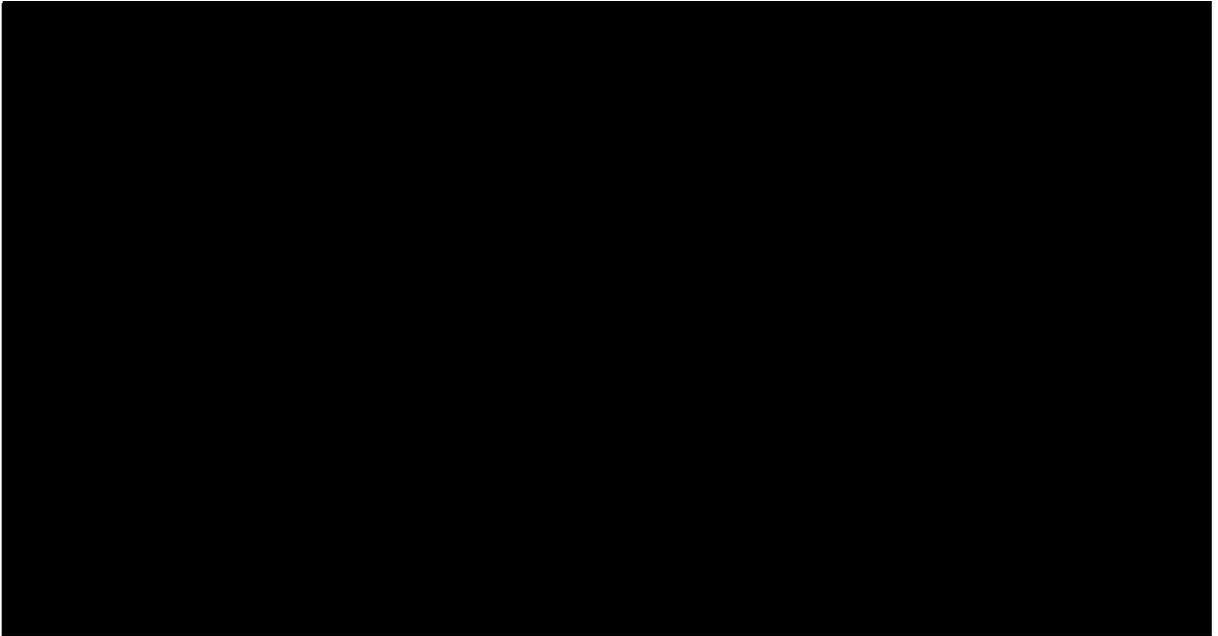


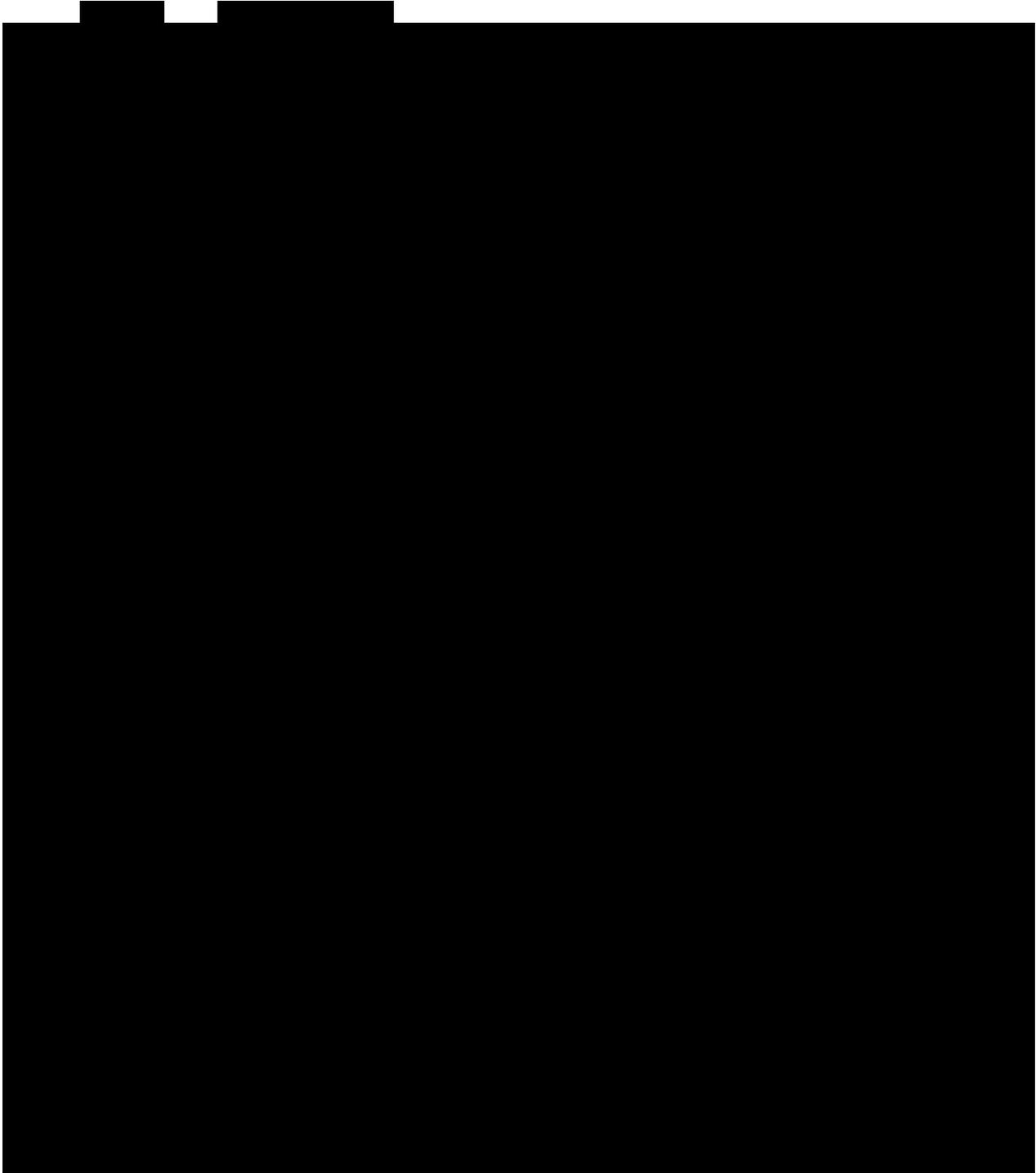


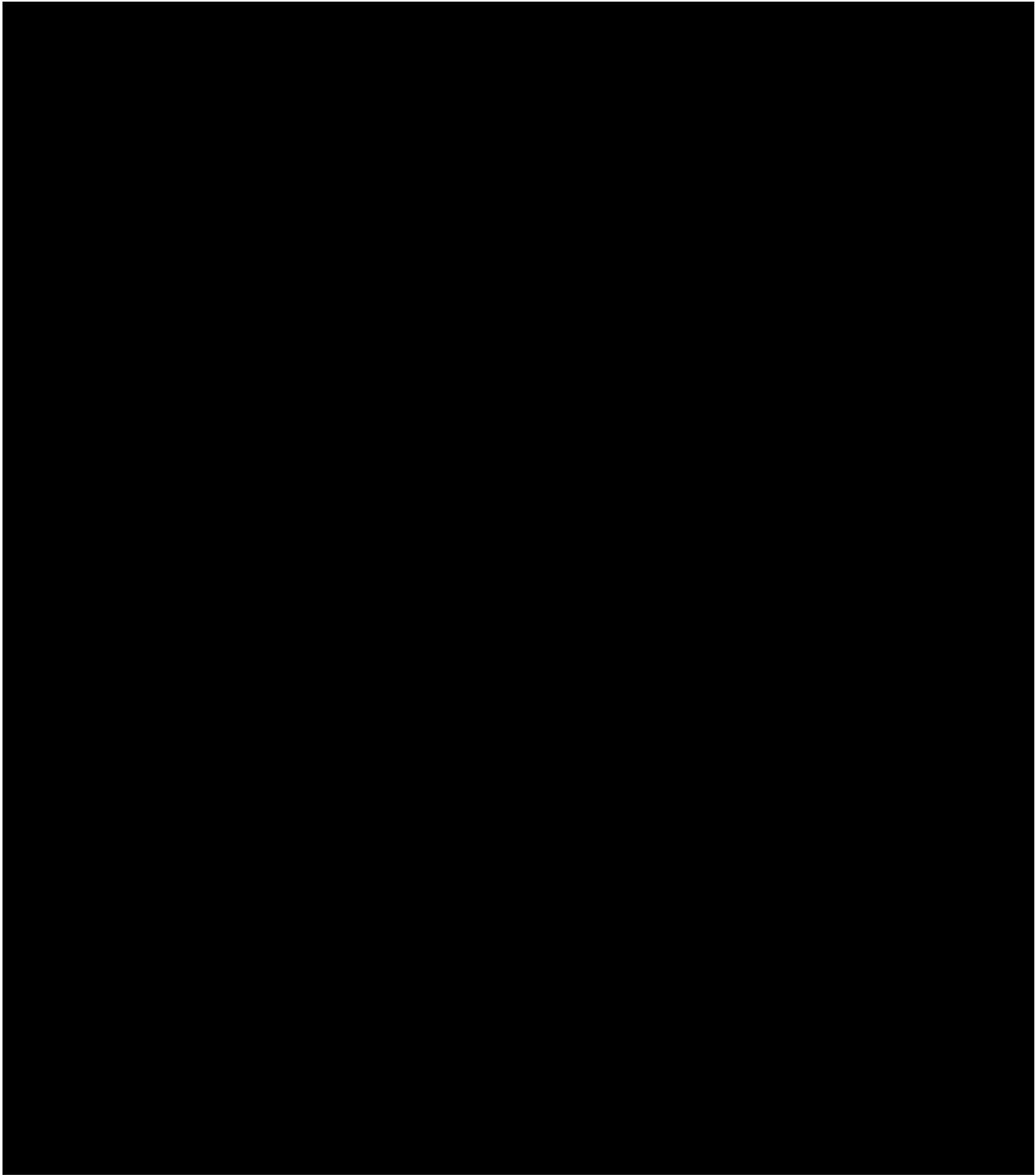


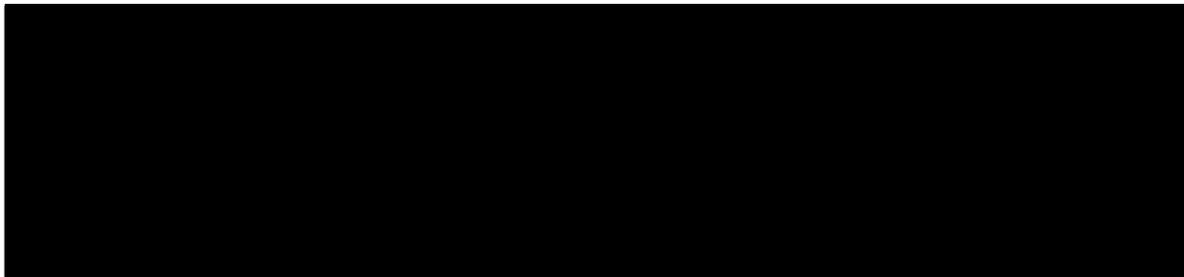
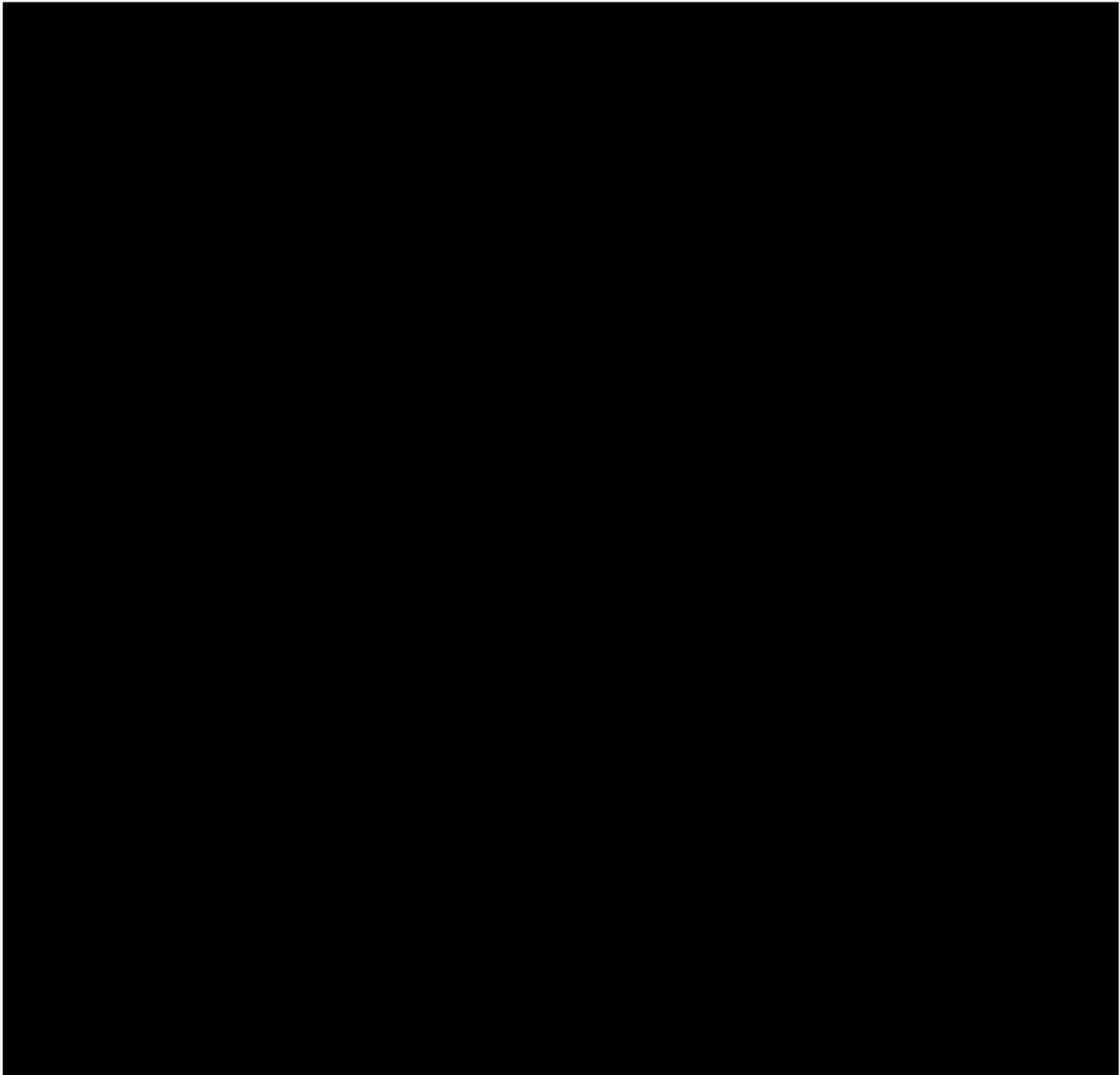
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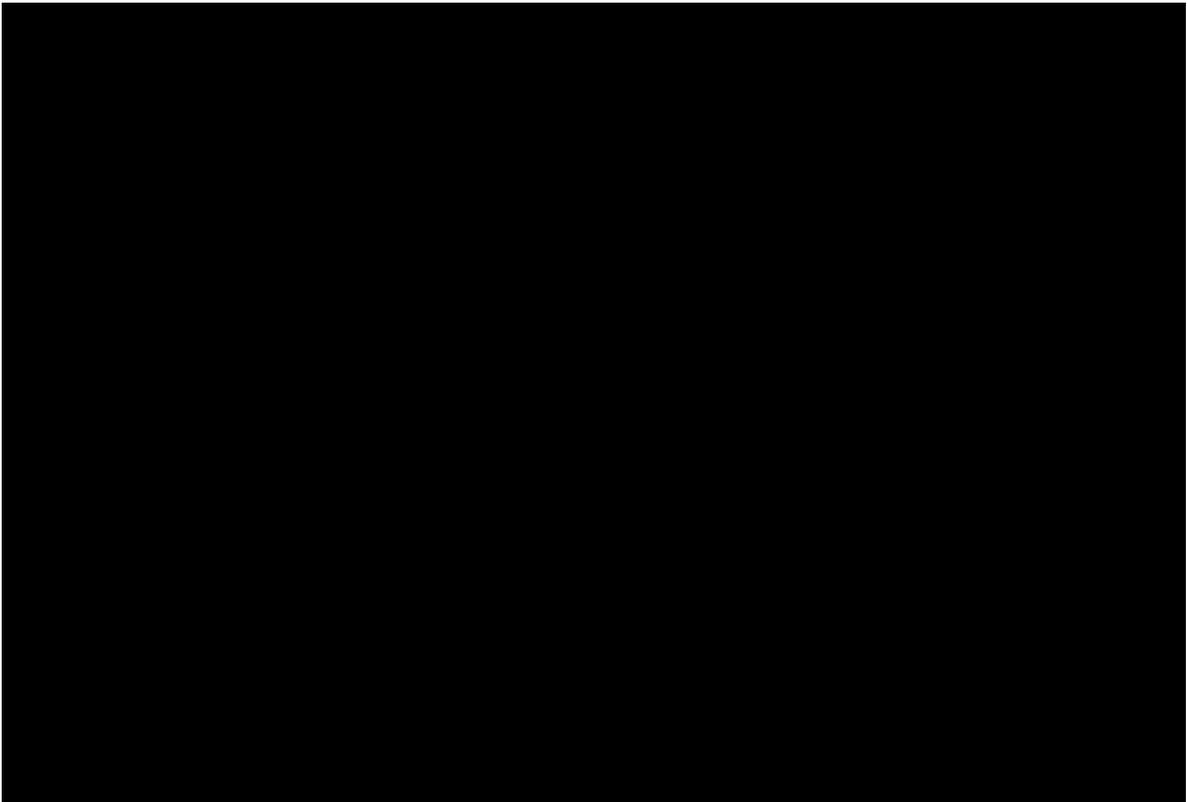
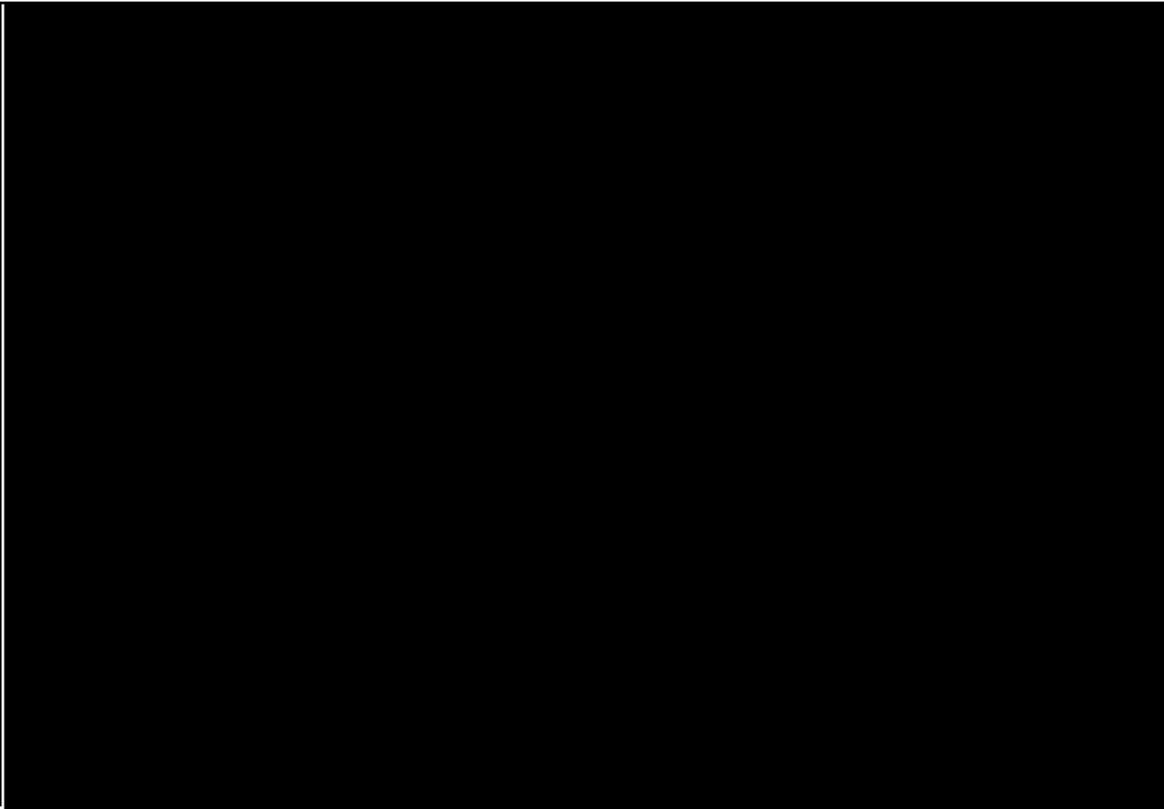
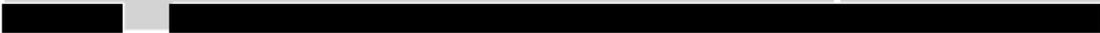


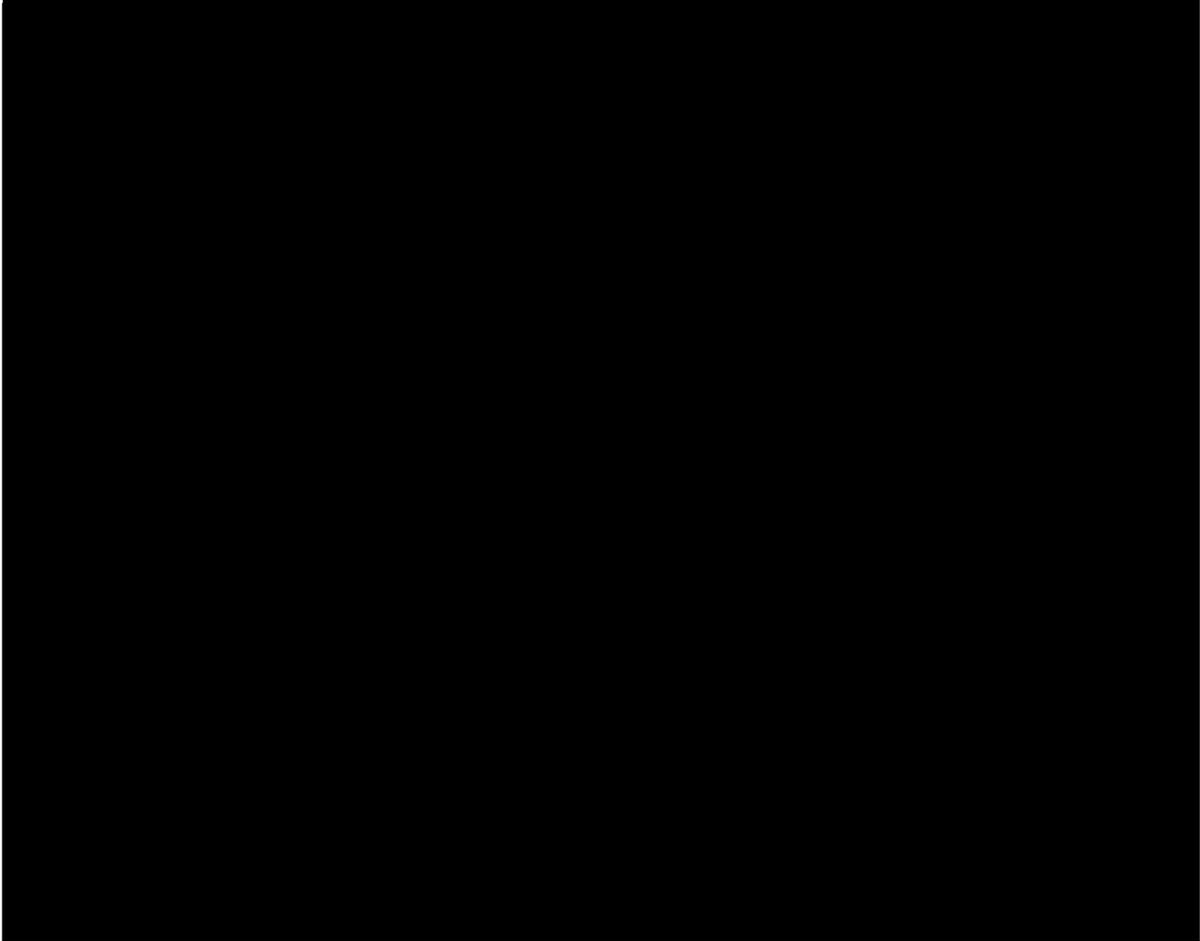


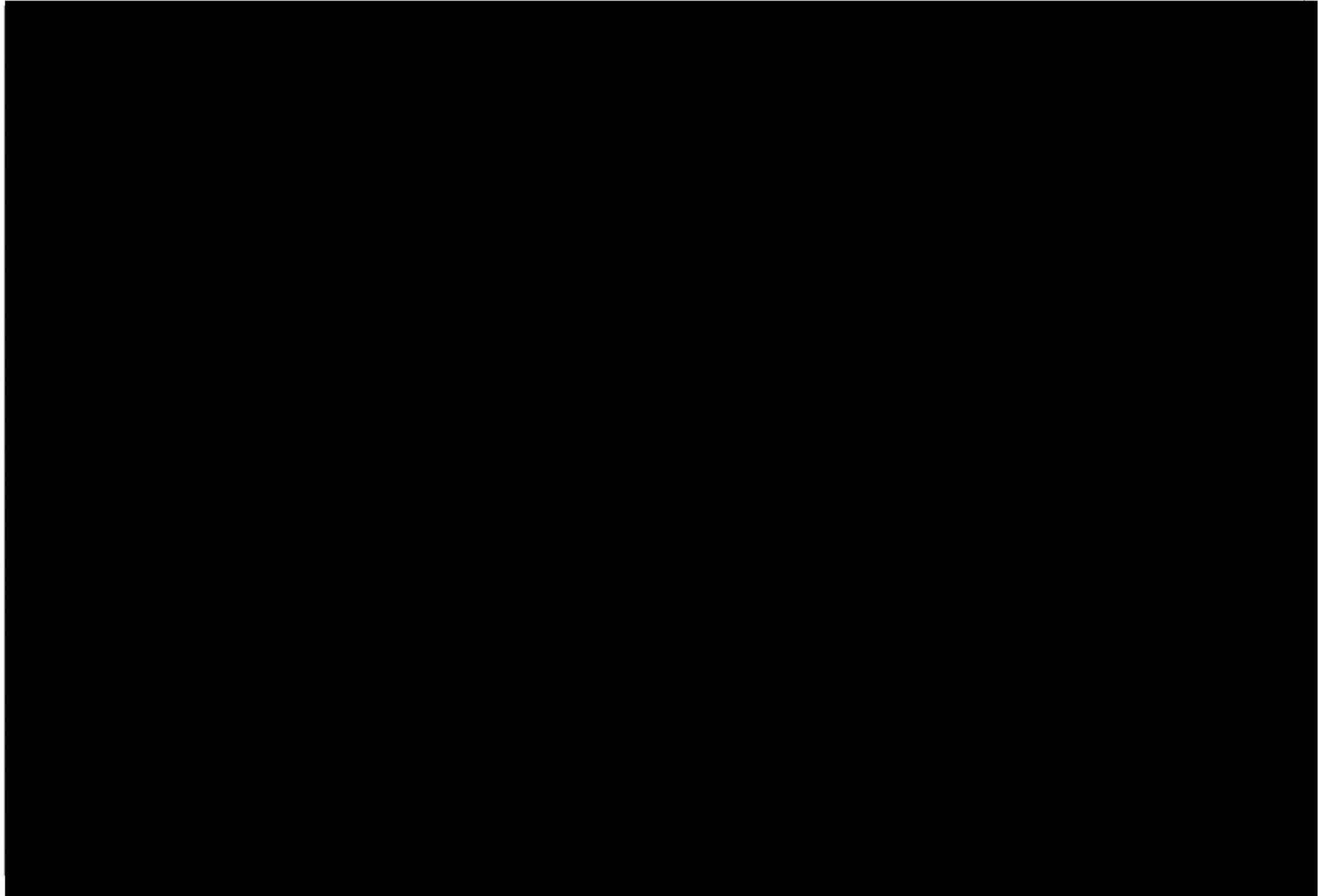


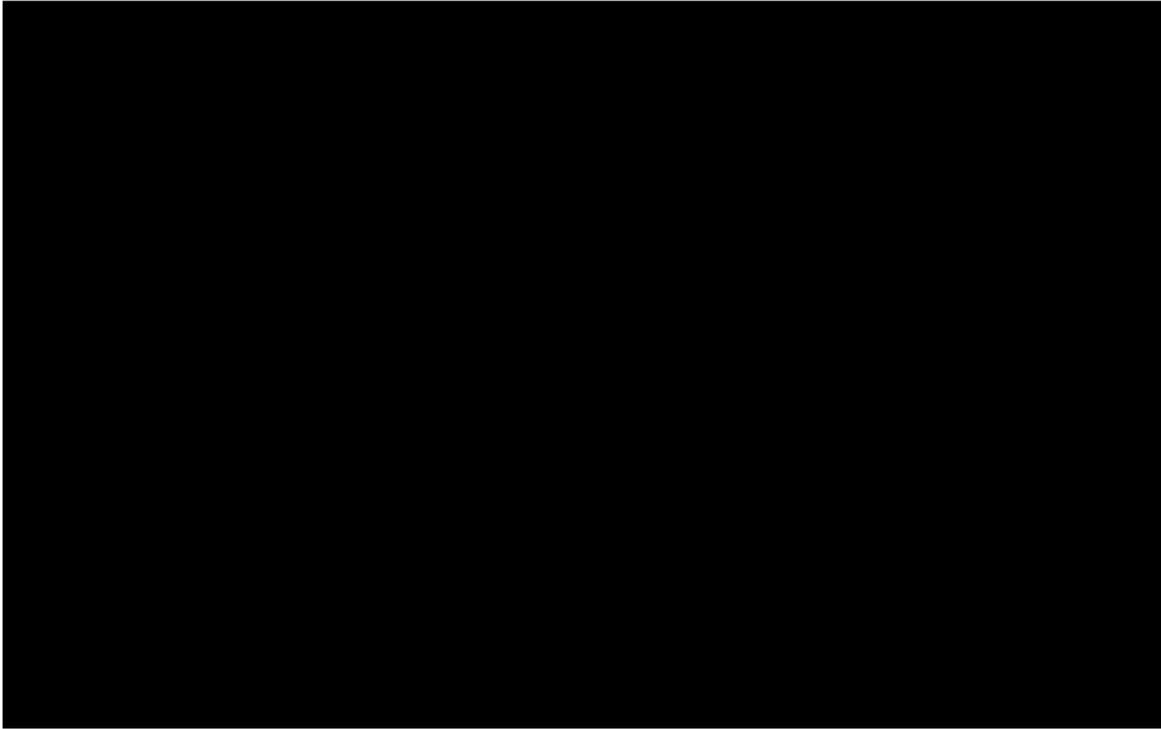
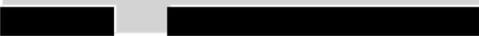
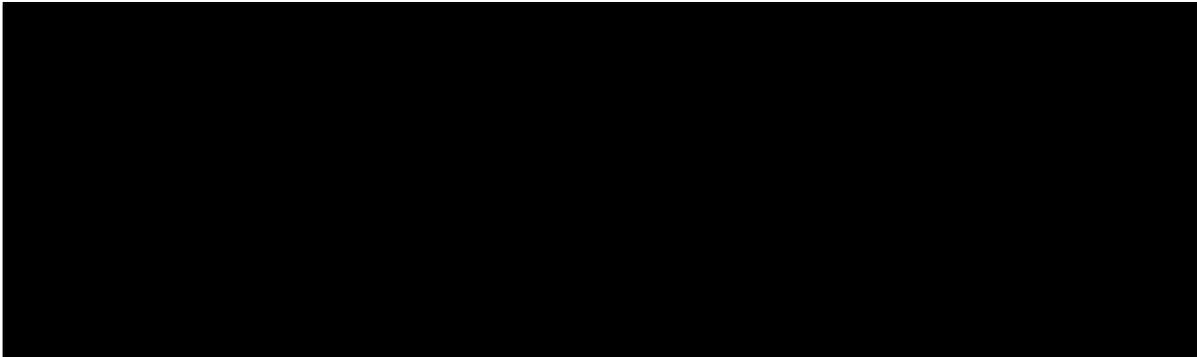


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[REDACTED]

[REDACTED]

[REDACTED]

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[REDACTED]

**ATTACHMENT 4-3**  
Project Description – [REDACTED]

## 4 PROJECT DESCRIPTION AND SITE CONTROL



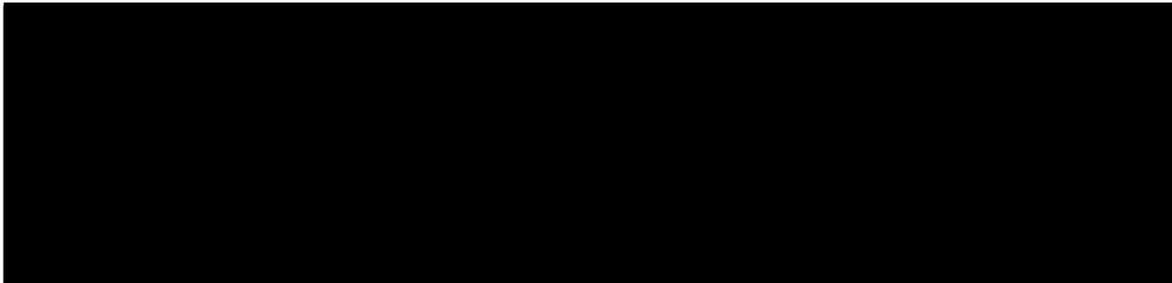
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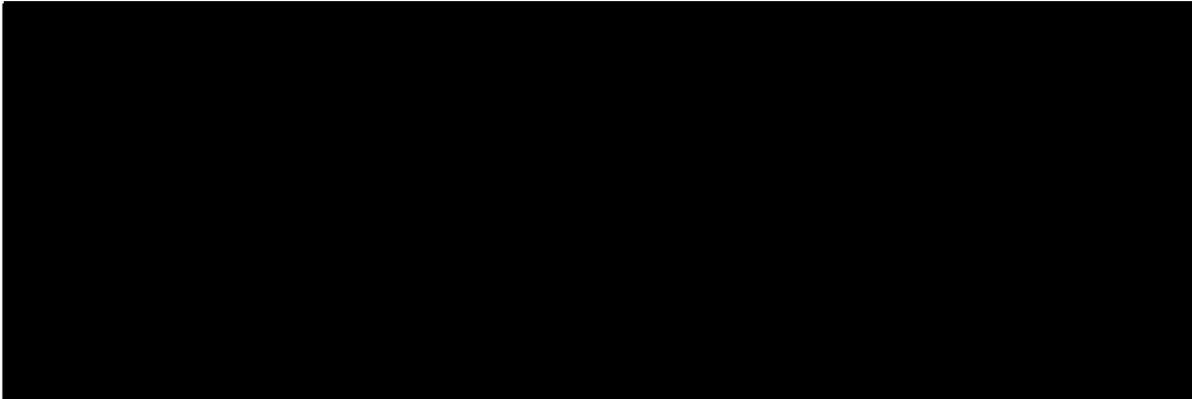
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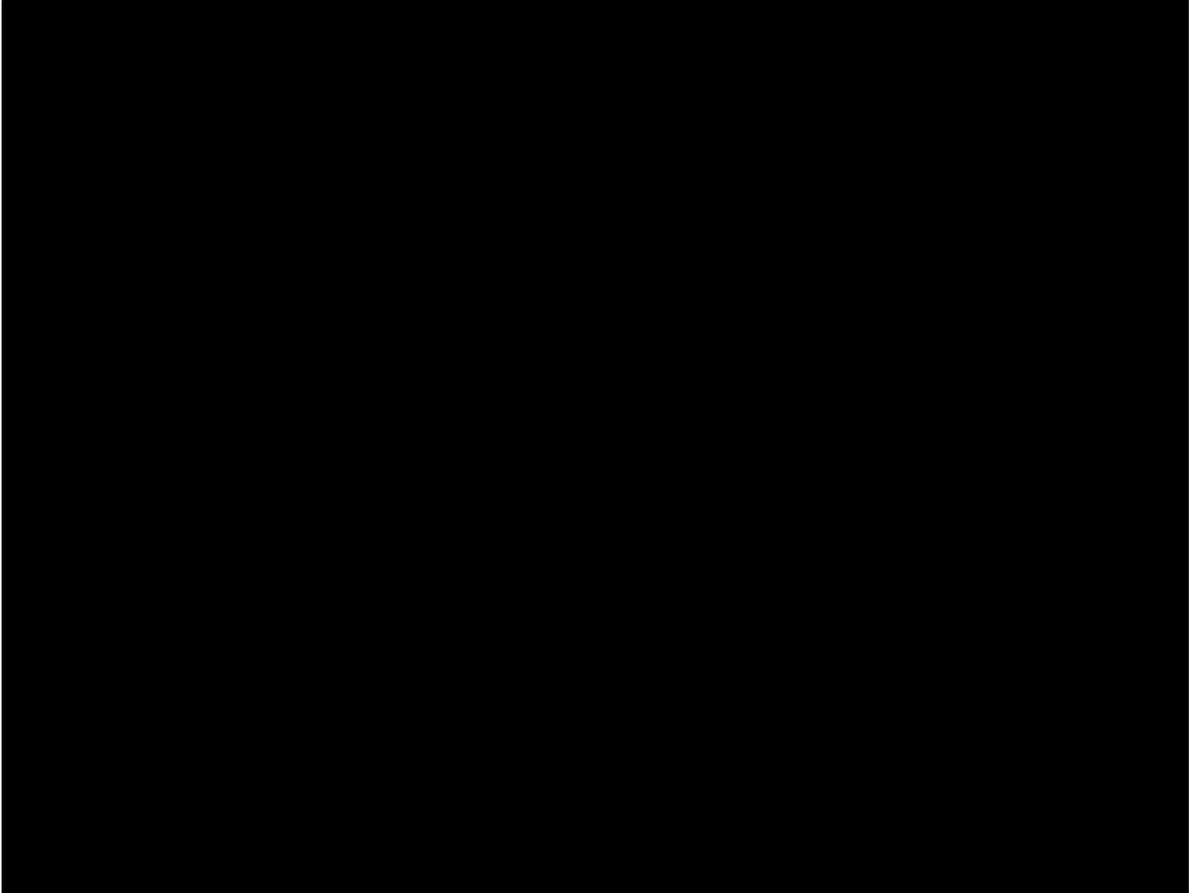
[REDACTED]

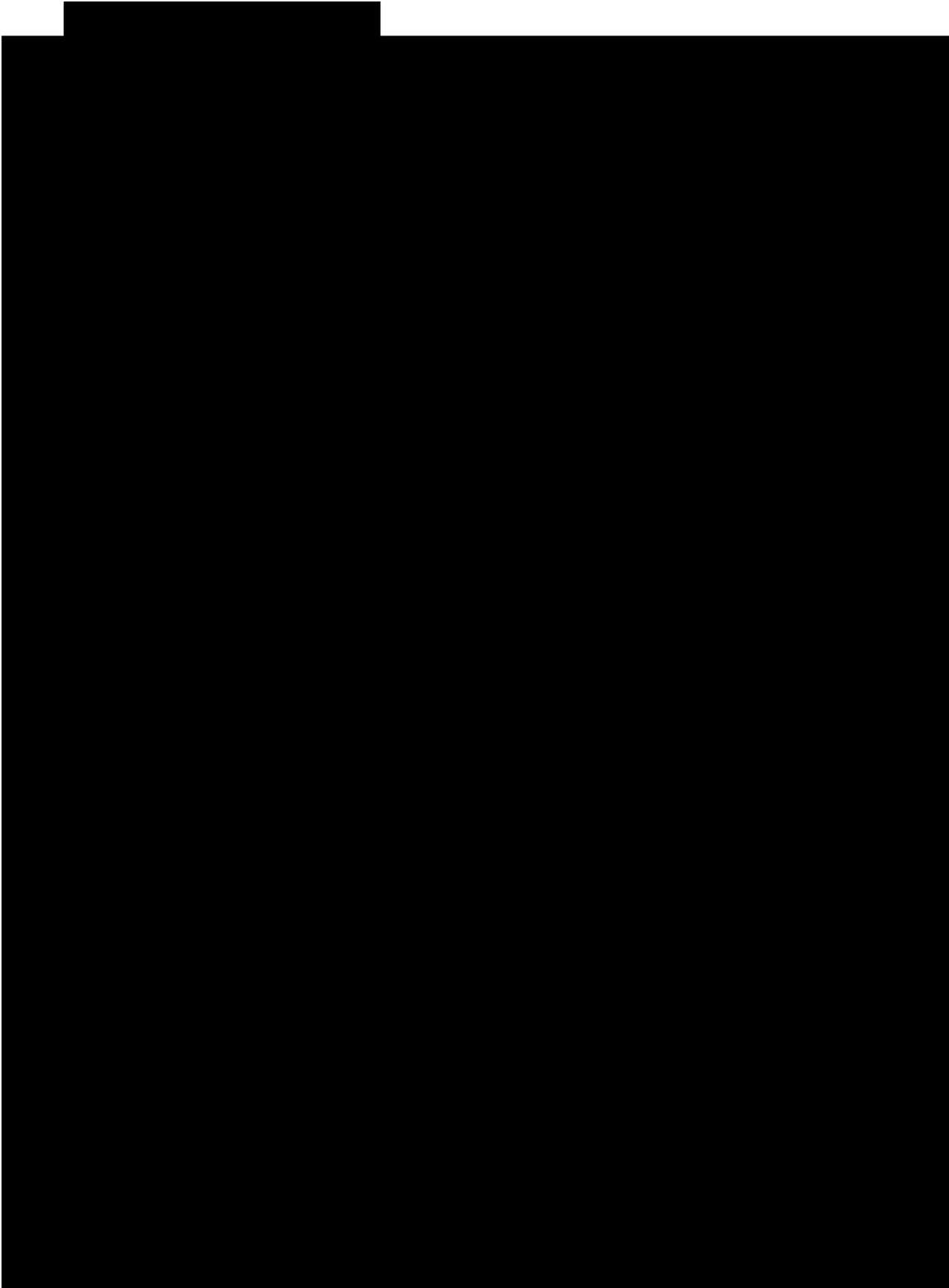
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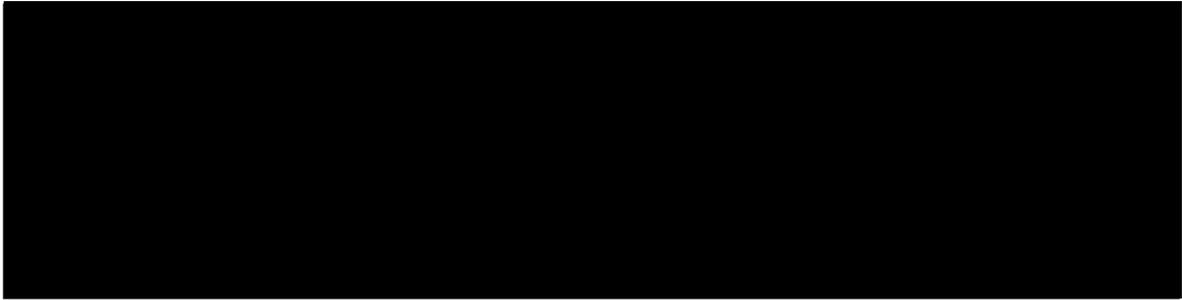
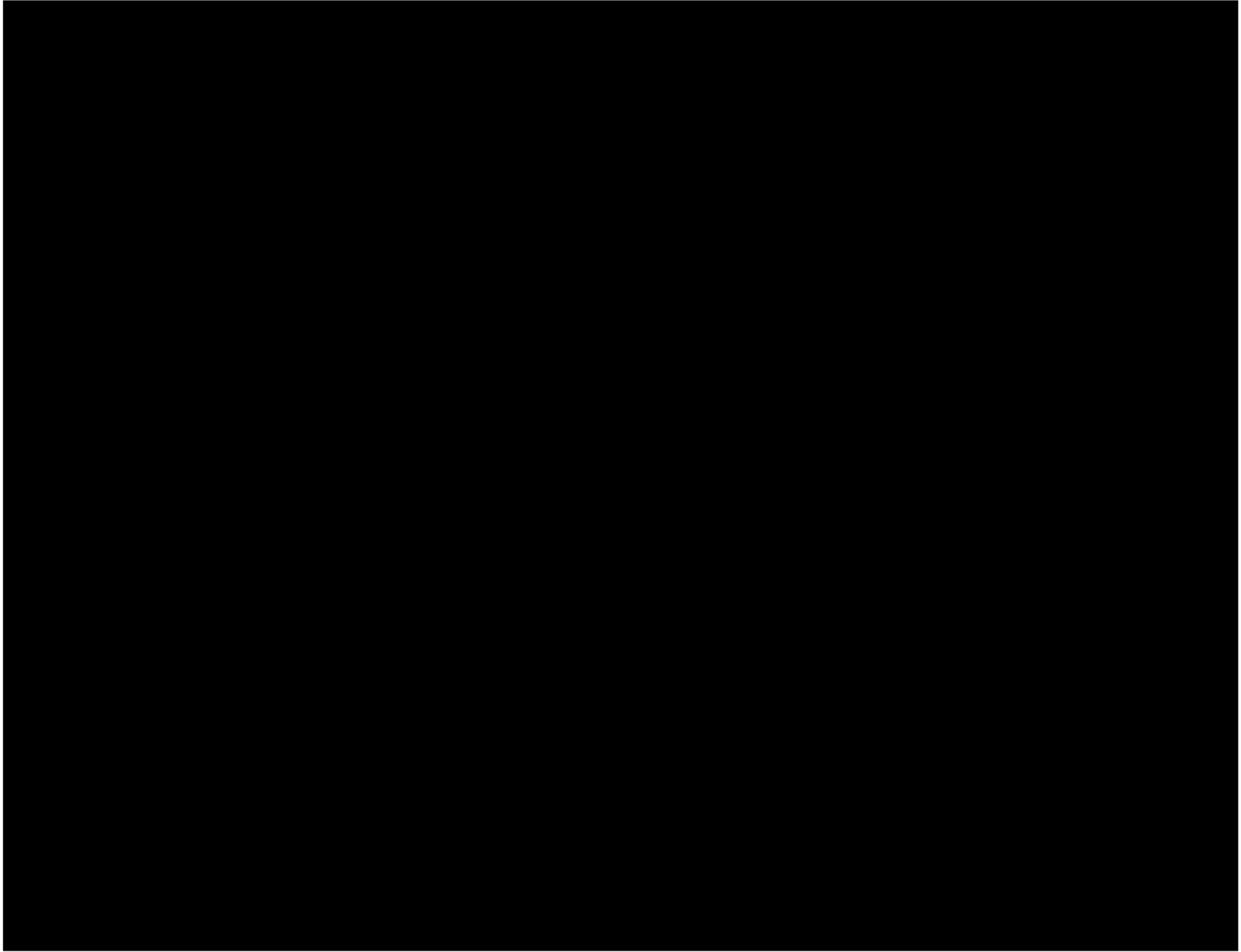
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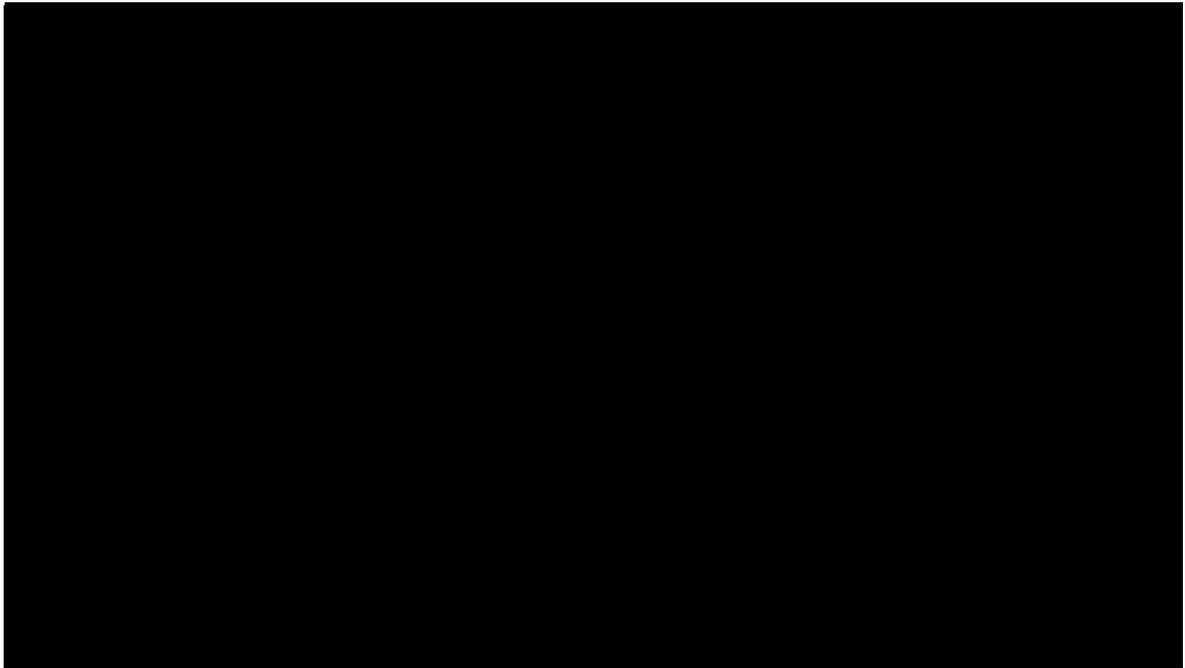
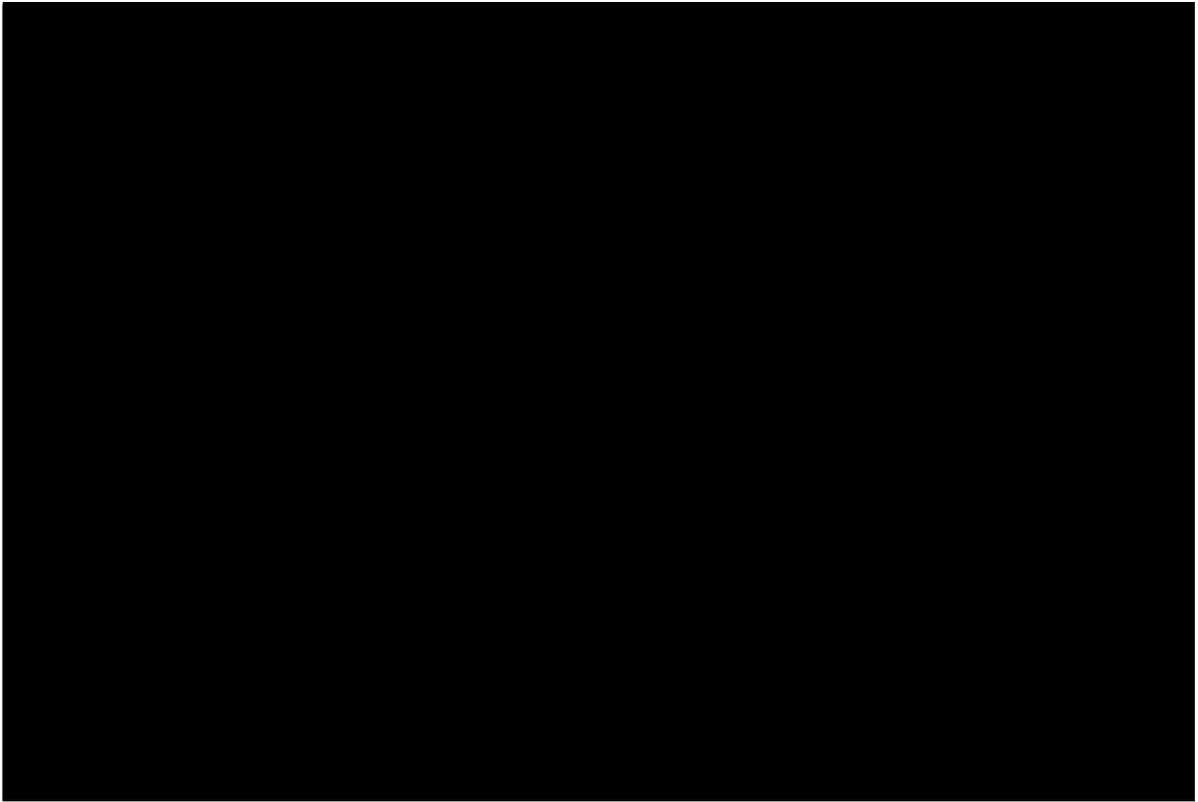


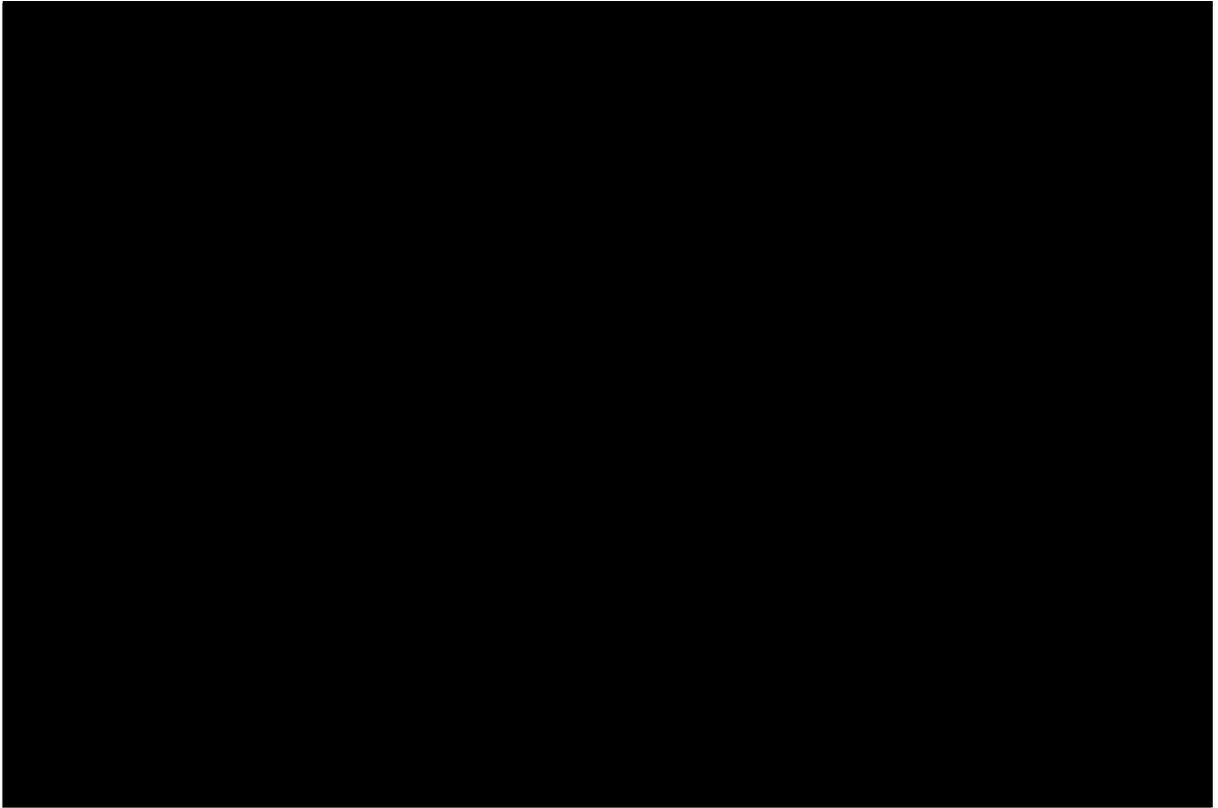
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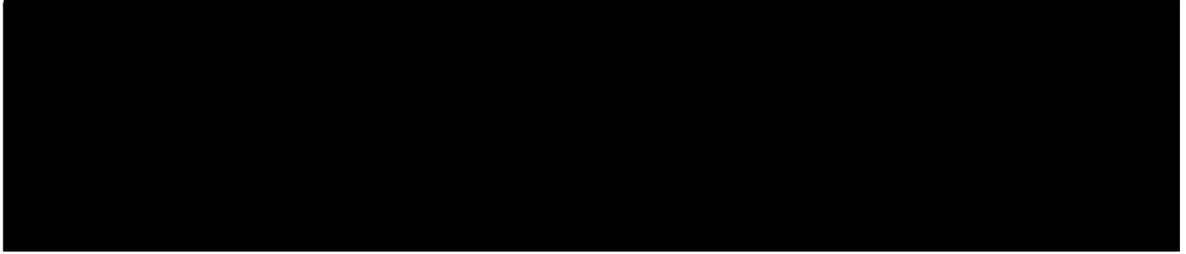












[Redacted]

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[REDACTED]

[REDACTED]

[REDACTED]

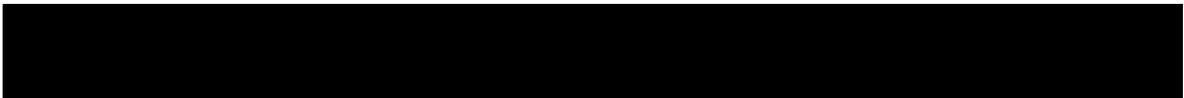
[REDACTED]



Please refer to Section 8 for technical details and additional information regarding how the interconnection at the POI will be completed, and for the status of the Proposer's Interconnection Request with NYISO.

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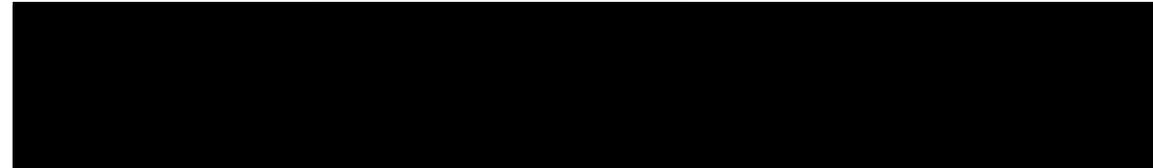
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**ATTACHMENT 4-4**  
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**ATTACHMENT 5-1**

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**ATTACHMENT 5-4**  
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**ATTACHMENT 6-1**

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**ATTACHMENT 7-1**

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**ATTACHMENT 7-2**

**Ørsted Annual Report 2017**



**Ørsted**  
**Annual report 2017**

# The Ørsted Way

## Let's create a world that runs entirely on green energy



Climate change is one of the biggest challenges for life on Earth. Today, the world mainly runs on fossil fuels. We need to transform the way we power the world; from black to green energy.

At Ørsted, our vision is a world that runs entirely on green energy. We want to revolutionise the way we power people by developing green, independent and economically viable energy systems. By doing so, we create value for the societies that we are a part of and for all our stakeholders.

The way we work is based on five guiding principles:

#### **Integrity**

We are open and trustworthy and uphold high ethical standards

#### **Passion**

We are passionate about what we do and proud of what we achieve

#### **Team**

We value diversity and collaborate in a non-hierarchical, respectful and trusting way

#### **Results**

We set the bar high, take ownership and get the right things done

#### **Safety**

We never compromise on health and safety standards

Integrity is our root. Passion is our energy. Team is our strength. Results give us freedom. The safe way or no way.



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# Overview

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Headquarter in Denmark

**5,638**  
employees

Revenue in 2017

**DKK 59.5bn**



# Chairman's statement

The transformation of the energy supply to green energy is one of the biggest challenges facing the world. Today, more than 80% of the world's energy supply comes from the burning of fossil fuels, which leads to serious climate change and impacts people's living conditions all over the planet. If we are to slow down this development, we need to supply the world with energy in a sustainable manner.

Over a period of 11 years, Ørsted has been transformed from a Danish utility company based on coal, oil and gas to an international energy company based on green energy. In 2017, we decided to phase out our use of coal by 2023, and we divested our oil and gas business. We also guaranteed our Danish residential customers that the power they receive from us is generated by offshore wind farms.

With the decisions we made in 2017, we completed our strategic transformation from black to green energy. None of the other major energy companies in Europe have come this far in their transformation processes, and among this group, we are now the fastest-growing company. As a result, we are a completely different company today. That is why we decided to change our name to Ørsted, inspired by the world-renowned Danish scientist H.C. Ørsted.

Our vision is a world that runs entirely on green energy. We have strong competences within sustainable energy solutions in all parts of our



business. We want to build on these strengths and help the world's transformation to green energy systems.

Our commitment to sustainability is fundamental. We therefore run our business in a way that supports the United Nations Sustainable Development Goals (SDGs). In our Sustainability Report, you can read more about how we contribute to these goals.

The heading for our strategy is 'Green growth'. In the coming years, growth will primarily be driven by our build-out of offshore wind, where we have the largest investment programme in the sector. We are also looking into new growth opportunities within green energy generation,

intelligent customer solutions and solutions integrating generation and consumption.

In 2017, we continued our tireless work to improve safety for our employees and suppliers. We achieved a lost-time injury frequency of 1.6, the lowest level ever in the Group's history. On this basis, we are now switching to an even more fine-meshed measuring method comprising all accidents, whether they lead to absence or not.

Profit for the year from continuing operations amounted to DKK 13.3 billion, our best ever result. The Board of Directors recommends to the annual general meeting that dividend payments be increased from DKK 6 to DKK 9

per share, enabling us to retain an attractive level of dividend.

On behalf of the Board of Directors, I would like to thank the management and employees for having created one of the most successful energy companies in Europe, and one that is leading the way towards a world which runs entirely on green energy.

**Thomas Thune Andersen**  
Chairman

**With the decisions we made in 2017, we completed our strategic transformation from black to green energy. None of the other major energy companies in Europe have come this far in their transformation processes.**

# CEO's review

Ørsted's vision of creating a world that runs entirely on green energy was supported by a strong performance in 2017.

- Strong growth in the Group's operating profit (EBITDA) of 18%
- Wind Power's EBITDA increased by 74% to DKK 20.6 billion, of which the farm-downs of 50% of Walney Extension and Borkum Riffgrund 2 accounted for almost half
- Good progress in the build-out of new offshore wind farms
- New offshore wind projects awarded in Germany and the UK
- Important milestones for our offshore wind projects in the USA and Taiwan
- Inauguration of the biomass conversion of Skærbæk Power Station and start-up of the Asnæs Power Station conversion
- Divestment of our oil and gas business
- Change of name to Ørsted.

## Results

In 2017, we achieved a strong operating profit (EBITDA), which more than lived up to our expectations at the beginning of the year.

Underlying growth in 2017 was 56%. The good results were driven by yet another strong year in Wind Power where EBITDA was up 74% and ended at DKK 20.6 billion, fuelled by the farm-downs of 50% of the Walney Extension and Borkum Riffgrund 2 offshore wind farms. In addition, there was an increase of 45% in earnings from our offshore wind farms in operation where the portfolio is continuously expanded.

The reported EBITDA for 2017 amounted to DKK 22.5 billion, corresponding to a growth of 18%. Our return on capital employed (ROCE) increased to 25% in 2017 from 17% in 2016, when adjusting for lump-sum payments related to gas purchase contracts amounting to DKK 4.3 billion in 2016.

The net profit for the continuing part of the Group increased by DKK 1.1 billion to DKK 13.3 billion. In addition, the result from the divested upstream oil and gas business contributed with DKK 6.9 billion.

In 2017, the green share of our heat and power generation increased by 14%-points to 64% as a result of the conversion of our CHP plants to sustainable biomass and increased generation from offshore wind farms. Our target is to



**// Our target is to increase the green share of power and heat generation to at least 95% in 2023.**

increase the green share of power and heat generation to at least 95% in 2023.

### Strategic development

Our vision is to create a world that runs entirely on green energy. We want to spearhead the green transformation. We do so by continuously investing in our competitiveness and core competences to create opportunities for long-term, profitable growth within renewable energy.

Our business activities consist of three areas: offshore wind, utility business, as well as a portfolio of new long-term growth options.

We have an ambitious plan for the build-out of offshore wind that will enable us to maintain and strengthen our global, market-leading position and continue to expand in both existing and new markets. We will also maintain our focus on reducing the costs of offshore wind and on further developing innovative technical solutions. Over the next many years, offshore wind will remain our primary driver of growth and investment priority and constitute most of our business. It is our strategic core and will remain our priority, should we face bottlenecks in our resource allocation. We expect that more than 85% of our gross investments will be within offshore wind, and yield an average return on capital employed of 13-15% in the years up to and including 2023.

In our utility business, we are in the process of completing our conversion from fossil fuels to sustainable biomass, ensuring that coal can be phased out completely by 2023. At the same time, we will continue our roll-out of smart meters, build a smart power distribution grid,

while also focusing on improving customer experience through digitisation and innovation of our products. Our utility business complements our wind power business, enabling us to develop vertically integrated, green energy solutions. In addition, it provides access to and insight into the market and contributes stable, regulated earnings.

There is strong global support for accelerating the green transformation. In the past few years, we have created significant value through our investments in green energy, and we want to gradually expand our access to the significant, long-term growth opportunities, not just within offshore wind and bioenergy, but potentially also other green technologies. We want to build on Ørsted's vision, culture and competences to pursue further profitable growth.

As much as possible, our long-term growth must be a diversified journey combined with the ability to change our focus and direction in step with market developments. We cannot predict what the future will bring.

Our strategy is based on the vision of an integrated green energy system, where renewable energy technologies can be combined with each other and with energy storage solutions, more flexible and intelligent patterns of consumption and electrification of the transport sector, heating systems and industry. We believe that the ability to think integrated solutions across different technologies and parts of the energy system may in itself become a competitive advantage.

## // We want to gradually expand our access to the significant, long-term growth opportunities, not just within offshore wind and bioenergy, but potentially also other green technologies.

Our portfolio of new long-term growth options includes, among other things, the Renaissance technology. We expect our first full-scale plant to be commissioned in H1 2018. Furthermore, we are seeking to mature our 'Energy-as-a-Service' concept as a way of meeting our industrial customers' needs for innovative and green energy solutions. We have also established a new unit focusing on energy storage and solar PV projects, and we also look into onshore wind. It is early days for these initiatives, and we are still working to establish a scalable commercial model for them. Thus, they are not expected to contribute significantly to the Group's financial development in the short term, but we are exploring them as long-term growth options.

Currently, our above-mentioned growth initiatives are all organic, but we will also consider making focused acquisitions should strategically relevant opportunities arise with the potential to create value – both within offshore wind and within new green growth areas where we can build on existing competences. Geographically we focus on North-western Europe, North America and selected Asian markets.

When it comes to storage, solar PV and onshore wind we first and foremost see value creation where we can take over projects from developers who do not have the scale, capabilities, and balance sheet to extract the full value from their projects. We have essentially built our leadership position in offshore wind

on the same business model. There are, of course, differences in technology and market dynamics across offshore wind, onshore wind, storage and solar PV. However, we also see many similarities where we can transfer this experience and learning from our existing business. Given the strength and growth of our offshore wind business, we are not under pressure to pursue new green avenues, but if attractive opportunities can be found within adjacent renewable technologies, a broader portfolio will further add to our strategic scale optionality, and long-term growth prospects.

In 2017, we changed our name to Ørsted – a name which better supports our position as a leading green energy company. The name is a tribute to the Danish scientist H.C. Ørsted, whose curiosity, dedication and skills, among other things, led to the discovery of electromagnetism, which today is a key component in the generation of power and thereby modern society. The name has generally been well received both internally in the company and among our external stakeholders. A few bearers of the Ørsted name have, however, chosen to file a subpoena with the Copenhagen Maritime and Commercial Court to prevent our use of the name. We are, of course, sorry about that as we have been keen to establish a friendly and respectful relationship with all bearers of the name. We still believe we are entitled to name our company after H.C. Ørsted.

### Capital allocation

From 2019, we expect our business activities to generate sufficient cash flows to finance our planned portfolio investments.

Most of our capital will go towards supporting our existing ambitious growth plan for offshore wind, where our ambition is to reach an installed capacity of 11-12GW by the end of 2025. In addition, we will finalise the above-mentioned conversion of our CHP plants to sustainable biomass and install one million smart meters.

We maintain our strong commitment to our credit rating target (BBB+/Baa1) and the, at any time, announced expected dividend payments. Our capital structure allows us to increase dividends from DKK 6 to DKK 9 per share, totalling DKK 3.8 billion for 2017. This is a significant increase compared to our announcement at the time of the IPO and attributable to strong and growing cash flows from our offshore wind farms in operation. For the period up until 2020, we still expect a year-on-year high single-digit percentage increase in dividends relative to our new baseline.

Even with our current ambitious investment plans, clear commitment to our credit rating target and payment of increasing dividends, we expect to build additional financial capacity within a couple of years. This means that in the future, after the expected farm-down of Hornsea 1, we will only use farm-downs if we can continue to attain an attractive value creation or in order to spread our market and project risk.

We will invest any further excess financial capacity in value-adding growth to complement our existing investment plan, if we see relevant opportunities in the market.

After that, excess capital will be returned to our shareholders in the form of dividends and/or share buybacks.

### Wind Power

In 2017, we reached several new milestones in our ambitious green strategy. Burbo Bank Extension in the UK and Gode Wind 1 and 2 in Germany were inaugurated in the early summer, contributing significantly to our continued growth in earnings from operating offshore wind farms. At the end of 2017, all turbines at Race Bank and at the first part of Walney Extension had been installed. Race Bank was fully commissioned in January 2018 and Walney Extension is expected to follow in H2 2018. In 2017, the build-out of our portfolio also included German Borkum Riffgrund 2, Dutch Borssele 1 and 2 and Hornsea 1 in the UK, which will be the world's largest offshore wind farm when commissioned.

We continued our partnership model in 2017, farming-down 50% of Walney Extension to the Danish pension funds PKA and PFA as well as 50% of Borkum Riffgrund 2 to Global Infrastructure Partners. The farm-downs testify to the continued considerable interest from investors in the green transformation and Ørsted's market-leading partnership model.

In April, we won the rights to build three offshore wind farms in the German part of the North Sea. Two of them were won with zero-subsidy bids. Commissioning of the projects is planned for 2024, provided that final investment decisions, as expected, are made in 2021.

In September, we were awarded a contract to construct Hornsea 2 in the UK. With a capacity of 1.4GW, it will overtake Hornsea 1 as the world's largest offshore wind farm when completed in 2022. The price of the contract for difference (CfD) was 50% lower than in the previous CfD round just two years ago. The decline illustrates the rapid cost reductions in the industry, which have made offshore wind power competitive relative to conventional power generation based on fossil fuels.

We are constantly observant to new opportunities for expanding our portfolio, creating more value and safeguarding our market position. This applies both in Europe, where the interest in offshore wind remains strong, and via business development in new markets, such as the USA and Taiwan. In the autumn, the UK and Dutch governments announced new ambitious targets for additional build-out of offshore wind in the 2020-2030 period.

In the USA, we bid at the first offshore wind auction in Massachusetts in December together with our partner Eversource Energy, participating with the Bay State Wind project. The preferred bidder or bidders are expected to be selected in April 2018 and will be invited to negotiate a fixed price contract with the three local power distribution companies. In addition, we entered into a partnership agreement with Dominion Energy about a development project off the coast of Virginia for further build-out of offshore wind in Virginia.

Since offshore wind is an important component in Taiwan's future energy supply, it is a potentially attractive market for us. At the end of 2017, the Taiwanese EIA evaluation panel

recommended approval of our environmental impact assessment of the four Greater Changhua projects with a total capacity of up to 2.4GW. Final approval is expected in Q1 2018. In addition, we have entered into cooperation with local Taiwanese companies on components for future projects. We expect the first of the potential projects in Taiwan to be commissioned in the early 2020's.

### Bioenergy & Thermal Power

In accordance with our overall strategy, we continue to convert our Danish CHP plants to sustainable biomass. The phasing-out of coal is gaining momentum, and from 2023 we will no longer use coal to generate heat and power. In October 2017, we inaugurated Skærbæk Power Station's new unit which can now run up to 100% on sustainable biomass. We also entered into an agreement to convert Asnæs Power Station to sustainable biomass from 2019. Now, only Esbjerg Power Station remains to be converted for us to achieve our objective of coal-free operations.

Our first commercial Renaissance plant in Northwich, UK, was constructed in 2017. Through enzymatic treatment, unsorted household waste is converted into biogas and recyclable materials. The work on testing and optimising the mechanical parts of the plant is still ongoing and has taken longer than expected. We expect to commission the plant in H1 2018. When fully operational, the plant is expected to be able to treat waste from approximately 110,000 British households.

### Distribution & Customer Solutions

At the beginning of the year, and as part of our green transformation, we decided that our

733,000 residential power customers in Denmark should have their total power consumption covered by green power generated by our offshore wind farms at no additional cost for them. Since 1 January 2017, we have therefore supplied green power to all our residential customers. We buy certificates from our own Danish offshore wind farms corresponding to the power consumed by our residential customers.

By the end of 2020, smart meters must be installed for all our Danish power customers. After a successful pilot project in late 2016 and early 2017, we initiated the large-scale roll-out in June. By the end of 2017, a total of 183,000 new meters were in use. In cooperation with Danish meter producer Kamstrup, our power distribution company Radius is tasked with replacing more than one million smart meters on Zealand.

### Employees

We have a very strong focus on safety and well-being. During the year, we maintained the positive development in the Group's lost-time injury frequency (LTIF) and saw no life-changing accidents. Moreover, the feedback from our employees in this year's employee survey was again positive. We believe that well-being, safety and positive results go hand in hand. Therefore, we are working continuously to maintain and increase employee satisfaction and safety.

Effective from 2018, we have introduced a new safety target – total recordable injury rate (TRIR). This measure is more extensive than LTIF, and includes, besides lost-time injuries, accidents which do not result in absence, but

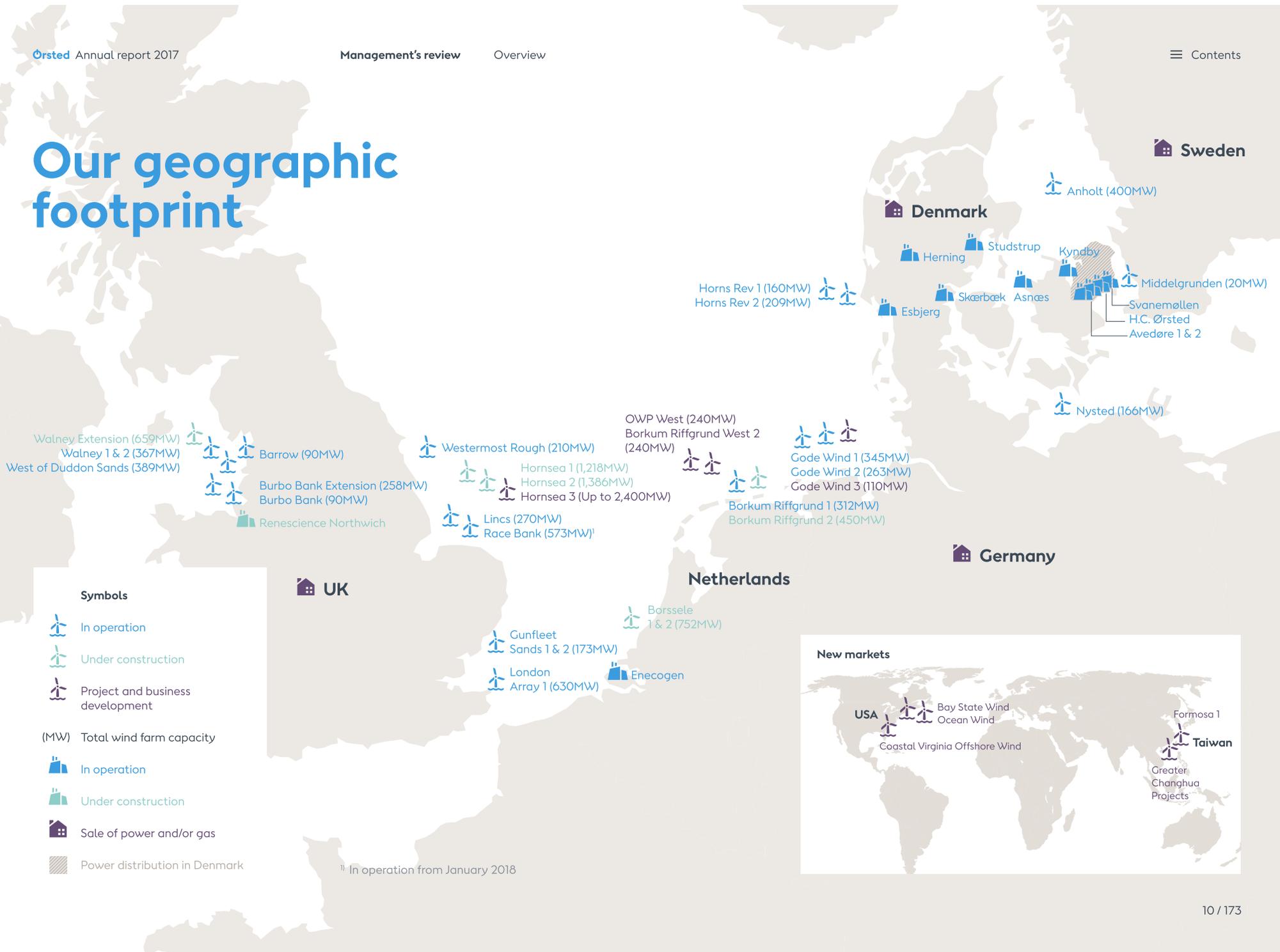
which make the employee unable to undertake normal work, or where medical treatment is required. It follows that there are more facets to TRIR compared to the previously used LTIF measure, and we believe that it reflects everyday life in Ørsted better and will help raise ambition levels for our safety efforts even further.

Our employees again deserve credit and acknowledgement for their dedicated performance all through 2017. Their strong competences, entrepreneurial spirit and passion for what Ørsted stands for and the work we do, are the very foundation of our company.



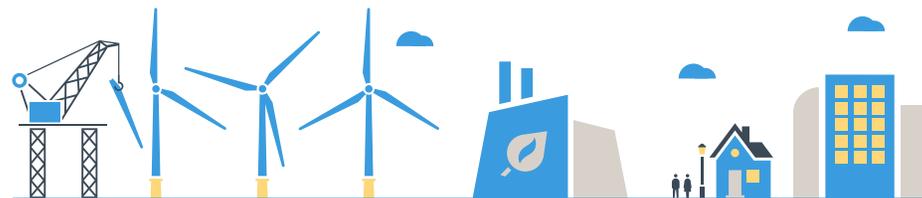
**Henrik Poulsen**  
CEO and President

# Our geographic footprint



# Our business model

How we create a world that runs entirely on green energy



- Financial capital**  
We finance our investments through cash flow from operations, debt and divestment of partnership interests
- Energy assets**  
We invest in scalable, innovative green technologies and solutions
- Natural resources**  
We rely on natural resources, such as biomass, as well as locations with attractive wind speeds and seabed conditions
- Human resources**  
We rely on a highly skilled workforce to operate our business
- Innovative culture**  
We continuously develop competitive energy solutions through innovation
- Stakeholder engagement**  
We depend on constructive relations with our key stakeholders to ensure supportive framework conditions for our business

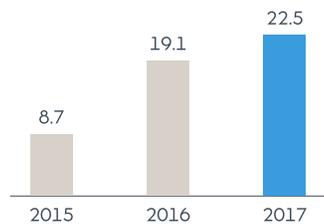
	Develop and construct	Operate and maintain	Sell and optimise
<b>Wind Power</b>	Develop and build offshore wind farms. Five wind farms are under construction	Own 23 offshore wind farms of which we operate 19	Utilise our partnership model and crystallise value
<b>Bioenergy &amp; Thermal Power</b>	Convert our CHP plants from coal or gas to sustainable biomass	Own and operate ten plants in Denmark and one plant in the Netherlands	Enter into long-term contracts with our heat customers and sell power to the market
<b>Distribution &amp; Customer Solutions</b>	Modernise our power distribution grid in Denmark	Operate and maintain our grid infrastructure	Manage the Group's overall energy portfolio and provide gas, power and energy solutions for our customers

- We create value for our shareholders** in the form of competitive total returns
- We address profound societal challenges** by developing green, independent and economically viable energy systems that reduce greenhouse gas emissions
- We fulfil our customers' energy needs** through green, innovative and efficient energy solutions
- We are committed to a sustainable working life** and keep a constant focus on being **a great and safe place to work** with motivated and satisfied employees

# Strong progress in consolidated results

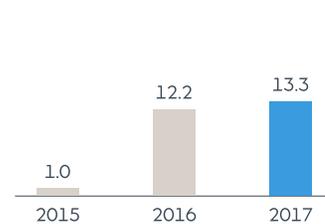
## Operating profit (EBITDA), DKK billion

The increase was due partly to 45% growth in earnings from our offshore wind farms in operation, partly to higher partnership income from the farm-down of Walney Extension and Borkum Riffgrund 2. The increase was partially offset by the fact that 2016 was positively affected by compensation of DKK 4.3 billion from the renegotiation of gas purchase contracts.



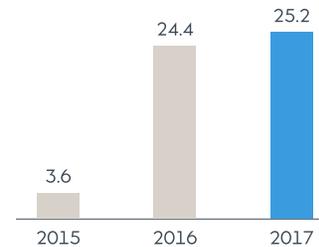
## Net profit (continuing operations), DKK billion

The increase was mainly due to higher EBITDA, partially offset by a gain on the divestment of the gas distribution network in 2016.



## Return on capital employed (ROCE), %

ROCE increased by 1%-point due to the higher EBITDA, which was partly offset by higher funds tied up in capital employed as a consequence of our continued high investment level. ROCE totalled 17% in 2016 adjusted for compensation from renegotiations.



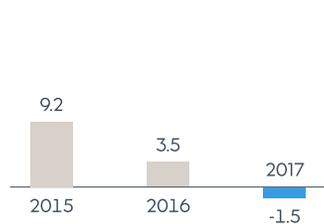
## Gross investments, DKK billion

Investments were particularly substantial in 2017 due to construction on several offshore wind farms including Walney Extension, Race Bank, Borkum Riffgrund 2 and Hornsea 1.



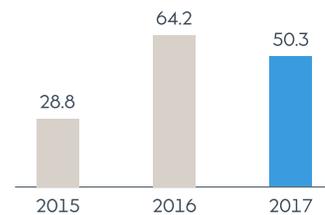
## Interest-bearing net debt, DKK billion

Net debt decreased by DKK 5.0 billion, due to the proceeds from the divestment of the Oil & Gas business and from its operation until the divestment. The continuing operation also achieved a positive free cash flow despite the high investments.



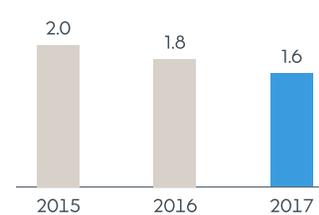
## Credit metric (FFO/adjusted net debt)<sup>1)</sup>, %

The decline in FFO/adjusted net debt was primarily due to lower FFO, as gains from the farm-downs of the offshore wind farms are not included in the calculation. Gains from the farm-downs were DKK 8 billion higher than in 2016, which on the other hand was positively affected by compensation from the renegotiations. However, debt was lower compared to 2016.



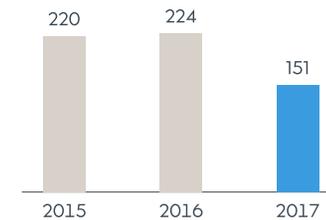
## Safety, LTIF

Our continued focus on safety resulted in a historically low lost-time injury frequency in 2017. Effective from 2018, we have introduced a new safety target – total recordable injury rate (TRIR).



## Carbon emissions, gCO<sub>2</sub>e/kWh

Carbon emissions were reduced following the biomass conversion of CHP plants as well as 42% higher generation from offshore wind farms.



<sup>1)</sup> Interest-bearing net debt including 50% of hybrid capital, cash and securities not available for use (with the exception of repo transactions), present value of lease obligations, and decommissioning obligation less deferred tax.

# Outlook 2018

## New EBITDA guidance method

We have, in 2018, decided to change our guidance method. In the future, our guidance will only include the effect from existing offshore wind partnership agreements. Previously, our outlook included the effect from partnership agreements which we expected to conclude during the year. That made our outlook particularly sensitive to the timing of farm-downs in Wind Power as well as the distribution of income between the years. Earnings from the new partnerships concerning Borkum Riffgrund 2 and Walney Extension amounted to DKK 9.8 billion in 2017.

## EBITDA

EBITDA (business performance) excluding new partnership agreements is expected to be DKK 12-13 billion in 2018. The outlook is based on the expected development in the business units (compared to 2017), as described below.

### Wind Power (without new partnerships) – higher

- Earnings from offshore wind farms in operation are expected to increase as a result of the full commissioning of Race Bank in January 2018 and Walney Extension in H2 2018, as well as higher earnings from Burbo Bank Extension, which was completed in May 2017

- Earnings from existing partnership agreements are expected to decline relative to 2017, when earnings were positively affected particularly by Race Bank, but also by Burbo Bank Extension and Gode Wind 1 and 2. In 2018, earnings from existing partnerships will primarily come from Walney Extension and Borkum Riffgrund 2

- A more negative contribution than in 2017 is expected from other activities as a result of higher expensed project development costs.

### Bioenergy & Thermal Power – higher

- Total EBITDA from our heat and power generation activities is expected to increase, primarily as a result of the completed bioconversion of Skærbæk Power Station. Earnings from ancillary services are expected to be in line with 2017.

### Distribution & Customer Solutions – significantly lower

- Earnings from Distribution are expected to be in line with 2017
- In 2017, Markets achieved high earnings from our gas portfolio and trading activities. We expect lower earnings from these activities in 2018. The increasing gas prices during 2017 led to an increase in the accounting value of our gas inventories, especially towards the end of the year. All else being equal, this will lead to an offsetting negative effect in 2018 when we sell the gas

## Outlook 2018, DKKbn

	2018 Guidance	2017 Realised
EBITDA (without new partnerships)*	12-13	12.7
Wind Power (without new partnerships)*	Higher	10.8
Bioenergy & Thermal Power	Higher	0.2
Distribution & Customer Solutions	Significantly lower	2.1
Gross investments	16-18	17.7

\* EBITDA excluding new partnership agreements signed later than 1 January 2018 (respectively 2017).



Our EBITDA guidance for the Group is the prevailing guidance, whereas the directional earnings development per business unit serves as a means to support this. Higher/lower indicates the direction of the business unit's earnings relative to the results for 2017.

- In 2017, earnings from LNG were negatively impacted by a provision regarding our capacity in the Gate terminal in Rotterdam. Earnings are thus expected to improve in 2018.

### Hornsea 1

We still expect a 50% farm-down of Hornsea 1, either in H2 2018 or in 2019. Should the divestment materialise in 2018, EBITDA including new partnerships is expected to be higher than the DKK 22.5 billion achieved in 2017. With a capacity of 1.2GW, this wind farm is around 85% larger than Walney Extension.

### Gross investments

Gross investments for 2018 are expected to amount to DKK 16-18 billion. The outlook reflects a high level of activity in Wind Power (Walney Extension, Hornsea 1, Borkum Riffgrund 2, Borssele 1 and 2 and Hornsea 2), biomass conversion of Asnæs Power Station and installation of smart meters.

### Work in progress

In addition to gross investments, significant funds are temporarily tied up in connection with the construction of offshore transmission assets for offshore wind farms in the UK and offshore wind farms for our partners. These funds are a part of our operating cash flow.

At the end of 2017, funds tied up in work in progress totalled DKK 7.5 billion. We expect to divest the Burbo Bank Extension offshore transmission asset during H1 2018, but we still expect to see an increase in funds tied up in work in progress in 2018 as a result of the construction of transmission assets at Hornsea 1 and 2. The construction of Borkum Riffgrund 2 and Walney Extension is expected to be more or less operating cash flow-neutral, as we will be receiving milestone payments from our partners during the construction phase.

### Forward-looking statements

The annual report contains forward-looking statements, which include projections of financial performance and targets as well as our financial policies. These statements are not guarantees of future performance and involve certain risks. Many direct and indirect factors may affect future results and developments may therefore differ materially from what is forecast due to a variety of factors.

These factors include, but are not limited to, changes in temperature, wind conditions and precipitation levels, the development in inflation, currency, power, gas, coal, carbon, oil and interest rate markets, changes in legislation, regulation or standards, changes in the competitive environment in our markets, security of supply and cable break-downs or other disruptions. Reference is made to the 'Risk and risk management' chapter and to note 7.

### Uncertainties, prices and hedges

Our offshore wind farms are largely subject to publicly regulated prices, implying a high degree of certainty about the income. This means that we know the price per generated MWh for most wind farms in Denmark and Germany as well as the CfD wind farms in the UK. For our British ROC wind farms, we also know the subsidy per generated MWh which we will receive in addition to the market price. In 2018, the ROCs are expected to account for 60% of the total income from these wind farms. In 2018, the total publicly regulated prices and subsidies are expected to account for 78% of the income from our offshore wind farms in operation.

The part of our generation from offshore wind farms and power stations, which is exposed to market prices, has to a large extent been hedged for 2018. The same applies to our currency risks. The market value of financial hedging instruments relating to our operations and divestment of assets deferred for recognition in business performance EBITDA in 2018 amounted to DKK -0.2 billion at the end of 2017. This effect is included in the outlook for 2018 (see note 1.1).

The most significant uncertainty surrounding the operating profit from existing activities in 2018 relates to the size of our power generation, which depends on the wind conditions, the ramp-up of new wind farms and potential break-downs, and to a less extent our earnings from existing partnership agreements, heat and market trading activities.



# Financial targets and policies

## Financial targets

Our target is an average return on capital employed (ROCE) of 12-14% for the Group in the 2018-2023 period (previously 2017-2023), with Wind Power as the main contributor with a targeted ROCE of 13-15% over the same period. We have maintained our target, even though we are now excluding 2017, where we achieved an ROCE of 25% for the Group and 28% for Wind Power.

In Bioenergy & Thermal Power, the focus is on realising positive free cash flows (FCF). Based on the biomass conversion of our CHP plants and the build-out of new bioenergy solutions, we expect to realise positive free cash flows for Bioenergy & Thermal Power from 2018.

This year, we are introducing a new directional target for the operating profit from our offshore wind farms in operation, as they will account for the largest share of our total earnings within a few years. Therefore, we expect an average annual increase in EBITDA from offshore wind farms in operation (including O&M agreements and power purchase contracts) of 13%-14% in the period from 2017 to 2023, from a starting point of DKK 8.5 billion in 2017. The portfolio includes the current decided offshore wind farms through Hornsea 2, and does not account for farm-downs after Hornsea 1, which we expect to farm down in H2 2018 or 2019.

## Financial policies

The Board of Directors recommends to the annual general meeting that dividends of DKK 9 per share be paid for FY 2017, equating to an increase of 50% and a total of DKK 3.8 billion. This is a significantly higher increase than envisaged in our dividend policy, which was revised in connection with the IPO. The increase is driven by a strong and increasing cash flow from our offshore wind farms in operation. Our objective is still to increase dividends annually by a high single-digit rate compared to the dividends for the previous year up until 2020.

As described in the strategy section of this annual report, our dividend policy and other expected capital allocation are subject to our objective of maintaining a BBB+/Baa1 rating profile.

At the end of 2017, we adjusted our credit metrics to exclude the effect of gains on farm-downs of offshore wind farms. We have done this to align the metric to the credit rating agencies' method. Despite the alignment, our target is still a ratio of about 30%.

## Financial targets

	Target	Year
Return on capital employed (ROCE)		
Group	12%-14%	2018-2023
Wind Power	13%-15%	2018-2023
Distribution & Customer Solutions	9%-11%	2018-2023
Free cash flow (FCF)		
Bioenergy & Thermal Power	Positive	2018
Average yearly increase in EBITDA (CAGR)		
Offshore wind farms in operation	13%-14%	2017->2023

## Financial policies

Rating	Min. Baa1/BBB+/BBB+ (Moody's/S&P/Fitch)
Capital structure	~ 30% (FFO/adjusted net debt)



We have maintained our ROCE target, even though we are excluding 2017, where we achieved an ROCE of 25%.

We are introducing a new directional target for our offshore wind farms in operation.



Our current rating is in accordance with the policy.

# Group

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# Market situation

## Transforming global energy systems to renewable energy

Global carbon concentrations are now at 145% of the pre-industrial level of the mid-1800s, and 2017 was the fourth year in a row with extraordinarily high temperatures. According to the World Meteorological Organization, changes in the atmosphere over the last 70 years have been more abrupt and severe than ever before.

The vast majority of the world's countries acknowledged the need to fight climate change by ratifying the Paris Agreement in 2016. Under the agreement, the countries commit to keeping the global temperature increase well below two degrees towards the year 2100. The G20 summit in Hamburg in July 2017 emphasised the significance of that goal, and the leaders of the G20 countries agreed that developing innovative energy systems is required for a sustainable future. Today, more than 75% of the world's power generation is based on fossil fuels and nuclear energy.

Public support to continuing the green transformation is crucial. To understand the public opinion on the green transition, Ørsted conducted the inaugural 'Green Energy Barometer' survey in 2017, interviewing more than 26,000 people across thirteen countries. 82% of the respondents believe it is important to create a world fully powered by renewable energy. The support comes from all age groups, educational backgrounds and political

beliefs. 85% would like their country to phase out the use of coal.

Europe is leading the world's energy transformation, having 39% of its total power generation provided by renewable energy sources. In Europe, the share of renewables is expected to increase significantly, reaching 55% by 2030. Besides the wish to decarbonise energy generation, the key drivers behind the transition to green energy are the need to replace aging generation capacity and safeguard the security of energy supply as well as a wish to create local jobs.

Outside Europe, the share of power generation from renewables is considerably lower. In 2017, 24% of the power generation outside Europe was based on renewables, including hydro. Towards 2030, this share is expected to increase to 35%, driven by cost improvements in renewable energy technologies, and growing regulatory support for ambitious renewable deployment targets. By 2020, China aims to reach 210GW of accumulated wind power capacity, capable of generating 451TWh of power, and 110GW of accumulated solar capacity (PV and concentrated solar power), capable of generating 188TWh.

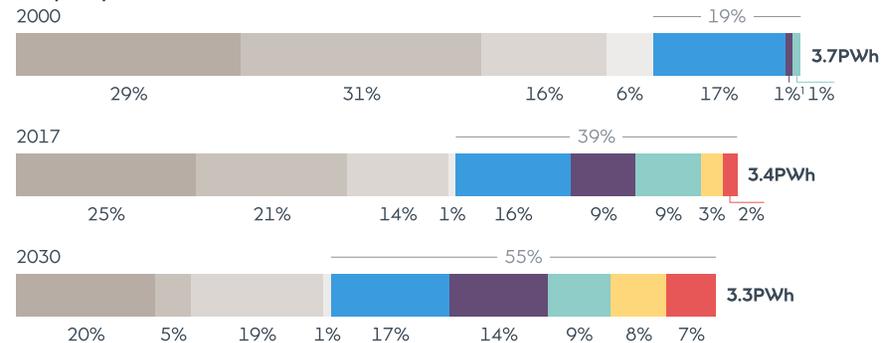
## Our market situation

Ørsted operates in various parts of the energy value chain: offshore wind, bioenergy, energy storage and consumption of energy.

## Share of power generation

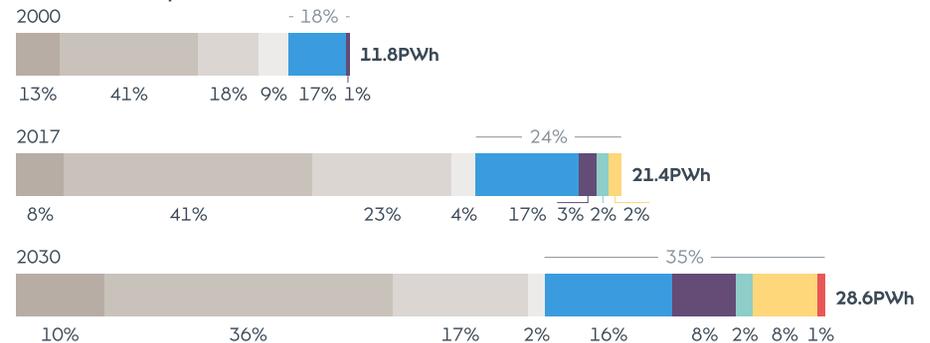
● Nuclear ● Coal ● Gas ● Oil ● Hydro ● Onshore wind ● Biomass ● Solar PV ● Offshore wind

### European power mix



<sup>1)</sup> Offshore and onshore wind combined

### Rest of the world power mix

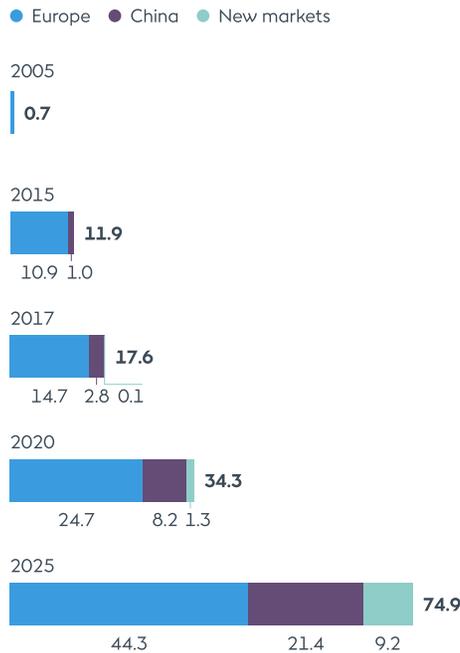


Source: International Energy Agency (IEA), World Energy Outlook 2017; Bloomberg New Energy Finance (BNEF), New Energy Outlook 2017.

### Offshore wind

2017 witnessed the largest annual build-out of global offshore wind capacity, with more than 4GW coming online. Cumulative installed capacity reached 18GW globally. The offshore wind market is expected to grow at an average of 19% in the coming years, and the global offshore wind capacity is therefore expected to quadruple towards 2025.

#### Installed offshore wind capacity, GW



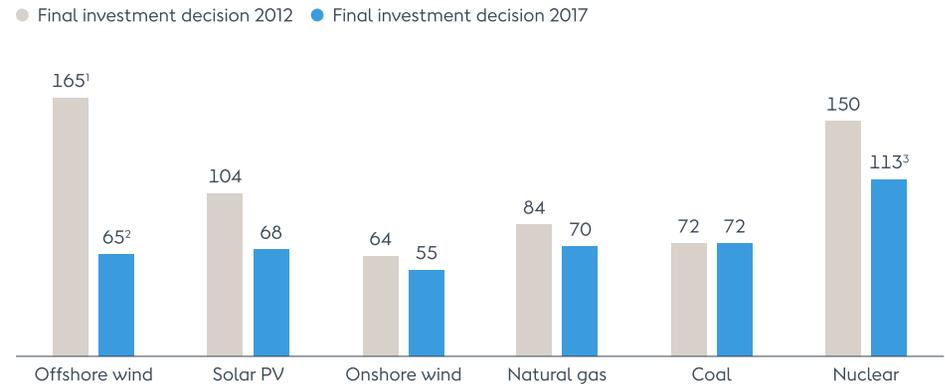
Source: Bloomberg New Energy Finance (BNEF), H2 2017 Offshore Wind Market Outlook

Today, offshore wind farms are primarily installed in Europe, but going forward, this segment of energy generation will become increasingly global. Towards 2020, the majority of capacity additions will take place in Europe, with 3.4GW being commissioned annually, while North America and Asia combined are expected to grow by 2.3GW annually. From 2020 to 2025, however, Europe is expected to add 3.7GW annually, while North America and Asia are expected to add 3.4GW annually. With an expected average annual growth rate of more than 150% from 2020 to 2025, the US market is among the fastest-growing markets.

A key driver of this capacity expansion is a significant reduction in costs. Over the past five years, the cost of offshore wind has been reduced by up to 60% in Northwestern Europe and there is still considerable potential for further cost reductions. Cost reductions are derived from economies of scale from building larger wind farms and installing larger wind turbines, supported by technological improvements in all parts of an offshore wind farm. Moreover, increased industrialisation, digitalisation, technological innovation and increased competition for the projects have contributed to cost reductions.

The most recent offshore wind farm auctions and tenders confirm the trend of rapidly falling costs. The German auction in April 2017 saw the first zero-subsidy bids for offshore wind projects to date. Two projects, OWP West and Borkum Riffgrund West 2, developed by Ørsted, will, if finally decided in 2021, be put in operation during 2024 without government subsidies. He Dreith, another subsidy-free project, which is developed by EnBW, is planned for commissioning in 2025.

#### Levelised cost of electricity for new generation capacity, Northwestern Europe, EUR/MWh (2016 prices)



Source: Bloomberg New Energy Finance (BNEF) and UK Department for Business, Energy and Industrial Strategy  
<sup>1</sup> Generic offshore wind, including transmission, Northwestern Europe, final investment decision (FID) 2012.  
<sup>2</sup> Hornsea 2, UK, including transmission. Calculated as levelised revenue (price) of power over the lifetime of the project. Market income based on BEIS (Department for Business, Energy & Industrial Strategy, UK) wholesale market price projections at the time of contracting.  
<sup>3</sup> Same approach as for Hornsea 2 with Hinkley Point strike price of GBP 92.5 per MWh in 2012 real prices. Lifetime of 60 years and 91% capacity factor.

Similarly, in the UK offshore wind auction in September 2017, the Hornsea 2 project (1.4GW developed by Ørsted) saw record-low costs, and was for the first time able to compete on cost with new-builds of conventional coal- and gas-fired power stations.

The allocation of offshore wind projects typically takes place through a public procurement process, organised as an auction or a tender.

In auctions, project developers compete with one or more of their own planned and

consented projects. The auction system is prevalent in countries such as the UK, the US, Germany (excluding part of the transmission grid) and to some extent Taiwan. Bid price is often the only award criterion.

In tenders, which is the method applied in Denmark and the Netherlands, the regulatory authority carries out preparations such as site investigations on wind, seabed and environmental conditions for preselected sites. For project developers who prequalify to bid, tender processes typically require lower

up-front investments than auction processes, and the risk for project owners of obtaining the necessary permissions is also lower. However, numerous project developers risk spending time and money on a project, for which only one is awarded a contract. In a tender process, the project is awarded to the bidder offering the lowest cost.

**Bioenergy**

For a long time, the generation of power by conventional fossil fuel-fired power stations in Europe has been under pressure from declining power prices. This pressure is also seen in Denmark, where Ørsted has the majority of its combined heat and power plants. The pressure on earnings from power generation has put an increased focus on the generation of district heating, which represents a stable

source of income due to the long-term heat contracts with large urban communities. In recent years, major heat customers have demanded that their deliveries to be covered by green sources, driving the conversions of conventional power stations to sustainable biomass. A bioenergy-based central heat and power plant provides flexible generation capacity to complement the fluctuating energy generation from wind and solar PV and provides large-scale green district heating.

On a European scale, between 0.5 and 1GW of new bioenergy generation capacity has been added annually since 2012, and by 2017, 30% of global bioenergy generation capacity was located in Europe. In Denmark, 13.4% of the total power generation came from biomass in 2016 against 7.5% for Europe in total.

Global waste volumes are growing rapidly at the moment and will continue to do so in the foreseeable future, and most of the waste is destined for landfills or dumped directly into natural habitats, creating large environmental problems, while missing the opportunity to capture the resources in the waste for recycling and energy production. New innovative and cost-effective solutions are needed to address this global challenge. Many countries are currently entering or undergoing major transformations of their waste systems, creating significant growth opportunities for competitive green waste treatment technologies.

**Energy storage**

Energy storage technologies are expected to play an important role in an energy system incorporating an increasing share of intermittent renewable sources. Storage solutions act

as enablers to balance supply and demand in the power markets, thus facilitating energy systems that are both green and secure. In recent years, mainly flexible rapid-response storage solutions have been deployed to provide ancillary services.

The deployment of storage solutions is expected to grow rapidly in the coming years. Today, the global market for storage capacity is 8GWh, but it is expected to increase to 121GWh by 2025, more than two thirds being large-scale utility facilities. In 2017, 80% of newly commissioned energy storage capacity was located in the Americas.

The costs of storage systems are expected to decrease significantly. Some analysts forecast a 20% cost reduction towards 2020 and 40% by 2025. As the volume of deployed storage solutions increases, additional cost reductions are expected, driven by economies of scale, technological innovation and increased competition.

**Energy consumption**

Energy customers are increasingly demanding green and more intelligent energy solutions to protect for the environment and save money. New technological solutions are key drivers in achieving this as they provide detailed overviews of consumption, can add flexibility and enable matching customers' consumption patterns to power generation based on intermittent renewable sources.

Currently, smart meters are being rolled out across Europe, providing customers with timely information about their consumption. By 2017, 128 million smart meters had been

installed in Europe, up from 96 million the year before, and this number is forecast to reach 266 million by 2021.

A growing portfolio of innovative solutions such as energy management systems allows consumers to better monitor and manage their power consumption. In 2016, EUR 8.3 billion were invested in smart energy solutions globally, primarily in digitalisation (49%) and energy efficiency solutions (30%).

Solutions to enable the green transformation are also deployed in the European heating sector. Electrification of heating with heat pumps is picking up, with approximately 1 million units sold in 2016 alone, totalling around 9.5 million units deployed across the EU. With some 244 million residential buildings across the EU, heat pumps cover approximately 4% of the building stock today.

Another sector that is becoming increasingly electrified is transportation. Towards 2030, the share of electric vehicles sold globally is expected to reach 24%. This will be driven by a sharp decline in battery costs, supportive regulation and a significant increase in available models with longer driving ranges, as car manufacturers are increasingly committed to lower greenhouse gas emissions.

**Offshore wind market development – selected upcoming events**

-  **Germany**  
2<sup>nd</sup> German auction, 1,610MW in Q2 2018
-  **The Netherlands**  
Holland Coast South 3 & 4 tender, 700MW in Q3 2018  
Holland Coast 5, 700MW in 2019
-  **United Kingdom**  
UK CfD auction in H1 2019
-  **USA**  
Connecticut auction, 200MW in April 2018  
New York auction, min 800MW (combined) in H2 2018 and in H1 2019
-  **Taiwan**  
Taiwan grid allocation, 3.5GW in Q2 2018

# Our strategy

## Transformation of the company

Over the past 11 years, Ørsted has undergone a significant transformation towards green energy. Ørsted (then DONG Energy) was among the most coal-intensive utilities in Europe in 2006, and only 13% of our heat and power generation was based on renewable energy sources. In 2017 this ratio was 64%, and already by 2020 more than 80% of our heat and power generation is expected to be based on renewable sources. By 2023, when coal has been phased out completely, more than 95% of our heat and power generation will come from renewable energy sources.

This green transformation has been driven primarily by a significant expansion of our offshore wind capacity. More than DKK 80 billion has been invested to expand our offshore wind capacity to currently 3.9GW, and with more than 5GW in the construction pipeline, Ørsted is currently the largest European renewables developer. Our scalable offshore wind build-out has been instrumental in reducing the offshore wind cost-of-electricity by 60% since 2012. A key component in our build-out has been the formation of 16 project partnerships with investors, enabling us to attract DKK 83 billion of capital, a key factor in financing our expansion.

In our conventional power generation, we have closed more than 40% of total capacity and converted five of seven combined heat and power plants (CHP) to biomass

to decarbonise our generation and ensure sustainable financials. The initiatives taken have been instrumental in lowering our carbon emissions by 67% compared to 2006. By 2023 our CHP operations will be completely coal-free, and we will have reduced our total carbon emissions per produced kWh by 96% compared to 2006.

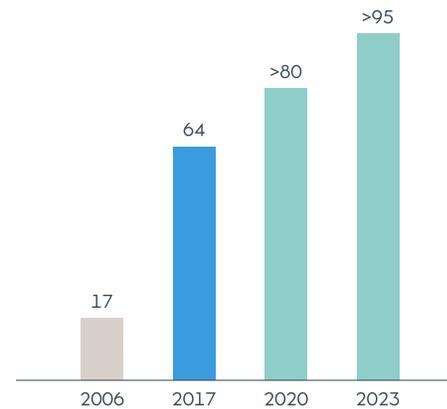
In our retail business, we have initiated a strategic shift from commodity sales to developing integrated green energy solutions for our private and business customers.

As part of Ørsted's green transformation, we announced in November 2016 the decision to divest our upstream oil and gas business to become a pure-play green energy company. A sale to INEOS was announced in May 2017 and closed in September. The divestment completed the strategic transformation of Ørsted.

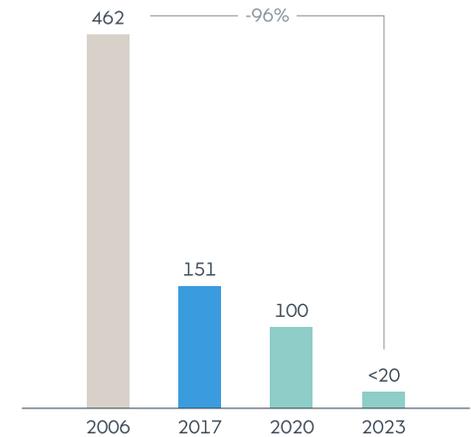
The transformation has made Ørsted one of the greenest and fastest-growing energy companies in Europe.

In financial terms, we have shifted our capital base profoundly from fossil fuels to renewables, which now account for 83% of capital employed, up from 21% in 2006. During the same span of years, we have more than doubled our operating profit (EBITDA) to DKK 22.5 billion, and more than quadrupled our return on capital employed, from 6% to 25%.

Green share of generation, %



Carbon emissions, g CO<sub>2</sub> e / kWh



To reflect our transformation, we decided to change our name from DONG Energy (Danish Oil and Natural Gas) to Ørsted in honour of the Danish 19th century scientist H.C. Ørsted, who discovered electromagnetism and thereby laid the foundation for modern generation of electricity. We also launched a new and bolder vision for the company: *Let's create a world that runs entirely on green energy.* We do not have all the answers to the climate problem, but we want to be part of the solution. And as the global leader within offshore wind, we are already an integral part of the solution.

↑  
We expect more than 95% of our heat and power generation in 2023 to be green.

### Strategic direction and priorities

We want to lead the transformation to green energy. We do that by investing in our competitiveness and core competences within offshore wind, flexible and sustainable CHP plants, intelligent grids and green customer solutions. At the same time, we are looking at further green growth initiatives that will enable us to gradually expand our strategic platform and flexibility. All of this with a view to creating long-term profitable growth.

Our business can be divided into three areas: offshore wind, our utility business and a portfolio of new growth initiatives. Across all three areas, our strategic focus is green growth.

### Offshore wind

- Maintain our market leadership in offshore wind
- Continue to pioneer new markets and develop a global business
- Keep innovating and reducing the cost of electricity from offshore wind
- Leverage market-leading partnership model for incremental value creation and risk diversification
- Realise the current build-out plan of 8.9GW towards 2022 and expand to 11-12GW by 2025
- Implement operational excellence and digitisation initiatives across EPC and O&M

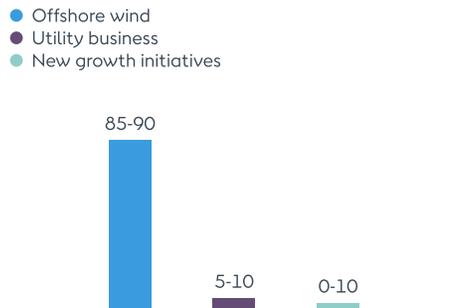
### Utility business

- Complete biomass conversions of Danish CHP plants and phase out the use of coal by 2023
- Roll out smart meters to build an intelligent power distribution grid
- Enhance customer experience through digitisation and product innovation
- Provide a competitive route-to-market for our own and our customers' generation portfolios
- Optimise natural gas activities as a transition fuel to a world that runs entirely on green energy
- Drive cost efficiency across the utility business to maintain competitiveness

### New growth initiatives

- Continue the commercial development of our innovative Renaissance technology for enzymatic waste treatment
- Mature the Energy-as-a-Service concept for our industrial and commercial customers
- Explore potential within other renewable energy technologies:
  - Energy storage
  - Solar PV
  - Onshore wind

Expected share of gross investment 2018-2023, %



Each of the three areas plays a particular role in our portfolio: Offshore wind is the main growth engine and adds scale to our green vision. Our utility business complements our offshore wind business by providing a route-to-market and enabling us to integrate large volumes of renewable generation into the energy system. Finally, our portfolio of new growth initiatives provides options for additional, profitable long-term growth that support an integrated, cost-efficient and green energy system. The growth initiatives are all in an early stage, and we are working on establishing a scalable, commercial model for them. As such, we do not expect them to make substantial financial contribution in the short term. They will contribute by diversifying our long-term growth journey and provide us with the strategic agility required to continually adapt to the market.

To support innovation, growth and long-term strategic renewal of our business platform, we invest significantly in four areas that enable our strategy: talent, digitalisation, operational excellence and innovation.

Our talent programmes focus on bringing people with the right competences into the business, and developing the leaders and specialists we need to drive growth and maintain a competitiveness in our business. We run our own internal Ørsted Academy, which supports talent at every level – from young talents to specialists to new and experienced leaders – to develop the professional and personal skills they need to perform, develop our business and create a good culture.

Our digital strategy is focused on bringing digital technologies, advanced analytics and automation to all parts of our business. We focus in particular on our O&M and EPC business in Wind Power, digitalising our heat and power plants through our 'Smart Plant Programme', as well as bringing more intelligence to our power grid and to our downstream customer solutions. To unleash the full potential of digitalisation, we work with new organisational models including digital labs based on agile methods.

In our core operating entities we implement excellence initiatives to drive efficiency, agility and quality into our processes and daily operations. These operational excellence programmes are implemented particularly within areas like grid operations, CHP plants, EPC, O&M, customer service and shared finance functions. Our cost efficiency and our ability to execute with speed, precision and according to high safety standards are, of course, critical to both near-term results and long-term competitiveness.

Within business innovation, we aim to stimulate the sourcing of new ideas, both from inside the company and from our external environment. We run cross-company Innovation Games, where internal teams collaborate and compete to generate new business or technology concepts to enhance our business. To increase our exposure to external innovation environments, we have established Ørsted Ventures. Located in Silicon Valley, California, Ørsted Ventures engages with venture funds, start-up companies, universities and think-tanks, to explore new technologies and business models.

### Capital allocation

From 2019, we expect the free cash flow generated by our business to be sufficient to finance our planned investment programme.

The majority of our free cash flow will support our growth plan for offshore wind with the ambition of an installed capacity of 11-12GW by 2025. In addition, we will complete the conversions of our Danish CHP plants to biomass and install 1 million smart meters at our grid customers by 2020. In the period 2018-2023, we expect to allocate around 85-90% of our gross investments to offshore wind, 5-10% to our utility business and 0-10% to new growth initiatives.

In our ongoing capital allocation, we reaffirm our strong commitment to maintaining a BBB+ / Baal rating and to the dividend payout expectations stated at any time.

Even in light of our current ambitious investment plans, the clear commitment to our credit rating target and higher dividends, we expect to have further financial capital – depending on our success in winning new offshore wind projects and the extent to which we farm-down future projects. This means that, beyond Hornsea 1, we will evaluate farm-downs on a case-by-case basis, based on clear value creation criteria and risk diversification considerations.

To the extent possible, we will deploy potential excess investment capacity into new, value-creating growth initiatives that support our green energy vision, reinforce our long-term competitiveness, and deliver value for our shareholders. If possible, we will, in particular,

pursue additional value-creating investment opportunities in offshore wind beyond our 11-12GW ambition by 2025. In addition, we will continue to work with and potentially scale up new growth initiatives within Renaissance, Energy-as-a-Service, energy storage, solar PV and onshore wind if they meet our investment criteria. Growth investments can include both CAPEX and OPEX for organic business building as well as acquisitions.

Over time, excess capital beyond such value-creating growth investments will be distributed to shareholders through increased annual dividends and/or share buy-backs.

### Corporate social responsibility reporting

Our sustainability strategy and results are reported on in our sustainability and ESG report, which constitutes our annual Communication on Progress to the UN Global Compact. The reports highlight areas in which our expertise can make a real difference when it comes to promoting the UN's global goals for sustainable development. With this report, we live up to the requirements for corporate social responsibility reporting set out in section 99a of the Danish Financial Statements Act as well as section 99b on the gender balance at management levels etc.

See and download the reports here:  
[orsted.com/sustainability2017](https://orsted.com/sustainability2017)  
[orsted.com/ESGperformance2017](https://orsted.com/ESGperformance2017)

# Strategic targets

We implement our strategy by pursuing eight strategic targets, divided into four themes:

-  **We create value for our shareholders** in the form of competitive total returns.
-  **We address profound societal challenges** by developing green, independent and economically viable energy systems that reduce greenhouse gas emissions.
-  **We fulfil our customers' energy needs** through green, innovative and efficient energy solutions.
-  We are committed to a sustainable work life and keep a constant focus on being **a great and safe place to work**, with motivated and satisfied employees.

## Create shareholder value

### 1. ROCE, %

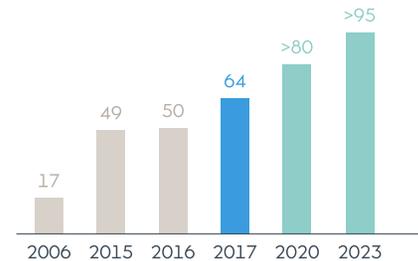
Our target is an average return on capital employed (ROCE) of 12-14% for the Group in the 2018-2023 period (formerly 2017-2023).



## Address profound societal challenges

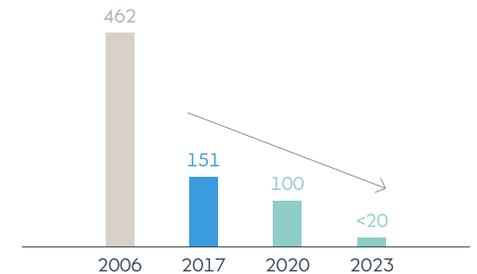
### 2. Green share of generation, %

In 2017, we decided to phase out our use of coal completely by 2023. Our objective is for more than 95% of our heat and power generation in 2023 to be green.



### 3. Carbon emissions, g CO<sub>2</sub>e / kWh

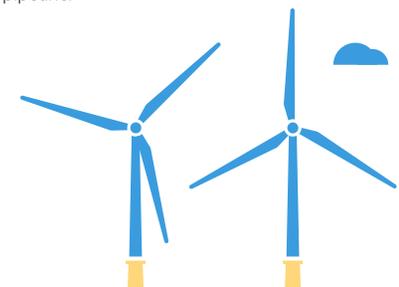
The conversion of our power stations to sustainable biomass has reduced our carbon emissions by 67% since 2006. Our target is to reduce emissions to no more than 20g CO<sub>2</sub>e per kWh in 2023.



### 4. Installed offshore wind capacity, GW

Our ambition is to install 11-12GW by the end of 2025. Those of our projects where a final investment decision has already been made will increase capacity to 8.9GW at the end of 2022. The rest will come from a significant pipeline.

2025	11-12
2017	3.9
2016	3.6
2015	3.0
2006	0.5



## Fulfil our customers' energy needs

### 5. Security of supply, power outage per customer

Our ambition is to offer a level of security of supply which is on a par with or higher than the Danish average, which is approximately 0.4 outages per customer per year.

● Radius ● DK average (excluding transmission grid)\*

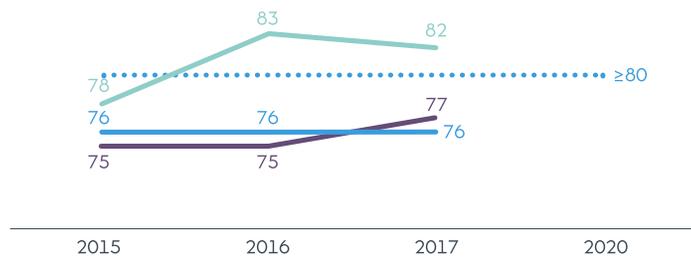


\* DK average is published in April

### 6. Customer satisfaction, scale 1-100

Our ambition is to deliver a market-leading customer experience, which we continuously strive to do. Our target of customer satisfaction is at least 80 from 2020.

— B2C — B2B — Distribution ●●● Target 2020



## Be a great and safe place to work

### 7. Employee satisfaction, scale 1-100

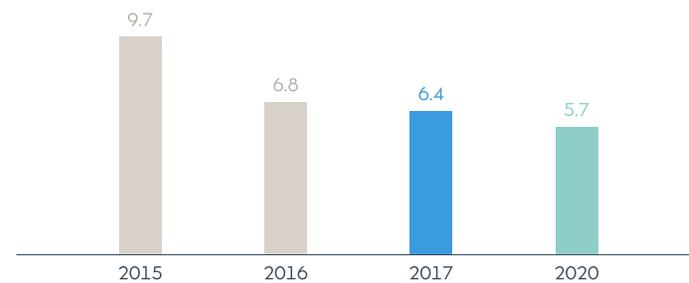
We believe that well-being and positive results go hand in hand. Therefore, we are working continuously to maintain and increase employee satisfaction. The employee satisfaction in Ørsted is above comparable companies.

— Ørsted — Ennova benchmark



### 8. Safety, TRIR

Effective from 2018, we have introduced a new safety target – total recordable injury rate (TRIR). There are more facets to TRIR compared to the previously used LTIF, and we believe that this reflects everyday life in Ørsted better.



# Results

## Follow-up on outlook announced for 2017

In the outlook announced in our annual report for 2016, we expected an EBITDA of DKK 15-17 billion and gross investments of DKK 18-20 billion for 2017.

With an EBITDA of DKK 22.5 billion, our expectations were exceeded. The main reasons were the farm-down of 50% of Borkum Riffgrund 2 in 2017 rather than at the beginning of 2018, as previously expected, and the fact that the farm-down of 50% of Walney Extension resulted in a different distribution of earnings between 2017 and 2018 than expected. In addition, earnings from our offshore wind farms in operation were higher than expected, especially towards the end of the year, as a result of stronger winds and faster ramp-up of

generation from new offshore wind farms as well as higher earnings from our gas portfolio and trading activities. Gross investments amounted to DKK 17.7 billion.

At the beginning of the year, we expected our interest-bearing net debt to increase in 2017. However, our net debt decreased by DKK 5.0 billion to DKK -1.5 billion at year-end. The decline was mainly due to higher proceeds in 2017 from the farm-downs described above. In addition, investments were at the low end of the announced range, and cash flows from operating activities were higher than expected. The latter was due partly to improved underlying earnings, and partly to lower than expected funds tied up in work in progress.

Follow-up on outlook for 2017, DKKbn	Guidance 2 Feb 2017	Guidance 7 Aug 2017	Guidance 1 Nov 2017	Guidance 11 Dec 2017	2017 Realised	
EBITDA	15-17	17-19	19-21	~21	22.5	✓
Wind Power	Higher (>11.9)	Significantly higher	Significantly higher	Significantly higher	20.6	✓
Bioenergy & Thermal Power	Higher (>0.1)	Higher	Higher	Higher	0.2	✓
Distribution & Customer Solutions	Significantly lower (<7.1)	Significantly lower	Significantly lower	Significantly lower	2.1	✓
Gross investments	18-20	18-20	18-20	18-20	17.7	✓

## Business performance vs. IFRS

Ørsted uses business performance as an alternative to the results prepared in accordance with IFRS. Business performance represents the underlying financial performance of the Group in the reporting period as results are adjusted for temporary fluctuations in the market value of contracts (including hedging transactions) relating to other periods. The difference between the two principles will be eliminated as the contracts expire. Apart from this, there is no difference between business performance and the IFRS results.

EBITDA calculated in accordance with IFRS amounted to DKK 22.6 billion in 2017 against DKK 16.9 billion in 2016. Calculated in accordance with the business performance principle, EBITDA was DKK 22.5 billion and DKK 19.1 billion, respectively. The difference between the two principles was thus DKK 0.1 billion in 2017 compared with DKK -2.2 billion in 2016, and is specified below.

In the presentation of the results according to IFRS, Ørsted does not apply the provisions on hedge accounting of commodities and related currency exposures. The market value adjustments of these are continuously recognised in the income statement, which means that the IFRS results for the individual years are not comparable. IFRS results do not reflect the commercial risk hedging, according to which the business units and the Group are managed and evaluated. In the management's review, comments are made on business performance only, unless otherwise is specified. Reference is also made to note 1.1.

Business performance vs. IFRS, DKKm	2017	2016
<b>EBITDA – business performance</b>	<b>22,519</b>	<b>19,109</b>
Market value adjustments for the year of financial and physical hedging contracts relating to a future period	(138)	(1,397)
Reversal of deferred gain (loss) relating to hedging contracts from previous periods, where the hedged production or trade is recognised in business performance EBITDA in this period	193	(773)
<b>EBITDA – IFRS</b>	<b>22,574</b>	<b>16,939</b>

### Continuing and discontinued operations

Until 29 September 2017, Oil & Gas was presented as assets held for sale and discontinued operations. The results from the oil and gas business are therefore presented in a separate line in the income statement and the statement of cash flows.

### Revenue

Power generation from offshore wind farms increased by 42% to 8.5TWh in 2017, as a result of newly constructed offshore wind farms in Germany and the UK and higher wind speeds in 2017. Thermal power generation declined by 2% to 8.2TWh. Heat generation also declined by 2% to 9.0TWh in 2017. Offshore wind power accounted for 51% of our total power generation, while the renewable energy share of our

total heat and power generation accounted for 64% in 2017 compared with 50% in 2016.

Revenue declined by 3% to DKK 59.5 billion in 2017 against DKK 61.2 billion in 2016. 2017 was primarily impacted by higher revenue from power generation from our offshore wind farms, an average increase in gas prices as well as increased power sales in the UK. 2016 was impacted by a high level of activity from our construction contracts.

### EBITDA

Operating profit (EBITDA) increased by 18%, amounting to DKK 22.5 billion in 2017 compared with DKK 19.1 billion in 2016. Earnings from Wind Power were up 74% compared to 2016, amounting to DKK 20.6

billion. The higher earnings were attributable to power generation from the newly constructed offshore wind farms as well as an almost doubling of earnings from partnership agreements, which totalled DKK 13.7 billion in 2017. This was primarily due to gains from the farm-downs of 50% of Walney Extension and Borkum Riffgrund 2. EBITDA for 2016 was positively affected by one-off payments of DKK 4.7 billion from the renegotiation of gas purchase contracts and earnings from the now divested gas distribution activities. Adjusted for the above-mentioned non-recurring income, our underlying EBITDA increased by 56%.

### EBIT

EBIT increased by 17% to DKK 16.2 billion in 2017, primarily driven by the higher EBITDA.

Depreciation increased by DKK 0.5 billion to DKK 5.7 billion in 2017. The rise was due to a higher number of offshore wind farms in operation.

Impairment losses totalled DKK 0.5 billion and related to capitalised project development costs in Wind Power, due to uncertainty about the carrying through of the projects.

### Gain (loss) on divestment of enterprises

Gain (loss) on divestment of enterprises primarily concerned A2SEA in 2017 and the gas distribution network in 2016.

### Financial income and expenses

Net financial income and expenses amounted to DKK -1.0 billion and were DKK 0.3 billion higher than in 2016. Both years were affected by capital losses and costs relating to the

### EBITDA

- Wind Power
- Bioenergy & Thermal Power
- Distribution & Customer Solutions



Financial results, DKKm	2017	2016	%
Revenue	59,504	61,201	(3%)
EBITDA	22,519	19,109	18%
Underlying EBITDA	22,519	14,442	56%
Depreciation	(5,739)	(5,232)	10%
Impairment losses	(545)	-	n.a.
EBIT	16,235	13,877	17%
Gain (loss) on divestment of enterprises	(139)	1,250	n.a.
Net financial income and expenses	(1,042)	(767)	36%
Tax	(1,765)	(2,191)	(19%)
Tax rate	12%	15%	(3%p)
Profit for the year from continuing operations	13,279	12,161	9%
Profit for the year from discontinued operations	6,920	1,052	558%
Profit (loss) for the period	20,199	13,213	53%

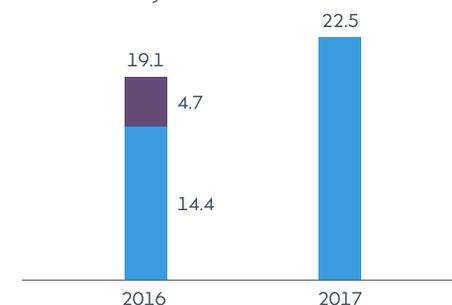


In 2017, regulated and quasi-regulated activities and contract- ed activities accounted for 34% and 65% of our EBITDA from continuing operations respective- ly, whereas market exposed activities accounted for 1%.

Read more about profit for the year from discontinued operations in note 3.6.

### Underlying EBITDA development, DKK bn.

- Underlying EBITDA
- Non-recurring items



The underlying operating profit excludes one-off payments related to renegotiations of gas purchase contracts and earnings from divested gas distribu- tion assets in 2016.

early repurchase of bonds and, in 2016, also early repayment of bank loans and interest rate swaps. In 2016, there was a positive impact from exchange rate adjustments of loans and deposits.

### Tax and tax rate

Tax on profit for the year amounted to DKK 1.8 billion, which was DKK 0.4 billion lower than in 2016. The effective tax rate was 3%-points lower than in 2016. In both periods, the tax rate was affected by non-taxable divestment gains. Gains on the farm-downs of Walney Extension and Borkum Riffgrund 2 as well as a deferred selling price for Race Bank impacted the tax rate in 2017, while gains on the farm-downs of Burbo Bank Extension and Race Bank as well as the divestment of our gas distribution activities impacted the tax rate in 2016.

### Profit for the year from continuing operations

Profit for the year from continuing operations increased by 9%, totalling DKK 13.3 billion in 2017. The increase of DKK 1.1 billion is explained by substantial differences in our operations between the two years. 2017 was positively impacted by the significant increase in EBITDA in Wind Power, while 2016 was characterised by one-off payments from the above-mentioned renegotiations of gas purchase contracts.

### Profit for the year from discontinued operations

Profit after tax from discontinued operations amounted to DKK 6.9 billion in 2017 against DKK 1.1 billion in 2016. The increase was due partly to a gain from the divestment of our

Oil & Gas business of DKK 2.4 billion, partly to higher EBIT and lower tax. The higher EBIT in 2017 relative to 2016 was due to the assets classified as held for sale at the end of 2016, not being depreciated in 2017. EBITDA was in line with 2016 despite one less quarter of production activities in 2017 compared with 2016 as a result of the divestment in September. The lower tax in 2017 relative to 2016 primarily reflected the reversal of the remaining tax assets, which contributed negatively in 2016.

### Cash flows from operating activities

Cash flows from operating activities totalled DKK 1.0 billion in 2017 compared with DKK 11.3 billion in 2016. The decrease of DKK 10.2 billion was due to the lower EBITDA (adjusted for gains from farm-downs, as they are not recognised in cash flows from operating activities), the settlement of ineffective price hedges in the oil and gas business totalling DKK 2.0 billion between the Group's continuing and discontinued operations in Q2 2017 (no effect on the Group's total net debt) as well as a change in funds tied up in working capital of DKK 7.9 billion in 2017 against DKK 1.5 billion in 2016.

In 2017, funds tied up in work in progress increased by DKK 3.7 billion due to the construction of transmission assets at Hornsea 1, Race Bank and Walney Extension as well as the construction of Race Bank for partners. This was partially offset by milestone payments received from partners in connection with the construction of Borkum Riffgrund 2 in 2017 as well as high trade payables relating to the construction of Walney Extension. Funds tied up in work in progress in 2016 were lower than in 2017 (DKK 2.4 billion) due to the divestment

Cash flow and net debt, DKKm	2017	2016	%
Cash flow from operating activities	1,023	11,272	(91%)
EBITDA	22,519	19,109	18%
Financial instruments	(528)	806	n.a.
Change in provisions	98	(366)	n.a.
Reversal of gain (loss) on sale of assets	(10,835)	(2,939)	269%
Other items	297	217	37%
Interest expenses, net	36	(861)	n.a.
Paid tax	(2,660)	(3,182)	(16%)
Change in work in progress	(3,674)	(2,393)	54%
Change in other working capital	(4,230)	881	n.a.
Gross investments	(17,744)	(14,960)	19%
Divestments	16,982	9,055	88%
Free cash flow	261	5,367	(95%)
Net debt at 1 January	3,461	9,193	(62%)
Free cash flow continuing operations	(261)	(5,367)	(95%)
Free cash flow from discontinued operations	(9,025)	(1,106)	n.a.
Interest bearing receivable re Oil & Gas divestment	(1,014)	-	n.a.
Dividends and hybrid coupon paid	3,523	1,016	247%
Exchange rate adjustments etc.	1,799	(275)	n.a.
Net debt at 31 December	(1,517)	3,461	n.a.



Gain/loss on sale of assets is part of EBITDA but is presented as part of the 'divestment' cash flow. The EBITDA effect is thus reversed in the specification of cash flow from operating activities.

Key ratios, DKKm, %	2017	2016	%
ROCE	25.2	24.4	0.8%p
Adjusted net debt	15,900	18,046	(12%)
FFO/adjusted net debt	50.3	64.2	(13.9%p)



ROCE and FFO/adjusted net debt is specified in notes 2 and 6.6.

of the Westernmost Rough transmission asset and the receipt of milestone payments from partners in connection with the construction of Gode Wind 1 and Burbo Bank Extension, among other factors.

The high level of funds tied up in other working capital was primarily due to lower prepayments from heat customers in connection with biomass conversions, lower VAT payables as well as an increase in trade receivables as a consequence of the high power generation in Wind Power at the end of 2017.

### Investments and divestments

Gross investments amounted to DKK 17.7 billion compared with DKK 15.0 billion in 2016. The most important investments in 2017 were as follows:

- offshore wind farms (DKK 15.7 billion), including Walney Extension, Race Bank and Hornsea 1 in the UK as well as Borkum Riffgrund 2 in Germany
- power stations (DKK 1.4 billion), including biomass conversions of the Skærbæk and Asnæs power stations and construction of a Renescence waste treatment plant in the UK.

# 25%

ROCE increased by 8%-point compared with 2016, when adjusting for lump-sums from renegotiations and amounted to 25% in 2017.

Divestment of activities and enterprises amounted to DKK 17.0 billion in 2017 and related primarily to the farm-downs of 50% of Walney Extension and Borkum Riffgrund 2, receipt of a deferred payment concerning Race Bank as well as the divestment of A2SEA. Divestments in 2016 consisted of the farm-downs of 50% of Burbo Bank Extension and Race Bank, divestment of our gas distribution activities and receipt of a deferred payment related to the farm-down of 50% of Gode Wind 1 in 2015.

### Interest-bearing net debt

Interest-bearing net debt totalled DKK -1.5 billion at the end of 2017 against DKK 3.5 billion at the end of 2016. The decrease was mainly due to a free cash flow from discontinued operations of DKK 9.0 billion, of which DKK 5.5 billion concerned cash flows from operating activities, including DKK 2.0 billion from the intragroup settlement of hedging instruments in Q2 2017. In addition, the divestment of our Oil & Gas business contributed positively with DKK 4.6 billion (DKK 3.7 billion of free cash flow and DKK 1.0 billion of interest-bearing receivable). The continuing operations contributed a positive free cash flow of DKK 0.3 billion.

This was partially offset by the payment of dividends to shareholders of DKK 2.5 billion in March.

### Equity

Equity was DKK 71.8 billion at the end of December 2017 against DKK 57.5 billion at the end of 2016. The increase was primarily due to the positive results for the year less dividends paid.

### Capital employed

Capital employed was DKK 70.3 billion on 31 December 2017 against DKK 61.0 billion at the end of 2016. Wind Power's share of capital employed was 83% at the end of 2017.

### Return on capital employed (ROCE)

Return on capital employed (ROCE) was 25% in 2017 against 24% in 2016 (and 17% in 2016 adjusted for compensation received in connection with renegotiations). The increase was attributable to higher EBIT.

### Credit metric (FFO/adjusted net debt)

The credit metric 'funds from operations' (FFO) relative to adjusted net debt was 50% in 2017 compared with 64% in 2016. The decline was attributable to the lower FFO, as gains from the farm-downs of offshore wind farms are not included in the calculation. Gains on divestments were DKK 7.9 billion higher than in 2016, whereas 2016 was positively affected by compensation from renegotiations of DKK 4.3 billion. However, adjusted net debt was lower. Read more about the change of the credit metric on page 15.

### Non-financial results

#### Carbon emissions

In 2017, carbon emissions from our heat and power generation were 151 g CO<sub>2</sub>e/kWh against 224 g CO<sub>2</sub>e/kWh in 2016. Carbon emissions per kWh decreased due to the lower coal and gas consumption for thermal power generation as a result of the biomass conversions of the Avedøre, Studstrup and Skærbæk power stations. Moreover, generation from our offshore wind farms increased.

### Green share of heat and power generation

The green share of heat and power generation was 64%, up 14%-points relative to 2016. The increase was attributable to a larger share of biomass-based generation as a result of the conversions of the above-mentioned power stations as well as increased generation from offshore wind farms.

### Safety

In 2017, we registered 32 lost-time injuries, 25 of which involved employees working for our suppliers. Over the past 12 months, our lost-time injury frequency (LTIF) has declined from 1.8 in 2016 to 1.6 in 2017.

# Five-year summary

Income statement (business performance), DKKm	2017	2016	2015	2014	2013
Revenue	59,504	61,201	65,444	61,280	68,555
EBITDA	22,519	19,109	8,730	7,798	7,680
Wind Power	20,595	11,867	6,151	6,057	4,252
Bioenergy & Thermal Power	152	100	283	422	744
Distribution & Customer Solutions	2,082	7,108	2,173	1,404	2,348
Other activities	(310)	34	123	(85)	336
Depreciation and amortisation	(5,739)	(5,232)	(5,673)	(5,319)	(5,030)
Impairment losses	(545)	0	(1,184)	(216)	(1,344)
Operating profit (loss) (EBIT)	16,235	13,877	1,873	2,263	1,306
Gain (loss) on divestment of enterprises	(1,39)	1,250	56	1,258	2,045
Net financial income and expenses	(1,042)	(767)	(1,409)	(838)	(3,079)
Profit (loss) from associates and joint ventures	(10)	(8)	(8)	(484)	(57)
Profit (loss) before tax	15,044	14,352	512	2,199	215
Tax	(1,765)	(2,191)	455	(298)	478
Profit (loss) for the year from continuing operations	13,279	12,161	967	1,901	693
Profit (loss) for the year from discontinued operations	6,920	1,052	(13,051)	(7,185)	(1,686)
Profit (loss) for the year	20,199	13,213	(12,084)	(5,284)	(993)
<b>Balance sheet</b>					
Assets	146,521	136,489	147,457	149,914	145,672
Total equity	71,837	57,500	51,736	61,533	51,543
Shareholders of Ørsted A/S	54,791	39,106	32,090	41,736	31,599
Non-controlling interests	3,807	5,146	6,398	6,561	6,708
Hybrid capital	13,239	13,248	13,248	13,236	13,236
Interest bearing net debt	(1,517)	3,461	9,193	3,978	25,803
Capital employed	70,320	60,961	60,930	65,511	77,345
Additions to property, plant and equipment	20,022	17,750	19,843	15,350	19,437
<b>Cash flow</b>					
Cash flow from operating activities	1,023	11,272	7,521	9,568	5,754
Gross investments	(17,744)	(14,960)	(12,709)	(10,327)	(11,623)
Divestments	16,982	9,055	1,982	10,559	15,329
Free cash flow	261	5,367	(3,206)	9,800	9,460
<b>Financial ratios</b>					
Return on capital employed (ROCE) <sup>1</sup> , %	25.2	24.4	3.6	4.3	2.2
FFO/adjusted net debt <sup>2</sup> , %	50.3	64.2	28.8	31.6	13.1
Number of outstanding shares, 31 December, '000	420,155	420,155	417,726	417,726	293,710
Share price, 31 December, DKK	338.7	267.6	-	-	-
Market capitalisation, 31 December, DKK billion	142.3	112.5	-	-	-
Earnings per share (EPS) (BP), DKK	46.4	30.6	(30.7)	(14.9)	(5.9)
Dividend yield, %	2.7	2.2	-	-	-
<b>Income statement (IFRS)</b>					
Revenue	59,709	57,393	66,708	61,866	67,329
EBITDA	22,574	16,939	9,888	7,546	6,555
Profit (loss) for the year from continuing operations	13,321	10,467	1,854	1,708	(146)

Business drivers	2017	2016	2015	2014	2013
<b>Wind Power</b>					
Decided (FID) capacity <sup>3</sup> , offshore wind, GW	8.9	7.4	5.1	3.8	3.6
Installed capacity, offshore wind <sup>3</sup> , GW	3.9	3.6	3.0	2.5	2.1
Generation capacity, offshore wind <sup>3</sup> , GW	2.5	2.0	1.7	1.4	1.3
Wind energy content (WEC) <sup>3</sup> , %	95	93	103	97	97
Wind speed <sup>3</sup> , m/s	9.3	8.9	9.7	9.2	9.0
Load factor <sup>3</sup> , %	44	41	45	44	42
Availability <sup>3</sup> , %	93	92	93	94	93
Power generation, TWh	8.5	6.0	5.8	5.0	5.3
<b>Bioenergy &amp; Thermal Power</b>					
Degree days <sup>3</sup> , number	2,705	2,715	2,621	2,462	2,890
Heat generation, TWh	9.0	9.2	9.3	8.7	11.2
Power generation, TWh	8.2	8.4	7.1	8.7	13.8
<b>Distribution &amp; Customer Solutions</b>					
Regulatory value of power distribution assets <sup>4</sup>	10,623	10,648	10,778	10,373	10,127
Power distribution, TWh	8.4	8.5	8.4	8.4	8.6
Power sales, TWh	37.7	36.7	35.5	34.5	25.5
Gas sale, TWh	136.1	150.4	159.1	151.3	131.7
<b>People &amp; environment</b>					
Employees (FTE), end of period, number	5,638	5,775	5,947	5,751	5,807
Lost-time injury frequency (LTIF), per 1 million hours worked	1.6	1.8	2.0	2.5	3.5
Total recordable injury rate (TRIR)	6.4	6.8	9.7	10.9	12.0
Fatalities, number	0	0	0	0	0
Green share of heat and power generation, %	64	50	49	44	35
CO <sub>2</sub> emissions, g CO <sub>2</sub> e/kWh	151	224	220	280	311



## Business performance vs. IFRS

Business performance represents the underlying financial performance of the Group in the reporting period as results are adjusted for temporary fluctuations in the market value of contracts (including hedging transactions) relating to other periods. Apart from this, there is no difference between business performance and IFRS results. Read more in note 1.1.

ROCE is calculated for continuing operations.

<sup>1</sup> EBIT / average capital employed.

<sup>2</sup> Net debt including 50% of hybrid capital, cash and securities not available for use (with the exception of repo transactions), present value of lease obligations, and decommissioning obligations less deferred tax. The definition of FFO has been changed in 2017. Comparable figures have been restated.

<sup>3</sup> See definition on page 172 and in the ESG statements.

<sup>4</sup> The figures indicate values from the latest regulatory financial statements (updated in June).

# Fourth quarter

## Financial performance – Group

### Revenue

Revenue in Q4 2017 was in line with Q4 2016 and amounted to DKK 15.6 billion compared with DKK 15.7 billion in the prior-year period. 2017 was driven primarily by 77% growth in revenue from wind farms in operation as a result of increased power generation from new wind farms as well as higher wind speeds. Q4 2016 was impacted by high revenue from construction contracts.

### EBITDA

Operating profit (EBITDA) more than doubled to DKK 13.0 billion against DKK 6.3 billion in Q4 2016. The substantial increase was primarily due to high operating profit from our wind farms in operation as well as earnings from our partnership agreements, mainly gains from the farm-downs of 50% of Walney Extension and Borkum Riffgrund 2. The operating profit for Bioenergy & Thermal Power also doubled in Q4 2017, amounting to DKK 0.2 billion, primarily driven by higher earnings from heat activities. The increase was partially offset by one-off payments from completed renegotiations of gas purchase contracts, which contributed positively in Q4 2016.

### Profit for the period from continuing operations

Profit for the period from continuing operations totalled DKK 9.4 billion compared with DKK 4.0 billion in Q4 2016. The increase was primarily driven by the higher EBITDA.

### Profit for the period from discontinued operations

Profit for the period from discontinued operations amounted to DKK 0.1 billion in Q4 2017 against DKK -0.5 billion in Q4 2016. The result in Q4 2017 related to an adjustment of the gains from the divestment of our oil and gas business.

### Cash flows from operating activities

Cash flows from operating activities totalled DKK 3.1 billion in Q4 2017 compared with DKK 1.8 billion in 2016. The increase was mainly due to a higher EBITDA (adjusted for divestment gains and adjustment of provisions) as well as prepayments and milestone payments from partners in connection with the farm-downs of 50% of Borkum Riffgrund 2 and Walney Extension. The increase was partially offset by receivables received from completed renegotiations of gas purchase contracts in Q4 2016.

### Gross investments and divestments

Gross investments amounted to DKK 5.8 billion in Q4 2017, with investments in Wind Power accounting for 86%. The main investments related to Walney Extension, Race Bank and Hornsea 1 in the UK and Borkum Riffgrund 2 in Germany.

Farm-downs totalled DKK 14.9 billion in Q4 2017 and related to Walney Extension and Borkum Riffgrund 2.

Financial performance, DKKm	Q4 2017	Q4 2016	%
Revenue	15,598	15,678	(1%)
EBITDA	13,032	6,310	107%
Underlying EBITDA	13,032	5,871	122%
EBIT	10,970	4,708	133%
Profit (loss) before tax	10,349	4,273	142%
Tax	(999)	(285)	251%
Profit (loss) for the period from continuing operations	9,350	3,988	134%
Profit (loss) for the period from discontinued operations	79	(473)	n.a.
Profit (loss) for the period	9,429	3,515	168%

Cash flows and net debt, DKKm	Q4 2017	Q4 2016	%
Cash flow from operating activities	3,078	1,752	76%
EBITDA	13,032	6,310	107%
Financial instruments	470	845	(44%)
Change in provisions	461	(276)	n.a.
Reversal of gain (loss) on sale of assets	(9,468)	(2,695)	251%
Other items	333	27	n.a.
Interest expenses, net	(136)	(75)	81%
Paid tax	(2,652)	(3,231)	(18%)
Change in work in progress	2,262	(8)	n.a.
Change in other working capital	(1,224)	855	n.a.
Gross investments	(5,805)	(4,732)	23%
Divestments	14,875	5,013	197%
Free cash flow	12,148	2,033	498%
Net debt, beginning of period	10,260	5,942	73%
Free cash flow from continuing operations	(12,148)	(2,033)	498%
Free cash flow from discontinued operations	(289)	(1,020)	72%
Interest-bearing receivable re Oil & Gas divestment	(1,014)	-	n.a.
Dividends and hybrid coupon paid	211	240	(12%)
Exchange rate adjustments etc.	1,463	332	341%
Net debt, end of period	(1,517)	3,461	n.a.

## Financial performance – Business units

### Wind Power

Power generation was up 61% on Q4 2016 due to generation from the new offshore wind farms Gode Wind 1 and 2, Burbo Bank Extension, Race Bank and partially Walney Extension as well as high wind speeds in Q4 2017.

Revenue totalled DKK 5.6 billion in Q4 against DKK 4.4 billion in Q4 2016. The increase was driven by revenue from wind farms in operation, which was up 77% as a result of increased power generation. Revenue from construction contracts amounted to DKK 1.7 billion in Q4 2017 against DKK 2.2 billion in Q4 2016. The decline was due to a high level of activity from construction contracts in Q4 2016, relating primarily to the construction of Burbo Bank Extension for partners and transmission assets in the UK. The decrease was partially offset by activities in connection with contract work on Race Bank and Walney Extension as well as transmission assets in Q4 2017.

EBITDA was up 149%, totalling DKK 12.6 billion in Q4 2017 compared with DKK 5.1 billion in Q4 2016.

Earnings from offshore wind farms increased by 70% as a result of the commissioning of new offshore wind farms as well as high wind speeds in Q4 2017. Earnings from partnership agreements tripled and were primarily attributable to gains on the farm-downs of 50% of Walney Extension and Borkum Riffgrund 2 as well as the above-mentioned activities in connection with contract work on Race Bank and Walney Extension. The increase was partially offset by a gain on the farm-down of 50% of Race Bank in Q4 2016 and a high level

of activity from the construction contract for Burbo Bank Extension in the same period.

EBITDA from other activities totalled DKK -0.7 billion in Q4 2017 against DKK -0.2 billion in 2016. The decrease was mainly due to higher project development costs.

Cash flows from operating activities totalled DKK 3.6 billion in Q4 2017 compared with DKK -1.9 billion in Q4 2016. The increase was primarily due to higher tax payments in Q4 2016. In addition, we received milestone payments from partners in connection with the farm-downs of Borkum Riffgrund 2 and Walney Extension in Q4 2017.

### Bioenergy & Thermal Power

Revenue was DKK 1.8 billion in Q4 2017 against DKK 2.0 billion in 2016. The decrease was due to revenue from sales of power and ancillary services which, due to lower generation, totalled DKK 0.9 billion in Q4 2017 against DKK 1.1 billion in the prior-year period. Revenue from heat sales remained unchanged in the two quarters in spite of lower generation. This is primarily attributable to Avedøre, Studstrup and Skærbæk power stations where heat generation was converted from coal to biomass at the first two power stations at the end of 2016. Skærbæk Power Station has generated heat using biomass from Q4 2017.

EBITDA doubled relative to Q4 2016 and amounted to DKK 0.2 billion in Q4 2017. The increase was primarily driven by higher earnings from heat activities on converted CHP plants. In addition, earnings from ancillary services and the power business were also higher.

### Wind Power's results, DKKm

	Q4 2017	Q4 2016	%
Revenue	5,558	4,415	26%
Sites, O&M and PPA <sup>1</sup>	3,848	2,173	77%
Construction contracts	1,678	2,159	(22%)
Other incl. A2SEA	32	83	(61%)
EBITDA	12,591	5,054	149%
Sites, O&M and PPA <sup>1</sup>	3,226	1,899	70%
Construction contracts and divestment gains	10,033	3,309	203%
Other incl. A2SEA and project development	(668)	(154)	334%
Cash flow from operating activities	3,590	(1,948)	n.a.
Free cash flow	13,417	(958)	n.a.

### Bioenergy & Thermal Power's results, DKKm

	Q4 2017	Q4 2016	%
Revenue	1,788	1,956	(9%)
Heat	850	849	0%
Power incl. ancillary services	938	1,107	(15%)
EBITDA	240	115	109%
Heat	235	172	37%
Ancillary services	122	89	37%
Power	(117)	(146)	(20%)
Cash flow from operating activities	600	814	(26%)
Free cash flow	147	299	(51%)

### Distribution & Customer Solutions' results, DKKm

	Q4 2017	Q4 2016	%
Revenue	10,396	10,879	(4%)
EBITDA	179	1,243	(86%)
Distribution	172	223	(23%)
Sales	21	(71)	n.a.
Markets	575	1,131	(49%)
LNG	(589)	(40)	n.a.
Cash flow from operating activities	214	1,081	(80%)
Free cash flow	(71)	922	n.a.



For more details on quarterly figures for our business units, please go to [orsted.com/en/Investors/Key-figures-and-presentations](http://orsted.com/en/Investors/Key-figures-and-presentations).

<sup>1)</sup> O&M: Operation and Maintenance Agreements  
PPA: Power Purchase Agreements.

### Distribution & Customer Solutions

Revenue was DKK 10.4 billion in Q4 2017 compared with 10.9 billion in Q4 2016.

EBITDA was DKK 0.2 billion compared with DKK 1.2 billion in Q4 2016.

EBITDA from Markets decreased by DKK 0.6 billion, primarily due to one-off payments from completed renegotiations of gas purchase contracts totalling DKK 0.4 billion, which made a positive contribution in Q4 2016. Hence, underlying EBITDA from Markets was in line with Q4 2016.

EBITDA from our LNG activities decreased by DKK 0.5 billion, mainly as a result of further provisions in Q4 2017 related to the onerous contract at the Gate terminal in Rotterdam as well as provisions regarding purchase contracts.

Cash flows from operating activities totalled DKK 0.2 billion in Q4 2017. The negative development relative to Q4 2016 was primarily due to the lower EBITDA as well as the positive impact in Q4 2016 from receivables received from completed renegotiations of gas purchase contracts in both Q3 and Q4 2016.



# Quarterly summary, 2016-2017

Income statement (business performance), DKKm	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Revenue	15,598	11,869	15,540	16,497	15,678	13,114	15,001	17,408
EBITDA	13,032	1,757	4,442	3,288	6,310	3,099	2,615	7,085
Wind Power	12,591	1,674	4,191	2,139	5,054	1,643	2,270	2,900
Bioenergy & Thermal Power	240	(142)	(153)	207	115	(128)	(41)	154
Distribution & Customer Solutions	179	202	516	1,185	1,243	1,507	452	3,906
Other activities	22	23	(112)	(243)	(102)	77	(66)	125
Depreciation and amortisation	(1,517)	(1,385)	(1,541)	(1,296)	(1,602)	(1,239)	(1,215)	(1,176)
Impairment losses	(545)	-	-	-	-	-	-	-
Operating profit (loss) (EBIT)	10,970	372	2,901	1,992	4,708	1,860	1,400	5,909
Gain (loss) on investment of enterprises	(14)	(108)	(6)	(11)	(80)	1,314	19	(3)
Net financial income and expenses	(649)	22	(81)	(334)	(352)	(114)	(589)	288
Profit (loss) from associates and joint ventures	42	(7)	(2)	(43)	(3)	(4)	0	(1)
Profit (loss) before tax	10,349	279	2,812	1,604	4,273	3,056	830	6,193
Tax	(999)	(70)	(306)	(390)	(285)	(536)	(157)	(1,213)
Profit (loss) for the period from continuing operations	9,350	209	2,506	1,214	3,988	2,520	673	4,980
Profit (loss) for the period from discontinued operations	79	2,931	2,484	1,426	(473)	811	478	236
Profit (loss) for the period	9,429	3,140	4,990	2,640	3,515	3,331	1,151	5,216
<b>Balance sheet</b>								
Assets	146,521	126,190	133,550	132,030	136,489	141,197	140,700	155,915
Total equity	71,837	64,203	62,160	58,112	57,500	57,517	54,694	56,682
Shareholders of Ørsted A/S	54,791	47,050	43,990	39,828	39,106	39,029	35,946	37,614
Non-controlling interests	3,807	3,905	4,922	5,036	5,146	5,240	5,500	5,820
Hybrid capital	13,239	13,248	13,248	13,248	13,248	13,248	13,248	13,248
Interest-bearing net debt	(1,517)	10,260	10,332	6,523	3,461	5,942	3,821	940
Capital employed	70,320	74,462	72,491	64,635	60,961	63,459	58,515	57,622
Additions to property, plant and equipment	7,137	4,795	5,475	2,615	4,378	5,168	3,037	5,167
<b>Cash flows</b>								
Cash flow from operating activities	3,078	(1,095)	(1,848)	888	1,752	(56)	1,215	8,361
Gross investments	(5,805)	(5,150)	(4,287)	(2,502)	(4,732)	(4,658)	(2,339)	(3,231)
Divestments	14,875	1,882	160	65	5,013	2,139	(46)	1,949
Free cash flow	12,148	(4,363)	(5,975)	(1,549)	2,033	(2,575)	(1,170)	7,079
<b>Financial ratios</b>								
Return on capital employed (ROCE) <sup>1</sup> , %	25.2	15.0	18.4	17.4	24.4	14.6	12.6	12.8
FFO/Adjusted net debt <sup>2,5</sup> , %	50.3	26.5	32.0	34.2	64.2	53.6	54.8	66.1
Number of outstanding shares, end of period, '000	420,155	420,155	420,155	420,155	420,155	420,155	420,155	417,726
Share price, end of period, DKK	338.7	360.4	293.9	268.9	267.6	275.0	240.3	-
Market capitalisation, end of period, DKKbn	142.3	151.4	123.5	113.0	112.5	115.6	101.0	-
Earnings per share (EPS) (BP), DKK	21.7	7.1	11.2	6.4	8.2	7.7	1.9	12.8
<b>Income statement (IFRS)</b>								
Revenue	14,711	11,647	15,925	17,426	13,396	13,200	13,134	17,663
EBITDA	12,311	1,643	4,777	3,843	4,572	3,222	1,487	7,658
Profit (loss) for the period from continuing operations	8,787	120	2,765	1,649	2,633	2,615	(207)	5,426

Business drivers	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
<b>Wind Power</b>								
Decided (FID) capacity <sup>3</sup> , offshore wind, GW	8.9	8.9	7.5	7.4	7.4	7.4	6.7	6.3
Installed capacity <sup>3</sup> , offshore wind, GW	3.9	3.8	3.8	3.6	3.6	3.0	3.0	3.0
Generation capacity <sup>3</sup> , offshore wind, GW	2.5	2.3	2.2	2.1	2.0	1.8	1.7	1.7
Wind energy content <sup>3</sup> , %	118	75	84	105	108	78	75	111
Wind speed <sup>3</sup> , m/s	11.0	7.9	8.5	9.9	9.4	8.1	7.8	10.2
Load factor <sup>3</sup> , %	54	34	38	50	49	35	34	46
Availability <sup>3</sup> , %	92	92	93	93	94	92	94	89
Power generation, TWh	2.9	1.7	1.8	2.1	1.8	1.3	1.2	1.7
<b>Bioenergy &amp; Thermal Power</b>								
Degree days <sup>3</sup> , number	895	115	451	1,244	962	54	399	1,300
Heat generation, TWh	2.8	0.7	1.3	4.2	3.1	0.4	1.4	4.3
Power generation, TWh	2.3	1.2	1.5	3.2	3.0	1.3	1.1	3.0
<b>Distribution &amp; Customer Solutions</b>								
Regulatory value of power distribution assets <sup>4</sup>	10,623	10,623	10,623	10,648	10,648	10,648	10,648	10,778
Power distribution, TWh	2.2	1.9	2.0	2.3	2.3	1.9	1.9	2.4
Power sales, TWh	10.6	8.2	8.8	10.1	9.2	8.3	8.5	10.7
Gas sales, TWh	36.9	29.4	28.3	41.5	36.1	37.1	35.6	41.6
<b>People &amp; environment</b>								
Employees, end of period, number	5,638	5,641	5,802	5,787	5,775	5,890	5,881	6,019
Last time injury frequency (LTIF), per million hours worked <sup>5</sup>	1.6	1.5	1.5	1.6	1.8	2.1	1.9	2.1
Total recordable injury rate (TRIR) <sup>5</sup>	6.4	6.7	6.5	6.4	6.8	7.4	8.5	9.2
Fatalities, number	0	0	0	0	0	0	0	0
Green share of heat and power generation, %	76	60	64	56	56	47	54	43
Carbon emissions, g CO <sub>2</sub> e/kWh	106	203	150	170	183	329	210	232



## Business performance vs. IFRS

Business performance represents the underlying financial performance of the Group in the reporting period as results are adjusted for temporary fluctuations in the market value of contracts (including hedging transactions) relating to other periods. Apart from this, there is no difference between business performance and IFRS results. Read more in note 11.

ROCE is calculated for continuing operations.

<sup>1</sup> EBIT/average capital employed.

<sup>2</sup> Net debt including 50% of hybrid capital, cash and securities not available for use (with the exception of repo transactions), present value of lease obligations, and decommissioning obligations less deferred tax. The definition of FFO has been changed in 2017. Comparable figures have been restated.

<sup>3</sup> See definition on page 172 and in the ESG statements.

<sup>4</sup> The figures indicate values from the latest regulatory financial statements (updated in June).

<sup>5</sup> Last 12 months.

# Business units

<b>Our business units</b>	35
<b>Wind Power</b>	36
<b>Bioenergy &amp; Thermal Power</b>	40
<b>Distribution &amp; Customer Solutions</b>	43



# Our business units

**Ørsted**

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**Core business**  
Green energy.

---

**EBITDA 2016-2017<sup>1)</sup>**

- Underlying EBITDA
- ▨ Of which partnership gains
- Non-recurring EBITDA

2016  
DKK 19.1bn.

2017  
DKK 22.5bn.

---

**Key figures 2017**

Revenue	DKK 59.5bn.
Gross investments	DKK 17.7bn.
Capital employed	DKK 70.3bn.
ROCE	25.2%
LTIF	1.6
Number of employees	5,638

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**Financial target**

ROCE	12-14% (avg. 2018-2023)
------	-------------------------

**Wind Power**

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**Core business**  
Development, construction, ownership and operation of offshore wind farms in the UK, Germany, Denmark, the Netherlands, the USA and Taiwan.

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**EBITDA 2016-2017<sup>1)</sup>**

- Underlying EBITDA
- ▨ Of which partnership gains

2016  
DKK 11.9bn.

2017  
DKK 20.6bn.

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**Key figures 2017**

Revenue	DKK 20.4bn.
Gross investments	DKK 15.5bn.
Capital employed	DKK 59.7bn.
ROCE	28.4%
LTIF	1.1
Number of employees	2,253

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**Financial target**

ROCE	13-15% (avg. 2018-2023)
------	-------------------------

**Bioenergy & Thermal Power**

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**Core business**  
Power and heat generation from CHP plants in Denmark.

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**EBITDA 2016-2017<sup>1)</sup>**

- Underlying EBITDA

2016  
DKK 0.1bn.

2017  
DKK 0.2bn.

---

**Key figures 2017**

Revenue	DKK 5.9bn.
Gross investments	DKK 1.4bn.
Capital employed	DKK 2.6bn.
Free cash flow (FCF)	DKK (0.8)bn.
LTIF	2.8
Number of employees	749

---

**Financial target**

FCF	Positive from 2018
-----	--------------------

**Distribution & Customer Solutions**

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**Core business**  
Power distribution and sale of power and gas in the wholesale and retail markets in Denmark, Sweden, Germany and the UK as well as optimisation and hedging of the Group's energy portfolio.

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**EBITDA 2016-2017<sup>1)</sup>**

- Underlying EBITDA
- Non-recurring EBITDA

2016  
DKK 7.1bn.

2017  
DKK 2.1bn.

---

**Key figures 2017**

Revenue	DKK 40.2bn.
Gross investments	DKK 0.9bn.
Capital employed	DKK 9.8bn.
ROCE	13.1%
LTIF	2.2
Number of employees	1,263

---

**Financial target**

ROCE	9-11% (avg. 2018-2023)
------	------------------------

<sup>1)</sup> The sum of the business units' key figures for 2017 does not equal to the consolidated key figures due to other activities and eliminations. Read more in note 2.1.

# Wind Power

## Highlights 2017

- Power generation from our wind farms in operation increased by 42%
- We were awarded the contract for the construction of Hornsea 2 in the UK, which increased our FID capacity by 1.4GW
- We divested 50% of Walney Extension in the UK and 50% of Borkum Riffgrund 2 in Germany and divested A2SEA
- We inaugurated the Burbo Bank Extension and Gode Wind 1 and 2 offshore wind farms
- All wind turbines on Race Bank, and the first part of Walney Extension were installed
- We were awarded three offshore wind farm projects in Germany, two of which were won with zero-subsidy bids
- We participated in the first offshore wind auction in Massachusetts, USA, together with our partner Eversource Energy
- We entered into a partnership agreement with US-based Dominion Energy on an offshore wind farm project in Virginia
- Our environmental impact assessments of the Greater Changhua projects in Taiwan were recommended for final approval in Q1 2018.

### Financial performance

Power generation increased 42% compared to 2016, driven by Gode Wind 1 and 2 and Burbo Bank Extension as well as the start-up of power generation from Race Bank and Walney Extension. In addition, wind speeds

were higher in 2017. We commissioned Gode Wind 1 and 2 in December 2016 and Burbo Bank Extension in May 2017. At Race Bank, we installed the last wind turbine in December 2017 and fully commissioned the wind farm in January 2018. Walney Extension is expected to be fully commissioned in H2 2018. Moreover, power generation in 2016 was negatively affected by a cable fault at Walney 2. Availability was 93% in 2017 against 92% in 2016.

Revenue from wind farms in operation was up 46%, driven by higher power generation and higher power prices, which were partially offset by lower contributions from price hedges. Walney 2 also contributed to the higher revenue due to the cable fault in 2016.

Revenue from construction contracts decreased by DKK 5.6 billion due to a high level of activity in 2016 with both Gode Wind

**Our company has constructed the most offshore wind farms globally. In addition to maintaining our position as global market leader, we'll continue to pave the way for offshore wind power in new markets and develop a global business.**

**Martin Neubert**  
CEO, Wind Power

		2017	2016	%	
	→				
EBITDA increased by 74%.					
<sup>1)</sup> O&M: Operation and Maintenance agreements					
PPA: Power Purchase Agreements					
	<b>Performance highlights</b>				
	<b>Business drivers</b>				
	Decided (FID) capacity, offshore wind	CW	8.9	7.4	20%
	Installed capacity, offshore wind	CW	3.9	3.6	8%
	Generation capacity, offshore wind	CW	2.5	2.0	25%
	Wind speed	m/s	9.3	8.9	4%
	Wind energy content	%	95	93	2%p
	Load factor	%	44	41	3%p
	Availability	%	93	92	1%p
	Power generation	TWh	8.5	6.0	42%
	Denmark		2.5	2.2	14%
	United Kingdom		4.5	3.1	45%
	Germany		1.5	0.7	114%
	Power price, LEBA UK	GBP/MWh	52.6	42.7	23%
	British pound	DKK/GBP	8.5	9.1	(7%)
	<b>Financial performance</b>				
	Revenue	DKKm	20,352	22,428	(9%)
	Sites, O&M and PPA <sup>1</sup>		11,319	7,757	46%
	Construction contracts		8,734	14,323	(39%)
	Other, incl. A2SEA		299	348	(14%)
	EBITDA	DKKm	20,595	11,867	74%
	Sites, O&M and PPA <sup>1</sup>		8,529	5,869	45%
	Construction contracts and divestment gains		13,667	7,012	95%
	Other, incl. A2SEA and project development		(1,601)	(1,014)	58%
	Depreciation	DKKm	(4,080)	(3,565)	14%
	Impairment losses	DKKm	(545)	-	n.a.
	EBIT	DKKm	15,970	8,302	92%
	Cash flow from operating activities	DKKm	3,353	4,347	(23%)
	Gross investments	DKKm	(15,462)	(12,426)	24%
	Divestments	DKKm	16,737	6,874	143%
	Free cash flow	DKKm	4,628	(1,205)	n.a.
	Capital employed	DKKm	59,652	52,825	13%
	ROCE	%	28.4	16.5	11.9%p

1 and 2 and Burbo Bank Extension under construction for partners. The decrease was also attributable to a higher level of activity regarding the construction of transmission assets in 2016 (Walney Extension, Race Bank and Burbo Bank Extension) than in 2017 (Hornsea 1, Race Bank and Walney Extension). The decrease was partially offset by activity at Walney Extension and Race Bank, which were under construction for partners in 2017.

EBITDA increased by 74% relative to 2016.

EBITDA from wind farms in operation increased by 45% to DKK 8.5 billion, driven by the factors described above.

EBITDA from partnership agreements almost doubled to DKK 13.7 billion in 2017. The year was positively affected by gains from the farm-down of 50% of Walney Extension (DKK 7.5 billion) and Borkum Riffgrund 2 (DKK 2.2 billion). 2017 was also positively impacted by the recognition of the deferred selling price and milestone income from Race Bank, as well as the construction of the wind farm for partners. 2016 was affected by a gain of DKK 2.5 billion from the divestment of Race Bank as well as a gain of DKK 0.6 billion from the farm-down of 50% of Burbo Bank Extension. In addition, 2016 was affected by high activity levels relating to the construction of Gode Wind 1 and 2 and Burbo Bank Extension for partners.

EBITDA from other activities totalled DKK -1.6 billion in 2017 against DKK -1.0 billion in 2016. The decrease was mainly due to higher project development costs.

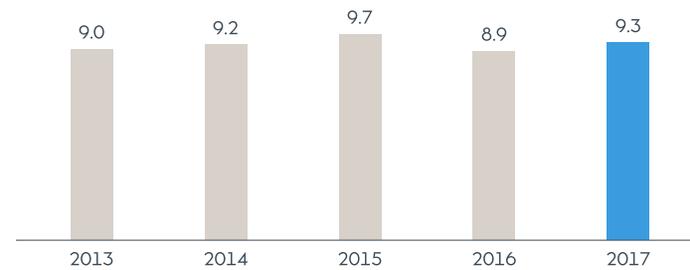
Depreciation increased by 14% due to the commissioning of new offshore wind farms in Germany and the UK.

Impairment losses totalled DKK 0.5 billion and related to capitalised project development costs in Wind Power, due to uncertainty about the carrying through of the projects.

Cash flows from operating activities totalled DKK 3.4 billion in 2017 compared with DKK 4.3 billion in 2016. The decrease was due to more funds tied up in offshore wind farm construction contracts in progress for partners and offshore transmission assets in the UK. In 2017, funds tied up in work in progress increased by DKK 3.7 billion due to the construction of transmission assets at Hornsea 1, Race Bank and Walney Extension as well as the construction of Race Bank for partners. This was partially offset by milestone payments received from partners in connection with the construction of Borkum Riffgrund 2 in 2017, as well as high trade payables relating to the construction of Walney Extension. Funds tied up in work in progress in 2016 were lower due to the divestment of the Westernmost Rough transmission asset and the receipt of milestone payments from partners during the construction of Gode Wind 1 and Burbo Bank Extension, among other factors. Funds tied up in work in progress totalled DKK 7.5 billion at the end of 2017.

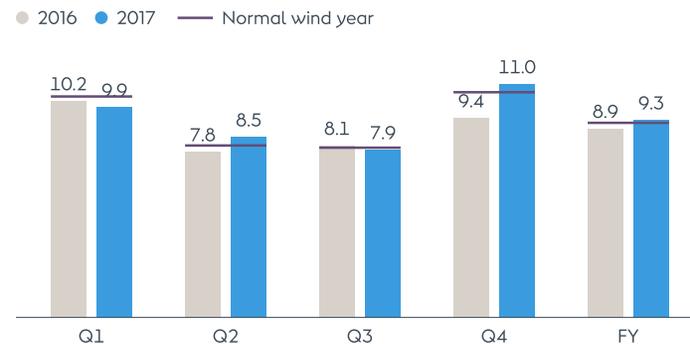
The high level of funds tied up in other working capital was primarily due to lower VAT payable as well as an increase in trade receivables following a high level of power generation at the end of 2017.

Yearly wind speed for our offshore wind farms, m/s



The wind speed indicates how many metres per second the wind has blown in the areas where we have offshore wind farms. The weighting is based on our generation capacity.

Quarterly wind speed for our offshore wind farms, m/s



The wind speed was higher than normal in Q4 2017.

Change from wind energy content (WEC) to wind speed

Wind speed and availability are the two most important parameters that can affect the volume of power generated by our offshore wind turbines in a given period. In the past, we have used wind energy content (WEC) as the residual for the power generation that cannot be explained by the availability of the offshore wind farms. However, this method means that generation constraints, with no negative impact on availability, are included in the calculation of wind energy content. This type of impact increased in 2017. For example, the German transmission system

operator curtailed our generation from Borkum Riffgrund 1 and Gode Wind 1 and 2 in periods of 2017 by reducing the available grid capacity.

In order to obtain a cleaner measure of the impact of wind on our generation, we now apply the measure of wind speed in metres per second. Wind speed is based on external data sources and is a transparent and easy-to-understand measure of how windy it has been at our offshore wind farms in a given period.

Gross investments amounted to DKK 15.5 billion in 2017. The largest investments related to the construction of Walney Extension and Race Bank, Hornsea 1 and Borkum Riffgrund 2.

Cash flows from divestments related to Walney Extension, Borkum Riffgrund 2, Race Bank and A2SEA. Divestments in 2016 related to the farm-down of 50% of Burbo Bank Extension, Race Bank as well as receipt of the deferred selling price from the farm-down of 50% of Gode Wind 1 in 2015.

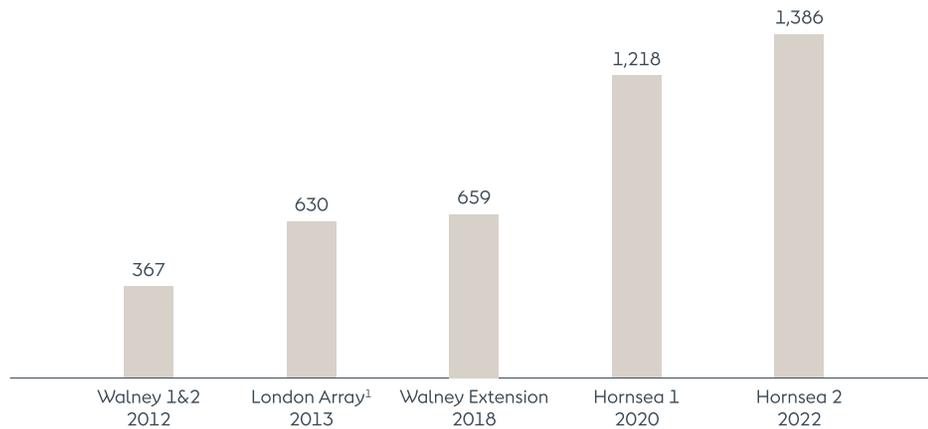
ROCE increased by 12%-points to 28%, particularly impacted by a gain on the farm-downs.

### Strategy follow-up

#### Wind Power's strategic focus is to:

- maintain our market leadership in offshore wind
- continue to pioneer new markets and develop a global business
- keep innovating and reducing the cost of electricity from offshore wind
- leverage market-leading partnership model for incremental value creation and risk diversification
- realise the current build-out plan of 8.9GW towards 2022 and expand to 11-12GW by 2025
- implement operational excellence and digitisation initiatives across EPC and O&M.

The world's largest offshore wind farms since 2012, MW installed (year indicates actual or expected commissioning)



<sup>1</sup> London Array was built in partnership with E.ON UK Renewables and Masdar  
Source: Bloomberg New Energy Finance (BNEF)

### Maintain our market leadership in offshore wind

Offshore wind plays an increasingly important role in the European conversion to green energy, and the potential is enormous. Worldwide, we are the company that has constructed most offshore wind farms. In fact, we have constructed close to a quarter of the total global capacity.

In 2017, we completed the Burbo Bank Extension offshore wind farm in the UK, the first offshore wind farm in the world to feature the MHI Vestas 8MW offshore wind turbine. Including Burbo Bank Extension, at the end of 2017 we had installed 3.9GW of offshore wind capacity since the beginning in 1991, where we constructed the world's first offshore wind farm off Vindeby in Denmark. After more than 25 years, the Vindeby offshore wind farm, as the first offshore wind farm in the world, was decommissioned in the autumn of 2017.

In September, we were awarded a contract for difference (CfD) for our Hornsea 2 project in the UK. With a total capacity of 1.4GW, it will be the world's largest offshore wind farm when completed in 2022. The project will thus be larger than our Hornsea 1 offshore wind farm with a capacity of 1.2GW, which is expected to be completed in 2020.

### Continue to pioneer new markets and develop a global business

2017 has been a year where we really fuelled our project development in two new strategic markets. Together with Eversource Energy, our partner on the US Bay State Wind project, we submitted a bid for capacity in the first offshore wind auction in Massachusetts in December

2017. The preferred bidder or bidders are expected to be selected in April 2018, followed by an invitation to negotiate a fixed-price agreement with the three local power distribution companies. In addition, we entered into an agreement to construct a demonstration project for Dominion Energy off the Virginia Beach coast. At the same time, we entered into a letter of intent, which gives us the exclusive right to negotiate a strategic partnership with Dominion Energy concerning their 2GW development project off the Virginia coast.

At the end of 2017, the Taiwanese EIA review panel recommended approval of our environmental impact assessments of the four Greater Changhua offshore wind sites in Taiwan with a total capacity of 2.4GW. We will now await the final approval by the EIA General Assembly, which is expected to convene in Q1 2018.

### Keep innovating and reducing the cost of electricity from offshore wind

2017 was a breakthrough year for the competitiveness of offshore wind. For example, we were granted the Hornsea 2 CfD contract at a price which is 50% lower than the price in the CfD auction round only two years ago, illustrating how fast costs are reduced. Costs have been reduced across the industry by means of increasing levels of industrialisation, economies of scale and innovation.

A good example of our approach to innovation is our work on developing a new design standard for foundations for offshore wind farms. Together with leading industry experts, we have developed and tested a new foundation design that enables us to use far less steel. This design is used in the most recent

projects which we have bid for in auctions, and it has contributed to significantly reducing the cost of electricity.

Overall, the declining prices are tangible proof of the global potential of offshore wind technology as a cornerstone in an economically sustainable transition towards green energy systems. As a result, we are making a dedicated effort to further reduce the cost of power from offshore wind farms.

**Leverage market-leading partnership model for incremental value creation and risk diversification**

Our partnership model yet again proved its worth through the 50% divestment of the offshore wind farms Borkum Riffgrund 2 and Walney Extension in 2017. Borkum Riffgrund 2 was divested to Global Infrastructure Partners, which also owns 50% of our German offshore

wind farm Gode Wind 1, while Walney Extension was divested to a consortium consisting of the Danish pension funds PFA and PKA. PKA now has ownership interests in four Ørsted offshore wind farms.

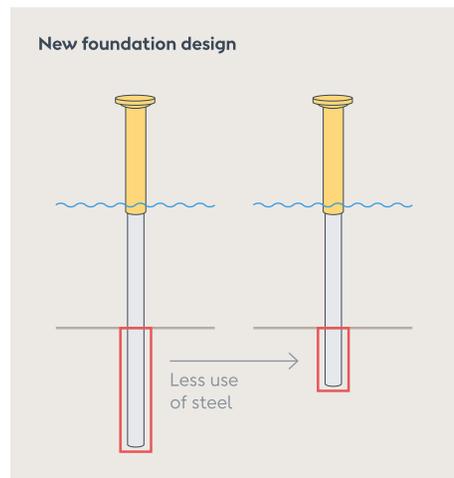
In addition to incremental value creation, the partnership model contributes to diversifying risk as well as releasing capital to invest in other offshore wind farms in strategic markets.

**Realise the current build-out plan of 8.9GW towards 2022 and expand to 11-12GW by 2025**

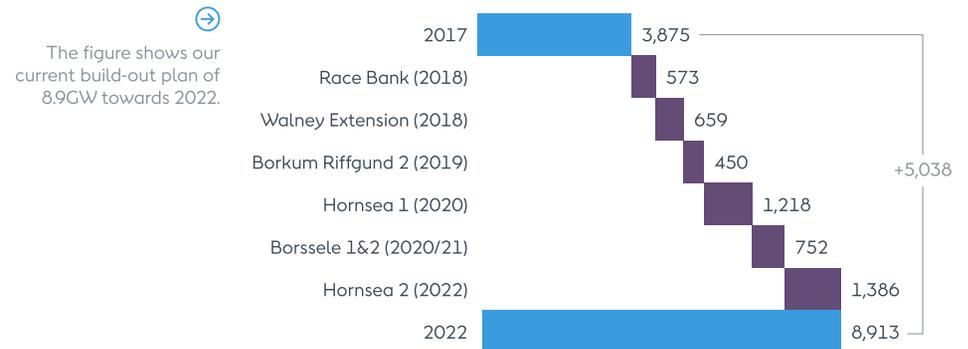
Race Bank was commissioned in January 2018 and consequently added 0.6GW to our installed capacity. Up until 2022, we will construct a further five offshore wind farms with a total capacity of 4.5GW. Out of these five wind farms, we have generated first power from the British offshore wind farm Walney Extension (40% of capacity commissioned), which is expected to be fully commissioned in H2 2018. The remaining four offshore wind farms under construction are all progressing according to plan, and when the last wind farm, Hornsea 2 in the UK, is commissioned, we will have 8.9GW installed by the end of 2022.

Up until 2025, we have a significant pipeline, and our ambition is to have 11-12GW installed by the end of 2025, provided that a healthy risk and return profile can be achieved.

In April, we were awarded the concessions for the three German offshore wind farms OWP West, Borkum Riffgrund West 2 and Gode Wind 3 in competition with other developers. Two of the wind farms have been awarded on zero-subsidy terms. Overall, this gives us



**Build-out plan, installed MW**



an option on 0.6GW capacity in Germany for commissioning in 2024, provided that the final investment decision is made in 2021.

The rest of the pipeline consists mainly of projects which we have the exclusive right to develop in preparation of an investment decision, which is typically conditional on the granting of subsidies via an auction process. A minor part of the pipeline consists of projects for which the authorities allocate capacity in a competitive process involving tendering of project rights. We are familiar with this process, e.g. from the tendering in recent years of offshore wind projects in Denmark and the Netherlands.

In addition to the opportunities in Taiwan and the USA, 2018 will see an auction for 1.6GW in Germany and a 700MW tender in the Netherlands. They will be followed by a CfD auction round in the UK in the spring of 2019 and another 700MW tender in the Netherlands in 2019.

**Implement operational excellence and digitisation initiatives across EPC and O&M**

The digital transformation is important in offshore wind. In Ørsted, we are exploring new and wider opportunities for leveraging technological advances. Using agile and advanced analytics in our business, we are starting to harvest the benefits of the digital transformation.

As an operational example, a higher temperature in the nacelle of the turbine puts the converter module at risk. Previously, a turbine would stop in case of high temperatures, which led to an availability loss until the turbine could be checked by a technician and restarted. Now, continuous temperature monitoring and predictive, in-house developed models identify the risk. A notification is then sent to the technician who proactively mitigates the risk by repairing the component before the turbine stops. This lowers lead time, limits the availability loss and creates value.

# Bioenergy & Thermal Power

## Highlights 2017

- We entered into an agreement to convert Asnæs Power Station to sustainable biomass from 2019
- We inaugurated Skærbæk Power Station's new plant following the conversion from gas to biomass. The plant can now run 100% on sustainable biomass
- In partnership with Bigadan, we decided to build a biogas plant in Kalundborg which will recycle and convert residues from the Novo Nordisk and Novozymes production facilities into biogas
- We completed our first commercial Renaissance plant in 2017. We expect to commission the plant in H1 2018.

## Financial performance

Revenue increased by 14% to DKK 5.9 billion in 2017.

Revenue from heat sales increased by 16% despite lower heat generation. This is attributable to Avedøre, Studstrup and Skærbæk power stations where heat generation is based on biomass. Revenue from power and ancillary services rose by 13% to DKK 3.3 billion despite lower generation. This is due to an increase in the power price.

EBITDA increased by 52% to DKK 0.2 billion in 2017. The increase was mainly due to heat generation activities, where the bio-conversions led to a 71% increase in earnings to DKK 0.7

billion in 2017. The increase was partially offset by a decline in the power business where lower generation as well as unfavourable market conditions (primarily negative spreads) resulted in earnings of DKK -0.9 billion against DKK -0.6 billion in 2016.

EBITDA from ancillary services was in line with 2016.

Cash flows from operating activities totalled DKK 0.6 billion compared with DKK 1.3 billion in 2016. The decrease was mainly due to higher prepayments from heat customers in connection with biomass conversions in 2016 than in 2017. The decrease was partially offset by a lower level of funds tied up in inventories (wood pellets and coal) in 2017.

Gross investments amounted to DKK 1.4 billion in 2017. The largest investments related to the biomass conversions of the Skærbæk and Asnæs power stations as well as the construction of the Renaissance plant in the UK.



**In 2017, we reached new milestones on our journey to convert all our CHP plants to sustainable biomass.**

**Thomas Dalsgaard**

CEO, Bioenergy & Thermal Power

Operating profit from the heat business increased as a result of biomass conversions.



Performance highlights		2017	2016	%
<b>Business drivers</b>				
Degree days	number	2,705	2,715	(0%)
Heat generation	TWh	9.0	9.2	(2%)
Power generation	TWh	8.2	8.4	(2%)
Power price, DK	EUR/MWh	31.0	28.0	11%
Green dark spread, DK	EUR/MWh	(1.6)	3.4	n.a.
Green spark spread, DK	EUR/MWh	(6.2)	(2.2)	182%
<b>Financial results</b>				
Revenue	DKKm	5,864	5,149	14%
Heat		2,607	2,255	16%
Power, incl. ancillary services		3,257	2,894	13%
EBITDA	DKKm	152	100	52%
Heat		695	407	71%
Ancillary services		321	300	7%
Power		(864)	(607)	42%
Depreciation	DKKm	(690)	(763)	(10%)
EBIT	DKKm	(538)	(663)	(19%)
Cash flow from operating activities	DKKm	592	1,285	(54%)
Gross investments	DKKm	(1,390)	(1,926)	(28%)
Divestments	DKKm	2	6	(67%)
Free cash flow	DKKm	(796)	(635)	25%
Capital employed	DKKm	2,554	2,283	12%
ROCE	%	(22.2)	(29.5)	7.3%p

## Strategy follow-up

### Bioenergy & Thermal Power's strategic focus is to:

- continue the conversion of Danish CHP plants to sustainable biomass and phase out coal by 2023
- continue to strengthen operational efficiency
- continue the commercial development of our Renaissance enzyme based waste technology
- explore business opportunities within energy storage solutions.

### Continue conversions to sustainable biomass and phase out coal by 2023

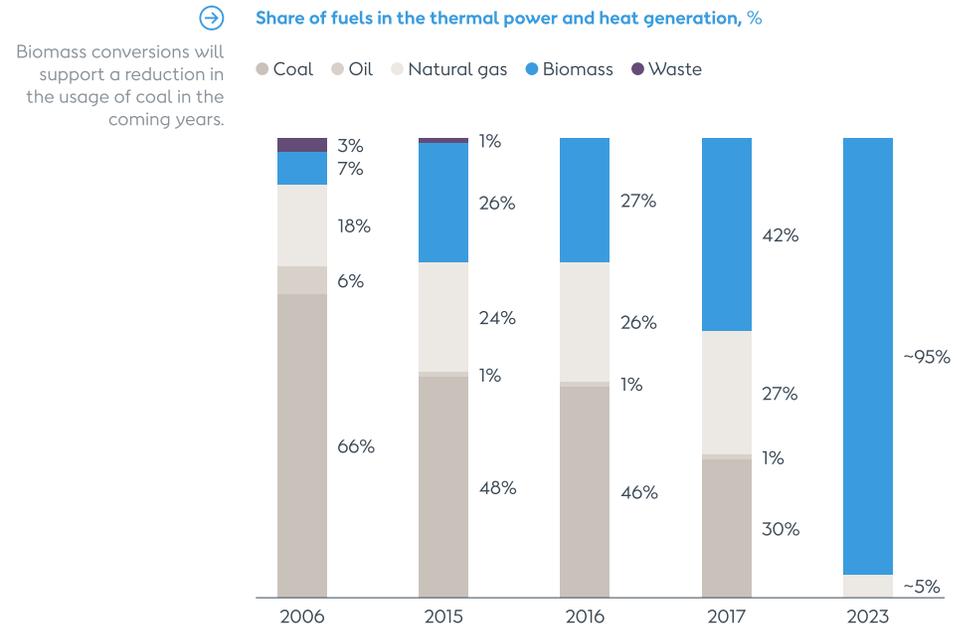
For several years, we have been committed to converting our power stations to use sustainable wood pellets and wood chips. And in 2017, we decided to phase out coal by 2023, as coal is the fuel with the greatest carbon impact per produced quantity of power and heat. Our ongoing work will reduce our annual carbon emissions in Denmark significantly towards 2023. In just over ten years, we will have gone from being one of the most coal-intensive utilities in Europe to having a completely coal-free generation by 2023.

In cooperation with our heat customers, we reached even more milestones in 2017 in the execution of our large-scale biomass conversion projects. The new biomass-fired CHP plant in Skærbæk was inaugurated in October by HRH Crown Princess Mary and now supplies green heat to district heating customers in the Danish Triangle Region and green power to the Danish grid. Later in October, we cut the first sod for our new biomass-fired CHP plant at

Asnæs near Kalundborg, Denmark. The plant is expected to be completed by the end of 2019 and will supply green district heating to district heating customers in and around Kalundborg, green steam to Novo Nordisk and Novozymes as well as green power to the Danish grid. In November, we decided to invest in flue gas condensation at the Herning Power Station, enabling us to increase the energy efficiency potential of the biomass used. At the same time, we extended our agreement with the heat customers in and around Herning until 2033. Finally, we are engaged in a constructive dialogue with our heat customers in and around Esbjerg on also supplying green solutions to them within a few years.

Our portfolio of seven central CHP plants in Denmark will thus be able to supply green district heating equivalent to the consumption of almost one million Danes in the near future. Our power stations will be some of the largest biomass-fired CHP plants in the world, making them key to the green transformation of the nearby towns, cities and municipalities – and of Denmark as a whole.

It is important to us that our customers can be confident that the biomass-based heat and power we supply is sustainable and makes a real and significant contribution to reducing their carbon footprint. Therefore, we fully support the Danish industry agreement on sustainable wooden biomass which commits not just Ørsted, but the entire Danish energy industry to documenting the sustainability of our use of biomass. Together with other European energy companies, we are also part of the Sustainable Biomass Programme (SBP) which has developed a robust and



independent scheme for the certification of sustainable biomass. The Danish industry agreement on sustainable wooden biomass entered into force in 2016 and is being phased in during the period up until 2019. In 2017, 72% of our purchased biomass came from certified partners, and our target is that 100% should come from certified partners in 2020.

### Continue to strengthen operational efficiency

For much of 2017, market conditions remained challenging for Danish CHP plants. Therefore, we have focused on maintaining our leading

position as an efficient and flexible operator and on continuing to reduce costs. In 2017, we initiated a comprehensive digitisation programme aimed at streamlining and automating production at our CHP plants. With this programme, we introduce new technology and improved analytical tools across our CHP plants in order to strengthen our operational efficiency. In addition, we have increased our focus on our plant control processes. A case in point is the development of systems that support the balance between cost, risk and performance at our plants. This provides for efficient prioritisation of our capital expenditures.

### Continue the commercial development of our innovative Rescience enzyme based waste technology

We are currently working to further develop and expand our bioenergy business – with special emphasis on the commercialisation of our Rescience technology. By means of enzymes, the technology efficiently converts household waste into biogas and recyclable materials (metal, plastic, etc.). In 2017, we established the first full-scale plant in Northwich in the UK. We are finalising the optimisation of the plant's mechanical operation, which has taken longer than expected. We expect to start full commercial operation in H1 2018. We expect the plant to process 120,000 tonnes of unsorted household waste per year, which corresponds to the waste from approximately 110,000 British households.

### Explore business opportunities within energy storage solutions

In 2017, we established a new business unit, Energy Storage Solutions. This unit will support initiatives across Ørsted and at the same time offer battery power storage solutions, potentially in combination with solar PV, for our customers. In 2017, Radius commissioned a battery solution for the power distribution grid in the Nordhavn area in Copenhagen, and we initiated the work to establish a storage solution at our Burbo Bank offshore wind farm in the UK.



# Distribution & Customer Solutions

## Highlights 2017

- At the end of 2017, the customers in our power distribution company Radius had taken 183,000 smart meters in use
- We decided that the power consumption of our 733,000 Danish residential power customers is to be covered by green power from offshore wind farms – without any surcharge
- We installed Denmark's first large-scale battery for balancing the grid in Nordhavn, together with ABB
- We entered into an agreement with the Good Energy trading company about the supply of green power to their customers from the Westermøst Rough offshore wind farm.

## Financial performance

Revenue increased by 6% to DKK 40.2 billion in 2017. The increase was driven primarily by a 24% average increase in gas prices relative to 2016 and higher power sales in the UK. The increase was offset by lower revenue from power distribution, given that duties and costs are no longer invoiced on behalf of the transmission asset owner, and from the distribution of gas following the divestment of activities to Energinet in September 2016.

EBITDA was DKK 2.1 billion compared with DKK 7.1 billion in 2016. The decrease was expected and was mainly ascribable to non-recurring items of DKK 4.7 billion in 2016 as well

as a provision of DKK 0.4 billion related to the onerous contract at the Gate terminal in Rotterdam.

EBITDA from the distribution business decreased by DKK 0.4 billion as a result of the divestment of our gas distribution activities in September 2016.

EBITDA from Markets decreased by DKK 4.3 billion, primarily due to one-off payments of DKK 4.3 billion from completed renegotiations of gas purchase contracts in 2016.

EBITDA from LNG declined by DKK 0.3 billion as a result of further provisions related to an onerous contract at the Gate terminal in Rotterdam as well as provisions regarding purchase contracts. This was partially offset by improved margins from renegotiated contracts, lower costs and short-term trades.



**Our ambition is to bridge the gap between supply and demand in the green transformation.**

**Morten Buchgreitz**

CEO, Distribution & Customer Solutions

		2017	2016	%
	→ <b>Performance highlights</b>			
	<b>Business drivers</b>			
EBITDA was positively affected by one-off payments from gas contracts of DKK 4.3 billion in 2016.	Regulatory asset base (power)	DKKm	10,623	10,648 (0%)
	Degree days	number	2,705	2,715 (0%)
	Gas sales	TWh	136.1	150.4 (10%)
	Sales		40.8	37.6 9%
	Markets (excl. volumes to Sales)		95.3	112.7 (15%)
Gas distribution contributed DKK 0.4 billion to EBITDA until divestment in September 2016.	Power sales	TWh	37.7	36.7 3%
	Sales		11.8	10.0 18%
	Markets (excl. volumes to Sales)		26.0	26.8 (3%)
	Gas distribution	TWh	-	5.8 n.a.
	Power distribution	TWh	8.4	8.5 (1%)
	Gas price, TTF	EUR/MWh	17.3	14.0 24%
	Oil price, Brent	USD/boe	54.3	43.7 24%
	US dollar	DKK/USD	6.6	6.7 (1%)
	British pound	DKK/GBP	8.5	9.1 (7%)
	<b>Financial results</b>			
	Revenue	DKKm	40,195	38,009 6%
	EBITDA	DKKm	2,082	7,108 (71%)
	Distribution		1,199	1,602 (25%)
	Sales		32	(15) n.a.
	Markets		1,422	5,766 (75%)
	LNG		(571)	(245) 133%
	Depreciation	DKKm	(933)	(874) 7%
	EBIT	DKKm	1,149	6,234 (82%)
	Cash flow from operating activities	DKKm	(628)	4,302 n.a.
	Gross investments	DKKm	(857)	(569) 51%
	Divestments	DKKm	196	2,238 (91%)
	Free cash flow	DKKm	(1,289)	5,971 n.a.
	Capital employed	DKKm	9,780	7,797 25%
	ROCE	%	13.1	75.8 (62.7%p)

Cash flows from operating activities totalled DKK -0.6 billion in 2017. The decrease of DKK 4.9 billion was primarily due to lower EBITDA and the early settlement of Oil & Gas price hedges of DKK 1.6 billion in 2017. This was partially offset by a lower level of funds tied up in working capital, mainly higher trade payables relating to gas purchases.

Gross investments totalled DKK 0.9 billion in 2017, relating primarily to maintenance of the power distribution grid and installation of the new smart meters.

ROCE was 13% in 2017. This is a decrease of 63%-points relative to 2016, as that year was positively impacted by income in the form of one-off payments from renegotiations. ROCE adjusted for these one-off payments was 24% in 2016.

## Strategy follow-up

Distribution & Customer Solutions (DCS) comprises four core activities: Sales B2C, Sales B2B, Markets (including LNG) and Distribution, bridging the gap between supply and demand in the green transformation.

### Distribution & Customer Solutions' strategic focus within these four areas is to:

- **Sales B2C:** make it easier and financially possible for our customers to contribute to the green transformation
- **Sales B2B:** help business customers benefit from the green transformation
- **Distribution:** be industry-leading and maintain high levels of security of supply and customer satisfaction
- **Markets (including LNG):** manage Ørsted's energy portfolio and provide competitive access to the energy market for customers.

### Sales B2C: make it easier and financially possible for our customers to contribute to the green transformation

We will make it easier for our customers to play a part in the green transformation. In 2017, we therefore decided to cover all our residential customers' power consumption with green power from our own Danish offshore wind farms by purchasing green certificates – at no extra cost for our customers.

With 824,000 residential customers, our ambition is to deliver Denmark's best customer experience, which we continuously strive to do. In 2017, the customer satisfaction score among residential customers, who had been in touch with us, was unchanged at 76 on a scale of 1-100. We have seen an increase in customer

loyalty to 71 from 69. During the year, we have, among other things, worked to make our customer service more accessible and also implemented a successful online chat function and a new website in connection with the launch of our new name.

By the end of 2020, all power customers in Denmark will have the option of hourly settlement of consumption via remote-read power meters. This means that our power customers can take advantage of variable power prices during each 24-hour period – for example free power during certain hours of the night – as our most common subscription is based on the hourly market prices.

We continuously strive to reduce our costs and strengthen our competitiveness. Among other things, we are developing a new, simple and flexible digital platform. The new platform will provide a better customer experience and reduce our costs.

### Sales B2B: help business customers benefit from the green transformation

Across our geographical markets, we are working to establish and develop our partnerships with business customers beyond the classic role of a utility company. We are seeing growing demand for integrated, green energy solutions, and we would like to take the lead on this development.

Among other things, we offer our customers in Denmark climate partnerships comprising green power and advice on energy efficiency and procurement. For example, we are working with Novo Nordisk and Novozymes on a new biogas plant in Kalundborg that

will convert by-products from their factories to biogas.

We have also experienced strong growth in our flexibility solutions which contribute to balancing the energy system and ensuring lower costs. For example, we give our business customers the opportunity to move parts of their production to times when demand in the grid is lower. Our customer satisfaction score for business customers has increased to 77 out of 100.

### Distribution: be industry-leading and maintain high levels of security of supply and customer satisfaction

Ørsted's distribution activities are undertaken by the subsidiary Radius Elnet.

It is crucial that our customers experience a high level of security of supply. This means that their supply is rarely interrupted, and that we ensure rapid response and communication of correct information when this happens. In 2017, customers experienced the security of supply of 0.42 disconnections a year, excluding faults in the primary transmission grid owned by the Danish transmission system operator, Energinet.

As mentioned above, all Danish households must have a remote-read power meter installed by the end of 2020. We are thus working hard to replace one million power meters. At the end of 2017, 183,000 meters were in use. We focus on ensuring that the replacement is a positive customer experience, so we are pleased that we succeeded in maintaining a high customer satisfaction score of 82 in 2017. The remote-read power meters come with a number of advantages for our customers.

Among other things, they no longer have to read their power meters themselves, and they can monitor and control their electricity consumption during the day and the year. From 1 December, billing by the hour was introduced for our first customers to have the new meters installed. For the individual customer, this is a chance to reduce costs by keeping consumption low during peak hours in the grid. On the other hand, customers with a more inexpedient consumption pattern will pay more. The average consumer will not experience any price changes.

On 1 January 2018, a new financial regulation for grid companies came into force. During the year, the Danish Energy Regulatory Authority will define new revenue caps that will give us healthier incentives and a more stable framework. Initially, the financial consequences of this regulation are as expected.

**Markets (including LNG): manage Ørsted's energy portfolio and provide competitive access to the energy market for customers**

Markets manages and optimises Ørsted's energy portfolio as a whole, and hedges the Group's energy exposures as part of that. We sell the Group's power and gas as well as green certificates in the market and buy with a view to covering our customers' consumption. In this way, we make sure to continuously balance the supply of, and demand for, power and gas in our portfolio.

We offer external customers the same access to the market as we deliver for Ørsted's own power generation, green certificates, etc. In this way, we create synergies across the portfolio.

In 2017, we made significant progress in the management of power portfolios – particularly in relation to balancing products for external customers. As a consequence, we increased our number of external customers and our managed production capacity. The assets which we manage in portfolios include offshore wind farms, onshore wind, waste-fired power stations and small-scale gas-fired electric motors. In addition to our focus on the administration of renewable energy, we have signed agreements with small and flexible gas-fired power stations, supporting the objective of creating balance in the power grid.

In the transition to renewable energy, gas, as the least polluting and most flexible of the fossil energy sources, will continue to play an important role on the way towards a fossil-free energy system. Our gas portfolio consists partly of long-term purchase contracts, partly of contracts on capacity in gas storage facilities and an LNG terminal. At the end of 2017, a plan was announced for the full redevelopment of the Mærsk-owned Tyra gas field in the North Sea, which has increased the security of continued deliveries from the Danish Underground Consortium (DUC) to us. In addition, we have further reduced our exposure to oil prices in our gas purchase contracts through renegotiations with our counterparties.

Our LNG activities are loss-making. And even though we experience great interest and activity in LNG, the earnings from these activities are not enough to cover our fixed costs for the lease of the terminal.



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# Risk and risk management

In Ørsted, we regard risks as a natural and integral part of our business activities. Through risk management, risks are reduced to an acceptable level.

In addition to general operational and business risks, we are exposed – as part of our activities – to a number of different risks, including fluctuations in exchange rates, commodity prices and interest rates as well as credits and insurance. Managing these risks is an important focus area for us. The purpose of our risk management is to identify the various risks to which we are exposed, and then decide how to manage them. We assess the extent to which individual risks are acceptable or perhaps even desirable, as well as the extent to which these risks can be reduced to ensure an optimum balance between risk and return.

Following the divestment of our upstream oil and gas business in September 2017, our earnings are now to a large extent centred within offshore wind and green energy. When we invest in new assets and activities or divest other assets, the risk associated with our portfolio changes. We therefore assess the impact of a given decision on the portfolio in advance.

We work systematically with risks and follow a plan for the year according to which all business units and selected staff functions identify and prioritise their business risks. An assessment is made of the potential financial impact of individual risks and of whether they are of a short-term, long-term or recurring nature. The risks are consolidated and then prioritised at Group level. The ultimate responsibility for the individual risks rests with a member of the Group Executive Management. Similar processes are in place for identifying and prioritising risks related to sustainability, cybersecurity/IT and compliance/legal.

The most important business risks identified in connection with the process in the autumn of 2017 are shown on the right. They are also illustrated in the figure based on their potential impact (post-risk mitigation) on our value and credit metrics over the next few years. You can read more about these risks in the following pages.

The risks related to sustainability, cybersecurity/IT as well as compliance/legal are assessed using different parameters, which is why we are unable to show a consolidated picture of our combined risks. You can find a description of the most significant sustainability risks in our Sustainability Report and for each of the two other areas on page 50.

In addition, we are exposed to risks entailing a very small probability of having a

considerable impact on the Group's finances and/or reputation. These include, among other things:

- 1,000-year storm, which can lead to the loss of offshore wind farms
- Broken pipes at the Nybro gas treatment plant in Denmark, which can lead to personal injury and damage to the environment
- Breakdowns at power stations that can lead to personal injury and loss of assets.

For each of the identified risks, Group Executive Management has assessed whether the level of risk – after risk-reducing measures have been implemented – is appropriate or slightly or significantly higher than the desired level. If the risk is higher than the desired level, further risk-reducing measures are initiated to the extent possible.

## Development in risks in 2017

The risk outlook diminished in 2017 after the divestment of our upstream oil and gas business, as that industry is generally characterised by a high level of inherent risk.

Our five most important business risks are unchanged in relation to last year, however.

Market risks are still deemed to be the most material business risks for us. Following the

## Top 5 business risks Effect on our value and credit metric



- 1 (#1 2016) Market risks
- 2 (#2 2016) Development and construction of production assets
- 3 (#3 2016) Regulatory risks in Wind Power
- 4 (#4 2016) Operation of offshore wind farms
- 5 (#5 2016) Cost of electricity for offshore wind

① Quantification of risk is based on a scenario where the risk occurs with 10% probability (P90).

divestment of the oil and gas business, our exposure to oil and gas prices has been reduced. In contrast, our exposure to exchange rate fluctuations, primarily GBP, has increased, due to our large investments in offshore wind farms in the UK.

Development and construction of production assets is still ranked as the second-largest risk. However, there were no significant challenges in 2017.

Our risks associated with the operation of offshore wind farms (risk no. 3) and regulatory risks in Wind Power (risk no. 4) switched places in 2017. This is due to an increasing risk of faults on e.g. transmission cables, as more and more offshore wind farms become operational. In addition, we believe that the regulatory risks in the European markets have diminished, as the terms and regimes that apply to us are well-known and clarified.

Further reducing the cost of electricity from offshore wind (risk no. 5) remains an important factor for us. 2017 saw a breakthrough for the price of offshore wind power, and our market-leading role in reducing the costs was reaffirmed. In April, we were granted the right to build three offshore wind projects in the German part of the North Sea, and in September we were awarded the contract to construct Hornsea 2. Two of the German projects were awarded on zero-subsidy terms, and the settlement price for Hornsea 2 is 50% lower than in the most recent CfD allocation in the UK only two years ago.

## 1. Market risks

Our primary market risks relate to energy prices, exchange rates, interest rates and inflation.

### Risk management

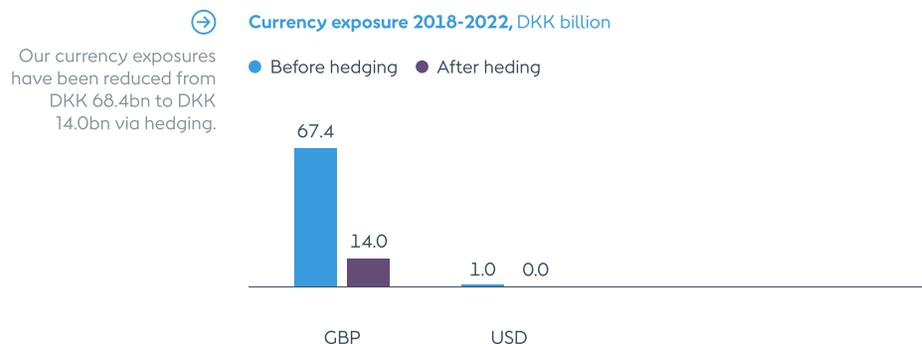
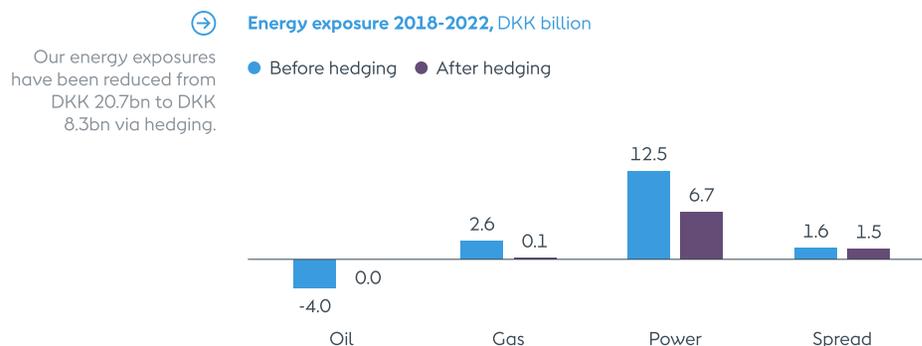
The management of market price risks aims to ensure stable and robust financial ratios that support our growth strategy.

We hedge prices for up to five years to reduce cash flow fluctuations. Prices are normally not hedged in the longer term. This means that our long-term market risks are determined by our strategic decisions on investments in new assets, the conclusion of long-term contracts, debt issuance as well as any divestments of assets.

### Energy prices

Our energy price risks can be divided into direct price risks, where the exposure depends on a specific price, and spread risks, where the exposure depends on the difference between two or more prices. Direct price risks are generally considered to be higher than spread risks as prices are often co-variant.

We hedge prices based on minimum hedging requirements, defined by the Board of Directors, for the three business units. See note 7.1 in the financial statements. In the first two years, a high degree of hedging is wanted to ensure stable cash flows after tax. The degree of hedging will be lower in the subsequent years. This is due to declining certainty about generated volumes and the increasing cost of hedging instruments due to declining liquidity of the instruments.



### Exchange rates

Our international activities entail financial exposure to exchange rate fluctuations. The most important risk relates to GBP due to the Group's substantial investments in offshore wind farms in the UK.

The main currency risk management principle is that currency risks are hedged when it is deemed relatively certain that the underlying cash flows in foreign currencies will materialise. Currency risks relating to energy prices are therefore hedged only when the energy price is hedged.

Similarly, currency risks relating to divestments and investments are hedged only when the divestment and investment prices are sufficiently certain.

Cash flows that relate to fixed tariffs and guaranteed minimum prices from offshore wind farms in the UK deviate from the main principle and are hedged after deduction of operating costs, with a decreasing degree of hedging over the five-year risk management horizon. See note 7.1 in the financial statements. Fluctuations in GBP therefore constitute a strategic risk for Ørsted.

Our EUR risk is subject to continuous assessment, but is generally not hedged as we believe that Denmark will maintain its fixed exchange rate policy.

### Interest rates and inflation

Our interest rate risks relate to interest-bearing loans and borrowings, interest-bearing assets and financial price hedges.

The management of interest rate risks is based on the composition of our assets and the interest rate sensitivity of the cash flows generated by these assets. We match assets and liabilities, aiming at fixed-interest financing of assets with fixed, interest-insensitive cash flows over the same periods. Conversely, more variable-interest financing is sought for assets with varying, interest-sensitive cash flows.

Our inflation risk primarily relates to fixed nominal earnings from offshore wind farms in Denmark, Germany and the Netherlands. We match the inflation risk by issuing debt with fixed nominal cash flows.

## 2. Development and construction of production assets

Our strategy includes the construction of large-scale investment projects, especially within offshore wind. Value creation from new projects heavily depends on choosing the right technical and commercial solutions, on the design and construction phase progressing as planned, including compliance with our agreements on the part of suppliers, on avoiding investment budget overruns and on the timely start-up of generation.

Most of our new investments are made in offshore assets, which naturally increases risks in the construction phase. The nature of the seabed, weather conditions and dependence on installation vessels are some of the risks associated with the construction of offshore assets.

In Wind Power and Bioenergy & Thermal Power, we have successfully completed several investment projects in recent years, including the construction of offshore wind farms in the UK and Germany as well as bioconversions of Danish CHP plants. Based on these experiences, we have been able to significantly reduce the risks associated with projects in progress due to the implementation of standard processes for the construction and estimation of project costs.

## 3. Operation of offshore wind farms

The risks associated with the operation of offshore wind farms relate to forecasts for availability and operating expenses as well as faults in transmission cables and substations.

Our forecasts for availability and operating expenses are based on a number of assumptions received from our suppliers, and on historical data. There is a risk that the assumptions do not hold, and that fault rates and costs are higher than expected. This may lead to deviations between actual generation and the forecasts.

In addition, we are exposed to faults in transmission cables and substations, which may result in breakdowns and loss of production from parts of or an entire offshore wind farm over an extended period of time. We are not compensated for loss of production in the UK. However, in Denmark we are fully compensated, and in Germany we are compensated for a large share of such operating losses. The German transmission system operator,

TenneT, is entitled to deduct up to 28 days for planned (10 days) and unplanned (18 days) maintenance of the transmission grid before we are entitled to financial compensation. The final form of the compensation rules is not yet clear in the new markets in the Netherlands, the USA and Taiwan, but we are monitoring the issue closely.

We have put in place various contingency plans to cater for unforeseeable events, including critical repair services to handle transmission cable faults. In addition, we are working continuously to reduce the risk of faults in the operation of offshore wind farms, among other things, by monitoring and analysing operational data collected and carrying out preventive remedial work of emerging damage.

## 4. Regulatory risks in Wind Power

The risk associated with regulatory regimes is twofold. It is associated with the possibilities for obtaining subsidies and with the possibilities for obtaining relevant approvals from the local authorities.

The EU targets are unchanged, and member states must still reduce carbon emissions by 40% and increase the share of generation from renewable energy sources (RES) to at least 27% of total generation – both targets to be achieved before 2030.

Under the reformed EU guidelines on state aid for environmental protection and energy, subsidies are generally granted in a competitive bidding process, with the price quoted by the bidder being the only or most important

criterion. This will increase the competition, which can affect the profitability of the projects and the number of projects we are allocated. Denmark, Germany and the Netherlands have tender-based funding schemes, while funding schemes are auction-based in the UK, the USA and Taiwan.

We do not expect changes to be made to the subsidy schemes, including tax incentive schemes, with retrospective effect for existing offshore wind projects in any of the countries where we have commissioned or planned offshore wind farms.

The greatest risks relating to project development are associated with the need to obtain relevant approvals from the local authorities and to be connected to the grid. Delays in both areas may lead to the total or partial loss of subsidies. This risk is significantly reduced for projects where subsidies and possibly project rights are granted in competitive bidding processes.

We mitigate the risks by monitoring political developments in all the relevant countries and by engaging in an active dialogue with relevant authorities about environmental approvals, regulatory milestones and the economic regimes.

To ensure an appropriate pipeline and the realisation of the desired level of build-out, we are working with a flexible portfolio of projects, the number of which actually exceeds our capacity. In this way, it is not critical if individual projects fail to materialise. Furthermore, we are continuously exploring new markets with a view to spreading the geographical risk.

## 5. Cost of electricity for offshore wind power

It is still imperative that the cost of electricity from offshore wind is reduced further. Especially if offshore wind is to be less dependent on subsidies and more competitive in relation to other technologies, such as onshore wind and solar PV. In addition, it is also important for us to maintain our market-leading position by continuing to win tenders and auctions in key markets.

We will continue our efforts to optimise both development and operations. We have created a streamlined organisation and initiated strategic cooperation with key suppliers to ensure continuous cost reductions. However, we are also very aware of the need to ensure financial sustainability in our industry to the benefit of all parties.

### Other risks

#### Cybersecurity/IT

In 2017, several major cyberattacks were launched against companies around the world, and according to the Danish Centre for Cybersecurity, the risk of cyberattacks aimed at Danish companies is high. Thus, we have a strong focus on IT security.

We are responsible for critical infrastructure, and we own various types of intellectual property rights. This means that we are a potential target for cyberattacks or industrial espionage. To ensure monitoring of system-related risks, we have implemented a global framework for safety risk management.

Our strategy also focuses on protecting us against cyberattacks and on ensuring that the necessary control systems are in place for monitoring and managing the operation of our activities.

#### Compliance and legal

Risks associated with compliance and legal are assessed on the basis of financial significance and probability. Our most important risks are described below.

#### Financial regulation

We are subject to a number of financial regimes, such as REMIT, MAR, EMIR, Dodd Frank, MiFID, SFRT and AML. The financial rules and related procedures are complex and constantly changing. In 2016, we established a new compliance structure to ensure a consistent level of compliance controlling and reporting on financial regulation throughout Ørsted.

#### General Data Protection Regulation

We are subject to a number of rules on processing of personal data. From May 2018, we will be subject to the new EU General Data Protection Regulation (GDPR). Like today, we will be obliged to implement appropriate technical and organisational initiatives and procedures to ensure the protection of the rights of data subjects in connection with the processing of personal data. In order to ensure that we process personal data in a confidential and secure way, we have in recent years implemented a number of initiatives and carried out various analyses of our personal data security.

#### Public procurement law

Most of our products and services are subject to EU public procurement law, which is generally complex and constantly changing. Last year, a new EU Directive came into force, which the various member states have interpreted differently. This is making it difficult to compete for contracts in different countries. To counter the risk, we have ensured that our procurement function is involved in the relevant activities.

# Corporate governance

Each year, we consider the recommendations from the Danish Committee on Corporate Governance, describe our corporate governance in the annual report and prepare a detailed report which you can find on our website.

Our governance model is illustrated in the figure to the right and explained below.

## 1. Shareholders

Our shareholders exercise their rights at the general meeting, which for example appoints the Board of Directors and the auditor.

## 2. General meeting

The general meeting adopts decisions in accordance with the standard rules set out in the Danish Companies Act. However, for the general meeting to be able to approve proposals to amend the Articles of Association or to dissolve the company, the Danish State as majority shareholder must participate in the general meeting and vote in favour of the proposal.

## 3. Nomination Committee Members and duties

The Nomination Committee has been appointed in accordance with the Articles of Association and consists of the Chairman and Deputy Chairman of the Board of Directors

and up to four members appointed by the largest shareholders every autumn. If one of the four largest shareholders does not want to sit on the committee, the right of appointment is transferred to the fifth largest shareholder and so on.

Current members of the committee are Thomas Thune Andersen, Lene Skole, Peder Lundquist (elected by the Danish Ministry of Finance), Jesper Hjulmand (elected by the Danish energy company SEAS-NVE), Claus Wiinblad (elected by the Danish pension fund ATP) and Anders Damgaard (elected by the Danish pension fund PFA Pension).

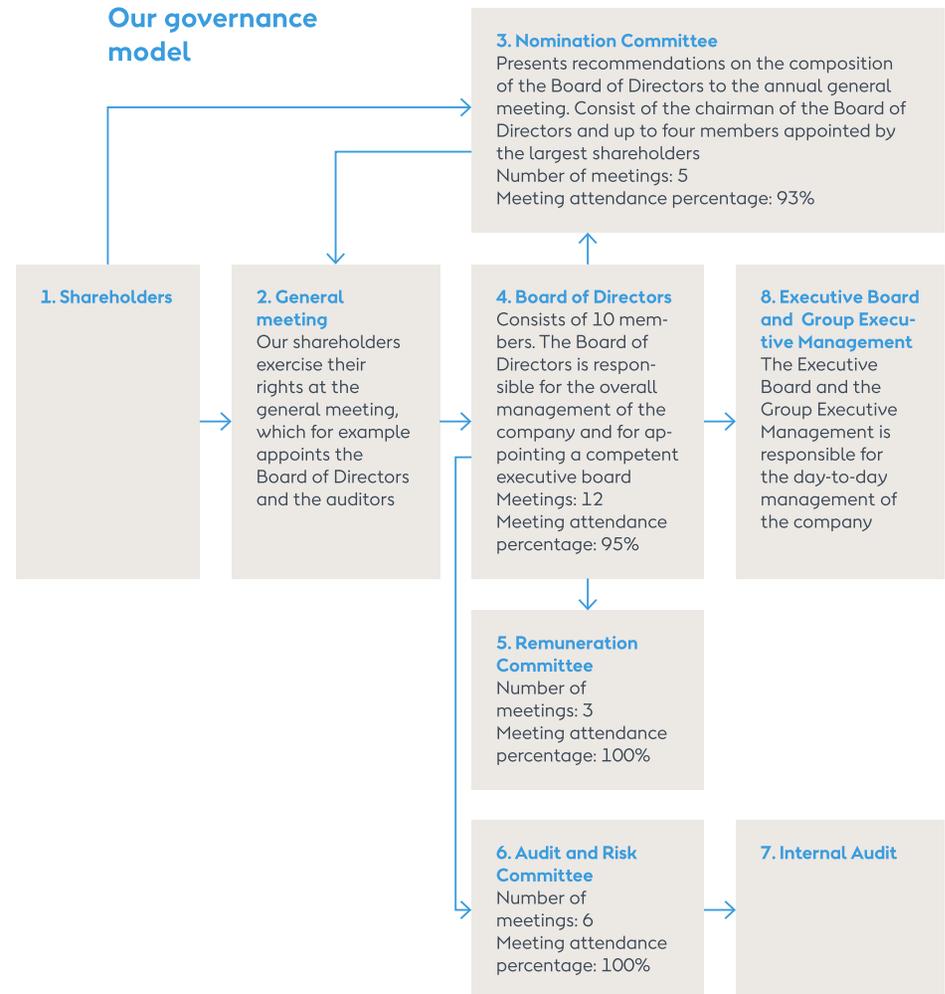
The committee's work results in recommendations for the re-election or new election of board members. We publish and submit the recommendations to the shareholders before the general meeting. The committee does not perform any other duties for the company.

The Nomination Committee's duties, meetings, etc., are described in its rules of procedure, which you can find at [orsted.com/en/About-us/Corporate-Governance](http://orsted.com/en/About-us/Corporate-Governance).

## Special tasks in 2017

Claus Wiinblad, Poul Arne Nielsen and Martin Hintze stepped down from the Board of Directors in connection with the annual general meeting in 2017.

## Our governance model



**Meeting attendance**

Member of the board	Board of Directors	Audit and Risk Committee	Remuneration Committee	Nomination Committee*
Thomas Thune Andersen	12/0		3/0	5/0
Lene Skole	12/0	6/0	2/0	4/1
Hanne Steen Andersen	12/0			
Lynda Armstrong	10/2			
Poul Dreyer	12/0			
Pia Gjellerup	12/0		3/0	
Benny Gøbel	12/0			
Benny D. Loft	11/1	6/0		
Jens Nybo Stilling Sørensen	10/2			
Peter Korsholm	10/1	5/0		
Martin Hintze	1/0		1/0	
Poul Arne Nielsen	1/0			
Claus Wiinblad	1/0	1/0		

\*The Nomination Committee is made up of four members in addition to the members from the Board of Directors.



The numbers indicate how many meetings the members have attended and not attended respectively.

In February 2017, the Nomination Committee recommended re-election of the other board members and election of Peter Korsholm as a new member of the Board. Peter Korsholm strengthens the Board of Directors' corporate finance competences.

After the annual general meeting in March 2017, the committee continued the process of finding a new board member with audit and accounting experience. In July 2017, the committee decided to recommend Dieter Wemmer as a new board member at the annual general meeting in March 2018.

In the autumn of 2017, the Nomination Committee decided to search for an additional board member with experience from Ørsted's primary business areas. In January 2018, the committee recommended Jørgen Kildahl as a new board member and reelection of the existing six members of the Board of Directors.

#### 4. Board of Directors Members and duties

The annual general meeting elects six to eight members each year, and the employees elect a number of members every four years, corresponding to half of the board members

elected by the general meeting. The Board of Directors currently has ten members. The general meeting has elected six members, and the employees have elected four members. An election of employee representatives for the Board of Directors will be held in 2018, where the employees will have the right to elect three members. The reduction is attributable to the number of external board members being six at the time the election commenced.

Information about the members of the Board of Directors, their other supervisory and executive positions, independence and special competences can be found on pages 61-62.

The Board of Directors is responsible for the overall management of the company. The Board of Directors lays down the company's strategy and makes decisions concerning major investments and divestments, the capital base, key policies, control and audit matters, risk management and significant operational issues. The Board of Directors appoints the Executive Board.

The Board of Directors has appointed two committees from among its members, an Audit and Risk Committee and a Remuneration Committee.

The rules of procedure of the Board of Directors describe the work and duties of the Board of Directors and the two committees. Each year, the Board of Directors assesses the need to update the rules of procedure. You can read the rules of procedure for the two committees at [orsted.com/en/About-us/Corporate-Governance](http://orsted.com/en/About-us/Corporate-Governance).

**Important tasks for the Board of Directors in 2017****Investments and divestments**

- Investment in the offshore wind power project Hornsea 2 in the UK
- Investment in Taiwan's first offshore wind power project, Formosa 1
- Investment in the biomass conversion of Asnæs Power Station in Denmark
- Divestment of the upstream oil and gas business
- Sale of ownership interests in A2SEA
- Farm-down of offshore wind farms Borkum Riffgrund 2 in Germany and Walney Extension in the UK

**Other tasks**

- Development of our offshore wind project portfolio after 2020, including the German authorities' grant of the right to construct three offshore wind projects in Germany, submission of bid on the Bay State Wind project in Massachusetts in the USA in cooperation with Eversource as well as development of the project portfolio in Taiwan
- Conclusion of the partnership agreement with Dominion Energy on a development project in the USA
- Settlement of the contract on the construction of the Hejre platform and repair of the Siri platform
- Decision on a new organisation to support green growth and to change name to Ørsted
- Completion of the annual strategy process
- Issuance of subordinated green hybrid bonds and green unsecured senior bonds as well as buy-back of senior bonds.

### Special tasks in 2017

Key tasks for the Board of Directors have been the divestment of our upstream oil and gas business, investment in the offshore wind farm project Hornsea 2, the build-out of our project portfolio in Germany, the USA, Taiwan and the Netherlands, farm-down of offshore wind farms in the UK and Germany as well as our name change.

The Board of Directors conducted its annual self-assessment in December 2017. All members responded to an anonymous questionnaire before the Board of Directors discussed the results. At the meeting, the Board of Directors also considered the follow-up items from last year's self-assessment.

### Remuneration

Each year, the general meeting approves the remuneration for the members of the Board of Directors for the coming year. In the section on remuneration on page 57, you can read more about the remuneration of the Board of Directors.

### 5. Remuneration Committee

#### Members and duties

Thomas Thune Andersen (Chairman), Lene Skole and Pia Gjellerup are the members of the Remuneration Committee.

The committee assists the Board of Directors in preparing and implementing the remuneration policy. The committee assesses and prepares recommendations on Group Executive Management's salary adjustments, bonuses, the application of retention schemes for key

employees, the use of one-off payments and introduction of new compensatory elements.

In 2017, the Remuneration Committee discussed, among other things, payment of retention bonuses granted in connection with the divestment of our upstream oil and gas business.

### 6. Audit and Risk Committee

#### Members and duties

Benny D. Loft (Chairman), Lene Skole and Peter Korsholm are the members of the Audit and Risk Committee.

The committee assists the Board of Directors in overseeing the financial and non-financial reporting process, the capital structure development, financial and business-related risks, compliance with statutory and other requirements from public authorities and the internal controls.

Moreover, the committee approves the framework for the work of the company's external and internal auditors, evaluates the external auditors' independence and qualifications as well as monitoring the company's whistleblower scheme.

#### Special tasks in 2017

In 2017, the Audit and Risk Committee focused especially on the divestment of our upstream oil and gas business, IT/cyber security and our preparations for the implementation of the new General Data Protection Regulation in May 2018.

### 7. Internal Audit

#### Employees and duties

Internal Audit reports to the Audit and Risk Committee and is therefore independent of our administrative management structures. Internal Audit evaluates and suggests ways of improving and streamlining our processes and control environment. Internal Audit is primarily involved in reviewing and advising on our central and critical processes, governance, risk management and IT security.

The chairman of the Audit and Risk Committee is responsible for our whistleblower scheme. The Internal Audit function receives and considers any reports submitted.

#### Special tasks in 2017

Internal Audit undertook special audit and consultancy tasks within the following areas: Prevention of the risk of cybercrime, ensuring adequate IT security in connection with investments in major new IT systems, tests of our crisis control setup at Group level, investment management, commodity and currency hedging, ensuring adequate compliance and continuous monitoring as well as screening our suppliers' compliance with relevant international standards.

#### Whistleblower scheme

Our employees and other associates may report serious offences, such as cases of bribery, fraud and other criminal offences, to our whistleblower scheme or through our management system. In 2017, the reports resulted in three substantiated cases. Two concerning violation of employment policies and one concerning conflict of interest. The cases had consequences for the individuals

### Important tasks for the Audit and Risk Committee in 2017

#### Audit and accounting

- Review of the recognition and presentation of the divestment of our upstream oil and gas business
- Supervision of the work involved in the early implementation of IFRS 9 as well as preparation for IFRS 15 implementation in 2018
- Review of expectations for market prices, exchange rates, discount rates and risk-free interest rates
- Review of significant provisions and warranties in the Group related to both continuing and discontinued operations
- Monitoring of capital structure development
- Monitoring of the voluntary limit for non-audit services as well as preliminary approval hereof

#### Risk

- Review of IT security in operational and administrative areas as well as cybersecurity
- Assessment of liquidity reserve and redemption of bonds as well as the basis for issuance of new green bonds and hybrid capital
- Review and assessment of our exposure to inflation
- Monitoring of currency and energy hedging mandates
- Supervision of the work involved in ensuring compliance with the requirements of the future General Data Protection Regulation.

involved. None of the cases reported were critical to our business, nor have they impacted on our financial results. We take such cases very seriously and do what we can to avoid that similar cases occur again.

## 8. Executive Board and Group Executive Management

### Members and duties

Henrik Poulsen (CEO) and Marianne Wiinholt (CFO) are the members of the Executive Board of Ørsted A/S.

The Executive Board undertakes the day-to-day management through the Group Executive Management, which from 1 February 2018 will consist of seven members. In addition to Henrik Poulsen and Marianne Wiinholt, the Group Executive Management comprises the Executive Vice Presidents of our three business units Martin Neubert (Wind Power), Thomas Dalsgaard (Bioenergy & Thermal Power) and Morten H. Buchgreitz (Distribution & Customer Solutions) together with Executive Vice President of Wind Power Engineering, Procurement & Construction (EPC) Anders Lindberg and Executive Vice President of Wind Power Partnerships, M&A and Asset Management Ole Kjems Sørensen.

The Board of Directors has laid down guidelines for the work of the Executive Board, including the division of work between the Board of Directors and the Executive Board and the Executive Board's powers to enter into agreements on behalf of the company. The Board of Directors regularly discusses the CEO's performance, for example by following up on developments seen in relation to our strategy and objectives.

The Chairman of the Board of Directors and the CEO also regularly discuss the cooperation between the Board of Directors and the Executive Board.

You can find information about the members of the Executive Board, including their previous employment and other executive functions, on page 60. We describe the remuneration of the Executive Board in the section on remuneration on page 55.

### How we relate to the Recommendations on Corporate Governance

We consider the Recommendations on Corporate Governance prepared by the Danish Committee on Corporate Governance on an annual basis. You can find the recommendations at [www.corporategovernance.dk](http://www.corporategovernance.dk).

We do not comply with or comply partially with three out of 47 recommendations.

Our shareholders have decided that our Nomination Committee should have other members and duties than what is assumed in the recommendations, and that our Articles of Association should not stipulate a retirement age for members of the Board of Directors. From 2018, a fixed retirement age will no longer be part of the recommendations. We also have a share programme for the Executive Board with a slightly shorter first vesting period (2½ years) than the recommended three years, as the programme was issued in continuation of our IPO. The vesting period of future allotments is three years in accordance with the recommendations.

In November 2017, revised recommendations for corporate governance were announced, which will apply from 2018. We will review these and we expect to adjust our policies and procedures during 2018, so we can report on these in the 2018 annual report. We will present a proposal to update our remuneration policy at the general meeting in March 2018, enabling it to comply with the revised recommendations.

Our statutory report on corporate governance can be found at <https://orsted.com/en/About-us/Corporate-Governance/Statutory-reports>, see section 107b of the Danish Financial Statements Act. The report describes in more detail whether and how we comply with or deviate from the 47 Recommendations on Corporate Governance.

# Remuneration report

## Remuneration report

The overall objective of our remuneration policy is to attract, motivate and retain qualified members of our Board of Directors and our Executive Board and to align the interests of our Board of Directors and our Executive Board with the interests of our shareholders.

In addition, the policy aims to strike the right balance between the Executive Board's fixed and incentive-based remuneration with the target of awarding the members in relation to their achieved results for the company and individually.

The remuneration policy is available at [orsted.com/en/About-us/Corporate-Governance](http://orsted.com/en/About-us/Corporate-Governance).

## Remuneration for the Executive Board Remuneration 2017

The remuneration paid to our CEO totalled DKK 15.9 million in 2017, representing an increase of 17% compared to 2016. His fixed salary increased by 6.4% to DKK 10.0 million (63% of the total remuneration in 2017). The cash bonus (STI) made up DKK 2.7 million, corresponding to 88% of the maximum bonus. The bonus percentage reflects a performance in excess of expectations as regards the Group's financial targets and our safety target. The score for the CEO's personal targets also exceeded expectations. The score was, among other things, affected by strong progress for our offshore wind farms under construction, auctions won, business development in new markets

## Remuneration structure and remuneration for the Executive Board

Element	Henrik Poulsen			Marianne Wiinholt			Objective	Remuneration level	Performance measure
	2017	2016	2015	2017	2016	2015			
Fixed salary	10,024	9,425	9,112	5,255	5,062	4,876	Attract and retain qualified managers.	Competitive but not market leading, compared to the level in similar major listed Danish companies with international activities.	n/a
Cash-based incentive schemes (STI)	2,656	2,135	1,815	1,348	1,239	1,186	Ensure shared ownership of the entire company's performance and a clear link between value creation and payment.	Target of 15% of the fixed annual salary. The maximum bonus amounts to 30% and will be paid in case of full achievement of all performance targets.	The performance reward agreement consists of three targets: — financial target (30%) — safety target (10%) — personal targets (60%).
IPO Executive Retention Bonus	1,848	616	-	964	321	-	Retain the Executive Board after the IPO. Phasing in to a long-term incentive scheme	20% of the fixed annual salary as per 1 July 2016.	Employment at 1 September 2018.
Share-based incentive scheme (LTI)	1,367	1,427	2,784	713	889	1,790	Reward long-term value creation and align the Executive Board's interests with those of the shareholders.	Target of 20% of the annual fixed salary at the date of grant. After three years, shares will be allocated at 0-200%, depending on Ørsted's return compared to peers	The final number of shares will be determined on the basis of Ørsted's total shareholder return benchmarked against ten peers.
Pension incl. social security	2	2	2	2	2	2	n/a	The members of the Executive Board are not entitled to pension contribution, only social security	n/a
Severance pay	-	-	-	-	-	-		If a member of the Executive Board is terminated by the company, the person is entitled to 24 months' salary, composed of salary during the notice period (12 months) and a severance pay.	n/a
<b>Total, DKK '000</b>	<b>15,897</b>	<b>13,605</b>	<b>13,713</b>	<b>8,282</b>	<b>7,513</b>	<b>7,854</b>			

#### Amount of PSUs and shares owned by the Executive Management

	Henrik Poulsen	Marianne Wiinholt
Maximum amount of PSUs per 31 December 2017	28,838	15,150
Number of Ørsted shares owned	130,500	83,916
<b>Owned shares in percentage of fixed salary</b>	<b>441%</b>	<b>541%</b>



#### Number of shares

The table shows that both members of the Executive Board meet the share capital requirement.

as well as farm-downs of offshore wind farms. Moreover, the score was positively affected by the divestment of our Oil & Gas business.

The remuneration paid to our CFO totalled DKK 8.3 million, representing an increase of 10% compared to 2016. The fixed salary increased by 3.8% to DKK 5.3 million (63% of the total remuneration in 2017). The cash bonus (STI) made up DKK 1.3 million, corresponding to 86% of the maximum bonus. The bonus percentage reflects the same general targets that apply to the CEO. The score for the CFO's personal targets was above expectations. Among other things, the score was affected by the divestment of our Oil & Gas business and the handling of derived consequences in relation to our insurance captive, funding structure and the internal reorganisation of Ørsted, especially of the finance organisation. Moreover, the score was positively affected by the work done to establish a digital strategy and make our IT organisation more supportive of our business.

In 2017, the remuneration under the share-based incentive programme consisted of the market value of the scheme at the time of granting, distributed over the vesting period.

Both members of the Executive Board are covered by the share programmes from September 2016 and April 2017. The IPO retention bonuses for 2017 and 2018 constitute the phase-in to the first share programme, the vesting period of which ends in spring 2019. The increases in the IPO retention bonuses are attributable to the fact that the scheme covered only four months of 2016.

#### Remuneration structure

In February, the Board of Directors decided to keep the remuneration structure unchanged for 2017. The remuneration structure and the remuneration for the Executive Board are shown in the table. The two incentive schemes are described in more detail below.

#### Cash-based incentive schemes (STI)

The cash-based incentive scheme is an annual bonus with a target of 15% of the fixed annual remuneration and may not exceed 30%. The agreement is based on three elements – two general targets, and one individual target. The general targets relate to the Group's financial performance (weighting of 30%) and safety record (weighting of 10%). The individual target consist of personal performance targets related to the strategy (weighting of 60%).



The Remuneration Committee sets bonus targets and assesses the performance of the CEO. The Chairman of the Board of Directors and the CEO set bonus targets and assess the performance of the CFO.

#### Share-based incentive scheme (LTI)

The Executive Board is covered by the leader share programme in Ørsted. It is a condition for being granted performance share units (PSUs) under the programme that the participant holds a number of Ørsted shares representing a value equal to a share of each participant's fixed annual remuneration. For the CEO, this share is 75% of his fixed salary, and for the CFO 50%.

If the participants fulfil the shareholding requirement at the time of granting, they will each year be granted a number of PSUs representing a value equal to 20% of their fixed annual remuneration on the date of granting.

The granted PSUs have a vesting period of three years, after which each PSU entitles the holder to receive a number of shares free of charge, corresponding to 0-200% of the number of granted PSUs. The final number of shares for each participant will be determined on the basis of the total shareholder return delivered by Ørsted, benchmarked against ten comparable European energy companies.

If a member of the Executive Board leaves Ørsted as a result of his or her own resignation or due to breach of his/her employment, the entitlement to shares is lost.

#### Remuneration for the Board of Directors

##### Remuneration 2017

In March, the general meeting decided to keep the Board of Directors' fixed annual fee of DKK 320 thousand for the coming year until the general meeting in 2018.

##### Remuneration structure

The members of the Board receive a fixed fee each year. The Chairmanship and the members of the committees also receive a multiple of the fixed fee for their extra work. None of the members receives separate fees for consultancy work for Ørsted. The members' travel costs are covered by the company.

The remuneration for the Board of Directors comprises a fixed fee only. However, employee-elected board members may, based on their employment, be covered by general incentive schemes applicable to the Group's employees. Members of the Board of Directors are not entitled to severance payments.

#### Remuneration multiple 2017, Board of Directors and committees

	Board of Directors	Audit and Risk Committee	Remuneration Committee	Nomination Committee
Chairman	3.0	0.6	0.4	-
Deputy Chairman	2.0	n/a	n/a	n/a
Member	1.0	0.3	0.25	-

#### Remuneration for the Board of Directors

DKK '000	Annual fee	Audit and risk Committee	Remuneration Committee	2017	2016
Thomas Thune Andersen	960	-	128	1,088	1,088
Lene Skole	640	96	67	803	688
Hanne Steen Andersen <sup>1</sup>	320	-	-	320	320
Lynda Armstrong	320	-	-	320	320
Poul Dreyer <sup>1</sup>	320	-	-	320	320
Pia Gjellerup	320	-	80	400	400
Benny Gøbel <sup>1</sup>	320	-	-	320	320
Benny D, Loft	320	192	-	512	512
Jens Nybo Stilling Sørensen <sup>1</sup>	320	-	-	320	320
Peter Korsholm <sup>1</sup> (joined in March 2017)	267	80	-	347	-
Martin Hintze <sup>2</sup> (resigned in March 2017)	-	-	-	-	-
Poul Arne Nielsen (resigned in March 2017)	80	-	-	80	320
Claus Wiinblad (resigned in March 2017)	80	24	-	104	416
<b>Total</b>	<b>4,267</b>	<b>392</b>	<b>275</b>	<b>4,934</b>	<b>5,024</b>



#### Remuneration for the Board of Directors

The table shows the remuneration paid to the members of the Board of Directors and committees. No remuneration is paid to the members of the Nomination Committee.

<sup>1</sup> Per 31 December 2017, the board members own the following number of shares in Ørsted A/S: Peter Korsholm 4,500, Hanne Steen Andersen 3,187 (2016: 837), Poul Dreyer 837 (2016: 837), Benny Gøbel 837 (2016: 837) and Jens Nybo Stilling Sørensen 837 (2016: 837). No other board members own shares in Ørsted A/S.

<sup>2</sup> Martin Hintze has waived his right to receive Directors' remuneration.

# Shareholder information

The Ørsted share yielded a total return of 29% in 2017, an increase in the share price of 27% and dividends of DKK 6 per share.

### Price development for the Ørsted share in 2017

The Ørsted share started the year at a price of DKK 268 and closed the year at DKK 339. Prices of comparable European utility companies increased by 9%, and the OMX C25 cap increased by 13% in 2017. The market value of Ørsted was DKK 142 billion at the end of the year. Since the IPO in June 2016, the Ørsted share has generated an aggregate return from the share price and dividends of 47%.

### Share price development in 2017

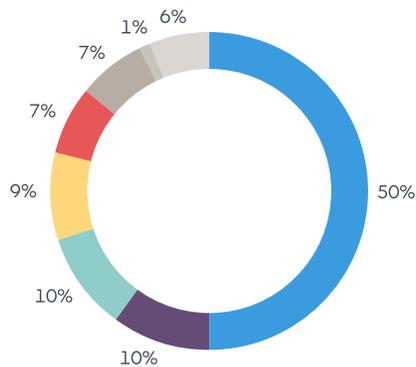
Ørsted share price compared to peers.

- Ørsted
- MSCI Europe Utilities
- OMX C25



**Shareholders at 31 December 2017,**  
voting share %\*

- Danish State (majority shareholder)
- SEAS-NVE, Denmark
- The Capital Group
- The UK
- Danish institutional investors
- North America
- Private investors
- Others



\* See note 16 in the parent company financial statement.

**Share information**

ISIN	DK 0060094928220
Share classes	1
Nominal value	DKK 10 per share
Average daily volume	723,784
Exchange	Nasdaq OMX Copenhagen
Ticker	ORSTED
Year high	DKK 388 (11 October)
Year low	DKK 246 (3 February)
Registered share	99.6%
Number of shares	420,381,080 shares
Number of treasury shares	225,904 shares

The year's highest traded price of DKK 388 was on 11 October. The year's lowest traded price of DKK 246 was on 3 February.

The average daily turnover on Nasdaq Copenhagen was 724,000 shares. The trading volume showed an increase of 44% compared to 2016. This was particularly due to several of the original shareholders opting to sell all or some of their shareholdings in 2017 at a total trading value of DKK 17 billion. This amount should be compared to the value of the shares sold at our IPO of just under DKK 20 billion. New Energy Investment s.a.r.l. (managed by Goldman Sachs) sold its entire shareholding of 13.3% distributed over four transactions. The Danish energy company Syd Energi sold its entire shareholding of 0.9% at the beginning of the year, while the Danish pension fund ATP reduced its holding in the course of the year.

**Share capital**

Ørsted's share capital is divided into 420 million shares enjoying the same voting and dividend rights. The company's share capital remained unchanged in 2017. At the end of 2017, the company held a total of 226 thousand treasury shares, which will be used to cover incentive schemes.

**Composition of shareholders**

At the end of the year, the number of shareholders had increased by 12% to 24,600. Although the geographical spread of the share capital was greater, most of it (68%) is still with Danish owners. The figure to the left shows the composition of our shareholders by country, specifying the three shareholders holding more than 5% of the share capital each. Around 1% of the share capital is owned by private investors.

**Annual general meeting and dividends**

The annual general meeting will be held on 8 March 2018 in Copenhagen. Dividends for the year are expected to amount to DKK 9 per share, corresponding to DKK 3.8 billion. In 2017, dividends of DKK 6 per share were paid for the 2016 financial year, corresponding to a return of 2.7% relative to a share price of DKK 338.7 per 31 December 2017.

**Investor Relations**

In order to achieve a fair pricing of our shares and corporate bonds, we seek to ensure a high level of openness and stability in our financial communication. In addition, our management and Investor Relations function engage in regular dialogue with investors and analysts. The dialogue takes the form of quarterly conference calls, road shows, conferences, capital market days and regular meetings with individual or groups of investors and analysts. The dialogue is subject to certain restrictions from three weeks prior to the publication of our financial reporting.

22 share analysts and 12 bond analysts cover the Group. Their recommendations and consensus estimates for Ørsted's future financial performance are available at [orsted.com/en/investors](http://orsted.com/en/investors). On the site, it is also possible to download our financial reports, investor presentations and a wide range of other data.

**Selected company announcements in 2017**

13 Apr.	Ørsted awarded three German offshore wind projects
4 May	Ørsted agrees on settlement regarding the Hejre EPC contract
24 May	Ørsted enters into agreement to divest its upstream oil and gas business to INEOS
11 Sep.	Ørsted awarded contract to build world's biggest offshore wind farm
29 Sep.	Ørsted completes the divestment of its upstream oil and gas business to INEOS
2 Oct.	DONG Energy to change company name to Ørsted
10 Nov.	Ørsted completes the divestment of Walney Extension offshore wind farm
16 Nov.	Ørsted issues green bonds
11 Dec.	Ørsted completes the divestment of Borkum Riffgrund 2 offshore wind farm

**Financial calendar 2018**

1 Feb.	Annual report 2017
8 Mar.	Annual general meeting
26 Apr.	Interim report for the first quarter of 2018
9 Aug.	Interim report for the first half-year of 2018
1 Nov.	Interim report for the first nine months of 2018

# Group Executive Management



The Group Executive Management will consist of seven members from 1 February 2018. From the left (bottom): **Morten Hultberg Buchgreitz** (Distribution & Customer Solutions), **Marianne Wiinholt** (CFO), **Anders Lindberg** (Wind Power) and **Thomas Dalsgaard** (Bioenergy & Thermal Power)  
From the left (top): **Ole Kjems Sørensen** (Wind Power), **Henrik Poulsen** (CEO and President) and **Martin Neubert** (Wind Power)

## Henrik Poulsen

Registered as CEO  
Chief Executive Officer (CEO) and President since August 2012  
Education: MSc (finance and accounting), Aarhus School of Business 1994

Born 1967  
Remuneration: DKK 15.897 thousand  
Read more in the remuneration report.

### Career and posts

1994-1995 Novo Nordisk A/S, Contoller  
1995-1996 Aarsø Nielsen & Partners, Senior Consultant  
1996-1999 McKinsey & Co., Senior Engagement Manager  
1999-2006 LEGO, VP, Business Development (1999-2000), SVP, Global Segment 8+ (2000-2002), SVP, Global Innovation and Marketing (2002-2003), Regional Managing Director Europe and Asia (2004-2005), EVP, Markets and Products (2005-2006)  
2006-2008 Capstone/KKR, Operating Executive  
2008-2012 TDC A/S, CEO and President  
2012- Ørsted A/S, CEO and President

### Other management positions:

Kinnevik AB: Deputy Chairman and member of the Audit Committee  
ISS A/S: Member of the Board of Directors and Chairman of the Audit Committee  
EQT Partners: Advisor

## Marianne Wiinholt

Registered as CFO  
Chief Financial Officer (CFO) since October 2013  
Education: MSc in Business Administration and Auditing, Copenhagen Business School 1990, State Authorised Public Accountant 1992

Born 1965  
Remuneration: DKK 8.282 thousand  
Read more in the remuneration report.

### Career and posts

1987-1997 Arthur Andersen, Accountant  
1997-2003 Borealis A/S, Head of Group Accounting and Tax (1997-2001), Head of Group Finance and Auditing (2001-2003)  
2004-2005 Ørsted A/S, VP, Group Finance and Accounting & Tax  
2006- Ørsted A/S, SVP, Group Finance (2005-2013), SVP, CFO Customers & Markets (2013), EVP, Chief Financial Officer (CFO) 2013-

### Other management positions:

Hempel A/S: Member of the Board and Chairman of the Audit Committee  
Norsk Hydro ASA: Member of the Board and Audit Committee  
Lauritzen A/S: Member of the Board and Chairman of the Audit Committee - Withdraws in April 2018

# Board of Directors



## Thomas Thune Andersen

Chairman since 2014.  
Born 1955.  
Not independent.<sup>1</sup>  
**Joined/re-elected:** 2014/2017.  
**Term of office expires:** 2018.

### Special competencies:

Knowledge and experience within Ørsted's principal business areas. General management, safety management, risk management and stakeholder management.

### Other management positions:

**Chairman:** Lloyds Register Group and Foundation  
**Deputy Chairman:** VKR Holding A/S  
Member: Arcon-Sunmark A/S, BW Offshore ltd.



## Lene Skole<sup>2</sup>

Deputy Chairman since 2015.  
Born 1959.  
Independent.  
**Joined/re-elected:** 2015/2017.  
**Term of office expires:** 2018.

### Special competencies:

General management, financial management, safety management, risk management, stakeholder management, human resources management and capital markets.

### Present posts:

Lundbeckfonden, CEO.

### Other management positions:

**Deputy Chairman:** ALK-Abello A/S, H. Lundbeck A/S, Falck A/S, TDC A/S.  
**Member:** Tryg A/S, Tryg Forsikring A/S, two subsidiaries of Lundbeckfonden.



## Hanne Sten Andersen

Employee representative.  
Born 1960.  
Not independent  
**Joined/re-elected:** 2007/2014.  
**Term of office expires:** 2018.

### Special competencies:

General management and human resources management.

### Present posts:

Ørsted, Lead HR Business Partner, Distribution & Customer Solutions.



## Lynda Armstrong

Born 1950.  
Independent.  
**Joined/re-elected:** 2015/2017.  
**Term of office expires:** 2018.

### Special competencies:

General management, safety management, risk management, stakeholder management and human resources management.

### Other management positions:

**Chairman:** ECITB  
**Member:** KAZ Minerals plc<sup>3</sup>, Central Europe Oil Company, SBM Offshore N.V.<sup>4</sup>



## Poul Dreyer

Employee representative.  
Born 1964.  
Not independent  
**Joined:** 2014.  
**Term of office expires:** 2018.

### Special competencies:

Knowledge and experience within Distribution & Customer Solutions.

### Present posts:

Ørsted, Technician, Distribution & Customer Solutions.

<sup>1</sup> Independence: Thomas Thune Andersen is considered independent of shareholder interests. Until December 2017, he was a member of the Board of Directors of Petrofac Limited which has had significant business relations with the oil and gas business now divested by Ørsted. Thus, he is not considered independent with respect to the 2017 reporting pursuant to the corporate governance recommendations.

<sup>2</sup> In addition to the positions mentioned above, Lene Skole also holds the following positions: member of the Audit and Election Committee at ALK, member of the Remuneration and Science Committee at Lundbeck, member of the Audit and Risk Committee at Tryg, member of the Remuneration and Election Committee at TDC, member of the Audit and Remuneration Committee at Falck A/S.

<sup>3</sup> As well as Chairman of the Remuneration Committee, member of the HSE Committee and member of the Project Assurance Committee.

<sup>4</sup> As well as member of the Technical and Commercial Committee and the Remuneration Committee.



### Pia Gjellerup

Born 1959.  
Independent.  
**Joined/re-elected:** 2012/2017.  
**Term of office expires:** 2018.

**Special competencies:**

General management, financial management, stakeholder management and human resources management.

**Present posts:**

Center for Public Innovation, Center Director.

**Other management positions:**

**Chairman:** Vanførefonden, Fondet Dansk-Norsk Samarbejde.

**Member:** Gefion Gymnasium



### Benny Gøbel

Employee representative.  
Born 1967.  
Not independent  
**Joined/re-elected:** 2011/2014.  
**Term of office expires:** 2018.

**Special competencies:**

Knowledge and experience within Bioenergy & Thermal Power.

**Present posts:**

Ørsted, Engineer, Bioenergy & Thermal Power.



### Peter Korsholm

Born 1971.  
Independent.  
**Joined:** 2017.  
**Term of office expires:** 2018.

**Special competencies:**

General management, financial management, risk management, stakeholder management, capital markets and M&A.

**Present posts:**

DSVM Invest A/S, CEO, DSV Miljø Group A/S, CEO, Togu ApS, CEO.

**Other management positions:<sup>1</sup>**

**Chairman:** Nymølle Stenindustrier A/S, GDL Transport Holding AB, Lion Danmark and two wholly owned subsidiaries in the Lomax group. **Member:** DSVM Invest A/S, Bone's Invest ApS, A/S United Shipping and Trading Company, Uni-tankers A/S and Bunker Holding A/S.



### Benny D. Loft

Born 1965.  
Independent.  
**Joined/re-elected:** 2012/2017.  
**Term of office expires:** 2018.

**Special competencies:**

General management, financial management, risk management, stakeholder management, human resource management, capital markets, IT and M&A.

**Other management positions:**

**Member and Chairman of the Finance and Audit Committee:** New Xellia Group A/S.



### Jens Nybo Stilling Sørensen

Employee representative.  
Born 1968.  
Not independent  
**Joined/re-elected:** 2007/2014.  
**Term of office expires:** 2018.

**Special competencies:**

Knowledge and experience within Bioenergy & Thermal Power.

**Present posts:**

Ørsted, Key Business Project Manager, Bioenergy & Thermal Power.

<sup>1</sup> In addition to the positions mentioned above, Peter Korsholm also holds the following positions: Chairman of the Investment Committee at Zoscales Partners, member of the Board of Directors in a subsidiary of Uni-tankers A/S, 5 wholly owned subsidiaries at DSVM Invest Group and 2 wholly owned subsidiaries of the Bones Group.

# Financial statements

1 January 2017 - 31 December 2017

2017

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# Income statement

1 January - 31 December

Note	DKK million	2017			2016		
		Business performance	Adjustments	IFRS	Business performance	Adjustments	IFRS
2.2	Revenue	59,504	205	59,709	61,201	(3,808)	57,393
2.3	Cost of sales	(40,544)	(150)	(40,694)	(39,260)	1,638	(37,622)
	Other external expenses	(4,241)	-	(4,241)	(4,078)	-	(4,078)
2.6, 2.7	Employee costs	(3,197)	-	(3,197)	(3,088)	-	(3,088)
	Share of profit (loss) in associates and joint ventures	(119)	-	(119)	25	-	25
2.5	Other operating income	11,665	-	11,665	4,867	-	4,867
2.5	Other operating expenses	(549)	-	(549)	(558)	-	(558)
	<b>Operating profit (loss) before depreciation, amortisation and impairment losses (EBITDA)</b>	<b>22,519</b>	<b>55</b>	<b>22,574</b>	<b>19,109</b>	<b>(2,170)</b>	<b>16,939</b>
3.1	Amortisation, depreciation and impairment losses on intangible assets and property, plant and equipment	(6,284)	-	(6,284)	(5,232)	-	(5,232)
	<b>Operating profit (loss) (EBIT)</b>	<b>16,235</b>	<b>55</b>	<b>16,290</b>	<b>13,877</b>	<b>(2,170)</b>	<b>11,707</b>
3.4	Gain on divestment of enterprises	(139)	-	(139)	1,250	-	1,250
	Share of profit (loss) in associates and joint ventures	(10)	-	(10)	(8)	-	(8)
6.5	Financial income	4,253	-	4,253	8,489	-	8,489
6.5	Financial expenses	(5,295)	-	(5,295)	(9,256)	-	(9,256)
	<b>Profit (loss) before tax</b>	<b>15,044</b>	<b>55</b>	<b>15,099</b>	<b>14,352</b>	<b>(2,170)</b>	<b>12,182</b>
5.2	Tax on profit (loss) for the year	(1,765)	(13)	(1,778)	(2,191)	476	(1,715)
	<b>Profit (loss) for the year from continuing operations</b>	<b>13,279</b>	<b>42</b>	<b>13,321</b>	<b>12,161</b>	<b>(1,694)</b>	<b>10,467</b>
3.6	<b>Profit (loss) for the year from discontinued operations</b>	<b>6,920</b>	<b>(816)</b>	<b>6,104</b>	<b>1,052</b>	<b>(3,584)</b>	<b>(2,532)</b>
	<b>Profit (loss) for the year</b>	<b>20,199</b>	<b>(774)</b>	<b>19,425</b>	<b>13,213</b>	<b>(5,278)</b>	<b>7,935</b>
	<b>Profit (loss) for the year is attributable to:</b>						
	Shareholders in Ørsted A/S	19,493	(774)	18,719	12,825	(5,278)	7,547
	Interests and costs after tax, hybrid capital owners of Ørsted A/S	716	-	716	499	-	499
	Non-controlling interests	(10)	-	(10)	(111)	-	(111)
6.2	<b>Profit (loss) per share, DKK:</b>						
	From continuing operations	29.9	-	30.0	28.1	-	24.1
	From discontinued operations	16.5	-	14.5	2.5	-	(6.0)
	<b>Total profit (loss) per share</b>	<b>46.4</b>	<b>-</b>	<b>44.5</b>	<b>30.6</b>	<b>-</b>	<b>18.1</b>



## Profit (loss) for the year from our continuing operations

In 2016, we decided to divest our Oil & Gas business. The divestment was approved and closed on 29 September 2017. The Oil & Gas business was therefore classified as discontinued operations in 2016 and 2017.

## Profit (loss) per share

Diluted profit (loss) per share corresponds to profit (loss) per share, as the dilutive effect of the share programme is less than 0.1% of the share capital.

## Accounting policies

### Business performance

The business performance principle was introduced by the Ørsted Group in 2011 as an alternative performance measure. According to IFRS, market value adjustments of energy contracts and related currency risks (including hedging) are recognised on an ongoing basis in the profit (loss) for the year, whereas under the business performance principle, they are deferred and recognised in the period in which the hedged exposure materialises. The difference between IFRS and business performance is specified in the 'Adjustments' column. Read more about the business performance principle in note 1.1.

# Statement of comprehensive income

1 January - 31 December

Note	DKK million	2017			2016		
		Business performance	Adjustments	IFRS	Business performance	Adjustments	IFRS
	<b>Profit (loss) for the year</b>	<b>20,199</b>	<b>(774)</b>	<b>19,425</b>	<b>13,213</b>	<b>(5,278)</b>	<b>7,935</b>
	<b>Other comprehensive income:</b>						
	<b>Cash flow hedging:</b>						
	Value adjustments for the year	652	138	790	(878)	2,373	1,495
6.2	Value adjustments transferred to income statement	(2,464)	853	(1,611)	(4,846)	4,392	(454)
	Tax on cash flow hedging instruments	410	(217)	193	1,258	(1,487)	(229)
	<b>Exchange rate adjustments:</b>						
	Exchange rate adjustments relating to net investment in foreign enterprises	(1,513)	-	(1,513)	(5,326)	-	(5,326)
	Value adjustment of net investment hedges	565	-	565	3,040	-	3,040
6.2	Value adjustments and hedges transferred to income statement	892	-	892	-	-	-
	Tax on exchange rate adjustments	62	-	62	100	-	100
	<b>Other comprehensive income</b>	<b>(1,396)</b>	<b>774</b>	<b>(622)</b>	<b>(6,652)</b>	<b>5,278</b>	<b>(1,374)</b>
	<b>Total comprehensive income</b>	<b>18,803</b>	<b>-</b>	<b>18,803</b>	<b>6,561</b>	<b>-</b>	<b>6,561</b>
	<b>Comprehensive income for the year is attributable to:</b>						
	Shareholders in Ørsted A/S	-	-	18,256	-	-	6,910
	Interest payments and costs after tax, hybrid capital owners of Ørsted A/S	-	-	716	-	-	499
	Non-controlling interests	-	-	(169)	-	-	(848)
	<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>18,803</b>	<b>-</b>	<b>-</b>	<b>6,561</b>



## Statement of comprehensive income

All items in other comprehensive income may be recycled to the income statement.

Foreign exchange losses relating to net investments in foreign enterprises of DKK 1,513 million in 2017 are primarily attributable to a drop in the GBP exchange rate of 4%.

In 2016, a foreign exchange loss of DKK 5,326 million was posted, which was primarily attributable to a drop in the GBP exchange rate of 14%.

# Balance sheet

31 December

Note	Assets, DKK million	2017	2016	Note	Equity and liabilities, DKK million	2017	2016
3.1	<b>Intangible assets</b>	<b>689</b>	<b>955</b>	6.2	Share capital	4,204	4,204
3.1	Land and buildings	1,501	1,505	6.2	Reserves	(1,524)	20,218
3.1	Production assets	60,603	53,708		Retained earnings	52,111	14,684
3.1	Fixtures and fittings, tools and equipment	413	438		<b>Equity attributable to shareholders in Ørsted A/S</b>	<b>54,791</b>	<b>39,106</b>
3.1	Property, plant and equipment under construction	13,328	14,531	6.3	Hybrid capital	13,239	13,248
	<b>Property, plant and equipment</b>	<b>75,845</b>	<b>70,182</b>	3.7	Non-controlling interests	3,807	5,146
	Investments in associates and joint ventures	339	1,060		<b>Equity</b>	<b>71,837</b>	<b>57,500</b>
	Receivables from associates and joint ventures	48	626	5.4	Deferred tax	2,128	2,185
	Other securities and equity investments	130	158	3.2	Provisions	10,840	8,337
5.4	Deferred tax	2,865	88	6.1	Bond and bank debt	25,715	22,164
4.4	Other receivables	1,955	515	4.5	Other payables	5,714	6,622
	<b>Other non-current assets</b>	<b>5,337</b>	<b>2,447</b>		<b>Non-current liabilities</b>	<b>44,397</b>	<b>39,308</b>
	<b>Non-current assets</b>	<b>81,871</b>	<b>73,584</b>	3.2	Provisions	680	702
4.1	Inventories	3,853	3,451	6.1	Bond and bank debt	3,921	2,019
7	Derivatives	4,870	8,689	7	Derivatives	4,374	6,930
4.2	Construction contracts	10,817	6,453	4.2	Construction contracts	1,317	171
4.3	Trade receivables	9,170	7,286		Trade payables	11,499	10,024
4.4	Other receivables	3,519	1,710	4.5	Other payables	6,368	6,277
	Receivables from associates and joint ventures	-	49		Income tax	1,498	54
	Income tax	296	430		<b>Current liabilities</b>	<b>29,657</b>	<b>26,177</b>
6.4	Securities	25,280	16,533		<b>Liabilities</b>	<b>74,054</b>	<b>65,485</b>
6.4	Cash	4,203	2,931	3.5	<b>Liabilities relating to assets classified as held for sale</b>	<b>630</b>	<b>13,504</b>
	<b>Current assets</b>	<b>62,008</b>	<b>47,532</b>		<b>Equity and liabilities</b>	<b>146,521</b>	<b>136,489</b>
3.5	<b>Assets classified as held for sale</b>	<b>2,642</b>	<b>15,373</b>				
	<b>Assets</b>	<b>146,521</b>	<b>136,489</b>				



Assets classified as held for sale  
Until the divestment on 29 September 2017,  
the Oil & Gas business was presented as  
assets classified as held for sale.

# Statement of changes in equity

1 January - 31 December

DKK million	2017								2016							
	Share capital	Reserves*	Retained earnings	Proposed dividends	Share-holders in Ørsted A/S	Hybrid capital	Non-controlling interests	Total Group	Share capital	Reserves*	Retained earnings	Proposed dividends	Share-holders in Ørsted A/S	Hybrid capital	Non-controlling interests	Total Group
Equity at 1 January	4,204	20,218	12,162	2,522	39,106	13,248	5,146	57,500	4,177	20,855	7,058	-	32,090	13,248	6,398	51,736
<b>Comprehensive income for the year:</b>																
Profit (loss) for the year	-	-	18,719	-	18,719	716	(10)	19,425	-	-	7,547	-	7,547	499	(111)	7,935
<b>Other comprehensive income:</b>																
Cash flow hedging	-	(821)	-	-	(821)	-	-	(821)	-	1,041	-	-	1,041	-	-	1,041
Exchange rate adjustments	-	103	-	-	103	-	(159)	(56)	-	(1,543)	-	-	(1,543)	-	(743)	(2,286)
Tax on other comprehensive income	-	255	-	-	255	-	-	255	-	(135)	-	-	(135)	-	6	(129)
<b>Total comprehensive income</b>	-	<b>(463)</b>	<b>18,719</b>	-	<b>18,256</b>	<b>716</b>	<b>(169)</b>	<b>18,803</b>	-	<b>(637)</b>	<b>7,547</b>	-	<b>6,910</b>	<b>499</b>	<b>(848)</b>	<b>6,561</b>
<b>Transactions with owners:</b>																
Coupon payments, hybrid capital	-	-	-	-	-	(640)	-	(640)	-	-	-	-	-	(640)	-	(640)
Tax on coupon payments, hybrid capital	-	-	-	-	-	141	-	141	-	-	-	-	-	141	-	141
Additions, hybrid capital	-	-	-	-	-	3,668	-	3,668	-	-	-	-	-	-	-	-
Disposals, hybrid capital	-	-	-	-	-	(3,894)	-	(3,894)	-	-	-	-	-	-	-	-
Share premium reserve transferred to retained earnings	-	(21,279)	21,279	-	-	-	-	-	-	-	-	-	-	-	-	-
Proposed dividends	-	-	(3,783)	3,783	-	-	-	-	-	-	(2,522)	2,522	-	-	-	-
Dividends paid	-	-	1	(2,522)	(2,521)	-	(376)	(2,897)	-	-	-	-	-	-	(404)	(404)
Issuance of bonus shares	-	-	-	-	-	-	-	-	27	-	(27)	-	-	-	-	-
Purchases of treasury shares	-	-	-	-	-	-	-	-	-	-	(53)	-	(53)	-	-	(53)
Share-based payment	-	-	15	-	15	-	-	15	-	-	43	-	43	-	-	43
Tax on share-based payment	-	-	(3)	-	(3)	-	-	(3)	-	-	93	-	93	-	-	93
Disposals, non-controlling interests	-	-	-	-	-	-	(794)	(794)	-	-	23	-	23	-	-	23
Other changes	-	-	(62)	-	(62)	-	-	(62)	-	-	-	-	-	-	-	-
<b>Total transactions with owners</b>	-	<b>(21,279)</b>	<b>17,447</b>	<b>1,261</b>	<b>(2,571)</b>	<b>(725)</b>	<b>(1,170)</b>	<b>(4,466)</b>	<b>27</b>	<b>-</b>	<b>(2,443)</b>	<b>2,522</b>	<b>106</b>	<b>(499)</b>	<b>(404)</b>	<b>(797)</b>
<b>Equity at 31 December</b>	<b>4,204</b>	<b>(1,524)</b>	<b>48,328</b>	<b>3,783</b>	<b>54,791</b>	<b>13,239</b>	<b>3,807</b>	<b>71,837</b>	<b>4,204</b>	<b>20,218</b>	<b>12,162</b>	<b>2,522</b>	<b>39,106</b>	<b>13,248</b>	<b>5,146</b>	<b>57,500</b>

\* See note 6.2 on 'Equity' for more information about reserves.

# Statement of cash flows

1 January - 31 December

Note	DKK million	2017	2016	Note	DKK million	2017	2016
	Operating profit (loss) before depreciation, amortisation and impairment losses (EBITDA), IFRS	22,574	16,939		Purchase of intangible assets and property, plant and equipment	(17,592)	(14,980)
	Change in derivatives, business performance adjustments	(55)	2,170		Sale of intangible assets and property, plant and equipment	16,333	7,105
	Change in derivatives, other adjustments	(528)	806		Acquisition of enterprises	(83)	(16)
	Change in provisions	98	(366)	3.4	Divestment of enterprises	588	1,999
	Reversal of gain on divestment of assets	(10,835)	(2,939)		Divestment of other equity investments	28	32
	Other items	297	217		Purchase of securities	(21,162)	(8,278)
4.6	Change in net working capital	(7,904)	(1,512)		Sale/maturation of securities	11,965	12,842
	Interest received and similar items	3,508	5,177		Change in other non-current assets	(5)	3
	Interest paid and similar items	(3,472)	(6,038)		Transactions with associates and joint ventures	(139)	211
5	Income tax paid	(2,660)	(3,182)		Dividends received and capital reduction	13	22
	<b>Cash flows from operating activities</b>	<b>1,023</b>	<b>11,272</b>		<b>Cash flows from investing activities</b>	<b>(10,054)</b>	<b>(1,060)</b>
					Proceeds from raising of loans	5,468	-
					Instalments on loans	(4,069)	(11,097)
					Coupon payments on hybrid capital	(640)	(640)
					Proceeds from issuance of hybrid capital	3,668	-
					Dividends paid to shareholders in Ørsted A/S	(2,521)	-
					Purchases of treasury shares	-	(53)
				3.7	Transactions with non-controlling interests	(431)	(527)
					Change in other non-current liabilities	(11)	28
					<b>Cash flows from financing activities</b>	<b>1,464</b>	<b>(12,289)</b>
					Cash flows from continuing operations	(7,567)	(2,077)
				3.6	Cash flows from discontinued operations	9,025	1,466
					<b>Total net change in cash and cash equivalents</b>	<b>1,458</b>	<b>(611)</b>
				6.4	Cash and cash equivalents at 1 January	2,628	3,677
					Total net change in cash and cash equivalents	1,458	(611)
					Cash flows for the year from assets classified as held for sale	(140)	(433)
					Exchange rate adjustments of cash and cash equivalents	(55)	(5)
				6.4	<b>Cash and cash equivalents at 31 December</b>	<b>3,891</b>	<b>2,628</b>



Our supplementary statements of gross and net investments appear from note 3.3 and free cash flows (FCF) from note 2.1.

## Accounting policies

Cash flows from operating activities are determined using the indirect method as operating profit (loss) before depreciation, amortisation and impairment losses adjusted for changes in operating items without cash flow effect. Trade payables relating to purchases of intangible assets and property, plant and equipment are not recognised in change in net working capital.

Other items primarily comprise reversal of share of profit (loss) of and dividends in associates and joint ventures as well as changes in bad debt provisions.

Cash flows from investing activities comprise payments in connection with the purchase and sale of non-current assets and enterprises, and the purchase and sale of securities that are not recognised as cash and cash equivalents.

Cash flows from financing activities comprise changes in the size or composition of equity and loans. Proceeds from raising of short-term repo loans are presented net.

Cash flows in currencies other than the functional currency are translated at the average exchange rates for the month in question, unless these differ significantly from the rates at the transaction date.

# Note summary

## Consolidated financial statements

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# 1. Basis of reporting

This section provides an overview of our principal accounting policies, key accounting estimates and judgements as well as new and amended IFRS standards and interpretations.

The following sections provide an overall description of the accounting policies applied to the consolidated financial statements as a whole. We provide a more detailed description of the accounting policies and key estimates and judgements in the notes.

The descriptions of accounting policies in the statements and notes form part of the overall description of accounting policies.

In November 2016, the Board of Directors decided to initiate a process with the ultimate objective of divesting our Oil & Gas business. The divestment of our Oil & Gas business was

closed on 29 September 2017. Consequently, we have presented the external activities of Oil & Gas, including revenue and other income and expenses, as discontinued operations in the annual reports for 2016 and 2017.

## Accounting policies and key accounting estimates and judgements

The financial statements for the period 1 January - 31 December 2017 comprise the consolidated financial statements of Ørsted A/S and its subsidiaries (the Group) as well as separate financial statements for the parent company, Ørsted A/S. See page 158 for the parent company's accounting policies. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and further requirements in the Danish Financial Statements Act (Årsregnskabsloven).

The financial statements are presented in million Danish kroner (DKK), unless otherwise stated.

All business units in the Ørsted Group apply the Group's accounting policies.

## Measurement basis

The consolidated financial statements have been prepared on the historical cost basis except for derivatives, financial instruments in trading portfolio, financial instruments classified as available for sale, and carbon emissions allowances in trading portfolio that are measured at market value.

The accounting policies have been applied consistently to the financial year and for the comparative figures except for the early adoption of 'IFRS 9 – Financial Instruments'.

## Key accounting estimates and judgements

When preparing the consolidated financial statements, we make a number of accounting estimates and judgements based on assumptions concerning future developments which affect our assets and liabilities as well as our income and costs. Actual amounts may differ from the amounts estimated and judgements made as more detailed information becomes available.

We regularly reassess these estimates and judgements, based among other things on historical experience, the current situation in the financial markets, the expected effects of Brexit and a number of other relevant factors.

Accounting estimates, judgements and assumptions which may entail a risk of material adjustments in subsequent years are described in the notes in the table below.

Note	Accounting policies	Key accounting estimates and judgements	Estimate/ judgement	Extent of accounting estimates and judgements
1.1	Consolidated financial statements	Assessment of classification of partnerships	Judgement	● ● ● ○
2.2	Revenue	Assessment of assumptions for recognition of revenue from the construction of offshore wind farms	Judgement	● ● ● ○
2.5	Other operating income	Assumptions for the accounting treatment of divestment gains Assessment of classification of divestment	Estimate Judgement	● ● ● ○ ● ● ● ○
3.2	Provisions and contingent liabilities	Assumptions for decommissioning obligations Estimate of onerous contracts Estimate of litigation outcomes	Estimate Estimate Estimate	● ● ○ ○ ● ● ○ ○ ● ● ○ ○
4.2	Construction contracts	Assumptions for the determination of the expected selling price and expected costs	Estimate	● ● ● ○

↻ Extent of accounting estimates and judgements relates to objectivity and business practice.

- ○ ○ ○ Very objective/market-conforming
- ● ○ ○ Objective/partially conforming
- ● ● ○ Partially subjective/partially distinctive
- ● ● ● Subjective/distinctive for Ørsted

### Consolidated financial statements

The consolidated financial statements include the parent company Ørsted A/S and subsidiaries controlled by Ørsted A/S. See more in the company overview in note 8.5.

The consolidated financial statements have been prepared as a consolidation of the parent company's and the individual subsidiaries' financial statements prepared in accordance with the Group's accounting policies. Intra-group income and expenses, shareholdings, balances and dividends as well as realised and unrealised gains and losses arising from intra-group transactions are eliminated on consolidation.

Unrealised gains resulting from transactions with associates and joint ventures are eliminated to the extent of the Group's ownership interest. Unrealised losses are eliminated in the same way as unrealised gains to the extent that there has been no impairment.

The Group's share in joint operations is recognised in the consolidated balance sheet through recognition of the Group's own assets and liabilities and income and expenses. The Group's share of joint income and expenses and assets and liabilities is then recognised. The proportionate share of realised and unrealised gains and losses arising from intra-group transactions between fully consolidated enterprises and joint operations is eliminated.

Investments in associates and joint ventures are measured using the equity method.

If we hold or have the ability to exercise, directly or indirectly, 20%-50% of the voting

rights and do not exercise control, such enterprises are accounted for as associates. However, we carry out a specific assessment of our ability to exercise influence, including our ability to influence financial and operational decisions and thus our return.

Any such enterprises that satisfy the criteria for joint control are instead accounted for as investments in joint ventures.

We present the profit (loss) from investments in associates and joint ventures before EBITDA when deemed to pertain to our principal activity. The profit (loss) from investments in associates and joint ventures is presented after EBITDA when not deemed to pertain to the Group's principal activity.

Associates and joint ventures with negative net assets are measured at nil.

If we have a legal or constructive obligation to cover the negative equity of an associate or joint venture, the obligation is recognised as a liability.

Receivables from associates and joint ventures are measured at amortised cost. On initial recognition of our receivables, write-downs are made for bad debts.

The proportionate share of associates' and joint ventures' profit (loss) after tax and non-controlling interests is recognised in profit (loss) for the year. We eliminate the proportionate share of internal gains (losses) in the profit (loss) for the year.



On acquisition of investments in associates and joint ventures, the purchase method is applied.

Gains (losses) on the divestment of investments in associates and joint ventures are determined as the difference between the selling price and the carrying amount of net assets, including goodwill at the date of divestment and transaction costs.

Gains and losses are recognised in profit (loss) for the year as gain or loss on the divestment of enterprises. The profit (loss) for the year and total comprehensive income from associates and joint ventures are identical.

### Key accounting judgements

#### Assessment of classification of partnerships

On initial recognition of investments and in connection with any restructuring of joint ventures and joint operations, we assess whether an investment is a joint venture or a joint operation.

In assessing joint operations, we look at:

- the corporate form of the operation, and
- whether we are only entitled to the net profit or income and expenses resulting from the operation.

In addition, the fact that the parties buy all output, for example the power generated, will lead to the structure being considered to be a joint operation.

### Foreign currency translation

For each reporting enterprise in the Group, items are determined in the currency of the primary economic environment in which the individual reporting enterprise operates (functional currency). Transactions in currencies other than the functional currency of each enterprise are accounted for as transactions in foreign currencies and translated on initial recognition at the exchange rate at the transaction date. Exchange differences arising between the exchange rate at the transaction date and at the date of payment are recognised in profit (loss) for the year as financial income or expenses.

Receivables, payables and other monetary items in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rate at the balance sheet date and at the date at which the receivable or payable arose is recognised in profit (loss) for the year as financial income or expenses.

For foreign subsidiaries, joint operations, associates and joint ventures, the statements of comprehensive income are translated at monthly average exchange rates in so far as these do not deviate materially from the actual exchange rates at the transaction dates. Balance sheet items are translated at the exchange rates at the balance sheet date. All exchange differences are recognised in profit (loss) for the year, except for exchange differences arising on:

- translation of the opening equity of these entities at the exchange rates at the balance sheet date

- translation of the statements of comprehensive income of these enterprises from the exchange rates at the transaction date to the exchange rates at the balance sheet date
- translation of balances accounted for as part of the total net investment
- translation of the portion of loans and derivatives that has been entered into to hedge the net investment in these enterprises, and that provides an effective hedge against corresponding foreign exchange gains (losses) on the net investment in the enterprise.

The above types of exchange differences are recognised in other comprehensive income. Such exchange rate adjustments are divided between the equity of the parent company and the equity of the non-controlling interests. On full or partial divestment of the net investment, the accumulated exchange rate adjustments are recognised as follows:

- disposal results in loss of control: The accumulated exchange rate adjustments, including any associated hedges, are recognised in the profit (loss) for the year if a foreign exchange gain (loss) is realised by the selling enterprise. Any foreign exchange gain (loss) is transferred to the item in which the gain (loss) from the disposal is recognised. The part of the foreign currency translation reserve that relates to non-controlling interests is not transferred to profit (loss) for the year.
- disposal does not result in loss of control: A proportionate share of the foreign currency translation reserve is transferred from the parent company shareholders' share of equity to the minority shareholders' share of equity.

Repayment of balances that are considered part of the net investment does not constitute a partial disposal of the subsidiary.

### Implementation of new standards and interpretations

We regularly assess the effect of new IFRS accounting standards and interpretations and implement new accounting standards and interpretations from their mandatory effective dates at the latest.

On 1 January 2017, we early adopted a new accounting standard, IFRS 9 – Financial Instruments, to be able to use the new hedge accounting rules.

The most important changes resulting from IFRS 9 compared to IAS 39 are:

- Simplification of the requirements for hedge accounting. For instance, hedge accounting will be facilitated for proxy hedging strategies, which are often used to hedge risks in the energy markets.
- The number of categories of financial assets is reduced from four to three: amortised cost, fair value through income statement or fair value through other comprehensive income.
- A loss allowance for expected credit losses must be recognised at initial recognition of a receivables. Previously a loss allowance could only be recognised if there was objective evidence of impairment.

The adoption of IFRS 9 has not had any significant impact on recognition and measurement of financial instruments in our consolidated financial statements for 2017.

Comparative figures are not restated as the effect is immaterial.

Effective from 1 January 2017, we have implemented the following amendments to other accounting standards (IAS and IFRS) and interpretations:

- Amendment to IAS 7 – Statement of Cash Flows: The amendment entails additional disclosure requirements in respect of financing activities.
- Amendment to IAS 12 – Income Taxes: The amendment is a clarification of the accounting treatment of tax assets related to unrealised losses on debt instruments measured at fair value.
- Annual improvements to IFRS 2014-2016 concerning IFRS 12 – Disclosure of Interests in Other Entities: The amendment is a clarification of the disclosure requirements.

The implementation of other amended standards has not affected our consolidated financial statements for 2017.

### New standards and interpretations

IASB has issued a number of new or amended accounting standards and interpretations which have not yet entered into force, and which have consequently not been incorporated into the consolidated financial statements for 2017 (impact is expected).

On the next page, we have assessed how IFRS 15 – Revenue from Contracts with Customers and IFRS 16 – Leases will be implemented and the consequences thereof. The two standards are deemed to be the most relevant for the Ørsted Group.

Standard	Expected effect		Commencement	Transitional provision
IFRS 15 – Revenue from Contracts with Customers	<p>We have completed our review of contracts and the analysis of the cash flows in Ørsted. The analysis concluded that the implementation only affects the recognition of income from our transmission assets in connection with the construction of offshore wind farms.</p> <p>In the UK, we offer construction contracts for transmission assets, which are subsequently sold to a new owner. When construction of the assets is completed, they are sold to an Offshore Transmission Owner (OFTO) through a regulated sales process. The UK energy regulator 'Office of Gas and Electricity Markets' (Ofgem) manages the sales process, determines the final transfer value and appoints the buyer. Under the new standard, a customer relationship does not exist between Ørsted and a final buyer. As a result, no mutual legal rights and obligations exist between the parties when the construction of transmission assets commences.</p> <p>Following the implementation of IFRS 15, we will initially recognise revenue from transmission assets when we have entered into a contract with a customer which both parties (buyer and seller):</p> <ul style="list-style-type: none"> <li>– have approved and</li> <li>– intend to perform.</li> </ul> <p>Thus, the recognition of income does not begin until we sell a share of the transmission asset under construction to a partner, which takes place upon such partner joining the project.</p>	<p>We recognise the remaining part of the transmission asset when we find that control has passed to the OFTO.</p> <p>Transmission assets have so far been recognised in step with the construction based on the completion degree of the asset.</p> <p>The change has the consequence that revenue is recognised at a later point in time than was the case under the former practice. Similarly, the costs of construction do not affect operations until the sale is recognised as income.</p> <p>The change does not affect the Group's cash flows or results, but only the time when income and costs are recognised in the consolidated financial statements.</p> <p>Historically we have not had, and we do not expect a significant contribution margin in connection with the sale of transmission assets to partners and OFTOs, and the Group's EBITDA, balance sheet total and equity will therefore remain unchanged in all material respects as a consequence of the changed accounting policies.</p> <p>As the effect of the implementation of IFRS 15 on EBITDA, equity and the balance sheet total is immaterial, the expected disaggregated effect has not been disclosed.</p>	<p>IFRS 15 will be implemented on 1 January 2018.</p>	<p>We will implement the standard with retrospective effect as if its requirements have always been applied to our current contracts. We use the option under IFRS 15 of not restating comparative figures, and of reflecting the effect in equity. The requirements of the standard therefore only apply to agreements in progress at 1 January 2018 as well as subsequently concluded agreements.</p>
IFRS 16 – Leases	<p>We are still analysing the effect of IFRS 16 on the consolidated financial statements. The preliminary conclusion is that it will have a limited impact on both the balance sheet, the income statement and related credit key ratios except effects of classifications. The impact at 1 January 2019 will deviate from the present value of the future minimum lease payments stated in note 8.2 (DKK 6,095 million) for the following reasons:</p> <ul style="list-style-type: none"> <li>– The scope of leases is expected to change up until 1 January 2019, partly as a result of the conclusion of new leases, partly as a result of run-off on the existing leases.</li> </ul>	<ul style="list-style-type: none"> <li>– On recognition of lease obligations in the balance sheet at 1 January 2019, we will apply the implicit interest rates in the determination of the present value of the lease obligations. At 31 December 2017, the present value of our lease obligations was determined at an interest rate of 3.5%.</li> </ul> <p>As a general rule, IFRS 16 requires that service elements which are incorporated into leases, and which do not entitle us to use an underlying asset, must be dealt with separately and treated as a current operating expense. This will not have an immediate impact as our total obligation stated in note 8.2 does not include payments relating to service elements. We intend to continue this practice so that service elements are not included in the lease obligation and the right-of-use asset in accordance with IFRS 16.</p>	<p>IFRS 16 will be implemented on 1 January 2019.</p>	<p>We expect to implement the standard based on the simplified transition method, where comparative figures will not be restated. We expect to calculate and recognise the cumulative effect for all ongoing leases at 1 January 2019. Furthermore, we expect to use the other available reliefs to the widest possible extent, including the exclusion of leases with a term to maturity of less than 12 months and low-value assets.</p>



The new or amended standards and interpretations are not mandatory in connection with the financial reporting for 2017. We will implement the standards and interpretations from their mandatory effective dates at the latest.

# 1.1 Business performance

## Description of business performance

In 2011, we introduced an alternative performance measure, business performance, as a supplement to the financial statements prepared in accordance with IFRS. The business performance results reflect our internal risk management and show the results for the period under review. Under the business performance principle, the value of the hedging transaction is deferred and recognised for the period in which the hedged risk materialises. This is illustrated in the example overleaf.

Our reason for introducing the business performance principle in 2011 was:

- that we could not achieve the same timing of recognition of our commercial exposure and hedging contracts in accordance with the IFRS rules, for example with respect to option premiums and certain commercial fixed-price contracts, and
- a high risk of hedging contracts not being consistent with the IFRS hedge accounting rules, requiring us to recognise the hedging contracts at market value with value adjustment via the income statement, whereas our commercial exposure is accrued.

Our risk management is described in note 7.1.

## Business performance – background

We hedge market risks for up to five years with the aim of stabilising our cash flows and creating certainty about our finances. With a view to ensuring transparency, we

want the financial impact of the hedging transactions to be reflected in the financial reporting simultaneously with the hedged exposure (for example sales of power). We can normally achieve this by applying the IFRS rules on hedge accounting. For energy companies, it is, however, sometimes difficult to ensure simultaneity. This is due to the fact that hedging instruments are not always available which precisely match the exposure which must be hedged, or that no sufficiently liquid market is available. Consequently, some hedging takes place in alternative markets or subject to alternative time horizons. For example, power generation in Denmark is to some extent hedged by financial contracts for nearby trading areas such as EEX (Germany) and Nord Pool (Scandinavia). These areas normally develop relatively uniformly over time compared to Denmark.

This hedging method means that only some of the financial hedging transactions comply

with the IFRS rules on hedge accounting even though the financial risk has been reduced. In case of non-compliance, under IFRS the hedging transactions must be recognised in the income statement on a regular basis. This may give rise to considerable fluctuations in the income statement, as the effects of the hedging and for example the sale of power are not recognised in the same period.

Consequently, we have decided not to apply the IFRS rules on hedge accounting to transactions hedging energy prices and associated currency risks. Value adjustments of these hedges are therefore recognised in the income statement in accordance with IFRS.

## Recognition

In the income statement, the business performance results are shown alongside the IFRS results. In the income statement, the difference between the two performance measures is shown in a separate column, 'Adjustments'.

Two types of contracts are included in the business performance principle:

- hedging contracts concerning energy and related currencies
- commercial contracts concerning energy recognised at market value (typically fixed-price physical gas and power contracts).

When we use hedging instruments which do not fully correspond to the underlying risk, any difference between the hedging instruments and the underlying risk is recognised immediately in the income statement. See note 7.3.

The accounting treatment under business performance is otherwise identical to the accounting treatment under IFRS. Our balance sheet, cash flows and equity are consequently not affected. The accounting treatment of our hedging contracts according to IFRS and business performance is summarised in the table below.

Type of hedging	IFRS	Business performance
Hedging of energy and associated currency risks as well as fixed-price physical gas and power contracts	Market value adjustment in the income statement	Market value adjustments are deferred and recognised in the period in which the exposure materialises
Hedging of: – proceeds from the divestment of newly constructed offshore wind farms – interest payments	Market value adjustments are deferred and recognised in the period in which the exposure materialises	Recognition the same as under IFRS
Hedging of currency risks associated with investments in foreign entities	Market value adjustments are recognised in other comprehensive income	Recognition the same as under IFRS
Trading portfolio	Market value adjustment in the income statement	Recognition the same as under IFRS



Only the recognition of the hedging of energy and associated currency risks as well as fixed-price physical gas and power contracts differs under IFRS and the business performance principle.

### Expected impact on business performance EBITDA from energy and currency hedging

At 31 December 2017, a loss of DKK 812 million has been deferred (2016: DKK 126 million gain), which will affect business performance EBITDA in subsequent years. Of the total deferred loss, a loss of DKK 159 million is expected on business performance EBITDA in 2018 (2016: DKK 737 million gain in 2017).

The decrease in the deferred gain on currency hedging is primarily attributable to the transfer of gains to the income statement in 2017 as a consequence of the hedged transactions having occurred. Power prices rose in 2017, which means that the market value of the hedges has fallen as we are selling power.

### Expected impact on business performance EBITDA from energy and currency hedging, DKK million

	2018	2019	after 2019	Deferred for subsequent recognition at 31 December 2017	2017	2018	after 2018	Deferred for subsequent recognition at 31 December 2016
Oil	174	137	63	374	(46)	(48)	18	(76)
Gas	(262)	(266)	(97)	(625)	104	(314)	(418)	(628)
Power	(650)	(385)	(519)	(1,554)	(396)	(290)	(329)	(1,015)
Coal	34	6	1	41	32	4	-	36
Currency	545	139	268	952	1,043	489	277	1,809
<b>Total</b>	<b>(159)</b>	<b>(369)</b>	<b>(284)</b>	<b>(812)</b>	<b>737</b>	<b>(159)</b>	<b>(452)</b>	<b>126</b>



The table shows when the deferred value adjustments are expected to be recognised in the business performance EBITDA. The table covers both hedging classified as business performance and IFRS.

### Explanation of the business performance principle

In year 1, we enter into a contract hedging the price risk associated with Wind Power's generation of 1,000GWh in year 5 at GBP 52,000 per GWh. This ensures a total revenue of GBP 52 million. In year 5, the cost of power has decreased to GBP 45,000 per GWh, which means that the hedging contract has a positive market value of GBP 7 million (a hedged price of GBP 52,000 per GWh minus the spot price of GBP 45,000 per GWh). This means that we ensure that the total income, including the hedging transaction, is still GBP 52 million. The amount of GBP 52 million consists of a gain from the hedging contract of GBP 7 million and GBP 45 million from the sale of 1,000GWh at the spot price of

GBP 45,000 per GWh. The financial impact of the hedging transaction in years 1-5 is shown in the table. Under the business performance principle, the hedging transaction is recognised in the income statement in year 5, i.e. at the same time as the hedged contract with a positive market value of GBP 7 million. The value development is, however, recognised continuously in the income statement according to IFRS. Upon the expiry of the contract in year 5, the total effect on results over the period is the same under the IFRS and the business performance principle. Only the timing differs. The business performance principle ensures simultaneity of recognition of the underlying exposure and the hedging contract.

	Recognition in the income statement, GBP million		Recognised in the income statement as follows			Total financial impact	
	Power price (GBP '000 per GWh)	Sales of power, GBP million	Market value	Business performance	IFRS	Business performance	IFRS
Year 1	52	-	-	-	-	-	-
Year 2	50	-	2	-	2	-	2
Year 3	55	-	(3)	-	(5)	-	(5)
Year 4	46	-	6	-	9	-	9
Year 5	45	45	7	7	1	52	46
<b>Total</b>		<b>45</b>		<b>7</b>	<b>7</b>	<b>52</b>	<b>52</b>



Example of recognition of the market value of a hedging contract according to the business performance and IFRS principles in the income statement.

#### Specification of the difference between EBITDA according to business performance and according to IFRS, DKK million

	2017	2016
EBITDA – business performance	22,519	19,109
Business performance adjustments in respect of revenue for the year	205	(3,808)
Business performance adjustments in respect of cost of sales for the year	(150)	1,638
<b>EBITDA – IFRS</b>	<b>22,574</b>	<b>16,939</b>
<b>Total business performance adjustments for the year comprise:</b>		
Value adjustments for the year of hedging contracts that relate to future periods	(138)	(1,397)
Reversal of gains (losses) relating to hedges deferred from prior periods where the hedged production or trading is recognised in business performance EBITDA for this period	193	(773)
<b>Total adjustments</b>	<b>55</b>	<b>(2,170)</b>

#### Value adjustments for the year of financial and physical hedging, DKK million

	2017	2016
Currency	150	1,156
Power (commercial and hedge)	(836)	(2,160)
Gas (commercial and hedge)	106	(735)
Oil	404	267
Coal	38	75
<b>Total value adjustments</b>	<b>(138)</b>	<b>(1,397)</b>



The table shows value adjustments by product. The value adjustments are recognised in IFRS EBITDA, but not in business performance EBITDA, as the value relates to future periods.

#### Reversal of deferred gains (losses) on hedges from previous periods, DKK million

	2017	2016
Currency	(12)	(615)
Power (commercial and hedge)	297	(424)
Gas (commercial and hedge)	(106)	(1,539)
Oil	46	1,654
Coal	(32)	151
<b>Total deferred gains (losses) from previous periods</b>	<b>193</b>	<b>(773)</b>



The table shows reversal of value adjustments by product. These gains (losses) are recognised in business performance EBITDA. The reversal of value adjustment was recognised in IFRS EBITDA in a previous period.

#### Difference between IFRS and business performance for the year

The value adjustment in respect of future periods totalled DKK -138 million (2016: DKK -1,397 million) and reversal of deferred gains (losses) recognised according to business performance in 2017 totalled DKK 193 million (2016: DKK -773 million).

#### Market value adjustments for the year of hedging contracts

2017 was mainly affected by losses on the hedging of power as a result of rising prices in 2017. This was partially offset by a gain on the hedging of oil as a consequence of the rising oil prices in 2017.

2016 was mainly affected by losses on the hedging of gas and power as a result of rising prices in 2016. This was partially offset by gains on currency hedging due to the weakened GBP in 2016.

#### Deferred gains (losses) from previous periods

In 2017, a loss of DKK 193 million was recognised in business performance EBITDA, but as the loss was recognised in IFRS EBITDA in a previous period, the gain was reversed in the 'Adjustments' column in the income statement. The loss was primarily attributable to the hedging of power.

In 2016, a gain of DKK 773 million was recognised in business performance EBITDA, but as the gain was recognised in IFRS EBITDA in a previous period, the gain was reversed in the 'Adjustments' column in the income statement. The gain, which was primarily attributable to the hedging of gas, power and currency, was offset by a loss on oil.



## 1.2 Definitions of performance highlights

Performance highlights are calculated in accordance with the business performance principle.

<b>Gross investments</b>	Cash flows from investing activities, excluding dividends received from associates, joint ventures and equity investments, purchase and sale of securities, loans to joint ventures and joint operations, and divestments of assets and enterprises.	<b>Proposed dividend per share (DPS) of DKK 10</b>	$\frac{\text{Total proposed dividend}}{\text{Number of shares year-end}}$
<b>Net investments</b>	Gross investments less divestments of assets and enterprises. To/from this is added/deducted acquired/transferred debt in connection with acquisitions and divestments of enterprises, and deducted non-controlling interests' share of investments in fully consolidated investment projects, and deducted the selling price of non-controlling interests.	<b>Dividend yield</b>	$\frac{\text{Dividend per share (proposed)}}{\text{Stock price the last trading day of the year}}$
<b>Funds from operations (FFO)</b>	Supplementary concept for cash flows from operating activities determined as business performance EBITDA less the effect of gains on the divestment of ownership interests in offshore wind farms, interest expenses (net) on interest-bearing net debt and hybrid capital (50%), interest element of decommissioning obligations and current tax. In addition, operating lease obligations have been recognised as if they were finance lease obligations, where operating lease payments have been reversed, and calculated interest expenses of the present value of lease payments have been deducted.	<b>Average number of shares</b>	$\frac{1}{\text{Number of days}} \times \text{Number of days} = X_i$ $\sum_{i=1}$
<b>Adjusted interest-bearing net debt</b>	Interest-bearing net debt plus 50% of the hybrid capital, cash and securities not available for use with the exception of repo transactions, present value of lease payments (operating lease obligations calculated as if they were finance lease obligations), and the present value of decommissioning obligations less deferred tax.	<b>Net working capital</b>	Inventories, trade receivables and other current operating assets less trade payables, deferred income (net) and other current operating liabilities.
<b>FFO to adjusted interest-bearing net debt</b>	$\frac{\text{FFO}}{\text{Adjusted interest-bearing net debt}}$	<b>Net working capital, excluding trade payables relating to capital expenditure</b>	Net working capital excluding trade payables relating to purchases of intangible assets and property, plant and equipment.
<b>Free cash flow (FCF)</b>	Cash flows from operating activities less gross investments and plus divestments.	<b>Profit (loss) per share</b>	$\frac{\text{Shareholders' share of the profit (loss) for the period}}{\text{Average number of shares}}$
<b>Capital employed</b>	Non-interest-bearing net assets corresponding to non-interest-bearing assets less non-interest-bearing liabilities.	<b>Diluted profit (loss) per share</b>	$\frac{\text{Shareholders' share of the profit (loss) for the period}}{\text{Average number of shares, including dilutive effect of free shares}}$
<b>Average capital employed</b>	$\frac{\text{Capital employed beginning of year} + \text{capital employed year-end}}{2}$		
<b>Return on capital employed (ROCE)</b>	$\frac{\text{EBIT}}{\text{Average capital employed}^1}$		



<sup>1</sup> ROCE (continuing operations) is based on average capital employed for the continuing operations. Non-interest-bearing net assets related to the oil and gas activities divested in September 2017 are not included.

# 2. Return on capital employed

<b>Segment information</b>	81
<b>Revenue</b>	84
<b>Cost of sales</b>	85
<b>Government grants</b>	86
<b>Other operating income and expenses</b>	87
<b>Employee costs</b>	88
<b>Share-based payment</b>	89



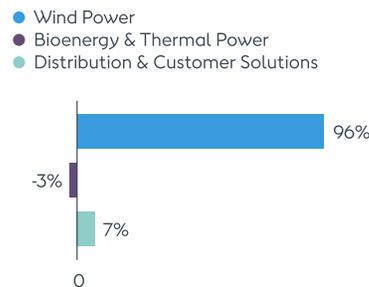
# 2. Return on capital employed

Return on capital employed is a key ratio that shows how profitable our business is. The strategic target is for ROCE to constitute an average of 12-14% in the period 2018-2023.

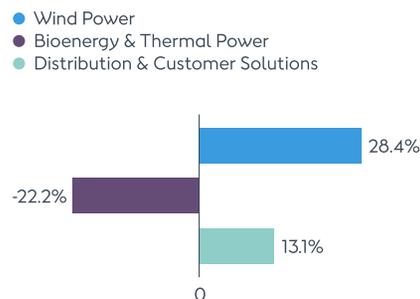
### Return on capital employed

Return on capital employed was 25.2% against 24.4% in 2016. The improved operating profit was partially offset by more funds tied up in invested capital. See more in note 2.1.

EBIT by segment, percentage of DKK 16,581 million in 2017

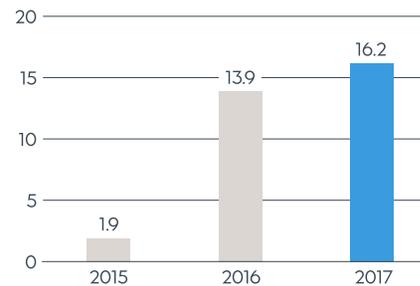


Return on capital employed (ROCE), % 2017

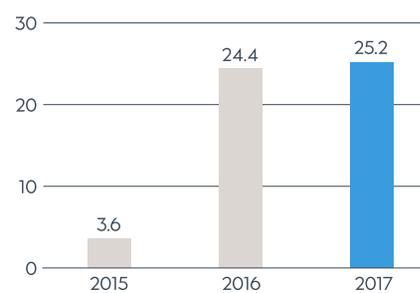


EBIT and return on capital employed stated according to the business performance principle. EBIT of DKK 16,581 million is calculated as EBIT for reportable segments.

EBIT, business performance, DKK million



Return on capital employed (ROCE), %



Return on capital employed (ROCE) was 25% against 24% in 2016 (and 17% in 2016 adjusted for compensation received in connection with renegotiations). The increase was attributable to higher EBIT.

# 22.5bn

EBITDA totalled DKK 22,519 million in 2017 against DKK 19,109 million in 2016.

# 16.2bn

Operating profit totalled DKK 16,235 million in 2017 against DKK 13,877 million in 2016.

# 25.2%

Return on capital employed (ROCE) totalled 25.2% in 2017 against 24.4% in 2016.

# 2.1 Segment information

## Wind Power, DKK million

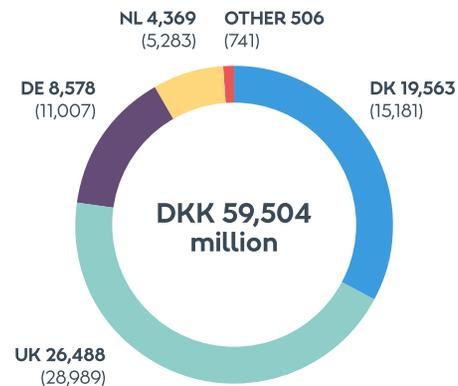
Revenue	20,352
EBITDA	20,595
Gross investments	15,462
Number of employees	2,253

### Primary activity

Development, construction, ownership and operation of offshore wind farms in the UK, Germany, Denmark, the Netherlands, the USA and Taiwan.

### Revenue, DKK million 2017<sup>1</sup> (2016)

- Denmark
- Germany
- UK
- The Netherlands
- Other



## Bioenergy & Thermal Power, DKK million

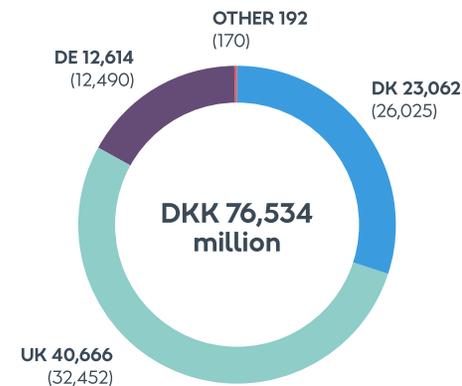
Revenue	5,864
EBITDA	152
Gross investments	1,390
Number of employees	749

### Primary activity

Generation of heat and power from CHP plants in Denmark and a gas-fired power station in the Netherlands as well as a Renaissance plant in the UK.

### Intangible assets and property, plant and equipment, DKK million 2017 (2016)

- Denmark
- Germany
- UK
- Other



## Distribution & Customer Solutions, DKK million

Revenue	40,195
EBITDA	2,082
Gross investments	857
Number of employees	1,263

### Primary activity

The distribution of power and sales of power and gas in the wholesale and retail markets in Denmark, Sweden, Germany and the UK as well as optimisation and hedging of the Group's total energy portfolio.



Revenue, intangible assets and property, plant and equipment are presented based on the locations of our customers and assets.

<sup>1</sup> Revenue determined according to the business performance principle.

### Accounting policies

Our operating segments are consistent with our internal reporting to our top decision-making body, Group Executive Management.

We apply the business performance principle, as described in note 1.1, in connection with our internal management.

## Geographical distribution of revenue as well as intangible assets and property, plant and equipment

Geographical revenue is broken down, as far as possible, by the customer's geographical location based on supply point.

A significant part of our sales takes place via power exchanges and gas hubs in Europe, the physical locations of which do not reflect the geographical locations of our customers. When breaking down these sales by geographical location we use the physical locations of the exchange or hub since we do not in all cases know the physical location of our customer.

No single customer accounts for more than 10% of our consolidated revenue.

Non-current assets are broken down geographically based on the physical locations of the assets.

The operating segments are managed primarily on the basis of EBITDA and investments. Financial income and expenses and tax are allocated to the operating segments, while we manage them at Group level.

Segment income and segment expenses are those items that, in the internal management reporting, are directly attributable to individual segments or can be indirectly allocated to individual segments on a reliable basis.

	 Wind Power	 Bioenergy & Thermal Power	 Distribution & Customer Solutions	Reportable segments	Other activities/eliminations	Business performance	Adjustments	IFRS
<b>2017</b>								
<b>Income statement, DKK million</b>								
External revenue	15,034	5,652	38,959	59,645	(141)	59,504	205	59,709
Intra-group revenue	5,318	212	1,236	6,766	(6,766) <sup>1</sup>	-	-	-
<b>Revenue</b>	<b>20,352</b>	<b>5,864</b>	<b>40,195</b>	<b>66,411</b>	<b>(6,907)</b>	<b>59,504</b>	<b>205</b>	<b>59,709</b>
Cost of sales	(6,565)	(4,400)	(36,232)	(47,197)	6,653	(40,544)	(150)	(40,694)
Employee costs and other external expenses	(4,122)	(1,357)	(1,887)	(7,366)	(72)	(7,438)	-	(7,438)
Gain (loss) on disposal of non-current assets	10,811	32	(21)	10,822	13	10,835	-	10,835
Additional other operating income and expenses	238	13	27	278	3	281	-	281
Share of profit (loss) in associates and joint ventures	(119)	-	-	(119)	-	(119)	-	(119)
<b>EBITDA</b>	<b>20,595</b>	<b>152</b>	<b>2,082</b>	<b>22,829</b>	<b>(310)</b>	<b>22,519</b>	<b>55</b>	<b>22,574</b>
Depreciation and amortisation	(4,080)	(690)	(933)	(5,703)	(36)	(5,739)	-	(5,739)
Impairment losses	(545)	-	-	(545)	-	(545)	-	(545)
<b>Operating profit (loss) (EBIT)</b>	<b>15,970</b>	<b>(538)</b>	<b>1,149</b>	<b>16,581</b>	<b>(346)</b>	<b>16,235</b>	<b>55</b>	<b>16,290</b>
<b>Key ratios</b>								
Property, plant and equipment and intangible assets	56,942	7,488	11,771	76,201	333	76,534	-	76,534
Equity investments and non-current receivables	114	41	340	495	692	1,187	-	1,187
Net working capital, work in progress	7,526	-	-	7,526	-	7,526	-	7,526
Net working capital, capital expenditures	(2,901)	(138)	-	(3,039)	-	(3,039)	-	(3,039)
Net working capital, other items	1,860	(3,228)	(1,356)	(2,724)	143	(2,581)	-	(2,581)
Derivatives, net	1,025	(192)	85	918	(422)	496	-	496
Assets classified as held for sale, net	-	-	2,012	2,012	-	2,012	-	2,012
Decommissioning obligations	(3,546)	(733)	(472)	(4,751)	-	(4,751)	-	(4,751)
Other provisions	(2,074)	(764)	(2,952)	(5,790)	(980)	(6,770)	-	(6,770)
Tax, net	(296)	80	350	134	(598)	(464)	-	(464)
Other receivables and other payables, net	1,002	-	2	1,004	(834)	170	-	170
<b>Capital employed at 31 December</b>	<b>59,652</b>	<b>2,554</b>	<b>9,780</b>	<b>71,986</b>	<b>(1,666)</b>	<b>70,320</b>	<b>-</b>	<b>70,320</b>
Of which capital employed from discontinued operations						(236)		(236)
Of which capital employed from continuing operations						70,556		70,556
<b>Return on capital employed (ROCE) %</b>	<b>28.4</b>	<b>(22.2)</b>	<b>13.1</b>	<b>-</b>	<b>-</b>	<b>25.2</b>	<b>-</b>	<b>-</b>
Cash flows from operating activities	3,353	592	(628)	3,317	(2,294)	1,023	-	1,023
Gross investments	(15,462)	(1,390)	(857)	(17,709)	(35)	(17,744)	-	(17,744)
Divestments	16,737	2	196	16,935	47	16,982	-	16,982
<b>Free cash flow (FCF)</b>	<b>4,628</b>	<b>(796)</b>	<b>(1,289)</b>	<b>2,543</b>	<b>(2,282)</b>	<b>261</b>	<b>-</b>	<b>261</b>



Profit (loss) and cash flows are shown only for continuing operations.

Up until the divestment, the discontinued operations in the divested oil and gas business were included in assets classified as held for sale and in discontinued operations. Reference is made to note 3.6 'Discontinued operations'.

The column for 'Other activities/eliminations' covers primarily the elimination of inter-segment transactions. Also included are income and costs, assets and liabilities, investment activity, taxes, etc., handled at Group level.

<sup>1</sup> Of which the elimination of intra-group revenue accounts for DKK -8,887 million.

	 Wind Power	 Bioenergy & Thermal Power	 Distribution & Customer Solutions	Reportable segments	Other activities/eliminations	Business performance	Adjustments	IFRS
<b>2016</b>								
<b>Income statement, DKK million</b>								
External revenue	18,831	4,965	36,860	60,656	545	61,201	(3,808)	57,393
Intra-group revenue	3,597	184	1,149	4,930	(4,930) <sup>1</sup>	-	-	-
<b>Revenue</b>	<b>22,428</b>	<b>5,149</b>	<b>38,009</b>	<b>65,586</b>	<b>(4,385)</b>	<b>61,201</b>	<b>(3,808)</b>	<b>57,393</b>
Cost of sales	(11,130)	(3,718)	(28,900)	(43,748)	4,488	(39,260)	1,638	(37,622)
Employee costs and other external expenses	(3,626)	(1,484)	(2,040)	(7,150)	(16)	(7,166)	-	(7,166)
Gain (loss) on disposal of non-current assets	2,961	56	(77)	2,940	-	2,940	-	2,940
Additional other operating income and expenses	1,210	96	116	1,422	(53)	1,369	-	1,368
Share of profit (loss) in associates and joint ventures	24	1	-	25	-	25	-	25
<b>EBITDA</b>	<b>11,867</b>	<b>100</b>	<b>7,108</b>	<b>19,075</b>	<b>34</b>	<b>19,109</b>	<b>(2,170)</b>	<b>16,939</b>
Depreciation and amortisation	(3,565)	(763)	(874)	(5,202)	(30)	(5,232)	-	(5,232)
<b>Operating profit (loss) (EBIT)</b>	<b>8,302</b>	<b>(663)</b>	<b>6,234</b>	<b>13,873</b>	<b>4</b>	<b>13,877</b>	<b>(2,170)</b>	<b>11,707</b>
<b>Key ratios</b>								
Property, plant and equipment and intangible assets	52,202	6,959	11,651	70,812	325	71,137	-	71,137
Equity investments and non-current receivables	865	8	367	1,240	-	1,240	-	1,240
Net working capital, work in progress	3,944	-	-	3,944	-	3,944	-	3,944
Net working capital, capital expenditures	(2,452)	(268)	-	(2,720)	-	(2,720)	-	(2,720)
Net working capital, other items	166	(3,173)	(2,729)	(5,736)	788	(4,948)	-	(4,948)
Derivatives, net	1,723	(155)	(419)	1,149	610	1,759	-	1,759
Assets classified as held for sale, net	-	-	1,930	1,930	(250)	1,680	-	1,680
Decommissioning obligations	(2,785)	(668)	(196)	(3,649)	-	(3,649)	-	(3,649)
Other provisions	(1,894)	(802)	(2,654)	(5,350)	(40)	(5,390)	-	(5,390)
Tax, net	980	352	(234)	1,098	(2,819)	(1,721)	-	(1,721)
Other receivables and other payables, net	76	30	82	188	(559)	(371)	-	(371)
<b>Capital employed at 31 December</b>	<b>52,825</b>	<b>2,283</b>	<b>7,798</b>	<b>62,906</b>	<b>(1,945)</b>	<b>60,961</b>	<b>-</b>	<b>60,961</b>
Of which capital employed from discontinued operations	-	-	-	-	-	2,769	-	2,769
Of which capital employed from continuing operations	-	-	-	-	-	58,192	-	58,192
<b>Return on capital employed (ROCE) %</b>	<b>16.5</b>	<b>(29.5)</b>	<b>75.8</b>	<b>-</b>	<b>-</b>	<b>24.4</b>	<b>-</b>	<b>-</b>
Cash flows from operating activities	4,347	1,285	4,302	9,934	1,338	11,272	-	11,272
Gross investments	(12,426)	(1,926)	(569)	(14,921)	(39)	(14,960)	-	(14,960)
Divestments	6,874	6	2,238	9,118	(63)	9,055	-	9,055
<b>Free cash flow (FCF)</b>	<b>(1,205)</b>	<b>(635)</b>	<b>5,971</b>	<b>4,131</b>	<b>1,236</b>	<b>5,367</b>	<b>-</b>	<b>5,367</b>



Up until the divestment, the discontinued operations in the divested Oil & Gas business were included in assets classified as held for sale and in discontinued operations. Reference is made to note 3.6 'Discontinued operations'.

<sup>1</sup> Of which the elimination of intra-group revenue accounts for DKK -6,939 million.

## 2.2 Revenue

	 Wind Power	 Bioenergy & Thermal Power	 Distribution & Customer Solutions	Other activities/ eliminations	Total
<b>Revenue 2017, DKK million</b>					
Distribution and transmission	-	-	2,520	(32)	2,488
Sales of heat and steam	-	2,607	-	-	2,607
Sales of gas	-	-	19,197	(1,556)	17,641
Sales of power and power generation	10,052	3,097	17,743	(5,722)	25,170
Revenue from the construction of offshore wind farms	8,734	-	-	-	8,734
Other revenue	1,566	160	735	403	2,864
<b>Total, business performance</b>	<b>20,352</b>	<b>5,864</b>	<b>40,195</b>	<b>(6,907)</b>	<b>59,504</b>
Adjustments	(7)	95	(109)	226	205
<b>Total, IFRS</b>	<b>20,345</b>	<b>5,959</b>	<b>40,086</b>	<b>(6,681)</b>	<b>59,709</b>

Revenue for the year according to business performance fell from DKK 61,201 million in 2016 to DKK 59,504 million in 2017, down 2.8%. The fall was mainly due to lower activity from the construction of offshore wind farms in Wind Power. This was partially offset by higher gas prices as well as higher generation from offshore wind farms in operation.

Revenue for the year from the construction of offshore wind farms mainly related to transmission assets in the UK and the construction of the offshore wind farms Race Bank, Walney Extension, Gode Wind 1 and 2 as well as Burbo Bank Extension for partners.

In 2017, revenue totalled DKK 59,709 million according to IFRS, of which DKK 52,347 million was revenue from the sale of goods,

and DKK 7,362 million was revenue from the sale of services. In 2016, IFRS revenue totalled DKK 57,393 million, of which DKK 53,874 million was related to revenue from the sale of goods, while DKK 3,519 million was related to revenue from the sale of services.

### Accounting policies

We recognise revenue from the distribution and transmission of energy and the sale of heat and steam, oil, gas and power when:

- delivery and transfer of risk to the buyer have taken place,
- the income can be measured reliably and is expected to be received, and
- costs incurred or which will be incurred in connection with the sale can be measured reliably.

Revenue is measured at the market value of the agreed consideration excluding VAT and other indirect taxes collected on behalf of third parties.

	 Wind Power	 Bioenergy & Thermal Power	 Distribution & Customer Solutions	Other activities/ eliminations	Total
<b>Revenue 2016, DKK million</b>					
Distribution and transmission	-	-	2,318	(16)	2,302
Sales of heat and steam	-	2,255	-	-	2,255
Sales of gas	-	-	18,111	(1,224)	16,887
Sales of power and power generation	6,700	2,717	17,309	(3,416)	23,310
Revenue from the construction of offshore wind farms	14,323	-	-	-	14,323
Other revenue	1,405	177	271	271	2,124
<b>Total, business performance</b>	<b>22,428</b>	<b>5,149</b>	<b>38,009</b>	<b>(4,385)</b>	<b>61,201</b>
Adjustments	45	(450)	(3,639)	236	(3,808)
<b>Total, IFRS</b>	<b>22,473</b>	<b>4,699</b>	<b>34,370</b>	<b>(4,149)</b>	<b>57,393</b>

All forms of discounts granted are recognised in revenue.

Revenue from offshore wind farms comprises sales of power at market prices and regulated prices (fixed tariffs and guaranteed minimum prices for green certificates).

Revenue from offshore wind farms is recognised at the time of generation.

We recognise construction contracts in revenue concurrently with the construction of the offshore wind farms and transmission assets. Revenue corresponds to the selling price of work performed during the year (percentage of completion method).

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised to the extent of costs incurred. See also note 4.2.

Other revenue is income from the installation of offshore wind turbines using vessels in A2SEA, which was divested in August 2017. Trading activities,

financial hedging transactions, etc., are also included in other revenue.

Adjustments consist of the reversal of business performance adjustments. See more in note 1.1.

### Key accounting judgements

#### Assumptions for the ongoing recognition of revenue from the construction of offshore wind farms

We construct offshore wind farms in collaboration with partners, where we construct the partner's share. We assess each construction agreement at the time of conclusion of the agreement.

In our view, the transfer of control, risks and rewards takes place in step with the construction of offshore wind farms. This is supported by the regular approval of part deliveries and milestone payments from partners. Revenue is therefore recognised in step with the construction of the offshore wind farms.

## 2.3 Cost of sales

	 Wind Power	 Bioenergy & Thermal Power	 Distribution & Customer Solutions	Other activities/eliminations	Total
<b>Cost of sales 2017, DKK million</b>					
Gas	-	976	16,237	(4,477)	12,736
Power	188	90	16,520	(5,510)	11,288
Biomass	-	2,091	-	-	2,091
Coal	-	829	-	-	829
Distribution and transmission costs	625	138	2,496	(102)	3,157
Costs for construction of offshore wind farms	5,720	-	14	17	5,751
Other cost of sales	32	276	965	3,419	4,692
<b>Total, business performance</b>	<b>6,565</b>	<b>4,400</b>	<b>36,232</b>	<b>(6,653)</b>	<b>40,544</b>
Adjustments	-	4	164	(18)	150
<b>Total, IFRS</b>	<b>6,565</b>	<b>4,404</b>	<b>36,396</b>	<b>(6,671)</b>	<b>40,694</b>

Cost of sales according to business performance increased from DKK 39,260 million in 2016 to DKK 40,544 million in 2017, up 3.3%. The increase was mainly due to higher gas prices and that 2016 was impacted by one-off payments from completed renegotiations that reduced cost of sales by DKK 4.3 billion. The increase was partly offset by lower cost in connection with construction of offshore wind farms.

	 Wind Power	 Bioenergy & Thermal Power	 Distribution & Customer Solutions	Other activities/eliminations	Total
<b>Cost of sales 2016, DKK million</b>					
Gas	-	830	10,440	(5,601)	5,669
Power	-	57	15,303	(3,077)	12,283
Biomass	-	1,408	-	-	1,408
Coal	-	819	-	-	819
Distribution and transmission costs	603	123	2,632	(147)	3,211
Costs for construction of offshore wind farms	10,360	-	22	(22)	10,360
Other cost of sales	167	481	503	4,359	5,510
<b>Total, business performance</b>	<b>11,130</b>	<b>3,718</b>	<b>28,900</b>	<b>(4,488)</b>	<b>39,260</b>
Adjustments	-	(295)	(2,028)	685	(1,638)
<b>Total, IFRS</b>	<b>11,130</b>	<b>3,423</b>	<b>26,872</b>	<b>(3,803)</b>	<b>37,622</b>

 Cost of sales relate partly to trading in gas and power, partly to fuel used at CHP plants in connection with heat and power generation and partly to the construction of offshore wind farms.

## 2.4 Government grants

### Government grants, DKK million

	2017	2016
Government grants recognised in profit (loss) for the year under revenue	1,917	-
Government grants recognised in profit (loss) for the year under other operating income	4	5
Government grants recognised in the balance sheet	(4)	(5)
<b>Government grants recognised for the year</b>	<b>1,917</b>	<b>5</b>

In Denmark, the Danish transmission system operator Energinet administers subsidies for eco-friendly power generation, including for example offshore wind farms. Until 2017, the grant was paid by consumers as a tariff (public service obligation (PSO)) added to their electricity bill. In 2016, a political agreement was made to gradually phase out the PSO tariff. From 2017, the PSO costs will gradually be financed under the Danish Finance Act.

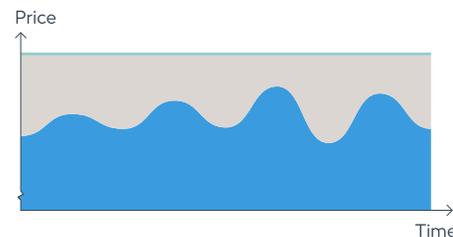
Following the changed legislation, which means that PSO funding will be provided under the Danish Finance Act, we regard the grant for eco-friendly power generation as a government grant as it is paid by the Danish State.

In 2013, the UK introduced a new CfD (Contracts-for-Difference) subsidy scheme as a replacement for the RO (Renewable Obligations) scheme for renewable energy projects. The Burbo Bank Extension and Walney Extension offshore wind farms are our first offshore wind farms under the

CfD-regime. 2017 is the first year where we have received this subsidy. We treat the payments from the CfD scheme as a government grant.

### Illustrative example of CfD

- Market price of power
- Government grants (difference between the market price of power and the power price fixed in the CfD contract)
- Power price fixed in the CfD contract



When participating in a CfD, we receive a feed-in premium in connection with the generation of power from an offshore wind turbine. The feed-in premium is the difference between the market price of power and the price fixed in the CfD (strike price).

### Accounting policies

Government grants comprise grants for eco-friendly power generation, grants for the funding of development projects as well as investment grants, etc.

Government grants are recognised when there is reasonable assurance that the grants will be received.

Grants for the acquisition of assets which we recognise in the balance sheet are recognised under deferred revenue and are transferred to other operating income in step with the depreciation of the assets to which the grants relate.

As grants for power generation are intended as a compensation for the price of power, we systematically recognise the grants under revenue in step with the power generation and thus the related revenue.

Government grants, which are recognised under revenue, are presented as the sale of power and power generation. See note 2.2.



## 2.5 Other operating income and expenses

Other operating income, DKK million	2017	2016
Gain on divestment of assets	11,142	3,356
Insurance compensation	-	137
Other compensation	369	877
Miscellaneous operating income	154	497
<b>Total other operating income</b>	<b>11,665</b>	<b>4,867</b>

Other operating expenses, DKK million	2017	2016
Loss on divestment of assets	307	416
Miscellaneous operating expenses	242	142
<b>Total other operating expenses</b>	<b>549</b>	<b>558</b>

### Other operating income

Gains on the divestment of assets in 2017 primarily concerned the farm-downs of 50% of our ownership interests in the offshore wind farms Walney Extension (UK) and Borkum Riffgrund 2 (Germany), contingent consideration relating to the divestment of Race Bank (UK) in 2016 (DKK 1,385 million), and to a lesser extent an adjustment in respect of the divestment of ownership interests in London Array.

In 2016, gains on the divestment of assets consisted primarily of the farm-downs of 50% of our ownership interests in the Burbo Bank Extension and Race Bank offshore wind farms.

Insurance compensation received in 2016 related to the settlement of insurance claims in Wind Power.

Compensation was mainly received from the transmission system operators (TSOs) and suppliers due to delayed deliveries for the construction of offshore wind farms in Wind Power.

### Other operating expenses

Losses on the divestment of assets in 2017 consisted, among other things, of the scrapping of components for a new type of foundation in an offshore wind farm under construction.

Losses on the divestment of assets in 2016 consisted, among other things, of the scrapping of a vessel for installation of offshore wind turbines.

### Accounting policies

Other operating income and other operating expenses comprise items of a secondary nature to the Group's primary activities.

In connection with the divestment of ownership interests in offshore wind farms before or during the construction phase, the gain is recognised on the divestment date under other operating income/other operating expenses in the income statement.

The gain for the future construction of the partner's share of the offshore wind farm is recognised on an ongoing basis in the income statement in step with the construction. See more in notes 2.2 and 4.2.

### Divestment of ownership interests in our offshore wind farms

When we divest an ownership interest in an offshore wind farm to a partner, we typically also enter into agreements on the future construction and operation of the offshore wind farm.

Contracts in connection with divestment are typically:

- Agreement on the sale of shares (divestment of assets)
- Agreement on the future construction of the offshore wind farm (construction contract)
- Agreement on the future operation of the offshore wind farm.

### Key accounting estimates

#### Assumptions for the accounting treatment of divestment gains

Our accounting recognition of the gain in the divestment contracts is based on the individual accounting selling prices of the relevant contracts.

Our accounting treatment of the gains in the contracts is therefore not necessarily identical with the prices negotiated in the individual contracts.

### Key accounting judgements

#### Assessment of classification of divestment

When we divest ownership interests in an offshore wind farm under development, we carry out an individual assessment of whether the divestment qualifies as a divestment of an enterprise or a divestment of assets. We have typically assessed that the offshore wind farms do not constitute an enterprise, as no employees are transferred, and processes are transferred to a limited extent only.

## 2.6 Employee costs

Employee costs, DKK million	Continuing operations		Discontinued operations	
	2017	2016	2017	2016
Wages, salaries and remuneration	3,650	3,692	365	692
Share-based payment	15	37	-	6
Pensions	310	311	27	51
Other social security costs	117	128	11	19
Other employee costs	61	29	5	10
<b>Employee costs before transfers to assets</b>	<b>4,153</b>	<b>4,197</b>	<b>408</b>	<b>778</b>
Transfers to assets	(956)	(1,109)	(126)	(325)
<b>Total employee costs</b>	<b>3,197</b>	<b>3,088</b>	<b>282</b>	<b>453</b>

### Employee costs

Employee costs before transfer to assets were on a par with 2016. Employee costs transferred to assets relate to investment projects, which are capitalised in the balance sheet.

### Pension plans and number of employees

Pension plans are defined-contribution plans that do not commit Ørsted beyond the amounts contributed.

In 2017, our average number of employees was 5,738 (2016: 5,894).

### Remuneration of Group Executive Management

The remuneration of the Executive Board is based on a fixed salary, including personal benefits, such as a company car, free telephone, etc., a variable salary, a retention bonus in connection with the IPO, and share-based payment. The other members of Group Executive Management<sup>1</sup> also receive a pension.

The members of the Board of Directors are paid fixed remuneration only for their work in Ørsted. In addition, Ørsted reimburses any travel expenses.

For further details about the remuneration of the Executive Board and the Board of Directors, reference is made to the remuneration report on page 55.

Salaries and remuneration for Group Executive Management and the Board of Directors, DKK '000	Executive Board		Other members of Group Executive Management <sup>1</sup>		Board of Directors		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Fixed salary	15,279	14,487	17,924	18,995	-	-	33,203	33,482
Remuneration	-	-	-	-	4,934	5,024	4,934	5,024
Variable salary	4,004	3,374	3,917	3,500	-	-	7,921	6,874
Retention bonus	2,812	937	6,535	6,326	-	-	9,347	7,263
Share-based payment	2,080	2,316	949	1,479	-	-	3,029	3,795
Pension	-	-	1,499	1,463	-	-	1,499	1,463
Termination payment	-	-	5,330 <sup>2</sup>	-	-	-	5,330	-
Social security	4	4	9	9	-	-	13	13
<b>Total</b>	<b>24,179</b>	<b>21,118</b>	<b>36,163</b>	<b>31,772</b>	<b>4,934</b>	<b>5,024</b>	<b>65,276</b>	<b>57,914</b>



<sup>1</sup> Other members of Group Executive Management in 2017 are: Samuel Leupold (departing 28 February 2018), Thomas Dalsgaard, Morten Hultberg Buchgreitz and David Cook (departed 29 September 2017).

<sup>2</sup> The compensation relates primarily to the non-competition clause in connection with Samuel Leupold's notice of termination.

## 2.7 Share-based payment

Participants	Number of locked-up shares relative to fixed salary
CEO	75% of fixed salary
CFO and other members of Group Executive Management	50% of fixed salary
Senior Vice Presidents	25% of fixed salary
Vice Presidents and Senior Directors	15% of fixed salary



The figure shows the value of the Ørsted share in per cent of the participants' fixed salary which, at the time of granting, must be locked up for the duration of the share programme.

Key assumptions for valuation of PSUs	Time of granting 2017	Time of granting 2016
Share price	269	275
Average volatility, peers	24.9%	25.6%
Volatility, Ørsted	20.3%	24.1%
Risk-free interest rate	(0.3)%	(0.5)%
Expected term at time of granting	3 years	2.5 years

### Share programme

Group Executive Management and a number of other senior executives participate in our share programme. Today, approximately 90 senior executives participate in the programme. As a condition for the granting of performance share units (PSUs), the participant must own a number of shares in Ørsted corresponding to a portion of the individual participant's annual fixed salary. The portion depends on the employee category and, for our CEO, makes up 75% of the fixed salary; see the figure to the left for more information. The participants in the programme must invest in Ørsted shares prior to the first granting.

If the participants fulfil the shareholding requirement at the time of granting, they will be granted a number of PSUs each year, representing a value of 15%-20% of the annual fixed salary on the date of granting.

The granted PSUs have a vesting period of approximately three years, after which each PSU entitles the holder, without payment, to receive a number of shares corresponding to 0-200% of the number of PSUs granted. The final number of shares for each participant will be determined on the basis of the total shareholder return delivered by Ørsted, benchmarked against ten comparable European energy companies.

The highest rate will be triggered if Ørsted's results, measured as the total return to shareholders, outperform those of the comparable companies. For each lower ranking, the number of shares granted will fall by 20 percentage points. If, for example, Ørsted ranks third, the participants will be entitled to 160% of the target.

If Ørsted ranks 11 in the comparison, no shares will be granted to the participants. The right to shares is conditional upon continued employment.

### Accounting policies

The share programme is classified as an equity-based programme as the programme is settled in shares. The market value of the PSUs and the estimated number of PSUs granted are measured at the time of granting and recognised:

- in the income statement under employee costs over the vesting period and
- as a set-off in the balance sheet under equity over the vesting period.

The valuation of the PSUs and the estimate of the number of PSUs expected to be granted are carried out as a probability simulation based on Ørsted's expected total shareholder return relative to ten comparable European energy companies. The expectations are factored into the market value and are not adjusted subsequently.

## Maximum number of outstanding shares at the time of granting, '000

Time of granting	Executive Board	Other members of Group Executive Management	Senior executives	Total	% of share capital	Market value (at time of granting) DKK million	Years until expiry
1 September 2016	21	10	123	154	0.04%	24	1.2
1 April 2017	23	10	140	173	0.04%	28	2.2
<b>Maximum number of outstanding shares at 31 December 2017</b>	<b>44</b>	<b>20</b>	<b>263</b>	<b>327</b>	<b>0.08%</b>	<b>52</b>	

Development in maximum number of outstanding shares, '000	Executive Board	Other members of Group Executive Management	Senior executives	Total	% of share capital
Maximum number of outstanding shares at 1 January 2017	20	10	128	158	0.04%
Compensation for dividends paid (2016 programme)	1	0	2	3	0.00%
Granted (2017 programme)	23	10	146	179	0.04%
Cancelled (2016 programme)			(7)	(7)	0.00%
Cancelled (2017 programme)			(6)	(6)	0.00%
<b>Maximum number of outstanding shares at 31 December 2017</b>	<b>44</b>	<b>20</b>	<b>263</b>	<b>327</b>	<b>0.08%</b>
(DKK million)					
Market value of share programme at the time of granting	7	3	42	52	
Maximum market value of share programme at 31 December 2017	15	7	89	111	



The maximum market value of the share programme at 31 December 2017 is based on the assumption that the participants receive the maximum number of shares. This requires that Ørsted delivers the highest shareholder return benchmarked against the ten comparable companies.

# 3. Capital employed

Intangible assets and property, plant and equipment	93
Provisions and contingent assets and liabilities	96
Gross and net investments	98
Divestment of enterprises	98
Assets classified as held for sale	99
Discontinued operations	100
Non-controlling interests	103



# 3. Capital employed

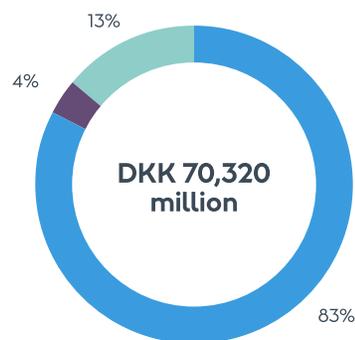
Our capital employed primarily relates to production assets, some of which are under construction. We monitor investment projects closely, as a large part of the Group's value is created in the development and construction phases.

### Investments and divestments in 2017

We made total investments of DKK 17,744 million in offshore wind farms, biomass conversions and power infrastructure in 2017 and divestments of DKK 16,982 million. The most significant assets under construction at the end of 2017 consisted of our offshore wind farms in the UK and Germany. See note 3.1.

### Capital employed by segment, % 2017

- Wind Power
- Bioenergy & Thermal Power
- Distribution & Customer Solutions



### Capital employed, DKK million

	2017	2016
Intangible assets and property, plant and equipment	76,534	71,137
Equity investments and non-current receivables	1,187	1,240
Net working capital, work in progress	7,526	3,944
Net working capital, capital expenditures	(3,039)	(2,720)
Net working capital, other items	(2,581)	(4,948)
Derivatives, net	496	1,759
Assets classified as held for sale, net	2,012	1,680
Decommissioning obligations	(4,751)	(3,649)
Other provisions	(6,769)	(5,390)
Tax, net	(464)	(1,721)
Other receivables and other payables, net	169	(371)
<b>Total capital employed</b>	<b>70,320</b>	<b>60,961</b>
of which discontinued operations	(236)	2,769
of which continuing operations	70,556	58,192



83% of the capital employed is tied up in Wind Power. Capital employed by segment is based on capital employed for reportable segments DKK 71,986.

# 70.3bn

Capital employed totalled DKK 70,320 million at 31 December 2017 against DKK 60,961 million in 2016.

# 17.7bn

Gross investments amounted to DKK 17,744 million in 2017 against DKK 14,960 million in 2016.

# 16.9bn

Cash flows from divestments, exclusive of Oil & Gas, totalled DKK 16,921 million in 2017 against DKK 9,055 million in 2016.

In 2016, the internal working capital and financial instruments of Oil & Gas were included in the principal items, while the rest of the capital employed was included in the item 'Assets classified as held for sale'. Following the divestment of the oil and gas business on 29 September 2017, capital employed from discontinued operations includes our receivables and liabilities from the transaction.

# 3.1 Intangible assets and property, plant and equipment

Intangible assets and property, plant and equipment, DKK million	Intangible assets	Land and buildings	Production assets	Fixtures and fittings, tools and equipment	Property, plant and equipment under construction	Property, plant and equipment
Cost at 1 January 2017	4,996	2,625	86,962	1,154	14,531	105,272
Exchange rate adjustments	99	(5)	(1,172)	(43)	(393)	(1,613)
Additions	133	-	2,172 <sup>1</sup>	59	17,791	20,022
Divestment of enterprises	(243)	-	(2,218)	-	-	(2,218)
Disposals	(210)	(64)	(1,844)	(11)	(5,871)	(7,790)
Adjustment of decommissioning obligations	-	-	753	-	368	1,121
Reclassified assets	-	88	12,433	15	(12,536)	-
<b>Cost at 31 December 2017</b>	<b>4,775</b>	<b>2,644</b>	<b>97,086</b>	<b>1,174</b>	<b>13,890</b>	<b>114,794</b>
Depreciation and amortisation at 1 January 2017	(2,999)	(1,056)	(28,872)	(716)	-	(30,644)
Exchange rate adjustments	(23)	6	356	19	-	381
Additions	-	-	(385) <sup>1</sup>	-	-	(385)
Depreciation and amortisation	(286)	(80)	(5,298)	(75)	-	(5,453)
Divestment of enterprises	9	-	467	-	-	467
Disposals	-	51	1,618	11	-	1,680
<b>Depreciation and amortisation at 31 December 2017</b>	<b>(3,299)</b>	<b>(1,079)</b>	<b>(32,114)</b>	<b>(761)</b>	<b>-</b>	<b>(33,954)</b>
Impairment losses at 1 January 2017	(1,042)	(64)	(4,382)	-	-	(4,446)
Exchange rate adjustments	23	-	(15)	-	(17)	(32)
Impairment losses	-	-	-	-	(545)	(545)
Divestment of enterprises	232	-	28	-	-	28
<b>Impairment losses at 31 December 2017</b>	<b>(787)</b>	<b>(64)</b>	<b>(4,369)</b>	<b>-</b>	<b>(562)</b>	<b>(4,995)</b>
<b>Carrying amount at 31 December 2017</b>	<b>689</b>	<b>1,501</b>	<b>60,603</b>	<b>413</b>	<b>13,328</b>	<b>75,845</b>

<sup>1</sup> An accounting change in the classification of our share of the Lincs offshore wind farm from an equity investment to a joint operation in 2017 resulted in additions of DKK 2,024 million under cost and DKK -385 million under depreciation and amortisation.

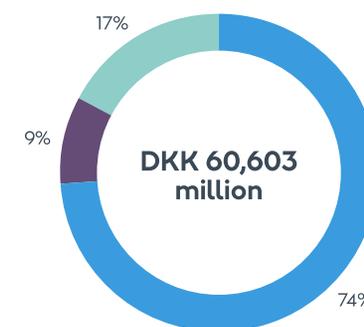
## Intangible assets

Intangible assets comprise goodwill of DKK 125 million (2016: DKK 125 million), carbon emissions allowances of DKK 180 million (2016: DKK 247 million), other rights

of DKK 33 million (2016: DKK 190 million), completed projects of DKK 321 million (2016: DKK 317 million) and development projects in progress of DKK 30 million (2016: DKK 76 million).

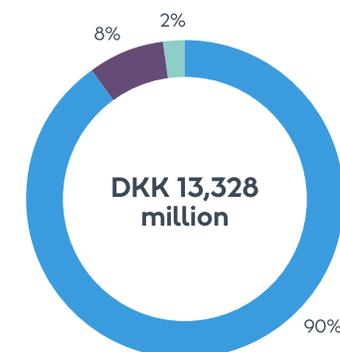
## Production assets by segment, % 2017

● Wind Power ● Bioenergy & Thermal Power ● Distribution & Customer Solutions



## Property, plant and equipment under construction by segment, % 2017

● Wind Power ● Bioenergy & Thermal Power ● Distribution & Customer Solutions



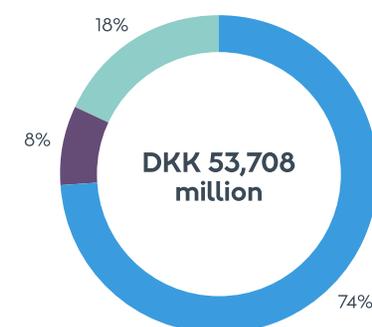
90% of property, plant and equipment under construction is ongoing construction of offshore wind farms in Wind Power.

<b>Intangible assets and property, plant and equipment, DKK million</b>	Intangible assets	Land and buildings	Production assets	Exploration assets	Fixtures and fittings, tools and equipment	Property, plant and equipment under construction	Property, plant and equipment
Cost at 1 January 2016	5,501	2,603	123,272	14	1,138	33,280	160,307
Exchange rate adjustments	6	(18)	(4,324)	(2)	(28)	(1,376)	(5,748)
Addition on acquisition of enterprises	21	-	-	-	-	-	-
Additions	159	2	272	191	56	17,229	17,750
Divestment of enterprises	-	-	(8,882)	(4)	-	-	(8,886)
Disposals	(645)	(90)	(1,286)	(250)	(8)	(3,255)	(4,889)
Adjustment of decommissioning obligations	-	-	397	57	-	572	1,026
Reclassified assets	-	140	20,590	-	21	(20,751)	-
Transferred to assets classified as held for sale	(46)	(12)	(43,077)	(6)	(25)	(11,168)	(54,292)
<b>Cost at 31 December 2016</b>	<b>4,996</b>	<b>2,625</b>	<b>86,962</b>	<b>-</b>	<b>1,154</b>	<b>14,531</b>	<b>105,272</b>
Depreciation and amortisation at 1 January 2016	(3,334)	(1,049)	(49,874)	-	(664)	-	(51,587)
Exchange rate adjustments	(1)	1	261	-	3	-	265
Depreciation and amortisation	(293)	(97)	(6,932)	-	(85)	-	(7,114)
Disposal on divestment of enterprises	-	-	5,164	-	-	-	5,164
Disposals	589	77	656	-	5	-	738
Transferred to assets classified as held for sale	40	12	21,853	-	25	-	21,890
<b>Depreciation and amortisation at 31 December 2016</b>	<b>(2,999)</b>	<b>(1,056)</b>	<b>28,872</b>	<b>-</b>	<b>(716)</b>	<b>-</b>	<b>30,644</b>
Impairment losses at 1 January 2016	(1,033)	(64)	(12,291)	-	-	(16,136)	(28,491)
Exchange rate adjustments	(9)	-	462	-	-	471	933
Impairment losses	-	-	-	-	-	(953)	(953) <sup>1</sup>
Disposal on divestment of enterprises	-	-	3,383	-	-	-	3,383
Disposals	-	-	192	-	-	-	192
Reclassified assets	-	-	(5,339)	-	-	5,339	-
Transferred to assets classified as held for sale	-	-	9,211	-	-	11,279	20,490
<b>Impairment losses at 31 December 2016</b>	<b>(1,042)</b>	<b>(64)</b>	<b>(4,382)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(4,446)</b>
<b>Carrying amount at 31 December 2016</b>	<b>955</b>	<b>1,505</b>	<b>53,708</b>	<b>-</b>	<b>438</b>	<b>14,531</b>	<b>70,182</b>

<sup>1</sup> Impairment losses on property, plant and equipment under construction concerned the construction of the Hejre field (Oil & Gas). Provisions had been made for this in 2015, and the impairment loss thus had no effect on the profit for 2016.

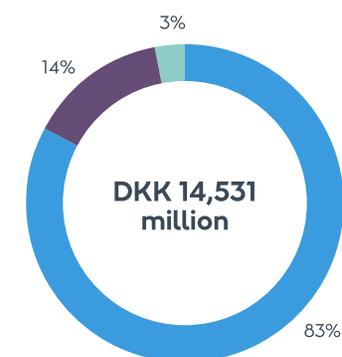
#### Production assets by segment, % 2016

- Wind Power
- Bioenergy & Thermal Power
- Distribution & Customer Solutions



#### Property, plant and equipment under construction by segment, % 2016

- Wind Power
- Bioenergy & Thermal Power
- Distribution & Customer Solutions





### CGUs in Wind Power

The CGUs are made up of individual offshore wind farms, each of which generates cash flows for the segment independently of each other.

Most significant offshore wind farms: Anholt – Borkum Riffgrund 1 – Borkum Riffgrund 2 – Burbo Bank Extension – Gode Wind 1 – Gode Wind 2 – Gunfleet Sands – Hornsea 1 – London Array – Race Bank – Westermost Rough – Walney – Walney Extension – West of Duddon Sands



### CGUs in Bioenergy & Thermal Power

The Danish power stations constitute a single CGU as overall production planning is for the entire Danish portfolio of CHP plants. The Dutch power station Enecogen is deemed to constitute a single CGU, just as the not yet commissioned waste power station Renaissance Northwich is deemed to constitute an independent CGU.

– Central CHP plants (including goodwill)  
– Renaissance Northwich  
– Enecogen



### CGUs in Distribution & Customer Solutions

The CGUs are constituted primarily by distribution assets, each of which generates cash flows for the segment independently of each other.

– Power distribution – Oil pipelines – Offshore gas pipelines – Street lighting

## Impairment losses

### Impairment losses relating to goodwill

We have not impaired goodwill or other intangible assets in 2017.

### Impairment losses relating to property, plant and equipment

In 2017, impairment losses of DKK 545 million were recognised on projects in progress in Wind Power due to uncertainty about the carrying through of the project.

## Useful lives

Buildings	20-50 years
Offshore wind farms	20-24 years
Production assets, power (thermal) and district heating	20-25 years
Gas transportation system (marine pipelines)	20-40 years
Oil transportation system (marine pipeline)	15 years
Distribution grids, power	20-40 years
Fixtures and fittings, tools and equipment	3-10 years

## Accounting policies

### Intangible assets

Rights are measured at cost less accumulated amortisation and impairment losses. Rights are amortised on a straight-line basis over their estimated future useful lives, which are 5-20 years.

### Property, plant and equipment

Property, plant and equipment is measured at cost less accumulated depreciation and impairment losses. Cost of property, plant and equipment is depreciated on a straight-line basis, using the diminishing-balance method or the reducing-fraction method. The diminishing-balance method and the reducing-fraction method result in decreasing depreciation over the useful life of the offshore wind farm.



Cost comprises purchase price and any costs directly attributable to the acquisition until the date the asset is available for use. The cost of self-constructed assets comprises direct and indirect costs of materials, components, sub-suppliers and labour. Borrowing costs relating to both specific and general borrowing directly attributable to assets under construction with a lengthy construction period are recognised in cost during the construction period. Cost is increased by the present value of the estimated obligations for demolition and decommissioning of assets to the extent that they are recognised as a provision.

Subsequent costs, for example in connection with replacement of parts of an item of property, plant and equipment, are recognised in the carrying amount of the asset in question when it is probable that future economic benefits will flow to the Group from the expenses incurred. Other repair and maintenance expenses are recognised in profit (loss) for the year as incurred.

### Assumptions for impairment test

Production assets are tested for impairment if there is any indication of impairment. For production assets with a limited lifetime, such as offshore wind farms and CHP plants, cash flows are calculated based on forecasts for the entire lifetime of the asset. For power distribution, cash flows are based on 25-year forecasts with the addition of a terminal value. The determination of the recoverable amount of production assets is based on a number of assumptions where estimates are made for the determination. These assumptions include future market conditions, market prices of power, biofuel, gas, coal, carbon, weighted average cost of capital (WACC), exchange rates, etc. The market prices applied are based on available forward prices for a period of up to five years and our best estimate of long-term prices for the remainder of the period.

When calculating the recoverable amount of property, plant and equipment under construction, the expected completion costs and the commissioning dates are also assumptions which are based on estimates.

## 3.2 Provisions and contingent assets and liabilities

### Provisions

Decommissioning obligations mainly comprise estimated expenses relating to demolition and disposal of our offshore wind farms, restoration of seabeds and the demolition of our CHP plants.

As developers of offshore wind farms, we are obliged to decommission offshore wind farms and restore the surroundings at our own expense. When we construct offshore wind farms in cooperation with partners, they are liable for their share of the decommissioning costs. Therefore, we have included only the decommissioning obligations associated with our ownership interest in the offshore wind farms.

Decommissioning obligations increased by DKK 1,102 million from 2016 to 2017, due primarily to a change in the discount rate applied and to an adjustment of other assumptions applied in the determination of our decommissioning obligations.

Onerous contracts comprise the following:

- contract for booked LNG terminal capacity in the Netherlands, DKK 1,329 million. (2016: DKK 1,033 million)
- contract for the lease of gas storage capacity in Germany, DKK 1,075 million (2016: DKK 1,179 million)
- contract for the lease of gas storage capacity in Denmark, DKK 290 million (2016: DKK 384 million).

Provisions, DKK million	2017				2016			
	Decommissioning obligations	Onerous contracts	Other liabilities	Total	Decommissioning obligations	Onerous contracts	Other liabilities	Total
Provisions at 1 January	3,649	2,596	2,794	9,039	11,144	5,472	2,572	19,188
Exchange rate adjustments	(58)	-	(8)	(66)	(153)	(17)	128	(42)
Used during the year	(134)	(436)	(235)	(805)	(187)	(1,413)	(505)	(2,105)
Provisions reversed during the year	-	(22)	(28)	(50)	-	(774)	(350)	(1,124)
Provisions made during the year	320	464	1,584	2,368	746	-	1,490	2,236
Change in estimates of other factors	219	-	-	219	215	-	-	215
Transferred to assets classified as held for sale/disposal on divestment of enterprises	(11)	-	-	(11)	(6,941)	(883)	(532)	(8,356)
Interest element of provisions	766	109	-	875	534	211	-	745
Disposal on divestment of enterprises	-	-	(49)	(49)	(1,709)	-	(9)	(1,718)
<b>Total provisions</b>	<b>4,751</b>	<b>2,711</b>	<b>4,058</b>	<b>11,520</b>	<b>3,649</b>	<b>2,596</b>	<b>2,794</b>	<b>9,039</b>
<b>Falling due as follows:</b>								
0-1 year	23	335	322	680	49	327	326	702
1-5 years	43	1,025	3,080	4,148	73	1,089	2,016	3,178
After 5 years	4,685	1,351	656	6,692	3,527	1,180	452	5,159

Other provisions comprise primarily:

- warranty obligations for offshore wind farms
- possible repayments to electricity consumers in respect of previous years
- obligations in connection with divestments, primarily in relation to the divestment of our Oil & Gas business
- obligations in respect of our own carbon emissions
- other contractual obligations.

### Contingent liabilities

This note primarily concerns our continuing operations – see also note 3.6 regarding our discontinued operations.

### Liability to pay compensation

In case of any environmental accidents or other types of damage caused by our oil and gas transport, the companies Ørsted Salg & Service A/S and Danish Oil Pipe A/S are liable

to pay compensation according to legislation. This also applies if there is no proof of negligence (strict liability). We have taken out insurance to cover any such claims.

↑  
Provisions mainly consisted of decommissioning obligations and onerous contracts.

## Litigation

We are party to actions relating to the Danish competition authorities' claim that Elsam A/S and Elsam Kraft A/S charged excessive prices in the Danish wholesale power market in some periods. Following a merger in 2008, Elsam Kraft A/S is part of Ørsted Bioenergy & Thermal Power A/S.

The Danish Competition Appeals Tribunal has concluded that Elsam A/S and Elsam Kraft A/S abused their dominant position in the wholesale power market in Western Denmark to some extent in the periods 1 July 2003 to 31 December 2004 and 1 January 2005 to 30 June 2006 by charging excessive prices. We dispute the rulings, and appeals have been lodged with the Copenhagen Maritime and Commercial Court. In 2016, the Copenhagen Maritime and Commercial Court found the former Elsam guilty of violating the Danish Competition Act in 2005 and the first half of 2006 without, however, providing clear grounds for its decision. We have appealed the case to the High Court of Western Denmark, where the case is pending.

In connection with the above-mentioned cases, some energy companies, some of their customers and others have raised claims for damages. One group has chosen to commence legal proceedings before the Copenhagen Maritime and Commercial Court with a claim for damages of approximately DKK 4.4 billion with addition of interest, while suspension agreements have been concluded with others, meaning that the limitation period for these alleged claims has been suspended. In response to the claims for damages, we have made a provision of DKK 298 million plus interest. The provision has been calculated on the basis of the Danish Competition Council's determination of consumer losses.

In addition, we are party to a number of court cases and legal disputes. In our assessment, none of these will significantly impact the company's financial position, neither individually nor collectively.

## Change of control

Some of our activities are subject to consents, permits and licences granted by public

authorities. We may be faced with a claim for acceptance of any transfer, possibly with additional terms and conditions, if the Danish State holds less than 50% of the share capital or voting rights in Ørsted A/S. Read more in note 6.1

## Accounting policies

Provisions are recognised when the following criteria are fulfilled:

- we have a legal or constructive obligation as a result of an earlier event
- the settlement of the obligation is expected to result in an outflow of resources
- the obligation can be measured reliably.

For onerous contracts, a provision is made when the expected income to be derived from a contract is lower than the unavoidable cost of meeting our obligations under the contract.

Provisions concerning carbon emissions are recognised when our actual emissions exceed our holding of carbon emissions allowances.

Decommissioning obligations are measured at the present value of the future liability in respect of demolition and decommissioning as expected at the balance sheet date. The present value of the provision is recognised as part of the cost of property, plant and equipment and depreciated together with the associated asset. The addition of interest on provisions is recognised in the income statement under financial expenses.

## Key accounting estimates

Timing, probabilities, amounts, etc. which have a bearing on our provisions estimates are updated quarterly based on our expectations.

## Assumptions for decommissioning obligations

Estimates of decommissioning obligations are based on our expectations of, for example:

- timing and scope
- future cost level
- adopted laws and regulations on remediation.

The timing of our decommissioning obligations depends on the expected useful lives of the assets. The expected useful life of our offshore wind farms is 24 years.

We expect that our CHP plants in Denmark must be removed within 12 years of decommissioning at the latest.

In measuring provisions, the costs required to meet the obligations are discounted. In determining decommissioning obligations at 31 December 2017, a discount rate of 3.5% is applied. The rate has been reduced from 4.5% in 2016 due to the continued low interest rate environment. The rate has been estimated on the basis of expectations concerning the future, long-term interest rate level, based on historical interest rate levels.

Timing as well as special demolition and decommissioning requirements are assessed based on current legislation and standards in this area. Future cost levels are based, among other things, on expectations with regard to:

- general price development or development in market prices
- demand
- development of existing technologies.

## Estimates of onerous contracts

We have entered into a number of contracts with fixed terms. Depending on market developments, etc., and uncertainty about obligations incurred under the contracts made, these contracts may become onerous. Our estimates concerning these complex contracts and their future effects are subject to significant uncertainties.

## Estimates of litigation outcomes

When exercising a judgement about a potential liability in connection with litigation, we assess the following factors:

- the nature of the litigation, claim or statement
- the development of the case
- the judgements and recommendations of legal or other advisers
- experience from similar cases
- management's decision on how we are going to react to the litigation, claim or statement.

Decommissioning obligations by segment, DKK million				Total
	Wind Power	Bioenergy & Thermal Power	Distribution & Customer Solutions	
0-5 years	60	4	2	66
5-10 years	350	119	-	469
10-20 years	2,261	190	-	2,451
After 20 years	874	420	471	1,765
<b>2017</b>	<b>3,545</b>	<b>733</b>	<b>473</b>	<b>4,751</b>
<b>2016</b>	<b>2,785</b>	<b>668</b>	<b>196</b>	<b>3,649</b>



The table shows decommissioning obligations by segment as well as a maturity analysis.

## 3.3 Gross and net investments

Gross and net investments, DKK million	2017	2016
Cash flows from investing activities	(10,054)	(1,060)
Dividends received and capital reduction, reversed	(13)	(22)
Purchase and sale of securities, reversed	9,197	(4,564)
Loans to associates and joint ventures, reversed	47	(210)
Sale of non-current assets, reversed	(16,921)	(9,104)
<b>Total gross investments</b>	<b>(17,744)</b>	<b>(14,960)</b>
Transactions with non-controlling interests in connection with divestments	61	(49)
Sale of non-current assets	16,921	9,104
<b>Total cash flows from divestments</b>	<b>16,982</b>	<b>9,055</b>
<b>Total net investments</b>	<b>(762)</b>	<b>(5,905)</b>

In 2017, gross investments totalled DKK 17,744 million (2016: DKK 14,960 million).

Gross investments in Wind Power primarily consisted in the build-out of offshore wind farms (DKK 15,462 million), including the UK offshore wind farms Race Bank, Walney Extension and Hornsea 1 as well as the German offshore wind farm Borkum Riffgrund 2.

In 2017, cash flows from the divestment of assets and enterprises totalled DKK 16,982 million (2016: DKK 9,055 million).

In 2017, Wind Power farmed down 50% of Walney Extension to the Danish pension funds PKA and PFA, 50% of Borkum Riffgrund 2 to Global Infrastructure Partners as well as divesting all ownership interests in A2SEA.

Wind Power also received contingent consideration regarding the divestment of UK Race Bank in 2016.

In 2016, Wind Power divested 50% of Burbo Bank Extension to the Danish pension fund PKA and the Danish investment company KIRKBI as well as 50% of Race Bank to Macquarie.

Distribution & Customer Solutions divested Gas Distribution to the Danish transmission asset owner Energinet in 2016.

For more information, see the management's review on page 28.

## 3.4 Divestment of enterprises

Selling price, DKK million	2017	2016
Payment	605	2,348
Addition/reduction for receivables/payables transferred	-	(113)
Working capital adjustment	(1)	(117)
<b>Selling price on divestment of enterprises</b>	<b>604</b>	<b>2,118</b>
Transaction costs	(20)	(38)
Of which selling price receivable	4	(81)
<b>Cash selling price on divestment of enterprises</b>	<b>588</b>	<b>1,999</b>

Gain (loss) on divestment of enterprises, DKK million	2017	2016
Selling price on divestment of enterprises	604	2,118
Net assets sold	(725)	(844)
Provisions as a result of the transaction	2	14
Transaction costs	(20)	(38)
<b>Gain (loss) on divestment of enterprises</b>	<b>(139)</b>	<b>1,250</b>

Gains on the divestment of enterprises in 2017 primarily concerned A2SEA. Transferred cash and cash equivalents totalled DKK 278 million.

In 2016, gains on the divestment of enterprises consisted primarily of a gain on the divestment of Gas Distribution to Energinet (Distribution & Customer Solutions). Transferred net cash and cash equivalents in the form of bank deposits and drawn bank overdrafts totalled DKK -242 million.

### Accounting policies

We recognise income from divested enterprises in the income statement up until the date of divestment.

The date of divestment is the date on which we relinquish control of the divested enterprise.

Gains or losses on the divestment or discontinuation of subsidiaries and associates are determined as the difference between the selling price and the carrying amount of the net assets divested.

Moreover, the fees of advisers, etc., in connection with the divestment or discontinuation of the enterprise are deducted.

## 3.5 Assets classified as held for sale

At 31 December 2017, assets classified as held for sale comprised only our oil pipe system in Denmark which is to be sold to the Danish transmission asset owner Energinet.

At 31 December 2016, assets classified as held for sale comprised our Oil & Gas business and our oil pipe system.

On 29 September 2017, we divested our Oil & Gas business to INEOS. Until the divestment,

we presented our Oil & Gas business as assets classified as held for sale and as discontinued operations. Read more in note 3.6.

The sales process for our oil pipeline is expected to be completed within 12 months. Consequently, these activities have been classified as assets held for sale.

Assets classified as held for sale, DKK million	2017	2016
Intangible assets	20	5
Property, plant and equipment	2,119	12,719
Inventories	16	7
Trade receivables	73	192
Other receivables	368	1,139
Income tax	46	586
Cash	-	725
<b>Total assets classified as held for sale</b>	<b>2,642</b>	<b>15,373</b>
Deferred tax	99	1,057
Provisions	359	8,356
Trade payables	80	825
Other payables	92	1,479
Income tax	-	1,787
<b>Total liabilities relating to assets classified as held for sale</b>	<b>630</b>	<b>13,504</b>
<b>Net assets classified as held for sale</b>	<b>2,012</b>	<b>1,869</b>

### Accounting policies

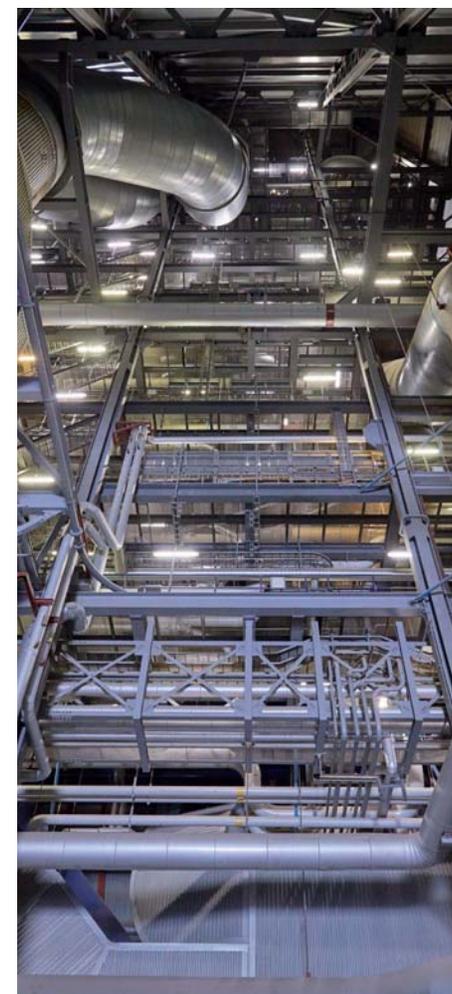
Assets classified as held for sale comprise assets and liabilities, the value of which is highly probable to be recovered through a sale within 12 months rather than through continued use.

Assets and liabilities classified as held for sale are measured at the carrying amount at the time of classification as 'held for sale' or at market value less selling costs, whichever is lower. The carrying amount is measured in accordance with the Group's accounting policies.

No depreciation or amortisation is effected on property, plant and equipment and intangible assets from the time of classification as 'held for sale'.



The table shows assets and liabilities which have been put up for sale, and which are therefore not expected to contribute to our earnings in future.



## 3.6 Discontinued operations

In November 2016, the Board of Directors decided to initiate a process with the ultimate objective of divesting Oil & Gas.

As a result of this decision, we have presented our oil and gas business as assets classified as held for sale and as discontinued operations from the end of 2016. The classification means that assets and liabilities are presented separately from other assets and liabilities. Discontinued operations are also shown separately in the income statement and the statement of cash flows.

The divestment of Oil & Gas to INEOS was closed on 29 September 2017.

### Financial performance

The key figures for discontinued operations in 2017 comprise only results for the first nine months of the year up until the divestment. In addition to the results from the first nine months of 2017, net profit from discontinued operations, cash flows from operating activities and cash flows from divestments include adjustments after the closing of the transaction. See more below.

EBITDA totalled DKK 6.4 billion, which is unchanged relative to the first nine months of 2017 and on a par with all of 2016. EBITDA rose as a result of the recognition of inefficient price hedges totalling DKK 1.4 billion as well as a provision (without impact at EBIT level) which contributed negatively in 2016. This was

offset by one less quarter of operations in 2017 compared with 2016.

Net profit from discontinued operations amounted to DKK 6.9 billion in 2017 against DKK 1.1 billion in 2016. The increase of DKK 5.8 billion was due partly to a gain on the divestment of DKK 2.4 billion, partly to higher EBIT and lower tax. The higher EBIT in 2017 relative to 2016 was due to non-depreciation of the Oil & Gas assets since the business was classified as assets held for sale at the end of 2016. The lower tax in 2017 relative to 2016 primarily reflected the impairment of the remaining tax assets, which contributed negatively in 2016.

Cash flows from operating activities totalled DKK 5.5 billion in 2017 against DKK 4.1 billion in 2016. The increase was due primarily to the recognition of price hedges mentioned above. The increase was offset by one less quarter of operations in 2017 than in 2016. Cash flows from operating activities totalled DKK 0.3 billion in Q4 2017 and were due to a tax receivable received relating to net losses on hedging instruments in 2016 and 2017.

Cash flows from divestments totalled DKK 0.2 billion in 2017 compared with DKK 0.4 billion in 2016. In both periods, they were impacted by payments received concerning the Glenlivet field. Moreover, the Norwegian fields Trym, Ula, Tambar and Oselvar were divested in 2016. There were no significant changes in cash flows from divestments in Q4 2017.

Key figures	2017	2016
<b>Business drivers</b> (million boe)		
Oil and gas production	21.4	36.6
<b>Financial performance</b> (DKK million)		
Revenue	7,999	10,530
EBITDA	6,436	6,507
EBIT	7,149	5,082
Profit from discontinued operations	4,488	1,052
Gain (loss) on disposal of discontinued operations	2,432	-
Net profit from discontinued operations	6,920	1,052
Cash flows from operating activities	5,545	4,138
Gross investments	(430)	(3,436)
Divestments	233	404
Payment from the divestment of Oil & Gas	3,677	-
Free cash flow	9,025	1,106

Cash flows from discontinued operations, DKK million	2017	2016
Cash flows from operating activities	5,545	4,138
Cash flows from investing activities	3,480	(3,032)
Cash flows from financing activities	-	360
<b>Total cash flows from discontinued operations</b>	<b>9,025</b>	<b>1,466</b>

Capital employed, discontinued operations, DKK million	2017	2016
Property, plant and equipment and intangible assets	-	11,914
Equity investments and non-current receivables	691	2
Net working capital, other items	-	1,121
Derivatives, net	-	1,356
Decommissioning obligations	-	(6,971)
Other provisions	(935)	(2,415)
Tax, net	(3)	(2,238)
Other receivables and other payables, net	11	-
<b>Total net assets</b>	<b>(236)</b>	<b>2,769</b>



The remaining net assets under discontinued operations consist of the selling price receivable and provisions as a result of the divestment of Oil & Gas.

### Divestment of Oil & Gas

The payment from the divestment of Oil & Gas consisted of:

- an unconditional payment of USD 1,050 million on a cash and debt-free basis
- a conditional payment of USD 150 million, which relates to the stabilisation plant in Fredericia, and
- a payment of up to USD 100 million, which is conditional upon the development of the Rosebank field.

'Payment' in the table includes the unconditional payment and the fair value of the conditional payment in respect of the Rosebank field.

Under the agreement with INEOS, all cash flows from 1 July to 29 September 2017 accrued to the buyer. As control of Oil & Gas remained with us until 29 September, we have consolidated results and cash flows for accounting purposes in this period. The obtained net debt reduction of DKK 707 million from the consolidation in this period has therefore been deducted from the selling price for discontinued operations. In addition, the selling price from INEOS was reduced by the outstanding tax payable and creditors regarding assets at 30 June 2017. These payables concern activities from before the financial exposure and risks passed to INEOS.

Thus, the accounting selling price from the transaction amounted to DKK 5,456 million, of which DKK 3,652 million was received and recognised in our free cash flow from discontinued operations in Q3 2017. All in all, the transaction reduced the Group's net debt by DKK 4,588 million, as USD 150 million of the outstanding selling price is interest-bearing.

The gain on the divestment was recognised at DKK 2,179 million in net profit from discontinued operations in Q3 2017. In Q4 2017, we reversed a proportion of the provision for indemnification of INEOS concerning tax matters prior to 30 June 2017 as well as other minor adjustments. This resulted in an increase in the gain of DKK 253 million and is a consequence of the adoption of the bill concerning extended right to deduct payroll costs within a group. The profit statement includes provisions of DKK 935 million which primarily concern two factors:

- indemnification of INEOS concerning tax matters prior to 30 June 2017
- difference between INEOS' conditional payment to Ørsted A/S concerning the stabilisation plant and our expected payment.

The payments from INEOS for the stabilisation plant are expected to be settled over a 10-year period beginning in 2019-2021. The remaining non-interest-bearing net assets (capital employed) in our balance sheet relating to Oil & Gas amounted to DKK -236 million at 31 December 2017. In addition to the above-mentioned provision, this includes the non-interest-bearing part of the outstanding payment. The net assets will be recognised in cash flows from discontinued operations as they fall due.

### Secondary liability

As part of the divestment of Oil & Gas, we have assumed a secondary liability regarding the decommissioning of offshore installations. We consider the payment of the liability to be very unlikely. The matter is described in further detail in the interim financial report for the first nine months of 2017.

### Main elements of the divestment on 29 September 2017

Selling price, DKK million	2017	←
Payment	7,209	The table shows the items included in the determination of the selling price from the divestment of Oil & Gas.
Reduction for outstanding tax payable and creditors concerning non-current assets at 30 June 2017	(1,198)	
Accounting adjustment for reduction of net debt from 30 June 2017 to 29 September 2017	(707)	
Working capital adjustment and interest	152	
<b>Selling price for discontinued operations</b>	<b>5,456</b>	
Transaction costs	(78)	Transferred cash on the divestment of Oil & Gas amounted to DKK 1,524 million.
Of which selling price receivable	(1,726)	
<b>Cash selling price for discontinued operations</b>	<b>3,652</b>	

Net debt, impact, DKK million	2017	←
Cash selling price for discontinued operations	(3,652)	The table shows the effect of the divestment of Oil & Gas on our interest-bearing net debt.
Interest-bearing receivable payment	(1,014)	
Transaction costs	78	
<b>Net debt</b>	<b>(4,588)</b>	

Gain (loss) on divestment of discontinued operations, DKK million	2017	←
Selling price for discontinued operations	5,456	The table shows the items in the determination of financial gain on the divestment of Oil & Gas.
Net assets sold	(1,276)	
Provisions as a result of the transaction	(1,228)	
Foreign currency translation reserve and hedging of net investment	(695)	
Transaction costs	(78)	
<b>Gain (loss) on divestment of discontinued operations</b>	<b>2,179</b>	

Net profit from discontinued operations, DKK million	2017	←
Profit from discontinued operations	4,662	The table shows profit from discontinued operations, including gain on the divestment of Oil & Gas.
Gain (loss) on divestment of discontinued operations	2,179	
<b>Net profit from discontinued operations</b>	<b>6,841</b>	

	2017			2016		
	Business performance	Adjustments	IFRS	Business performance	Adjustments	IFRS
<b>Profit from discontinued operations, DKK million</b>						
External revenue	4,178	(1,047)	3,131	5,912	(4,595)	1,317
Intra-group revenue	3,821	-	3,821	4,618	-	4,618
<b>Revenue</b>	<b>7,999</b>	<b>(1,047)</b>	<b>6,952</b>	<b>10,530</b>	<b>(4,595)</b>	<b>5,935</b>
Cost of sales	(957)	-	(957)	(1,020)	-	(1,020)
Employee costs and other external expenses	(920)	-	(920)	(2,391)	-	(2,391)
Other operating income and expenses	252	-	252	(700)	-	(700)
Gain (loss) on disposal of non-current assets	62	-	62	88	-	88
<b>Operating profit (loss) before depreciation, amortisation and impairment losses (EBITDA)</b>	<b>6,436</b>	<b>(1,047)</b>	<b>5,389</b>	<b>6,507</b>	<b>(4,595)</b>	<b>1,912</b>
Depreciation and amortisation	-	-	-	(2,175)	-	(2,175)
Impairment losses and reversals	713	-	713	750	-	750
<b>Operating profit (loss) (EBIT)</b>	<b>7,149</b>	<b>(1,047)</b>	<b>6,102</b>	<b>5,082</b>	<b>(4,595)</b>	<b>487</b>
Gain on divestment of enterprises	-	-	-	151	-	151
Financial income and expenses, net	(393)	-	(393)	(814)	-	(814)
<b>Profit (loss) before tax</b>	<b>6,756</b>	<b>(1,047)</b>	<b>5,709</b>	<b>4,419</b>	<b>(4,595)</b>	<b>(176)</b>
Tax on profit (loss) for the year	(2,267)	230	(2,037)	(3,367)	1,011	(2,356)
<b>Profit from discontinued operations</b>	<b>4,489</b>	<b>(817)</b>	<b>3,672</b>	<b>1,052</b>	<b>(3,584)</b>	<b>(2,532)</b>



The profit from discontinued operations relates to our divested oil and gas business.

	2017			2016		
	Profit (loss) before tax	Tax	Tax rate	Profit (loss) before tax	Tax	Tax rate
<b>Tax for the period, discontinued operations, DKK million</b>						
Oil and gas activities in Norway (hydrocarbon income)	2,308	(1,765)	76%	1,860	(1,489)	80%
Oil and gas exploration activities in the UK and the Faroe Islands	530	6	(1)%	269	-	n.a.
Gains (losses) from divestments as well as other non-taxable income and non-deductible costs	-	210	n.a.	(17)	38	223%
Impairment losses and reversals	713	-	n.a.	750	(1,575)	210%
Other activities in Oil & Gas	3,205	(718)	22%	1,557	(341)	22%
<b>Total, business performance</b>	<b>6,756</b>	<b>(2,267)</b>	<b>34%</b>	<b>4,419</b>	<b>(3,367)</b>	<b>76%</b>
<b>Total, IFRS</b>	<b>5,709</b>	<b>(2,037)</b>	<b>36%</b>	<b>(176)</b>	<b>(2,356)</b>	<b>(1,339)%</b>



Impairment losses in Oil & Gas consisted of a reversal of impairment losses from previous years.

## 3.7 Non-controlling interests

Transactions with non-controlling interests, DKK million	2017	2016
<b>Transactions with non-controlling interests</b>		
Dividends paid to non-controlling interests	(376)	(404)
Divestment of equity investments to non-controlling interests	(108)	(100)
Other capital transactions with non-controlling interests	53	(23)
<b>Total transactions, see statement of cash flows</b>	<b>(431)</b>	<b>(527)</b>
<b>Divestment of equity investments to non-controlling interests</b>		
Selling price	8	19
Of which changes in receivables relating to the acquisition and divestment of non-controlling interests	(116)	(119)
<b>Cash selling price, total</b>	<b>(108)</b>	<b>(100)</b>

### Accounting policies

Transactions with non-controlling interests are accounted for as transactions with the shareholder base.

Gains and losses on the divestment of equity investments to non-controlling interests are recognised in equity when the divestment does not result in a loss of control.

Net assets acquired are not revalued on the acquisition of non-controlling interests. Any difference between the carrying amount and the acquisition or selling price is recognised in equity.

### DKK million

#### Statement of comprehensive income

Revenue	466	430
EBITDA	276	233
Profit (loss) for the year	58	21
Total comprehensive income	(21)	(202)
Profit (loss) for the year attributable to non-controlling interests	29	10

#### Balance sheet

Non-current assets	2,638	2,637
Current assets	305	166
Non-current liabilities	334	304
Current liabilities	73	63
Carrying amount of non-controlling interests	1,265	1,215

#### Statement of cash flows

Cash flows from operating activities	245	225
Cash flows from investing activities	30	-
Cash flows from financing activities	(256)	(227)
– of which dividends paid to non-controlling interests	(113)	(113)

Subsidiaries with significant non-controlling interests	Non-controlling interest	Registered office
Gunfleet Sands Holding Ltd.	49.9%	London, UK
Walney (UK) Offshore Windfarms Ltd.	49.9%	London, UK



A2SEA was a significant non-controlling interest until the divestment of our ownership interest on 31 August 2017.

### Gunfleet Sands Holding Ltd. group

### Walney (UK) Offshore Windfarms Ltd.

	2017	2016	2017	2016
Revenue	466	430	1,087	1,126
EBITDA	276	233	545	569
Profit (loss) for the year	58	21	46	67
Total comprehensive income	(21)	(202)	(115)	(508)
Profit (loss) for the year attributable to non-controlling interests	29	10	23	21
<b>Balance sheet</b>				
Non-current assets	2,638	2,637	6,159	6,813
Current assets	305	166	225	231
Non-current liabilities	334	304	776	700
Current liabilities	73	63	217	195
Carrying amount of non-controlling interests	1,265	1,215	2,697	3,075
<b>Statement of cash flows</b>				
Cash flows from operating activities	245	225	562	650
Cash flows from investing activities	30	-	(1)	(1)
Cash flows from financing activities	(256)	(227)	(577)	(630)
– of which dividends paid to non-controlling interests	(113)	(113)	(263)	(302)



In the table, we provide financial information for subsidiaries with significant non-controlling interests. The amounts stated are the consolidated accounting figures of the individual enterprises/groups, determined according to our accounting policies. Amounts are stated before intra-group eliminations.

# 4. Working capital

Inventories	106
Construction contracts	107
Trade receivables	108
Other receivables	108
Other payables	109
Change in net working capital	109



# 4. Working capital

## Working capital

Our key working capital items consist of inventories, construction contracts, trade receivables, trade payables and other payables, including prepayments from heat customers and connection charges from power customers.

Working capital items vary across the year in line with the seasonal variations in our production and sales activities. Our construction contracts in Wind Power, which are the construction of offshore wind farms for partners

and the construction of transmission assets in the UK, also vary over the year and from year to year. This is due to the fact that payments are received in the form of milestone payments from partners and upon divestment of the transmission assets after construction.

Trade payables relating to capital investments are not included in this section as they are presented as part of the cash flows from investing activities.

### Working capital, DKK million

	2017	2016
Inventories	3,853	3,451
Construction contracts, net	9,500	6,282
Trade receivables	9,170	7,286
Other receivables	2,082	1,402
Trade payables, excluding trade payables relating to capital expenditure	(8,460)	(7,304)
Other payables	(11,200)	(12,121)
<b>Net working capital, excluding trade payables relating to capital expenditure at 31 December</b>	<b>4,945</b>	<b>(1,004)</b>
Of which work in progress and related trade payables	7,526	3,944
Of which other working capital	(2,581)	(4,948)

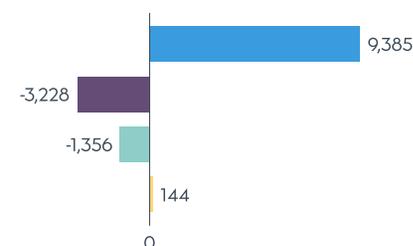


Our net working capital has changed substantially relative to 2016. The primary cause is the development in construction contracts, net and trade receivables.

Work in progress consists of construction contracts and service level agreements in connection with the construction of transmission assets and offshore wind farms for partners as well as related trade payables.

### Working capital, DKK million 2017

- Wind Power
- Bioenergy & Thermal Power
- Distribution & Customer Solutions
- Other



Wind Power primarily has funds tied up in construction contracts and trade receivables, while Bioenergy & Thermal Power and Distribution & Customer Solutions have a negative working capital as a result of prepayments from heat and power customers.

# 4.9bn

Our net working capital excluding trade payables relating to capital expenditure in 2017 against -1.0bn in 2016.

# 5.9bn

We have an additional amount of DKK 5,949 million tied up in working capital relative to 2016, of which DKK 3,581 million pertained to work in progress and related trade payables in Wind Power.

# 4.1 Inventories

Inventories, DKK million	2017	2016
Biomass	258	244
Gas	1,526	1,286
Coal	396	395
Oil	124	111
Green certificates	1,441	1,282
Carbon emissions allowances	52	80
Other inventories	56	53
<b>Total inventories</b>	<b>3,853</b>	<b>3,451</b>

## Accounting policies

The cost of gas is determined as a weighted average of the previous month's acquisition prices, including transportation costs.

Purchased carbon emissions allowances are measured at market value.

Green certificates, which we earn by generating power using renewable energy sources, are recognised in inventories in step with our generation. We measure green certificates (earned and bought) at cost using the FIFO principle.

Other inventories are measured at cost using the FIFO principle or net realisable value.

Inventories are written down to the lower of net realisable value and cost price.

The net realisable value is the sum (discounted) which the inventories are expected to generate through a normal sale.



We use biomass, gas, coal and, to a limited extent, oil as fuel at our CHP plants. Green certificates are primarily renewables obligation certificates (ROCs) which are issued to generators of power sourcing from renewable energy sources under the Renewables Obligation support mechanism in the UK.



## 4.2 Construction contracts

Construction contracts, DKK million	2017	2016
Selling price of construction contracts	11,679	18,279
Invoicing on account	(2,179)	(11,997)
<b>Construction contracts, total</b>	<b>9,500</b>	<b>6,282</b>
Construction contracts (assets)	10,817	6,453
Construction contracts (liabilities)	(1,317)	(171)
<b>Construction contracts, total</b>	<b>9,500</b>	<b>6,282</b>



The table shows the selling price less invoicing on account as well as the way in which construction contracts are presented in the balance sheet under assets and liabilities.

### Construction contracts

We construct offshore wind farms in co-operation with partners, with each party usually owning 50% of the offshore wind farm. Construction contracts comprise our partners' shares of the offshore wind farms and our construction of offshore transmission assets for Ofgem in the UK. The contracts are negotiated individually in terms of their design, construction and technology.

At the end of 2017, construction contracts included our partners' share of the Walney Extension and Borkum Riffgrund 2 offshore wind farms. The offshore wind farms are under

construction, and we expect them to be finished in 2018. Construction contracts also included the construction of the transmission assets for the Burbo Bank Extension, Race Bank, Walney Extension and Hornsea 1 offshore wind farms in the UK. They are expected to be finished in 2018-2020.

At the end of 2016, construction contracts included our partners' shares of the offshore wind farms Burbo Bank Extension and Gode Wind 1 and 2. Construction contracts also included the construction of four transmission assets in the UK.

### Accounting policies

The construction contracts are recognised in revenue when the outcome of the contracts can be estimated reliably.

The construction contracts are measured at the selling price of the work which we have performed on the offshore wind farms less invoicing on account. Our calculation of the selling price is based on the total expected income from the individual contracts and the completion degree of the offshore wind farm or offshore transmission asset at the balance sheet date.

We estimate the degree of completion on the basis of an assessment of the work performed, normally calculated as the ratio between the costs incurred and the total expected costs incidental to the contract in question.

An expected loss is recognised when it is deemed probable that the total construction costs will exceed the total revenue from individual contracts.

We recognise construction contracts as receivables when the selling price of the work which we have performed exceeds invoicing on account and expected losses.

Construction contracts are recognised as liabilities when invoicing on account and expected losses exceed the selling price of the work which we have performed. Prepayments from our investors are recognised as liabilities.

### Key accounting estimates

#### Assumptions for the determination of the expected selling price and expected costs

We make estimates when determining the expected selling price of individual construction contracts.

These estimates are influenced by our assessment of:

- the completion degree of the individual offshore wind farms and offshore transmission assets
- total expected costs for the individual contract
- the value of incentive agreements under which we may be paid a bonus for early delivery or have to pay compensation for late delivery
- guarantee commitments undertaken
- share of total costs associated with transmission assets which are expected to be covered upon handover etc.

Our determination of profit on payment received on account and the recognition of receivables are therefore subject to significant uncertainty. We believe that our estimates are the most likely outcomes of future events.

## 4.3 Trade receivables

Trade receivables, DKK million	2017	2016
Trade receivables, not due	8,644	6,661
Trade receivables, 1-30 days overdue	303	568
Trade receivables, more than 30 days overdue	305	171
Trade receivables, write-down	(82)	(114)
<b>Total trade receivables</b>	<b>9,170</b>	<b>7,286</b>



The table shows the due dates of our trade receivables.

### Trade receivables

Our trade receivables primarily concern residential customers in Distribution & Customer Solutions where the general terms of payment vary according to customer type and product type down to payment terms of 10 days.

In 2017, the supply of services in the form of construction management of the construction of our partner's share of Race Bank resulted in a receivable of DKK 1,344 million.

We perform credit ratings as described in note 7.5. For customers with a general credit risk, a write-down of 0-1% is carried out on initial recognition. In 2017, write-downs of receivables amounted to DKK 6 million (2016: DKK 59 million). Losses for the year totalled DKK 25 million (2016: DKK 43 million).

### Accounting policies

#### Receivables

We keep our receivables until maturity, and they are therefore measured at amortised cost.

Write-down is carried out from initial recognition of our receivables in accordance with IFRS 9. The write-down is calculated as the difference between the carrying amount of the receivable and the net present value of expected future cash flows from the receivable. The discount rate used is the effective interest rate for the individual receivable or the individual portfolio.

We apply the simplified approach to the write-down of trade receivables, which permits calculating the write-down as the full loss during the entire term of the receivable.

## 4.4 Other receivables

Other receivables, DKK million	2017	2016
Receivables from the divestment of equity investments to non-controlling interests	648	544
Receivables from the divestment of assets and investments	2,680	202
VAT and other indirect taxes receivable	572	367
Collateral provided	775	400
Prepayments	304	207
Other accounts receivables	495	505
<b>Other receivables</b>	<b>5,474</b>	<b>2,225</b>
Of which working capital	2,082	1,402
Of which other capital employed	1,622	545
Of which interest-bearing net debt	1,770	278



The table shows our other receivables broken down into working capital, interest-bearing net debt and other capital employed.

### Other receivables

Receivables from the divestment of equity investments to non-controlling interests in 2017 and 2016 related primarily to the divestment of our ownership interests in the Gunfleet Sands and Walney offshore wind farms.

In 2017, receivables from the divestment of assets and investments primarily included receivables related to the divestment of our Oil & Gas business as well as the divestment of 50% of our ownership interests in the Walney Extension offshore wind farm.

The collateral provided by the Group is receivables from banks in connection with trading on energy exchanges.

The short-term portion of other receivables amounted to DKK 3,519 million (2016: DKK 1,710 million).

Other non-current receivables consist primarily of receivables from the divestment of the Oil & Gas business, where it is assessed that there is no material credit risk.

## 4.5 Other payables

Other payables, DKK million	2017	2016
Payables to associates and joint ventures	-	136
Prepaid VAT on exports	1,500	1,749
Carbon rights	42	72
VAT and other indirect taxes payable	1,312	1,460
Salary-related items payable	762	736
Accrued interest	882	629
Virtual gas storage	83	69
Advance payments from heat customers	3,286	2,890
Grid connection charges	1,893	1,775
Other deferred income	1,114	1,320
Collateral received	119	1,096
Other payables	1,089	967
<b>Total other payables</b>	<b>12,082</b>	<b>12,899</b>
Of which working capital	11,200	12,121
Of which other capital employed	882	629
Of which interest-bearing net debt	-	149

### Other payables

In 2017, the short-term portion of other payables amounted to DKK 6,369 million (2016: DKK 6,277 million).

Export VAT was repaid in January 2018.



The table shows our other payables broken down into working capital, interest-bearing net debt and other capital employed.

## 4.6 Changes in net working capital

Change in net working capital, DKK million	2017	2016
Change in inventories	(423)	32
Change in construction contracts	(3,318)	(3,232)
Change in trade receivables	(3,705)	616
Change in other receivables	(563)	(322)
Change in trade payables	1,188	874
Change in other payables	(1,083)	520
<b>Total change in net working capital</b>	<b>(7,904)</b>	<b>(1,512)</b>
Of which changes relating to work in progress and related trade payables	(3,674)	(2,393)
Of which changes relating to other working capital	(4,230)	881



Work in progress consists of construction contracts and service agreements in connection with the construction of transmission assets and offshore wind farms for partners as well as related trade payables.

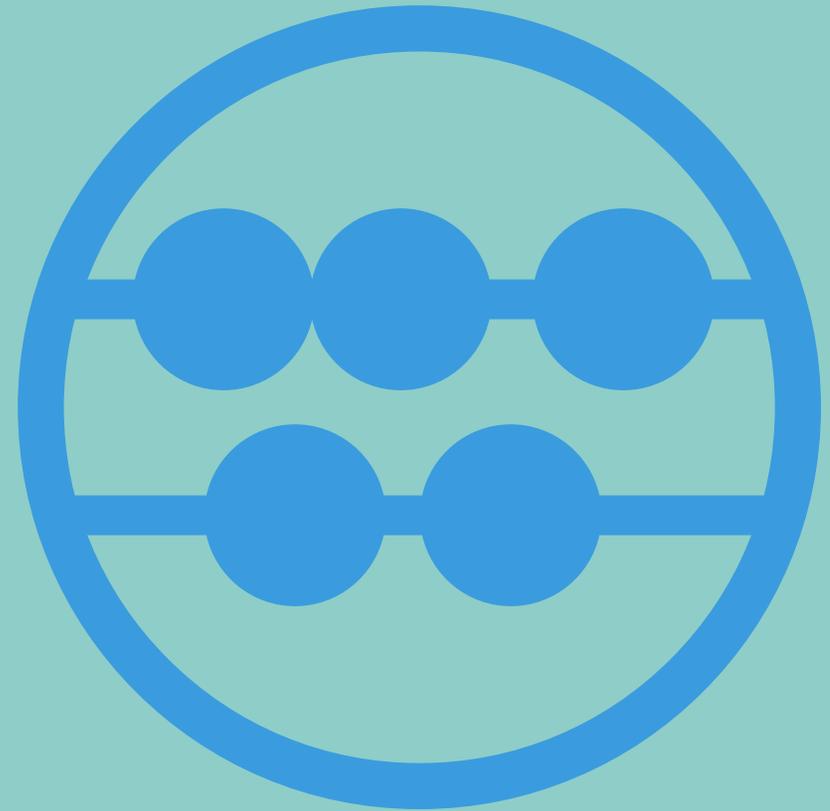
### Change in net working capital

Our funds tied up in work in progress and related trade payables increased due to high activity in 2017 related to construction contracts for the construction of transmission assets as well as from higher receivables from the sale of services in the form of construction management of the construction of the offshore wind farm Race Bank. The increase was partly offset by receipt of milestone payments in 2017 regarding construction contracts for the construction of offshore wind farms for partners.

Our funds tied up in other net working capital increased due to higher trade receivables as a consequence of high power generation at the end of 2017 in Wind Power, lower prepayments from heat customers in connection with bioconversions in Bioenergy & Thermal Power as well as more funds tied up in inventories (mainly gas) at the end of 2017.

# 5. Tax

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# 5. Tax

## Tax on profit (loss) for the year

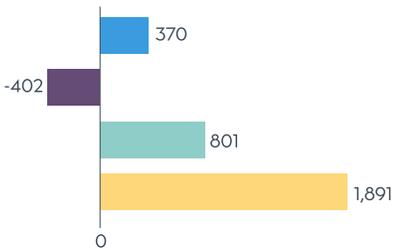
The effective tax rate was 12% for the continuing operations. The effective tax rate was particularly affected by a tax-exempt gain on the farm-downs of 50% of the Walney Extension and Borkum Riffgrund 2 offshore wind farms and the remaining portion of the tax-exempt gain on Race Bank, which was divested in 2016.

## Taxes paid

We have paid DKK 2,660 million in taxes for 2017, of which DKK 689 million related to residual tax for 2016. The tax paid reflects our activities and that we expect to exit the international joint taxation scheme. We expect to have a residual tax of DKK 570 million regarding 2017 as earnings in the last part of the year were higher than expected.

## Income tax paid by segment, DKK million 2017

- Wind Power
- Bioenergy & Thermal Power
- Distribution & Customer Solutions
- Ørsted A/S and other activities



## Development in current and deferred tax asset and liabilities (tax, net), DKK million 2017

- Tax, net liability
- Tax on profit (loss) for the year
- Tax on other comprehensive income and hybrid capital
- Retaxation, paid
- Other paid corporate taxes
- Other effects



2017, DKK million	Business performance		
	Profit (loss) before tax	Tax	Tax in %
Gain (loss) on divestments	10,965	(714)	7%
Rest of the Group	4,079	(1,051)	26%
<b>Effective tax for the year</b>	<b>15,044</b>	<b>(1,765)</b>	<b>12%</b>



Tax on gain (loss) on divestments related to taxable gains. See more in note 2.5. The tax rate for 'Rest of the Group' is higher than the weighted average tax rate in the countries in which we generate income as a result of adjustments relating to previous years as well as non-deductible expenses and non-taxable income.

# 2.7bn

Income tax paid by the Group in 2017 totalled DKK 2,660 million against DKK 3,182 million in 2016.

# 2.7bn

Current tax in 2017 totalled DKK 2,698 million against DKK 3,541 million in 2016.

## 5.1 Tax policy and tax regimes

### Our tax policy

We acknowledge that tax plays a key role for society. We also believe that a responsible approach to tax is essential to the long-term sustainability of our business in the countries in which we operate.

We are subject to a number of different rules on direct and indirect taxes as well as taxes collected on behalf of the public authorities. Also, many transactions involve different segments across national borders and between different tax systems. This complexity demands a strong focus on the management of our tax affairs.

Read more about our tax policy at <https://orsted.com/taxpolicy>

### We comply with tax rules

We regularly assess our internal processes and controls to ensure that we comply with all local and international tax rules.

We only use structures that have commercial substance and meet the spirit of the relevant local or international tax law.

We use the incentives and tax reliefs applying where we have commercial activities, and where this is the legislator's intention.

As a proactive approach to handling any uncertainties about the interpretation of tax rules,

we have an open dialogue with the national tax authorities in Denmark and abroad.

At the end of 2017, our major activities were in Denmark, the UK and Germany.

### International joint taxation

In 2005, we chose Danish international joint taxation. Under international joint taxation, subsidiaries are included in joint taxation from the date they are consolidated in the consolidated financial statements and up to the date on which they are no longer consolidated. International joint taxation means that profit earned abroad is taxed in Denmark, and that depreciation and amortisation for tax purposes and expenses incurred abroad can be deducted in the Danish statement of taxable income.

The rules concerning Danish international joint taxation merely result in changes to the timing of the tax payments in Denmark. Thus, it leads to increased Danish tax payments at a later point in time, corresponding to the tax savings realised in previous years.

We have continuously assessed when it will be the most appropriate time to exit from the international joint taxation scheme, and we currently expect that this will be for the income year 2017, which is reflected in the annual report. We will make the final decision in 2018 when preparing the tax returns for 2017.

Therefore, the retaxation liability has been transferred to tax payable in 2017.

In 2016, deferred tax payments were recognised as a retaxation liability and amounted to DKK 1,730 million. See note 5.4.

### Local taxes

In terms of taxation, we were affected by completed construction contracts in connection with the construction of offshore wind farms in Denmark in 2017.

We have made significant investments in offshore wind farms in the UK and Germany, resulting in the accumulation of large tax assets in recent years. Accordingly, we have not paid taxes in the UK and Germany. Going forward, this will change as the offshore wind farms are commissioned and generate positive results.

We expect to start paying tax in the UK in 2018, and in 2019 in Germany.



## 5.2 Tax on profit (loss) for the year

	2017				2016			
	Business performance		IFRS		Business performance		IFRS	
	DKK million	%	DKK million	%	DKK million	%	DKK million	%
<b>Effective tax rate, DKK million/%</b>								
<b>Tax on profit (loss) for the year can be explained as follows:</b>								
Calculated 22% tax on profit (loss) before tax (2016: 22%)	(3,310)	22	(3,323)	22	(3,157)	22	(2,681)	22
Adjustments of calculated tax in foreign subsidiaries in relation to 22% (2016: 22%)	86	-	86	-	229	(2)	229	(2)
<b>Tax effect of:</b>								
Non-taxable income and non-deductible costs, net	1,323	(9)	1,323	(9)	709	(5)	709	(6)
Unrecognised tax assets and capitalisation of tax assets not previously capitalised	(184)	1	(184)	1	(28)	-	(28)	-
Share of profit (loss) in associates and joint ventures	(12)	-	(12)	-	4	-	4	-
Adjustment of tax concerning previous years	332	(2)	332	(2)	11	-	11	-
Effect of change in tax rate	-	-	-	-	41	-	41	-
<b>Effective tax for the year</b>	<b>(1,765)</b>	<b>12</b>	<b>(1,778)</b>	<b>12</b>	<b>(2,191)</b>	<b>15</b>	<b>(1,715)</b>	<b>14</b>

### Income tax

Tax on the business performance profit (loss) was DKK 1,765 million in 2017 against DKK 2,191 million in 2016. The effective tax rate was 12% in 2017 against 15% in 2016.

The effective tax rate in 2017 was particularly affected by a tax-exempt gain on the farm-down of 50% of our Walney Extension and Borkum Riffgrund 2 offshore wind farms.

In addition, our effective tax rate was affected by the remaining portion of the tax-exempt gain on Race Bank, which was divested in 2017, and adjustments to prior years.

The effective tax rate in 2016 was particularly affected by a tax-exempt gain on the divestment of Gas Distribution and 50% of the Burbo Bank Extension and Race Bank offshore wind farms.

### Accounting policies

Tax for the year consists of current tax, changes in deferred tax and adjustment in respect of previous years. Tax on profit (loss) for the year is recognised in the income statement. Tax relating to other items is recognised in other comprehensive income.

Adjustments of calculated tax in foreign subsidiaries were due to the differences in tax rates between Denmark and primarily the UK and Germany.

Non-taxable income and non-deductible expenses primarily concern the tax-exempt gain on divestments. See more in note 2.5.



	2017		2016	
	Business performance	IFRS	Business performance	IFRS
<b>Income tax, DKK million</b>				
Tax on profit (loss) for the year	(1,765)	(1,778)	(2,191)	(1,715)
Tax on other comprehensive income	238	251	345	(131)
Tax on hybrid capital	141	141	141	141
<b>Total tax for the year</b>	<b>(1,386)</b>	<b>(1,386)</b>	<b>(1,705)</b>	<b>(1,705)</b>
Tax on profit (loss) for the year can be broken down as follows:				
Current tax	(2,698)	(2,698)	(3,541)	(3,541)
Deferred tax	586	573	1,385	1,861
Tax relating to assets classified as held for sale	15	15	(87)	(87)
Adjustment of tax concerning previous years	332	332	52	52
<b>Tax on profit (loss) for the year</b>	<b>(1,765)</b>	<b>(1,778)</b>	<b>(2,191)</b>	<b>(1,715)</b>
Tax on other comprehensive income can be broken down as follows:				
Current tax	255	255	(138)	(138)
Deferred tax	(17)	(4)	483	7
<b>Tax on other comprehensive income</b>	<b>238</b>	<b>251</b>	<b>345</b>	<b>(131)</b>

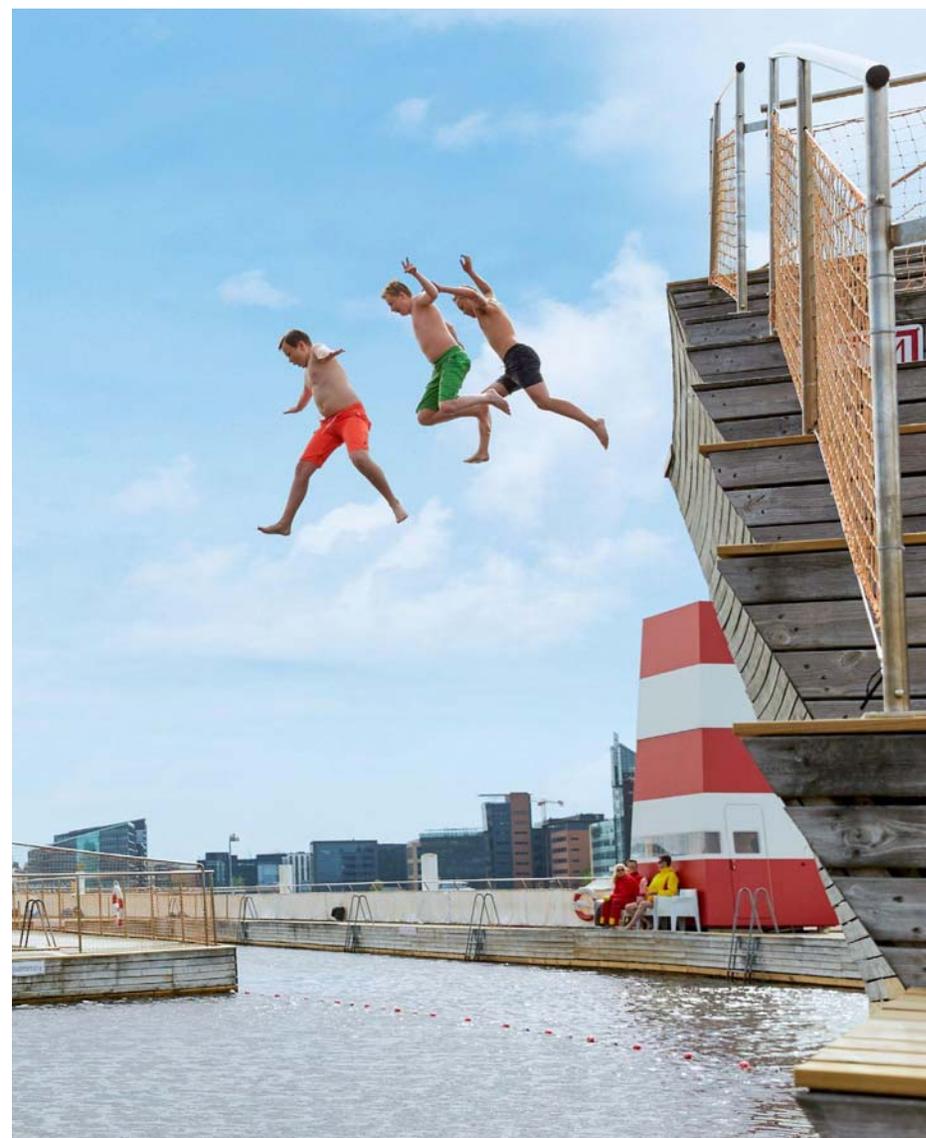
### Tax on profit (loss) for the year and other comprehensive income

In 2017, tax on the IFRS profit (loss) for the year amounted to DKK 1,778 million, consisting of current tax of DKK 2,698 million, changes in deferred tax of DKK 573 million, tax on assets classified as held for sale of DKK 15 million, and an adjustment of tax in respect of previous years of DKK 332 million.

In 2016, tax on the IFRS profit (loss) for the year amounted to DKK 1,715 million, consisting of current tax of DKK 3,541 million, changes in deferred tax of DKK 1,861 million, tax on assets classified as held for sale of DKK 87 million, and an adjustment of tax in respect of previous years of DKK 52 million.



Income tax for the year is calculated on the basis of the profit (loss) before tax from continuing operations.



# 5.3 Taxes paid



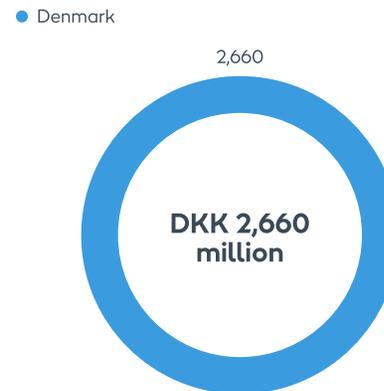
In 2017, we paid DKK 2,660 million in taxes. The tax paid mainly related to ordinary operations and retaxation in connection with the expected exit from the Danish international joint taxation scheme.

We paid most of our Danish taxes in November. Accordingly, the income tax paid for the year was based on estimates and preliminary tax positions. As our earnings towards the end of the year were higher than

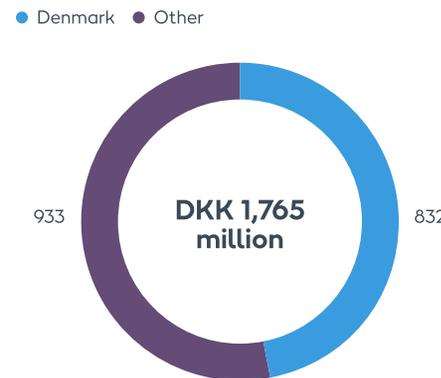
expected, we expect to have a residual tax of DKK 570 million regarding 2017, which has been recognised as a payable tax.

The tax payment included residual tax for 2016 of DKK 689 million in total for continuing operations. DKK 236 million related to the utilisation of losses for the Group's Danish companies in the oil and gas business for the period during which they were included in the joint taxation.

Taxes paid for the year, 2017, DKK million



Tax on profit (loss) for the year, 2017, DKK million

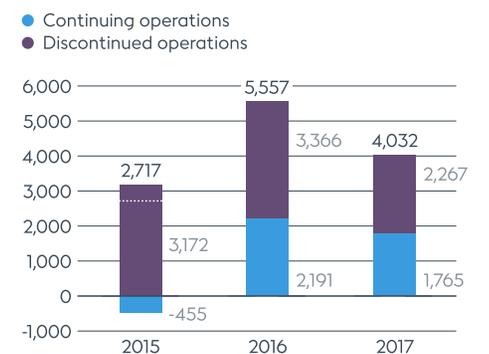


The figures only shows our continuing operations.

Taxes paid, DKK million



Tax on profit (loss) for the year, DKK million



The figures show the relationship between the tax on profit (loss) for the year for accounting purposes and the taxes paid for the year.

\* Relates to internal transfers between continuing and discontinued operations.

## 5.4 Deferred tax

### Development in deferred tax

In 2017, deferred tax from continuing operations decreased as a result of deferred tax liabilities materialising as tax payable. This includes differences in the tax and accounting treatment of profit received on account on works in progress, differences in the tax and accounting recognition of financial instruments, retaxation due to the expected exit from the international joint taxation scheme and adjustments to prior years.

The adjustment concerning previous years mainly comprised adjustments of work in progress and recognition of tax assets relating to offshore wind farms in Germany.

The most significant changes in 2016 concerned the taxation of profit received on account, affecting deferred tax on property, plant and equipment, and a reduction of the retaxation balance relating to the farm-downs of 50% of the Burbo Bank Extension and Race Bank offshore wind farms in the UK.

### Deferred tax by segment

Deferred tax (liabilities) in our segments primarily concerned the following:

- Wind Power: recognised profit received on account and property, plant and equipment, in respect of which depreciation for tax purposes exceeds depreciation for accounting purposes

- Bioenergy & Thermal Power: property, plant and equipment for which impairment was made in previous years
- Distribution & Customer Solutions: financial instruments.

Other activities/eliminations comprised intra-group eliminations in the joint taxation across segments.

### Accounting policies

Deferred tax is recognised in respect of all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts.

However, deferred tax is not recognised in respect of temporary differences relating to:

- The acquisition of joint operations, including licence interests
- Other items, where differences arise at the time of acquisition affecting neither the profit (loss) for the year nor the taxable income. However, this does not include differences arising in connection with company acquisitions.

Deferred tax is measured depending on how we plan to use the assets and settle the liabilities. We set off tax assets and liabilities when the tax assets can be offset against tax liabilities in the year in which the deferred tax assets are expected to be used.

Deferred tax assets are recognised at the value at which they are expected to be used. They may be offset against future earnings or against deferred tax. This is done within a joint taxation scheme. Intra-group gains and losses are eliminated.

Deferred tax is measured based on the tax rules and rates applying when the deferred tax becomes current tax. Changes in deferred tax as a result of changes in tax rates are recognised in profit (loss) for the year.

Liabilities in respect of uncertain tax positions are measured as follows:

- the most-likely-outcome method is applied in cases where there are only two possible outcomes
- the weighted-average method is used in cases with more than two possible outcomes.

The liability is recognised under income tax payable or deferred tax, depending on how the realisation of the tax position will affect the financial statements.

	 Wind Power	 Bioenergy & Thermal Power	 Distribution & Customer Solutions	Other activities/eliminations	Deferred tax at 31 December
<b>Deferred tax 2017, DKK million</b>					
Deferred tax, assets	1,407	444	972	42	2,865
Deferred tax, liabilities	1,227	352	617	(68)	2,128
Unrecognised tax assets	123	-	61	-	184
<b>Deferred tax 2016, DKK million</b>					
Deferred tax, assets	548	420	25	(905)	88
Deferred tax, liabilities	1,065	231	584	305	2,185
Unrecognised tax assets	209	11	308	-	528



The table shows the reconciliation of deferred tax to the balance sheet by segment.

<b>Development in deferred tax assets and liabilities 2017, DKK million</b>	Balance sheet 1 January	Transferred to assets and liabilities clas- sified as assets held for sale	Exchange rate adjustments	Additions, individual assets and activities, net	Recognised in profit (loss) for the year	Recognised in other comprehensive income	Adjustments to prior years, etc.	Balance sheet 31 December
Intangible assets	109	-	-	-	(48)	-	-	61
Property, plant and equipment	2,395	2	(94)	57	1,450	(4)	(1,788)	2,018
Other non-current assets	(1)	-	-	(1)	174	-	(32)	140
Current assets	(6)	37	-	-	(36)	-	(6)	(11)
Decommissioning obligations	(626)	-	(6)	-	(169)	-	4	(797)
Other non-current liabilities	(950)	-	(1)	-	(242)	-	87	(1,106)
Current liabilities	644	-	-	-	(50)	-	(942)	(348)
Retaxation	1,730	-	-	-	(1,730)	-	-	-
Tax loss carryforwards	(1,198)	-	61	329	78	-	36	(694)
<b>Deferred tax</b>	<b>2,097</b>	<b>39</b>	<b>(40)</b>	<b>385</b>	<b>(573)</b>	<b>(4)</b>	<b>(2,641)</b>	<b>(737)</b>
Of which recognised in the balance sheet under assets	88							2,865
Of which recognised in the balance sheet under equity and liabilities	2,185							2,128



The amounts transferred to assets and liabilities classified as assets held for sale only concerned Oil Pipe in 2017.

In 2016, the activities in the oil and gas business were transferred to assets and liabilities classified as assets held for sale.

Adjustments to prior years primarily relate to movement between deferred tax and tax payable.

#### **Development in deferred tax assets and liabilities, 2016, DKK million**

Intangible assets	151	-	-	5	(46)	-	(1)	109
Property, plant and equipment	4,807	(1,292)	(141)	57	(1,194)	4	154	2,395
Other non-current assets	(40)	-	22	17	-	-	-	(1)
Current assets	19	(36)	3	-	2	5	1	(6)
Decommissioning obligations	(3,957)	3,292	(121)	-	147	-	13	(626)
Other non-current liabilities	(1,163)	-	(6)	-	222	-	(3)	(950)
Current liabilities	1,362	-	-	-	(771)	(4)	57	644
Retaxation	2,903	-	-	-	(1,175)	-	2	1,730
Tax loss carryforwards	(2,710)	165	133	-	954	2	258	(1,198)
<b>Deferred tax</b>	<b>1,372</b>	<b>2,129</b>	<b>(110)</b>	<b>79</b>	<b>(1,861)</b>	<b>7</b>	<b>481</b>	<b>2,097</b>
Of which recognised in the balance sheet under assets	274							88
Of which recognised in the balance sheet under equity and liabilities	1,646							2,185

# 6. Capital structure

<b>Interest-bearing debt</b>	120
<b>Equity</b>	122
<b>Hybrid capital</b>	124
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<b>Financial income and expenses</b>	127
<b>Funds from operations (FFO)/ adjusted interest-bearing net debt</b>	128



# 6. Capital structure

During the year, we issued new senior bonds of EUR 750 million, corresponding to DKK 5,584 million. We also redeemed bonds with a notional amount of DKK 1,480 million early.

Also, in 2017, we issued a new hybrid bond of EUR 500 million, corresponding to DKK 3,723 million. In addition, it was decided to redeem the hybrid bond issued in 2013 with a notional amount of EUR 500 million at the first redemption date in 2018.

## Capital structure

To ensure the financial strength to operate in the international energy and capital markets and secure financing on attractive terms, we

have defined credit rating and capital structure targets. The overarching capital structure targets are a credit rating of Baa1/BBB+ and an FFO/adjusted net debt credit metric of around 30%.

## Financing policy

The aim of our financing policy is to ensure the best possible loan arrangements, while also minimising financing costs, liquidity and refinancing risks.

The borrowing activities are diversified among various funding sources and maturities. In addition, we have robust financial resources.

Our borrowing activities are consolidated in the parent company, where cash resources are available to the Group's companies via an internal bank.

## Cash management

We have decided to maintain robust financial resources to limit the company's sensitivity to unrest in the financial markets.

The financial resources consist of bank deposits and securities, as well as non-cancellable credit facilities from a group of robust Nordic and international banks. The financial resources totalled DKK 39,158 million at 31 December 2017 (2016: DKK 31,511 million).

# 50.3%

Funds from operations (FFO) relative to adjusted interest-bearing net debt amounted to 50.3% at 31 December 2017 against 64.2% at 31 December 2016.

# -1.5bn

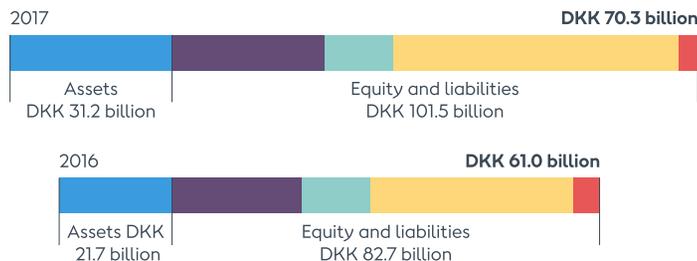
Our interest-bearing net debt totalled DKK -1.517 billion at 31 December 2017 against DKK 3,461 million at 31 December 2016.

# 39,2bn

Our cash reserve totalled DKK 39,158 million at 31 December 2017 against DKK 31,511 million at 31 December 2016.

## Equity and interest-bearing net debt, DKK billion

- Interest-bearing assets
- Interest-bearing debt
- Hybrid capital
- Equity attributable to shareholders in Ørsted A/S
- Non-controlling interests



# 6.1 Interest-bearing debt

Interest-bearing debt and interest-bearing assets, DKK million	2017	2016
<b>Interest-bearing debt comprises:</b>		
Bank debt	2,069	4,064
Bond debt	27,567	20,119
<b>Total bond and bank debt</b>	<b>29,636</b>	<b>24,183</b>
Liabilities classified as held for sale	-	803
Other interest-bearing debt	-	150
<b>Total interest-bearing debt</b>	<b>29,636</b>	<b>25,136</b>
<b>Interest-bearing assets comprise:</b>		
Securities	25,280	16,533
Cash	4,203	2,931
Receivables from associates and joint ventures	48	674
Other receivables	647	544
Receivables in connection with divestments	975	-
Assets classified as held for sale	-	993
<b>Total interest-bearing assets</b>	<b>31,153</b>	<b>21,675</b>
<b>Total interest-bearing net debt</b>	<b>(1,517)</b>	<b>3,461</b>



The tabel shows our interest-bearing net debt split on interest-bearing debt and interest-bearing assets

Changes in bond and bank debt, DKK million	2017	2016
Bond and bank debt 1 January	24,183	36,401
Instalments on loans according to the statement of cash flows	(4,069)	(11,097)
Proceeds from raising of loans according to the statement of cash flows	5,468	-
Reclassification to bond and bank debt	4,192	-
Capital losses on early repayment of debt	230	653
Foreign exchange adjustments and amortisation	(368)	(1,774)
<b>Bond and bank debt 31 December</b>	<b>29,636</b>	<b>24,183</b>

## Interest-bearing net debt

Interest-bearing net debt totalled DKK -1,517 million at the end of 2017, down DKK 4,978 million relative to 2016. The decline was due to an increase in interest-bearing assets of DKK 9,478 million, partially offset by an increase in interest-bearing debt of DKK 4,500 million.

In November 2017, we issued a new bond of EUR 750 million, corresponding to DKK 5,584 million. We also redeemed bonds with a notional amount of DKK 1,480 million early. At the same time, it was decided to redeem the hybrid bond issued in 2013 with a notional amount of EUR 500 million at the first

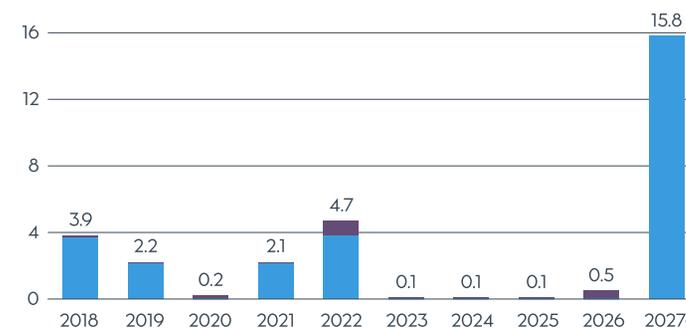
redemption date in 2018. As a consequence of this, we have reclassified the hybrid bond from equity to interest-bearing debt with a carrying amount of DKK 3,810 million at 31 December 2017.

## Market value of bond and bank debt

The market value of our bond and bank debt amounted to DKK 32,959 million and DKK 2,108 million, respectively, at 31 December 2017 (2016: DKK 26,010 million and DKK 4,110 million, respectively). The market value of our bond and bank debt exceeds the carrying amount due to the drop in interest levels since the arrangement of the debt.

## Maturity profile, DKK billion

● Bond debt ● Bank debt



The tabel shows the changes in bond and bank debt.



The graph shows the maturity profile for our bank loans and bond debt.

### Loan arrangements

At 31 December 2017, we had loan obligations totalling DKK 2,069 million (2016: DKK 4,064 million), primarily to the European Investment Bank and the Nordic Investment Bank. The loans are recognised in the balance sheet under bank debt. The loans offered by these multilateral financial institutions include loans to co-fund infrastructure and energy projects on favourable terms and with maturities exceeding those normally available in the commercial banking market. In connection with these loans, the Group may be met with demands for repayment or collateral in the event of the Danish State holding less than 50% of the share capital or voting rights in Ørsted A/S (change of control), or repayment in the event of Moody's or Standard & Poor's downgrading our rating to Baa3 or BBB- or less, respectively.

Furthermore, at 31 December 2017, we had non-cancellable credit facilities of DKK 10,424 million (2016: DKK 13,000 million) with a number of Scandinavian and international banks.

In connection with these credit facilities, we may be met with demands for cancellation and repayment of any used share in the event of players other than a group consisting of the Danish State and Danish power distribution companies acquiring more than 50% of the share capital or voting rights in Ørsted A/S, or in the event of the Danish State ceasing to hold at least 20% of the share capital. Our financing agreements are not subject to any other unusual terms or conditions.

### Interest rate risk

Our interest rate risks relate to interest-bearing debt, interest-bearing assets and financial price hedges. We manage the interest rate risk through the composition of assets and the variability of the cash flows generated by the assets. Fixed-interest financing over a longer term is sought for assets with fixed, interest-insensitive cash flows over a longer term. Conversely, more variable-interest financing is sought for assets with more varying, interest-sensitive cash flows.

We have fixed the interest rate on most of our debt by issuing fixed-rate debt. At the end of 2017, 95% (2016: 89%) of the Group's debt was fixed-rate debt. In addition, forward exchange contracts have been concluded to hedge the currency risk associated with interest payments on loans in GBP over the next five years at an average price of 9.3. See note 7.2 for further information.

At 31 December 2017, the loan portfolio had an average time to maturity of 9.8 years (2016: 8.5 years). Interest-bearing assets consist primarily of short-term bonds with limited risk.

### Accounting policies

Bond debt, bank debt and other payables are recognised at inception at market value (typically proceeds received) net of transaction costs incurred. In subsequent periods, the liabilities are measured at amortised cost so that the difference between the cost (proceeds) and the nominal value is recognised in profit (loss) for the year as interest expenses over the term of the loan, using the effective interest rate method.

Financial liabilities are classified as current unless the Group has an unconditional right to defer settlement of the liability to at least one year after the balance sheet date.

The market value of issued bonds has been determined as the market value at 31 December (Level 1 – quoted prices).

The market value of bank loans has been determined as the present value of expected future instalments and interest payments using the Group's current interest rate on loans as the discount rate (Level 2 – observable inputs).

### Bond issues at 31 December 2017

Currency	Outstanding amount (million)	Coupon (%)	Time of issue	Maturing	Quoted in
<b>Senior bonds</b>					
EUR	280	6.500	6 May 2009	7 May 2019	London
EUR	272	4.875	16 Dec 2009	16 Dec 2021	London
EUR	517	2.625	19 Sep 2012	19 Sep 2022	London
EUR	750	1.500	24 Nov 2017	26 Nov 2029	London
GBP	750	4.875	12 Jan 2012	12 Jan 2032	London
GBP	500	5.750	9 Apr 2010	9 Apr 2040	London



In addition to senior bonds, we have also issued a number of hybrid bonds; see note 6.3.

## 6.2 Equity

	2017		2016	
	Business performance	IFRS	Business performance	IFRS
<b>Earnings per share, DKK million</b>				
Profit (loss) for the year from continuing operations	13,279	13,321	12,161	10,467
Interest and costs after tax, hybrid capital owners of Ørsted A/S	(716)	(716)	(499)	(499)
Non-controlling interests	10	10	111	111
<b>Ørsted's share of profit (loss) for the year from continuing operations</b>	<b>12,573</b>	<b>12,615</b>	<b>11,773</b>	<b>10,079</b>
Profit (loss) for the year from discontinued operations	6,920	6,104	1,052	(2,532)
<b>Ørsted's share of profit (loss) for the year from discontinued operations</b>	<b>6,920</b>	<b>6,104</b>	<b>1,052</b>	<b>(2,532)</b>
(‘000)				
Average number of outstanding shares	420,155	420,155	419,010	419,010
Dilutive effect of share programme	271	271	1,296	1,296
<b>Average number of outstanding shares, diluted</b>	<b>420,426</b>	<b>420,426</b>	<b>420,306</b>	<b>420,306</b>
(DKK)				
<b>Profit (loss) per share</b>				
From continuing operations	29.9	30.0	28.1	24.1
From discontinued operations	16.5	14.5	2.5	(6.0)
<b>Total profit (loss) per share</b>	<b>46.4</b>	<b>44.5</b>	<b>30.6</b>	<b>18.1</b>

### Development in share capital (DKK million)

	2017	2016
Share capital at 1 January	4,204	4,177
Capital injection	-	27
<b>Share capital at 31 December</b>	<b>4,204</b>	<b>4,204</b>

### Share capital

Ørsted's share capital is DKK 4,203,810,800, divided into shares of DKK 10 (2016: DKK 4,204 million). No shares are subject to special rights or restrictions on voting rights. The shares are fully paid up.

### Treasury shares

To secure our share programme, we acquired a portfolio of treasury shares consisting of 225,904 shares at 31 December 2017 (2016: 225,904), corresponding to 0.1% of the share capital.



The table shows earnings per share distributed on continuing and discontinued operations. Diluted profit (loss) per share corresponds to profit (loss) per share, as the dilutive effect of the share programme is less than 0.1% of the share capital (2016: 0.3% of the share capital).



The table shows a change in the share capital, which is due to the issuance of bonus shares in connection with the expiry of the 2014 share programme.

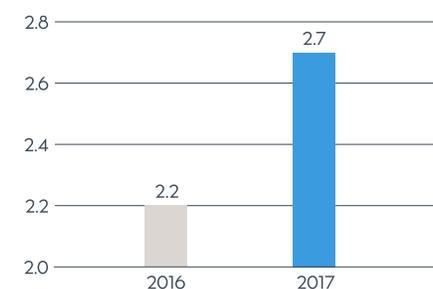
### Dividends

The Board of Directors recommends that dividends of DKK 3,783 million (2016: DKK 2,522 million) be paid for the financial year, corresponding to DKK 9 per share (2016: DKK 6 per share). The proposed dividends correspond to a dividend yield of 2.7% (2016: 2.2%) calculated on the basis of the closing price for an Ørsted share on the last trading day of the year.

### Owners in Ørsted

The Danish State is the principal shareholder with an ownership interest of 50.1%. In addition, SEAS-NVE and The Capital Group also have significant ownership interests. See also note 16 in the parent company's financial statements.

### Dividend yield, %



The graph shows the proposed dividends in relation to the closing price for an Ørsted share on the last trading day of the year.

	Foreign currency translation reserve	Hedging reserve			Deferred costs of hedging		Share premium reserve	Total reserves
		Hedging of net investments	Hedging of cash flows, divestments	Hedging of cash flows, interest	Basic spread	Time value of options		
<b>Reserves 2017, DKK million</b>								
Reserves at 1 January 2017	(1,546)	10	973	(498)	-	-	21,279	20,218
Transferred to retained earnings	-	-	-	-	-	-	(21,279)	(21,279)
Transition to IFRS 9 at 1 January	-	(22)	(35)	-	57	-	-	-
Exchange rate adjustments	(1,354)	-	-	-	-	-	-	(1,354)
Value adjustments of hedging	-	625	984	(190)	12	(76)	-	1,355
<b>Value adjustments transferred to:</b>								
Revenue	-	-	(283)	-	-	-	-	(283)
Other operating income	325	(128)	(1,113)	-	-	-	-	(916)
Profit (loss) from discontinued operations	562	133	(444)	-	-	-	-	251
Financial income and expenses	-	(42)	8	229	(14)	48	-	229
<b>Tax:</b>								
Tax on hedging and currency adjustments	188	(126)	195	(8)	-	6	-	255
<b>Movement in comprehensive income for the year</b>								
	<b>(279)</b>	<b>440</b>	<b>(688)</b>	<b>31</b>	<b>55</b>	<b>(22)</b>	<b>-</b>	<b>(463)</b>
<b>Total reserves at 31 December</b>	<b>(1,825)</b>	<b>450</b>	<b>285</b>	<b>(467)</b>	<b>55</b>	<b>(22)</b>	<b>-</b>	<b>(1,524)</b>
<b>Reserves 2016, DKK million</b>								
Reserves at 1 January 2016	2,274	(2,361)	(48)	(289)	n.a.	n.a.	21,279	20,855
Exchange rate adjustments	(4,583)	-	-	-	n.a.	n.a.	-	(4,583)
Value adjustments of hedging	-	3,040	2,005	(510)	n.a.	n.a.	-	4,535
<b>Value adjustments transferred to:</b>								
Revenue	-	-	(415)	-	n.a.	n.a.	-	(415)
Other operating income	-	-	(271)	-	n.a.	n.a.	-	(271)
Financial income and expenses	-	-	-	232	n.a.	n.a.	-	232
<b>Tax:</b>								
Tax on hedging and currency adjustments	763	(669)	(298)	69	n.a.	n.a.	-	(135)
<b>Movements in comprehensive income for the year</b>								
	<b>(3,820)</b>	<b>2,371</b>	<b>1,021</b>	<b>(209)</b>	<b>n.a.</b>	<b>n.a.</b>	<b>-</b>	<b>(637)</b>
<b>Total reserves at 31 December</b>	<b>(1,546)</b>	<b>10</b>	<b>973</b>	<b>(498)</b>	<b>n.a.</b>	<b>n.a.</b>	<b>21,279</b>	<b>20,218</b>

**Accounting policies****Foreign currency translation reserve**

The foreign currency translation reserve comprises:

- exchange rate adjustments arising on translation of the financial statements of foreign entities with a currency that is not the Group's functional currency
- exchange rate adjustments relating to loans that form part of our net investment in such entities
- exchange rate adjustments relating to hedging transactions on our net investment in such entities.

On realisation or partial realisation of the net investment, the exchange rate adjustments are recognised in profit (loss) for the year if a foreign exchange gain (loss) is realised by the divested entity. The foreign exchange gain (loss) is transferred to the item in which the gain (loss) is recognised.

**Hedging of net investments**

Hedging of net investments comprises:

- exchange rate adjustments relating to hedging transactions on our net investment in such entities.

**Hedging reserve**

The hedging reserve covers:

- the cash flow hedging of interest payments
- the currency risk associated with the construction of offshore wind farms.

**Deferred costs of hedging**

Changes in the basic spread on currency swaps and time value of options are included in deferred costs of hedging.

**Share premium reserve**

Retained earnings include the share premium reserve of DKK 21,279 million, representing the excess of the amount of subscribed-for share capital over the nominal value of these shares in connection with capital injections.

## 6.3 Hybrid capital

Hybrid bonds	Due in 3013	Due in 3013	Due in 3015	Due in 3017
Type	Subordinate to other creditors	Subordinate to other creditors	Subordinate to other creditors	Subordinate to other creditors
Carrying amount	DKK 5,148 million	DKK 3,810 million	DKK 4,423 million	DKK 3,668 million
Financial classification	Equity	Loans and borrowings	Equity	Equity
Notional amount	EUR 700 million (DKK 5,212 million)	EUR 500 million (DKK 3,723 million)	EUR 600 million (DKK 4,467 million)	EUR 500 (DKK 3,723 million)
Issued	June 2013	July 2013	May 2015	November 2017
Maturing	June 3013	July 3013	November 3015	November 3017
First redemption date at par	26 June 2023	8 July 2018	6 November 2020	24 November 2024
Interest	For the first ten years, the coupon is fixed at 6.25% p.a., after which it is adjusted every five years with the 5-year euro swap + 4.75 percentage points from 2023-2043 and + 5.5 percentage points after 2043.	Coupon for the first five years is fixed at 4.875% p.a., after which it is adjusted every five years with the 5-year euro swap + 3.8 percentage points from 2018, 4.05 percentage points from 2023, and 4.80 percentage points from 2038.	Coupon for the first 5.5 years is fixed at 3.0% p.a., after which it is adjusted every five years with the 5-year euro swap + 2.819 percentage points from 2020, 3.069 percentage points from 2025, and 3.819 percentage points from 2040.	Coupon for the first seven years is fixed at 2.25% p.a., after which it is adjusted every five years with the five-year euro swap + 1.899 percentage points from 2024, 2.149 percentage points from 2029 and 2.899 percentage points from 2044.
Deferral of interest payment	Optional	Optional	Optional	Optional

We have issued hybrid capital which is subordinate to our other creditors. The purpose of issuing hybrid capital is to strengthen our capital base and fund our investments. In the European capital markets, we have issued EUR hybrid bonds with a total nominal value of DKK 17,125 million (EUR 2,300 million).

In 2017, we issued a further hybrid bond at a nominal value of EUR 500 million which is classified as equity. In addition, in 2017, we decided to redeem the hybrid bond maturing in July 3013 at par at the first redemption date on 8 July 2018. This hybrid bond is therefore reclassified to loans and borrowings.

For hybrid bonds, we may defer coupon payments to bond holders and ultimately decide

not to pay them. Deferred coupon payments become payable, however, if we decide to pay dividends to our shareholders or pay coupon payments on another hybrid bond.

As a consequence of the special terms attaching to the hybrid bonds, these are classified as equity, and coupon payments are therefore recognised in equity.

### Accounting policies

Hybrid capital comprises issued bonds that qualify for treatment in accordance with the rules on compound financial instruments due to the special characteristics of the loan. The notional amount, which constitutes a liability, is recognised at present value, and equity has been increased by

the difference between the net proceeds received and the present value of the discounted liability. Accordingly, any coupon payments are accounted for as dividends, which are recognised directly in equity at the time the payment obligation arises. This is because coupon is discretionary, and any deferred coupon therefore lapses upon maturity of the hybrid capital. Coupon payments consequently do not have any effect on profit (loss) for the year.

The part of the hybrid capital that is accounted for as a liability is measured at amortised cost. However, as the carrying amount of this component amounted to nil on initial recognition, and because of the 1,000-year term of the hybrid capital, amortisation charges will only impact on profit (loss) for the year towards the end of the 1,000-year term of the hybrid capital. Coupon payments are recognised in the statement of cash flows in the same way as dividend payments within financing activities.

On redemption of the hybrid capital, the payment will be distributed between the liability and equity applying the same principles as used when the hybrid capital was issued. This means that the difference between the payment on redemption and the net proceeds received on issue is recognised directly in equity as the debt portion of the existing hybrid issues will be nil during the first part of the life of the hybrid capital.

On the date on which the Board of Directors decides to exercise an option to redeem the hybrid capital, the part of the hybrid capital that will be redeemed will be reclassified to loans and borrowings. The reclassification will be made at the market value of the hybrid capital at the date the decision is made. Coupon payments and exchange rate adjustments following the reclassification to loans and borrowings will be recognised in profit (loss) for the year as financial income or expenses.

## 6.4 Financial resources

Our liquidity and financing risks are managed centrally in accordance with the principles and delegated authorities laid down by the Board of Directors.

One of the most significant financial management tasks is to secure sufficient and flexible financial resources in relation to our day-to-day operations, investment programme and debt maturity profile.

We therefore define minimum financial resources for the coming calendar year.

### Cash and cash equivalents and securities

Cash not available for use which is not part of the financial resources primarily comprises:

- cash and cash equivalents pledged as collateral for insurance-related provisions and
- cash and cash equivalents pledged as collateral for trading in derivatives.

Securities are a key element in our financial resources, for which reason investments are primarily made in liquid AAA-rated Danish mortgage bonds and to a lesser extent in other bonds. Most of the securities qualify for repo transactions in the Danish central bank, 'Danmarks Nationalbank'.

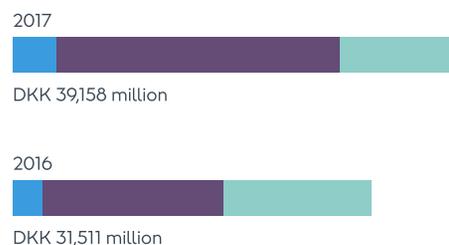
Securities not available for use comprise:

- Securities pledged as collateral for insurance-related provisions. These amounted to DKK 397 million at 31 December 2017 (2016: DKK 394 million)
- Securities pledged as collateral for trading in financial instruments. These amounted to DKK 40 million at 31 December 2017 (2016: DKK 276 million).

At 31 December 2017, we had received collateral in the amount of DKK 787 million (2016: DKK 773 million) concerning the positive market value of derivatives.

### Financial resources, DKK million

- Cash, available
- Securities, available
- Undrawn, non-cancellable credit facilities



Cash and cash equivalents and securities, DKK million	2017	2016
Cash, available	3,891	2,648
Bank overdrafts that are part of the ongoing cash management	-	(20)
<b>Total cash and cash equivalents at 31 December, cf. statement of cash flows</b>	<b>3,891</b>	<b>2,628</b>
Cash can be specified as follows:		
Cash, available	3,891	2,648
Cash, not available for use	312	283
<b>Total cash at 31 December, cf. balance sheet</b>	<b>4,203</b>	<b>2,931</b>
Securities can be specified as follows:		
Securities, available	24,843	15,863
Securities, not available for use	437	670
<b>Total securities at 31 December</b>	<b>25,280</b>	<b>16,533</b>



The table shows our cash which is divided into cash available and cash not available for use.

### Overview of securities, DKK million

Maturities	2017		2016	
	Fixed-rate	Floating-rate	Fixed-rate	Floating-rate
0-2 years	2,091	1,971	4,650	2,193
2-5 years	17,712	3,506	7,877	1,749
After 5 years	-	-	36	28
<b>Total carrying amount</b>	<b>19,803</b>	<b>5,477</b>	<b>12,563</b>	<b>3,970</b>

Maturity analysis of loans and borrowings 2017, DKK million	2018	2019	2020-2021	After 2021	2017
Bank loans and issued bonds					
Notional amount	3,828*	2,192	2,345	21,457	29,822
Interest payments	1,152	973	1,690	8,772	12,587
Trade payables	11,499	-	-	-	11,499
Other payables	5,644	216	-	-	5,860
Derivatives	2,912	736	471	6	4,125
Liabilities relating to assets classified as held for sale	119	-	-	-	119
<b>Total payment obligations</b>	<b>25,154</b>	<b>4,117</b>	<b>4,506</b>	<b>30,235</b>	<b>64,012</b>

Maturity analysis of loans and borrowings 2016, DKK million	2017	2018	2019-2020	After 2020	2016
Bank loans and issued bonds					
Notional amount	1,994	105	2,592	19,684	24,375
Interest payments	970	969	1,790	9,209	12,938
Trade payables	10,024	-	-	-	10,024
Other payables	5,287	84	38	1,669	7,078
Derivatives	4,551	1,674	884	67	7,176
Liabilities relating to assets classified as held for sale	2,291	-	-	-	2,291
<b>Total payment obligations</b>	<b>25,117</b>	<b>2,832</b>	<b>5,304</b>	<b>30,629</b>	<b>63,882</b>

\* The amount primarily relates to reclassified hybrid capital. See more in note 6.3.



#### Maturity analysis of loans and borrowings

The Group's cash needs in respect of its financial loans and borrowings are shown in the table on the left. The maturity analysis was determined on 31 December 2017.

The maturity analysis is based on undiscounted cash flows, including estimated interest payments. Interest payments are based on market conditions and interest-rate hedging entered into on 31 December 2017.

The maturity analysis does not include hybrid capital classified as equity. At 31 December 2017, we had issued hybrid capital with a notional amount totalling DKK 13,402 million due in 3013 (DKK 5,212 million), 3015 (DKK 4,467 million) and 3017 (DKK 3,723 million), respectively.

#### Accounting policies

Securities comprise bonds that are monitored, measured and reported at market value on an on-going basis in conformity with the Group's investment policy. Changes in market value are recognised in profit (loss) for the year as financial income and expenses. Purchase and sale of securities are recognised at the settlement date.

For listed securities, market value equals the market price, and for unlisted securities, market value is estimated based on generally accepted valuation methods and market data.

Divested securities where a repurchase agreement (repo transactions) has been made at the time of sale are recognised in the balance sheet at the settlement date as if the securities were still held. The amount received is recognised as a liability, and the difference between the selling price and the purchase price is recognised in profit (loss) for the year over the term as interest. The return on the securities is recognised in profit (loss) for the year.

## 6.5 Financial income and expenses

### Net financial income and expenses, DKK million

	2017	2016
Interest expenses, net	(629)	(402)
Interest element of provisions, etc.	(451)	(392)
Capital losses on early repayment of loans and interest rate swaps	(230)	(892)
Value adjustments of derivatives, net	(67)	(124)
Exchange rate adjustments, net	391	1,035
Value adjustments of securities, net	(150)	(96)
Net financial income and expenses	94	104
<b>Net financial income and expenses</b>	<b>(1,042)</b>	<b>(767)</b>

### Financial income and expenses, DKK million

	2017	2016
Interest income from cash, etc.	71	349
Interest income from securities at market value	216	420
Capital gains on securities at market value	250	0
Foreign exchange gains	1,523	3,446
Value adjustments of derivatives	2,043	4,169
Other financial income	150	105
<b>Total financial income</b>	<b>4,253</b>	<b>8,489</b>
Interest expenses relating to loans and borrowings, etc.	(1,670)	(1,744)
Interest expenses transferred to assets	754	574
Interest element of provisions	(303)	(296)
Capital losses on securities at market value	(419)	(111)
Foreign exchange losses	(1,568)	(2,821)
Value adjustments of derivatives	(1,887)	(3,919)
Other financial expenses	(202)	(939)
<b>Total financial expenses</b>	<b>(5,295)</b>	<b>(9,256)</b>
<b>Net financial income and expenses</b>	<b>(1,042)</b>	<b>(767)</b>

### Accounting policies

Market value adjustments of interest rate and currency derivatives that have not been entered into for hedging purposes are presented as financial income or expenses.



The table shows net financial income and expenses, corresponding to our internal control. Exchange rate adjustments and hedging contracts entered into to hedge currency risks are presented net under the item 'Exchange rate adjustments, net'.



Exchange rate adjustments of currency hedging are recognised in revenue and cost of sales with a gain of DKK 190 million (2016: a gain of DKK 1,257 million).

Borrowing costs transferred to property, plant and equipment under construction are calculated at the weighted average effective interest rate for general borrowing. This amounted to 5.3% in 2017 (2016: 4.4%).



## 6.6 Funds from operations (FFO)/ adjusted interest-bearing net debt

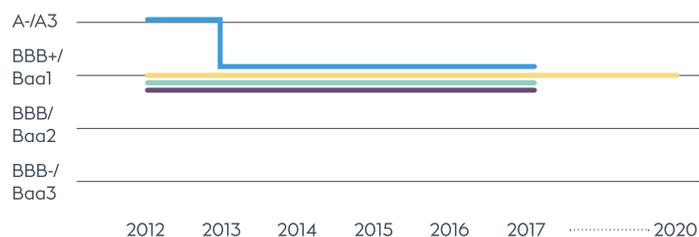
Our long-term target is for funds from operations (FFO) to be around 30% of adjusted interest-bearing net debt.

In 2017, the calculation of FFO has been updated to exclude gain (loss) on divestment

of assets. This brings our calculation of FFO more in alignment with the principles used by the rating agencies. Comparative figures have been restated.

### Rating, category

● S&P ● Moody's ● Fitch ● Financial objective



The figure shows the development in our credit rating since 2012 compared to our objective.

### Credit rating

Standard & Poor's	Minimum BBB+
Moody's	Minimum Baa1
Fitch	Minimum BBB+

Funds from operations (FFO), DKK million	2017	2016
<b>EBITDA – business performance</b>	<b>22,519</b>	<b>19,109</b>
Interest expenses, net	(629)	(402)
Reversal of interest expenses transferred to assets	(754)	(574)
Interest element of decommissioning obligations	(194)	(172)
50% of coupon payments on hybrid capital	(320)	(320)
Calculated interest paid on operating lease obligations	(234)	(194)
<b>Adjusted interest expenses, net</b>	<b>(2,131)</b>	<b>(1,662)</b>
Reversal of gain (loss) on divestment of assets	(10,835)	(2,940)
Reversal of recognised operating lease payment in profit (loss) for the year	885	746
Total current tax	(2,447)	(3,665)
<b>Funds from operations (FFO)</b>	<b>7,991</b>	<b>11,588</b>



The table shows which items are included in funds from operations. FFO is calculated for the continuing operations.

Adjusted interest-bearing net debt, DKK million	2017	2016
<b>Total interest-bearing net debt</b>	<b>(1,517)</b>	<b>3,461</b>
50% of hybrid capital	6,619	6,624
Cash and securities not available for distribution, excluding repo loans	749	953
Present value of operating lease payments	6,095	3,986
Decommissioning obligations	4,751	3,649
Deferred tax on decommissioning obligations	(797)	(627)
<b>Total adjusted interest-bearing net debt</b>	<b>15,900</b>	<b>18,046</b>



The table shows which items are included in the adjusted interest-bearing debt as well as FFO relative to adjusted interest-bearing debt.

Funds from operations (FFO)/ adjusted interest-bearing net debt, %	2017	2016
<b>Funds from operations (FFO)/ adjusted interest-bearing net debt</b>	<b>50.3%</b>	<b>64.2%</b>

# 7. Risk management

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# 7. Risk management

Market and credit risks are a natural part of our business activities and a precondition for being able to create value. Through risk management, risks are reduced to an acceptable level.

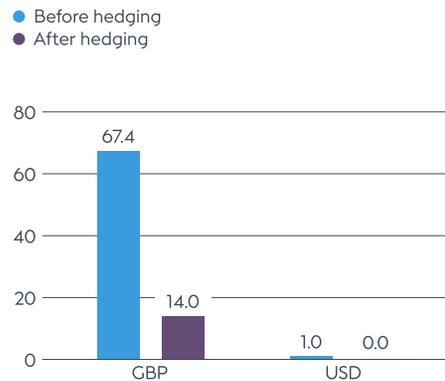
## Energy and currency exposures

At the end of 2017, our forward looking energy and currency exposures from production, sales, investments and divestments had been reduced from DKK 89.1 billion to DKK 22.3 billion via hedging.

## Trading portfolio

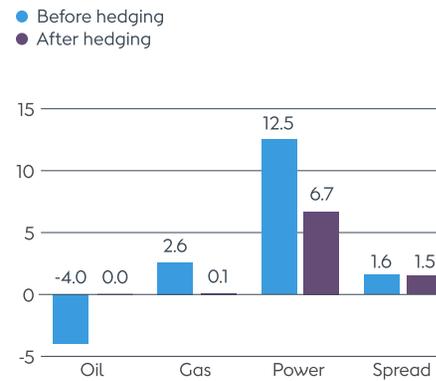
We have a limited trading portfolio, the main purpose of which is to optimise the execution of hedging contracts and gain from short-term energy price fluctuations. The trading activities comply with the mandates approved by the Board of Directors. Read more in note 7.3.

Currency exposure 2018-2022, DKK billion



Our currency exposure totalled DKK 68.4 billion before hedging and DKK 14.0 billion after hedging at the end of 2017. We do not deem EUR to constitute a risk, as we expect that Denmark will maintain its fixed-exchange-rate policy.

Energy exposure 2018-2022, DKK billion



Our energy exposures totalled DKK 20.7 billion before hedging and DKK 8.3 billion after hedging at the end of 2017.

# 5 years

We hedge prices for up to five years to reduce cash flow fluctuations.

# +1.7bn

In 2017, business performance EBITDA was positively impacted by DKK 1,665 million from hedging instruments against DKK 1,459 million in 2016.

# -0.8bn

The value of our energy and currency hedging instruments at 31 December 2017 was negative at DKK 812 million, which will reduce business performance EBITDA for a future period against DKK +737 million at 31 December 2016.

# 7.1 Market risks

## Market risks and market risk management

Our most significant market risks relate to:

- energy prices
- foreign exchange rates
- inflation rates and
- interest rates (see note 6.1).

The management of market risks is to ensure stable and robust financial ratios that support our growth strategy.

We hedge prices for up to five years to reduce cash flow fluctuations. Prices are not hedged in the long term, and our long-term market risks are therefore determined by our strategic decisions on investments in new assets, the conclusion of long-term contracts as well as any divestment of assets.

The Board of Directors determines the minimum hedging levels in the five-year period. In the first two years, a high degree of hedging is wanted to ensure stable cash flows after tax. The degree of hedging is lower in subsequent years. This is due to:

- reduced certainty about long-term production volumes and
- rising hedging costs in the medium to long term.

### Energy price risks

Our risks after hedging for the years 2018-2022 can be summarised as shown in the table.

Risk after hedging, DKK billion	Effect of price change	
	+10%	-10%
Oil: 0.0 purchase position	+0.0	-0.0
Gas: 0.1 sales position	+0.0	-0.0
Power: 6.7 sales position	+0.7	-0.7
Spread: 1.5 sales position	+0.1	-0.1

A 10% increase in the power price in 2018-2022 will therefore result in a gain of DKK 0.7 billion in the period, all else remaining unchanged.

### Currency risks

Our risks after hedging for the years 2018-2022 can be summarised as shown in the table.

Risk after hedging, DKK billion	Effect of price change	
	+10%	-10%
GBP: 14.0 sales position	+1.4	-1.4
USD: 0.0 sales position	+0.0	-0.0

Our largest currency risk relates to GBP due to our investments in offshore wind farms in the UK.

The exchange rate related to proceeds in foreign currency from divestments is hedged when we have a high degree of certainty about the price and structure of the transaction. The proceeds are estimated to be the cost price of the divested asset added an estimated markup that is increased as we gain certainty of the markup. The expected cash flows from divestments reflect the cash flows

we would otherwise have obtained from the operation of the offshore wind farms had we kept the share divested. As the payments are concentrated on a few years, they represent a relatively large share of our GBP exposure the next two years. Any subsequent divestments are not included, as we do not have high certainty about the price and structure of the transaction. Investments in GBP are set off against the expected proceeds from divestments before hedging.

The exchange rate related to energy prices in foreign currency is not hedged until the energy price is hedged. This means that the GBP exchange rate associated with power generation in the UK is not hedged until the GBP power price is hedged.

Cash flows that relate to fixed tariffs and guaranteed minimum prices from offshore wind farms in the UK deviate from the main principle. Hedging of these, less operating expenses, is based on a declining level of hedging over the five-year risk management horizon. The target is to hedge 100% of the risk in year 1, declining by 20 percentage points each year, to 20% in year 5.

Our GBP exposure amounted to DKK 14.0 billion after hedging for the years 2018-2022. Of these, unhedged prices of green certificates amounted to DKK 14.3 billion, while other unhedged prices represent a value of DKK -0.3 billion.

### GBP exposures, DKK billion

- Before hedging
- After hedging



The graph shows our GBP exposure from:  
 - divestment and investment  
 - green certificates  
 - hedged energy  
 before and after hedges.

The GBP exchange rate for hedges impacting EBITDA is in 2018 and 2019 hedged at an average exchange rate of DKK/GBP 9.0 and 8.5. The average exchange rates are calculated excluding options that only account for a smaller part of our GBP hedges.

Our EUR risk is subject to continuous assessment, but is generally not hedged as we believe that Denmark will maintain its fixed-exchange-rate policy.

Our USD exposure after hedging amounts to DKK 0.0 billion for the 2018-2022 period. Our USD exposure relates to the purchase of gas, LNG and coal.

**Wind Power**

Earnings from our generation of power from offshore wind farms mainly comprise:

- fixed tariffs (Denmark, Germany, the Netherlands and the UK) and
- guaranteed minimum prices for green certificates (the UK).

At the end of 2017, such fixed tariffs and guaranteed minimum prices cover 82% of the expected income from offshore wind farms over the next five years. The remaining price exposure concerns sales of power at market price in the UK and Denmark. See the graph 'Distribution of revenue from Wind Power's power generation' for further information.

The annual adjustment of the fixed tariffs varies from country to country:

- In the UK, the tariff is adjusted with inflation
- In Denmark, Germany and the Netherlands, the tariff is not adjusted.

This results in an inflation risk for earnings from tariff-based wind farms in Denmark, Germany and the Netherlands. The share of our debt which is fixed in nominal terms partially offsets this inflation risk.

**Bioenergy & Thermal Power**

Our CHP plant portfolio consists of biomass and coal-fired plants in Denmark and a gas-fired power station in the Netherlands. The plants in Denmark generate both heat and power.

Concurrently with the biomass conversion of our CHP plants, a larger share of our earnings will be coming from our heat generation. Heat generation does not give rise to price risk as the associated costs are borne by the heat customers. However, heat generation often entails a price risk for power, as heat and power are generated simultaneously.

The profitability of power generation is determined by the difference between the selling price of power and the purchase price of fuel and carbon emissions allowances. For our coal-based power generation, we secure profitability by selling power and buying fuel and carbon emissions allowances, while for biomass-based power generation, we secure profitability by buying biomass at fixed prices and hedging the associated power generation.

The risk management horizon is three years due to low liquidity in the hedging markets.

At the end of 2017, 42% of the power generation expected in 2018 from our power stations was hedged. The total net risk associated

with the power stations' power generation for the 2018-2022 period is DKK 1.5 billion after hedging.

**Distribution & Customer Solutions**

Our price risk in Distribution & Customer Solutions arises from the purchase and sale of power and gas. The price risks associated with the purchase and sale of gas result from differences in the indexing of sales and purchase prices. Our largest gas purchase contracts include the option of renegotiating the contract price if it no longer reflects market conditions. We have completed most of these renegotiations in recent years; as a result, the contract prices have largely been indexed to pure gas prices and not to oil prices, as was previously the case. We are therefore less sensitive to differences in the oil and gas price development than before. Going forward, our oil price risk

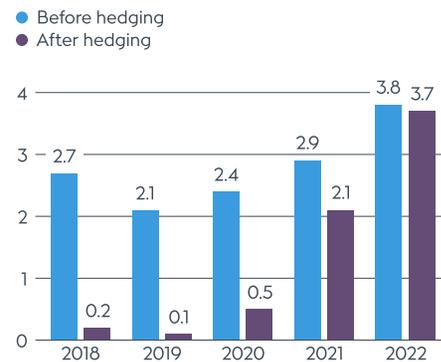
may rise again, however, as we conclude more and more LNG purchase agreements which are typically oil-indexed.

The price risks associated with power purchases and sales are constituted by the difference between the purchase and sales prices. The price risk relates primarily to timing differences between purchases and sales and is therefore considered to be limited.

**Principles for estimating exposures**

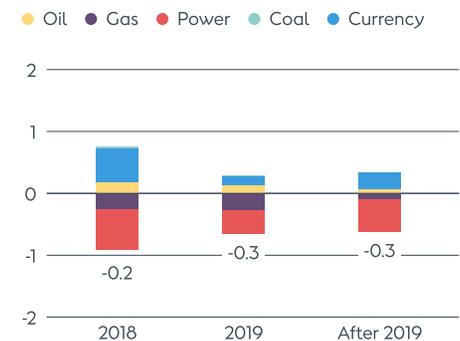
Exposure is calculated as the expected production (or net purchase/sale) times the forward price for the respective years. In addition, the exposure is determined on the basis of the expected exposure after renegotiations of oil-indexed gas purchase contracts.

**Wind Power's power price exposure, DKK billion**



The table shows the split of income from Wind Power's generation of power divided into market prices and other fixed elements.

**Expected value for recognition in business performance EBITDA, DKK billion**



The table shows the time of the transfer of the value of hedging contracts in business performance EBITDA for both business performance and IFRS hedges.

Note	Overview of the Group's derivative positions, DKK million	2017				2016			
		Energy hedging		Currency and interest rate hedging		Energy hedging		Currency and interest rate hedging	
		Contractual principal amount	Market value	Contractual principal amount	Market value	Contractual principal amount	Market value	Contractual principal amount	Market value
	<b>Recognised with EBITDA impact</b>								
1.1, 7.2	Economic hedging	21,396	(940)	25,303	592	21,319	(1,068)	20,946	512
7.2	Hedging of cash flows, currency	-	-	23,588	678	-	-	15,532	1,476
7.3	Trading portfolio	8,720	118	-	-	4,783	(375)	-	-
	<b>Total</b>	<b>30,116</b>	<b>(822)</b>	<b>48,891</b>	<b>1,270</b>	<b>26,102</b>	<b>(1,443)</b>	<b>36,478</b>	<b>1,988</b>
	<b>Recognised in financial income and expenses</b>								
6.4	Hedging of fair value, securities	-	-	-	-	-	-	794	(3)
7.2	Hedging of fair value, currency	-	-	18,178	(716)	-	-	18,334	(398)
7.2	Hedging of cash flows, interest	-	-	-	-	-	-	677	78
7.2	Hedging of cash flows, currency	-	-	2,739	(365)	-	-	2,846	(391)
	Other interest derivatives	-	-	550	-	-	-	550	(25)
	Other currency derivatives	-	-	3,923	605	-	-	851	344
	<b>Total</b>	<b>-</b>	<b>-</b>	<b>25,390</b>	<b>(476)</b>	<b>-</b>	<b>-</b>	<b>24,052</b>	<b>(395)</b>
	<b>Recognised in other comprehensive income</b>								
7.2	Hedging of net investments	-	-	29,686	476	-	-	24,421	253
	<b>Total</b>	<b>-</b>	<b>-</b>	<b>29,686</b>	<b>476</b>	<b>-</b>	<b>-</b>	<b>24,421</b>	<b>253</b>
	<b>Total continuing operations</b>	<b>30,116</b>	<b>(822)</b>	<b>103,967</b>	<b>1,270</b>	<b>26,102</b>	<b>(1,443)</b>	<b>84,951</b>	<b>1,846</b>
	<b>Recognised in discontinued operations</b>								
	Economic hedging	-	-	-	-	10,849	1,557	11,541	(201)
	Hedging of fair value, currency	-	-	2,480	48	-	-	-	-
	<b>Total discontinued operations</b>	<b>-</b>	<b>-</b>	<b>2,480</b>	<b>48</b>	<b>10,849</b>	<b>1,557</b>	<b>11,541</b>	<b>(201)</b>
	<b>Total</b>	<b>30,116</b>	<b>(822)</b>	<b>106,447</b>	<b>1,318</b>	<b>36,951</b>	<b>114</b>	<b>96,492</b>	<b>1,645</b>



The table shows the Group's derivatives and commercial contracts according to the type of accounting treatment and the affected items. The accounting treatment and classification of hedging contracts depend on the purpose of the hedging:

- Economic hedging comprises hedging of energy-related risks and related currency risks. These hedging contracts are treated as hedge accounting in accordance with the business performance principle (see note 1.1 for a detailed description), whereby the value adjustment (loss/gain) is deferred and only recognised during the period in which the hedged transaction materialises. Under IFRS, the value adjustment of this type of hedging is recognised directly in the income statement.
- Hedging of cash flows concerning interest rates and currencies comprises hedging of future interest payments and currency risks on future income. When hedging cash flows, the effective portion of the market value is temporarily recognised in equity until the hedged transaction materialises.
- Hedging of the market value of securities or currency comprises hedging of recognised assets or liabilities. By hedging the market value, the effective portion of the market value is recognised in profit (loss) for the year together with changes in the market value of the hedged asset or the hedged liability.
- Hedging of net investments comprises hedging of the currency risk associated with investments in assets located in foreign countries. By hedging of net investments, the effective portion of the market value is recognised in equity until the hedged net investment is divested.
- The trading portfolio and other interest and currency derivatives are recognised at market value in the income statement.

Note 1.1 provides further details on economic hedging, including information about the underlying products traded.

## 7.2 Hedge accounting and economic hedging

Hedge accounting 2017, DKK million	Contractual principal amount	Maturity analysis			Market value		Recognised in comprehen- sive income	Expected transfers to income statement		
		2018	2019	After 2019	Asset	Liability		2018	2019	After 2019
<b>Hedging of cash flows</b>										
Revenue etc. (USD)	1,316	136	132	1,048	27	(14)	13	1	1	11
Divestments (GBP)	22,272	10,143	11,575	554	819	(154)	385	344	41	-
Interest payments (fixed)	-	-	-	-	-	-	(234)	(41)	(41)	(152)
Interest payments (GBP)	2,739	548	548	1,643	-	(365)	(365)	(105)	(102)	(158)
<b>Hedging of fair value</b>										
EUR	9,391	4,924	-	4,467	3	(1)				
GBP	8,787	-	-	8,787	-	(718)				
USD	2,480	310	1,240	930	48	-				
<b>Hedging of net investment</b>										
GBP	23,868	10,563	2,602	10,703	1,381	(906)				
EUR	5,668	1,201	-	4,467	2	(2)				
USD	150	-	-	150	1	-				

### Accounting policies

We primarily use hedge accounting for currency and interest where it is possible to use hedging instruments which hedge the desired risk one-to-one. The GBP exposure, for example, is hedged using GBP forward exchange contracts, GBP swaps or GBP loans. There are thus no significant sources of ineffectiveness. For currency swaps, the basic spread is accounted for according to the cost of the hedging model.

To the extent that a risk needs to be hedged, and if there is no fully effective instrument available in the market, analyses are performed of the expected effectiveness of the hedging instrument before the hedging transaction is concluded. In this case, the ratio between the hedged risk and the hedging instrument may deviate from the one-to-one principle and will be determined as the ratio which most effectively hedges the desired risk.

Hedge accounting 2016, DKK million	Contractual principal amount	Maturity analysis			Market value		Recognised in comprehen- sive income	Expected transfers to income statement		
		2017	2018	After 2018	Asset	Liability		2017	2018	After 2018
<b>Hedging of cash flows</b>										
Divestments (GBP)	15,532	12,238	3,294	-	1,514	38	1,309	1,032	277	-
Interest payments (fixed)	677	-	-	677	78	-	(247)	(84)	(35)	(128)
Interest payments (GBP)	2,846	569	569	1,708	-	(391)	(391)	(93)	(90)	(208)
<b>Hedging of fair value</b>										
EUR	7,439	1,784	1,198	4,457	-	(21)				
GBP	10,895	-	-	10,895	-	(377)				
<b>Hedging of net investment</b>										
EUR	5,656	-	1,199	4,457	16	(4)				
GBP	18,765	(2,817)	8,327	13,255	2,136	(1,895)				

### Cash flow hedging

Forward exchange contracts have been concluded for the purpose of hedging the currency risk associated with the construction of offshore wind farms which are expected to be divested.

Ineffectiveness of currency hedging totalled DKK 0 million (2016: DKK 0 million). Forward exchange contracts have also been concluded for the purpose of hedging the currency risk associated with interest payments on loans in GBP.

All hedges take place using an instrument with the same price risk as the exposure. The GBP exposure, for example, is hedged using GBP derivatives or GBP loans. Therefore, the hedging ratio for all IFRS hedges is one-to-one.



When we conclude a hedging transaction, and each time we present financial statements thereafter, we assess whether the hedged exposure and the hedging instrument are still financially correlated. If the hedged cash flows are no longer expected to be realised, the accumulated value change is transferred to profit (loss) for the year.

Changes in the market value of derivatives that are classified as hedges of the fair value of a recognised asset or liability are recognised in profit (loss) for the year together with changes in the value of the hedged asset or liability to the extent of the hedged risk.

### Economic hedging and commercial contracts

The purpose of economic hedging is to reduce our risk from generation and sale of energy. Fluctuations in value are expected to be offset by the underlying exposure.

When the market value of contracts classified as economic hedging, commercial contracts and partly cash flow hedging (currency) is recognised in the income statement, we present them in the hedging item which is included in EBITDA.

We have entered into a number of commercial contracts under which physical delivery is made, and which are managed together with the financial contracts, for which reason they are recognised at market value in accordance with IFRS.

Under the business performance principle, the market value adjustment of contracts concluded for the purpose of economic hedging and commercial contracts is deferred to the period during which the hedged transaction affects results. See note 1.1.

Our hedging of energy prices and commercial contracts recognised at market value is specified in the table below.

The table shows an effect on EBITDA from agreements with a contractual principal amount of DKK 46,699 million (2016: DKK 42,265 million).

### Hedging of net investments in foreign subsidiaries

Our foreign activities entail currency risk. We hedge this currency risk by raising loans in foreign currencies, entering into forward exchange contracts and investing in currency swaps and options.

Economic hedging and commercial contracts, DKK million	2017		2016	
	Contractual principal amount	Market value	Contractual principal amount	Market value
<b>Energy</b>				
Oil swaps	3,595	374	3,985	(76)
Gas swaps	6,939	(626)	7,522	(629)
Power swaps	7,745	(1,009)	8,014	(641)
Power options	2,941	280	1,497	242
Coal	176	41	301	36
<b>Currency</b>				
Forward exchange contracts	25,303	592	20,946	512
<b>Total</b>	<b>46,699</b>	<b>(348)</b>	<b>42,265</b>	<b>(556)</b>



Under the business performance principle, economic hedging is accounted for as effective hedging. The resulting market value adjustment is consequently deferred to the period in which the hedged transaction affects results.

The contractual principal amount has been determined as the net position per derivative type.

At 31 December 2017, the accumulated exchange rate adjustments totalled DKK -1,606 million divided between the exchange rate adjustment of the net investment of DKK -2,189 million and the hedging thereof of DKK 583 million.

### Hedging of net investments in foreign subsidiaries, DKK million

	Net investment <sup>1</sup>	Of which non-controlling interests	Hedged amount in currency	Net position	Accumulated exchange rate adjustment in equity
<b>2017</b>					
<b>Currency</b>					
GBP	35,991	(3,777)	(23,868)	8,346	(1,527)
EUR	13,784	-	(5,668)	8,116	(15)
Other	286	-	(150)	136	(64)
<b>Total</b>	<b>50,061</b>	<b>(3,777)</b>	<b>(29,686)</b>	<b>16,598</b>	<b>(1,606)</b>
<b>2016</b>					
<b>Currency</b>					
GBP	35,678	(4,291)	(18,765)	12,622	(1,309)
EUR	15,220	-	(5,656)	9,564	(38)
Other	3,349	-	-	3,349	(363)
<b>Total</b>	<b>54,247</b>	<b>(4,291)</b>	<b>(24,421)</b>	<b>25,535</b>	<b>(1,710)</b>

At 31 December 2017, net investments hedged by a derivative were hedged at an average price of 8.61 for GBP and 7.43 for EUR.

### Accounting policies

#### Economic hedging and commercial contracts

Market value adjustments of financial contracts offered to customers with a view to price hedging and financial instruments that have been entered into to hedge the Group's principal operating activities are recognised as revenue or cost of sales.

Under the business performance principle, economic hedging is accounted for as effective hedging. The resulting market value adjustment is consequently deferred to the period in which the hedged transaction affects results. See note 1.1 for further information.

Ineffectiveness relating to hedging of net investments in foreign subsidiaries totalled DKK 0 million (2016: DKK 1 million) and is recognised in financial income and expenses.



The table shows our hedging of investments in foreign subsidiaries. The table also shows the exchange rate adjustment of the investment as well as the associated hedging value.

The net position expresses the accounting exposure. If, for example, the GBP/DKK exchange rate had gone up by 10% on 31 December 2017, equity would have increased by DKK 835 million, corresponding to 10% of DKK 8,346 million.

The contractual principal amount has been determined as net position per derivative type.

#### Hedging of net investments in foreign subsidiaries

Changes in the market value of derivatives and loans that are used to hedge net investments in foreign subsidiaries or associates are recognised in the consolidated financial statements directly in equity within a separate foreign currency translation reserve.

# 7.3 Trading portfolio

## Trading portfolio

The purpose of our trading portfolio is to:

- optimise hedging contracts
- contribute to increased market insight and
- profit from short-term fluctuations in energy prices.

The trading portfolio consists primarily of positions in oil, gas and power.

The trading portfolio constitutes a smaller part of our total portfolio of derivatives, and the associated risk is limited. Also, earnings from the trading portfolio constitute a limited share of our total earnings.

When a hedging instrument does not fully correspond to the hedged risk, any difference between the hedging contract entered into and the hedged exposure is recognised in the income statement as part of the gain (loss) from the trading portfolio.

## Accounting policies

Market value adjustments of physical and financial contracts relating to energy that are concluded with a view to generating gains from short-term price changes are recognised as revenue.

Overview of the Group's trading portfolio, DKK million	2017		2016	
	Contractual principal amount	Market value	Contractual principal amount	Market value
Oil swaps	287	(361)	848	(810)
Gas swaps and options	2,772	170	2,199	440
Power swaps and options	5,566	363	1,647	3
Carbon emissions allowances	44	(14)	69	(18)
Coal	51	(40)	20	10
<b>Total</b>	<b>8,720</b>	<b>118</b>	<b>4,783</b>	<b>(375)</b>

## Market trading mandates

VaR max. in 2017: DKK 70 million

VaR indicates the largest loss in one trading day to a probability of 95%. VaR is based on data for the past 60 trading days with the heaviest weighting being assigned to the most recent trading days.

Stress max. in 2017: DKK 400 million

Stress indicates the largest daily loss we risk sustaining with the given portfolio. Stress is based on data from 1 January 2006 to the present day.

Maximum open positions in trading portfolio

- Max. 15TWh of gas
- Max. 4 million boe of oil
- Max. 8TWh of power
- Max. 3 million tonnes of CO<sub>2</sub>
- Max. 2 million tonnes of coal



The contractual principal amount has been determined as the net position per derivative type. The table shows the market value of our derivatives which are included in the trading portfolio at 31 December 2017.

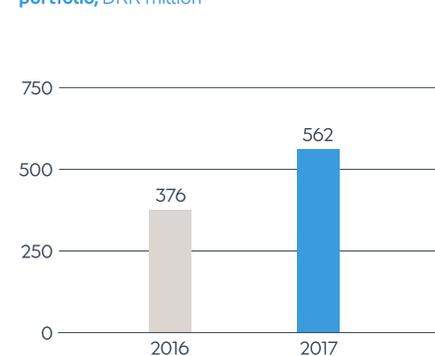


Trading activities are carried out within mandates approved by the Board of Directors. The mandates comprise a value-at-risk (VaR) mandate and a stress mandate as well as a limit for the maximum positions measured in energy units per product (oil, gas, etc.).

Daily position in the trading portfolio, market trading mandates, DKK million



Annual contribution margin from the trading portfolio, DKK million



## 7.4 Sensitivity analysis of financial instruments

The sensitivity analysis in the table shows the effect of market value changes assuming a relative price change at 31 December 2017.

Effect on profit (loss) before tax comprises financial instruments that remained open at the balance sheet date, and which have an effect on profit (loss) in the current financial year. The effect is broken down by:

- trading portfolio; these contracts will affect profit
- Other financial instruments include economic hedging and commercial contracts; the market value changes of contracts allocated as economic hedges will be offset, in full or in part, by a change in the hedged risk.

Effect on equity before tax comprises financial instruments that remained open at the balance sheet date, and which are value-adjusted directly in equity.

Financial instruments include derivatives as well as receivables and payables in foreign currencies.

The illustrated sensitivities only comprise our financial instruments and therefore omit the effect from contracts concluded under which physical delivery of the underlying assets is made, as these are not recognised as financial instruments in accordance with IFRS 9.

### Sensitivity analysis of financial instruments, DKK million

Risk	Price change	31 December 2017			31 December 2016		
		Effect on profit (loss) before tax		Effect on equity before tax	Effect on profit (loss) before tax		Effect on equity before tax
		Trading portfolio	Other financial instruments <sup>1</sup>		Trading portfolio	Economic hedging <sup>1</sup>	
Oil	10%	10	134	-	10	(86)	-
	-10%	(10)	(134)	-	(10)	86	-
Gas	10%	(81)	(607)	-	(107)	(2,773)	-
	-10%	75	607	-	107	2,773	-
Power	10%	86	(952)	-	126	(885)	-
	-10%	(81)	959	-	(135)	894	-
Coal	10%	(6)	(43)	-	(1)	(43)	-
	-10%	6	43	-	1	43	-
USD	10%	91	131	(132)	38	(243)	-
	-10%	(91)	(131)	132	(38)	243	-
GBP	10%	31	(2,312)	(1,534)	(57)	(2,112)	(1,165)
	-10%	(31)	2,312	1,942	57	2,112	1,285
EUR	10%	419	(1,304)	522	175	(468)	-
	-10%	(419)	1,304	(522)	(175)	468	-
Interest	100 basis points	-	-	-	(255)	-	(4)

If the hedged exposure had been included in the sensitivity analysis, the effect of a price change would have been reduced or offset entirely.

Net investments and associated hedging of net investments in foreign subsidiaries are not included in the table, as the effect of the

sum of the investment and the hedging is considered to be neutral to price changes.

A 10% increase in the currencies hedged in connection with net investments would reduce equity by DKK -2,969 million (2016: DKK -2,442 million) arising from the hedging instruments. All other conditions being equal, a decrease in

the exchange rate would have had a corresponding opposite effect.



<sup>1</sup> Other financial instruments include derivatives classified as economic hedging comprises derivatives entered into to hedge future financial risks. The market value changes of these contracts will be offset, in full or in part, by a change in the hedged risk. Also included are commercial contracts recognised at market value.

## 7.5 Credit risks

We are exposed to credit risks from our trading partners and customers. A large part of our counterparty risks concerns major international energy companies and banks. Such trading is regulated under standard agreements, such as EFET and ISDA agreements, which feature, for instance, credit rating and netting provisions. Our credit exposure is mainly concentrated on counterparties in Denmark, the UK, Germany and Sweden.

We limit our credit risks by:

- systematically rating significant counterparties
- granting credit limits or
- demanding that collateral be furnished or credit insurance.

### Credit quality of the Group's counterparties, DKK million

	2017	2016
AAA/Aaa	23,329	14,047
AA/Aa	5,197	3,687
A/A	4,969	7,382
BBB/Baa	1,712	2,558
Non-rated	11,072	9,849
<b>Total credit exposure</b>	<b>46,279</b>	<b>37,523</b>



The table shows the credit quality of our counterparties distributed by category. In addition, we have receivables and construction contracts related to the construction of offshore wind farms amounting to DKK 13.349 million where we have collateral in the offshore wind farm under construction.

The counterparties and credit limits granted are monitored on an ongoing basis. The monitoring is based on the framework established by our Board of Directors and Executive Board. For the most significant counterparties, an internal credit rating is required to determine the internal rating and the granting of credit limits. The rating is based on information from external credit rating agencies, publicly available information and own analyses.

We suffered no losses from any single major counterparty in 2017 or 2016.

The credit risk from our financial assets primarily concerns derivatives, cash and bond portfolios as well as receivables. The assessment is based on the individual counterparty's ratings with Standard & Poor's, Moody's and Fitch. The figures do not reflect our actual credit exposure as the positions are calculated before offsetting our debt to such counterparties.

The AAA/Aaa category covers our position in Danish AAA-rated government and mortgage bonds. The non-rated category primarily consists of trade receivables from customers, such as end-users and PSO customers.

### Accounting policies

We only offset positive and negative values if we are entitled to and intend to settle several financial instruments net.

### Offsetting of financial assets, DKK million

	Derivatives	Trade receivables	2017	Derivatives	Trade receivables	2016
Financial assets	9,743	33,270	43,013	21,734	30,349	52,083
Financial liabilities, offset	(5,000)	(29,480)	(34,480)	(14,065)	(28,061)	(42,126)
<b>Financial assets in the balance sheet</b>	<b>4,743</b>	<b>3,790</b>	<b>8,533</b>	<b>7,669</b>	<b>2,288</b>	<b>9,957</b>
Amounts not offset in the balance sheet:						
Liabilities with right of set-off	(1,611)	-	(1,611)	(1,697)	-	(1,697)
Collateral received in the form of bonds	(787)	-	(787)	(773)	-	(773)
<b>Net</b>	<b>2,345</b>	<b>3,790</b>	<b>6,135</b>	<b>5,199</b>	<b>2,288</b>	<b>7,487</b>

### Offsetting of financial liabilities, DKK million

	Derivatives	Trade payables	2017	Derivatives	Trade payables	2016
Financial liabilities	8,700	32,327	41,027	19,683	30,330	50,013
Financial assets, offset	(5,000)	(29,480)	(34,480)	(14,065)	(28,061)	(42,126)
<b>Financial liabilities in the balance sheet</b>	<b>3,700</b>	<b>2,847</b>	<b>6,547</b>	<b>5,618</b>	<b>2,269</b>	<b>7,887</b>
Amounts not offset in the balance sheet:						
Assets with right of set-off	(1,611)	-	(1,611)	(1,697)	-	(1,697)
Collateral provided in the form of bonds	(40)	-	(40)	(276)	-	(276)
<b>Net</b>	<b>2,049</b>	<b>2,847</b>	<b>4,896</b>	<b>3,645</b>	<b>2,269</b>	<b>5,914</b>



The table shows our financial assets and liabilities where a share is offset and is therefore presented net. We have a number of counterparties in respect of which we are both buyer and seller of financial contracts, etc. Consequently, our gross financial assets and liabilities can be significant before offsetting. Offsetting is typically limited within specific products.

The decrease in the amount offset regarding derivatives is mainly attributable to the decrease in the market value of oil derivatives.

## 7.6 Categories of financial instruments

### Categories of financial instruments

Financial instruments are used for various purposes. The purpose determines the category, and whether the value adjustment of the instrument should be recognised in the profit (loss) for the year or as part of the hedging reserve in equity.

#### Categories of financial instruments, DKK million

	2017	2016
Energy and currency derivatives	2,589	4,945
Securities	25,280	16,533
<b>Financial assets measured at fair value via income statement</b>	<b>27,869</b>	<b>21,478</b>
Interest derivatives	-	78
Currency derivatives	2,281	3,666
<b>Derivatives (assets) used as hedging instrument</b>	<b>2,281</b>	<b>3,744</b>
Trade receivables	9,170	7,286
Other accounts receivable	8,812	5,204
<b>Financial assets measured at amortised cost</b>	<b>17,982</b>	<b>12,490</b>
Energy and currency derivatives	2,214	4,201
<b>Financial liabilities measured at fair value via income statement</b>	<b>2,214</b>	<b>4,201</b>
Interest derivatives	-	3
Currency derivatives	2,160	2,726
<b>Derivatives (liabilities) used as hedging instrument</b>	<b>2,160</b>	<b>2,729</b>
Bank loans and issued bonds	29,636	24,183
Trade payables	11,499	10,024
Other accounts payable	2,767	4,032
<b>Financial liabilities measured at amortised cost</b>	<b>43,902</b>	<b>38,239</b>

The fair value of financial instruments measured at amortised cost is identical to the carrying amount with the exception of bank loans and issued bonds where the market value is stated in note 6.1.



The table shows our financial instruments divided into categories. The category indicates how the financial instrument is recognised in the financial statements.

## 7.7 Fair value measurement

### Fair value hierarchy, DKK million

	Assets			Equity and liabilities
	Securities	Derivatives	Other receivables	Derivatives
<b>2017</b>				
Level 1	22,490	444	-	667
Level 2	2,790	3,478	-	2,602
Level 3	-	948	105	1,105
<b>Total 2017</b>	<b>25,280</b>	<b>4,870</b>	<b>105</b>	<b>4,374</b>
<b>2016</b>				
Level 1	13,428	2,461	-	1,467
Level 2	3,105	5,959	-	5,037
Level 3	-	269	-	426
<b>Total 2016</b>	<b>16,533</b>	<b>8,689</b>	<b>-</b>	<b>6,930</b>

### Valuation principles and key assumptions

In order to minimise the use of subjective estimates or modifications of parameters and calculation models, it is our policy to determine fair values based on external information that most accurately reflects the fair values.

Fair values are determined continuously by our Risk Management function, which reports to the CFO.

### Accounting policies

Level 1 comprises quoted securities and derivatives that are traded in active markets.

Level 2 comprises derivatives, where valuation models with observable inputs are used to measure fair value.

Level 3 comprises primarily long-term contracts on the purchase/sale of, in particular, power and gas.

The fair values are based on assumptions concerning the long-term prices of, in particular, power, gas, coal, USD, EUR, volatilities as well as risk premiums in respect of liquidity and market risks. Since there are no active markets for the long-term prices of power, oil and gas, the fair value has been determined through an estimate of the future prices. The most important parameter resulting in commodity contracts being classified as level 3 is the power price. Normally, the price can be observed for a maximum of five years in the power market, after which an active market no longer exists. Beyond the five-year horizon, the energy price is thus projected on the basis of the observable forward price for years one to five. As the forward price of power develops stably during the five-year period, the projection over a small number of years is not deemed to be associated with any material risk.

In connection with the divestment of our Oil & Gas business, we will receive USD 100 million if the Rosebank field is developed. This payment is recognised at fair value under other receivables.

All assets and liabilities measured at fair value are measured on a recurring basis.

# 8. Other notes

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## 8.1 Related-party transactions

Related parties that have control over the Group comprise the Danish State, represented by the Danish Ministry of Finance.

Related parties with a significant influence included Goldman Sachs until 2 March 2017, when Martin Hintze from Goldman Sachs stepped down from Ørsted A/S's Board of Directors.

Other related parties are the Group's associates and joint ventures, members of the Board of Directors and the Executive Board as well as other senior executives.

See note 8.5 for an overview of our joint ventures and associates.

Related-party transactions are made on arm's length terms. Intra-group transactions have been eliminated in the consolidated financial statements.

The remuneration and share programme for Group Executive Management and the Board of Directors is described in notes 2.6 and 2.7.

Board member Peter Korsholm has, through a company indirectly owned by him, had ordinary transactions with Danish Oil Pipe A/S, a wholly-owned subsidiary in the Ørsted Group.

In 2016, we divested Gas Distribution A/S to the Danish transmission system operator Energinet, which is owned by the Danish State. The cash selling price was DKK 2,325 million.

We use the exemption set out in IAS 24.25 concerning entities in which the Danish State is a related party, and transactions with government-related companies are therefore not disclosed. Transactions with owners consist solely of transactions with Goldman Sachs until 2 March 2017.

There were no other related-party transactions during the period.

<b>Joint ventures, DKK million</b>	2017	2016
Dividends received and capital reductions	-	175
Capital transactions, net	91	29
Purchase of goods and services	(23)	(143)
Interest, net	-	24
Receivables	-	674
Payables	-	133

<b>Associates, DKK million</b>	2017	2016
Dividends received and capital reductions	14	15
Sale of goods and services	7	17
Purchase of goods and services	(20)	(20)
Interest, net	1	-
Receivables	48	-
Payables	-	3

<b>Owners, DKK million</b>	2017	2016
Sale of goods and services	58	469
Receivables	-	17

<b>Board of Directors, DKK million</b>	2017	2016
Purchase of goods and services	110	-
Payables	11	-

## 8.2 Operating lease obligations

Our total operating lease obligations increased by DKK 3,106 million relative to last year. The increase in the obligations is primarily due to the fact that we have launched the Hornsea 1 project and in this connection entered into leases amounting to just over DKK 2 billion.

Wind Power's assets held under operating leases comprise mainly seabeds relating to the offshore wind farms in the UK, service vessels and a harbour area in Belfast, Northern Ireland.

Bioenergy & Thermal Power's most significant leased assets are two plots of land. In the Netherlands, we lease the land on which the Encogen Power Station is located, and in the UK, we lease land in Northwich which will be the site of our first Renaissance plant.

Distribution & Customer Solutions mainly lease gas storage facilities in Germany.

Leased assets recognised under 'Other activities' mainly comprise our two office premises in Gentofte and London. The premises are used by employees in most of our segments.

Seabed leases include variable lease payments which depend on the number of MWh generated. However, we have typically agreed on minimum lease payments for the seabeds.

Lease payments recognised in profit (loss) for the year amounted to DKK 885 million (2016: DKK 746 million).

For the purpose of calculating the FFO/adjusted interest-bearing net debt credit metric, the present value and interest expenses of the lease obligations are calculated. The results and the discount rate are shown in the table with supplementary information for operating lease obligations. We reduced the discount rate in 2017 due to the continued low interest rate environment.

### Accounting policies

We recognise operating lease payments in profit (loss) for the year over the term of the lease on a straight-line basis. When using assets held under operating leases in respect of construction of offshore wind farms or other assets, we recognise lease payments in the cost of the asset in step with the construction of the asset.



### Operating lease obligations by segment 2017, DKK million

	Wind Power	Bioenergy & Thermal Power	Distribution & Customer Solutions	Other activities	Total
0-1 year	462	11	145	171	789
1-2 years	731	9	159	198	1,097
2-3 years	417	7	79	206	709
3-4 years	203	7	79	203	492
4-5 years	230	6	80	200	516
After 5 years	3,330	144	101	1,529	5,104
<b>Total</b>	<b>5,373</b>	<b>184</b>	<b>643</b>	<b>2,507</b>	<b>8,707</b>
<b>Present value</b>	<b>3,638</b>	<b>117</b>	<b>453</b>	<b>1,887</b>	<b>6,095</b>

### Operating lease obligations by segment 2016, DKK million

0-1 year	166	9	146	182	503
1-2 years	133	6	159	196	494
2-3 years	100	7	79	202	388
3-4 years	99	7	80	199	385
4-5 years	100	7	80	199	386
After 5 years	1,661	145	101	1,538	3,445
<b>Total</b>	<b>2,259</b>	<b>181</b>	<b>645</b>	<b>2,516</b>	<b>5,601</b>
<b>Present value</b>	<b>1,449</b>	<b>108</b>	<b>563</b>	<b>1,866</b>	<b>3,986</b>

### Supplementary information to operating lease obligations, continuing operations, DKK million

	2017	2016
Present value of lease payments	6,095	3,986
Lease payments recognised in profit (loss) for the year	885	746
Calculated interest expenses on lease obligations	234	194
Discount rate applied	3.5%	4.5%



The present value is calculated by discounting the individual obligations each year using our internal discount rate of 3.5% (2016: 4.5%).

## 8.3 Auditor's fees

PwC is Ørsted's auditors appointed by the annual general meeting. PwC audits the consolidated financial statements of Ørsted and our subsidiaries' financial statements in all the countries where we are represented.

Other assurance engagements primarily included reviews of the internal interim balance sheet for Oil & Gas, reviews of non-financial data and of regulatory financial statements.

Tax and VAT advice primarily included advice in connection with the divestment of assets and enterprises and advice in connection with the preparation of tax returns and the calculation of the income subject to international joint taxation.

Other services include other consultancy services from PwC, including advice in connection with due diligence and the divestment of assets and enterprises.

Fees for services other than statutory audit supplied by PwC Denmark to Ørsted amounted to DKK 8 million and consisted of accounting and tax advice in connection with the divestment of assets and enterprises, review of non-financial data and other general accounting and tax advice.

In 2016, PwC provided consultancy services in connection with the IPO. The fee for this totalled DKK 18 million.

Auditor's fees, DKK million	2017	2016
Statutory audit	11	9
Other assurance engagements	2	14
Tax and VAT advice	4	11
Other services	7	9
<b>Total fees to PwC</b>	<b>24</b>	<b>43</b>



In 2017, PwC provided advisory services totalling DKK 1.8 million concerning acquisition and divestment activities, which are not included in our limit for the use of PwC for non-audit services.

## 8.4 Contractual obligations

At 31 December 2017, contractual obligations in Wind Power mainly related to offshore wind turbines, foundations and cables, etc., for the construction of offshore wind farms. The obligations of Bioenergy & Thermal Power mainly related to the biomass conversion of

Asnæs Power Station, while the obligations of Distribution & Customer Solutions related to the roll-out of smart meters.

Contractual obligations by segment, DKK million	 Wind Power	 Bioenergy & Thermal Power	 Distribution & Customer Solutions	Other activities	Total
	0-1 year	14,363	605	590	-
1-5 years	17,122	285	531	-	17,938
<b>2017</b>	<b>31,485</b>	<b>890</b>	<b>1,121</b>	<b>-</b>	<b>33,496</b>
<b>2016</b>	<b>41,676</b>	<b>569</b>	<b>1,300</b>	<b>869</b>	<b>44,414</b>



Overview of concluded contracts where delivery had not taken place at 31 December 2017.

## 8.5 Company overview

Segment/company/registered office	Type <sup>1</sup>	Ownership interest	Segment/company/registered office	Type <sup>1</sup>	Ownership interest
<b>Parent company</b>					
Ørsted A/S, Fredericia, Denmark	-	-			
<b>Wind Power</b>					
Anholt Havvindmøllepark I/S <sup>2</sup> , Fredericia, Denmark	JO	50%	Horns Rev I Offshore Wind Farm, Fredericia, Denmark	JO	40%
Barrow Offshore Wind Limited, London, UK	S	100%	Hornsea 1 Holdings Limited, London, UK	S	100%
Bay State HoldCo LLC., Delaware, USA	JV	50%	Hornsea 1 Limited, London, UK	S	100%
Bay State Wind LLC., Delaware, USA	S	100%	Lincs Renewable Energy Holdings Limited, London, UK	JV	50%
Borkum Riffgrund I Holding A/S, Fredericia, Denmark	S	100%	Lincs Wind Farm (Holding) Limited, London, UK	JO	25%
Borkum Riffgrund I Offshore Windpark A/S GmbH & Co. oHG, Norden, Germany	JV	50%	Lincs Wind Farm Limited, Aberdeen, UK	JO	25%
Borkum Riffgrund 2 Holding GmbH, Hamburg, Germany	S	100%	London Array Limited, Kent, UK	JO	25%
Borkum Riffgrund 2 Offshore Wind Farm GmbH & Co. oHG, Norden, Germany	S	50%	Morecambe Wind Limited, London, UK	JO	50%
Breesea Limited, London, UK	S	100%	Njord Limited, London, UK	S	100%
BSW Holdco LLC, Delaware, USA	JO	50%	Northern Energy OWP West GmbH, Hamburg, Germany	S	100%
BSW Projectco LLC, Delaware, USA	S	50%	Nysted Havmøllepark I, Fredericia, Denmark	JO	43%
Burbo Extension Holding Ltd, London, UK	JO	50%	Nysted I A/S, Fredericia, Denmark	S	86%
Burbo Extension Ltd, London, UK	S	50%	Nördlicher Grund GmbH, Hamburg, Germany	S	100%
Celtic Array Limited, Berkshire, UK	JV	50%	Ocean Wind LLC, Delaware, USA	S	100%
CT Offshore A/S, Fredericia, Denmark	S	67%	OFTRAC Limited, London, UK	S	100%
Cygnus Wind Transmission Limited, London, UK	S	100%	Optimus Wind Limited, London, UK	S	100%
Formosa 1 Investment Company Limited, Taipei City, Taiwan	A	35%	Optimus Wind Transmission Limited, London, UK	S	100%
Formosa I Wind Power Co., Ltd, Taipei City, Taiwan	A	35%	Orsted Borkum Riffgrund I GmbH, Hamburg, Germany	S	100%
Gode Wind 03 GmbH, Hamburg, Germany	S	100%	Orsted Borkum Riffgrund I HoldCo GmbH, Hamburg, Germany	S	100%
Gode Wind 04 GmbH, Hamburg, Germany	S	100%	Orsted Borkum Riffgrund West I GmbH, Hamburg, Germany	S	100%
Gode Wind 1 Offshore Wind Farm GmbH & Co. oHG, Norden, Germany	JO	50%	Orsted Borkum Riffgrund West II GmbH, Hamburg, Germany	S	100%
Gode Wind 2 Offshore Wind Farm P/S GmbH & Co. oHG, Norden, Germany	JO	50%	Orsted Borssele 1 B.V., 's-Gravenhage, Netherlands	S	100%
Gunfleet Sands Holding Ltd., London, UK	S	50%	Orsted Borssele Holding B.V., 's-Gravenhage, Netherlands	S	100%
Gunfleet Sands II Limited, London, UK	S	100%	Orsted Burbo (UK) Limited, London, UK	S	100%
Gunfleet Sands Limited, London, UK	S	100%	Orsted Burbo Extension Holding Ltd, London, UK	S	100%
			Orsted Gode Wind 1 Holding GmbH, Hamburg, Germany	S	100%
			Orsted Gode Wind 2 GmbH, Hamburg, Germany	S	100%
			Orsted Gunfleet Sands Demo Ltd, London, UK	S	100%

Segment/company/registered office	Type <sup>1</sup>	Ownership interest	Segment/company/registered office	Type <sup>1</sup>	Ownership interest
Orsted Hornsea Project Four Limited, London, UK	S	100%	VI Aura Limited, London, UK	S	100%
Orsted Hornsea Project Three (UK) Limited, London, UK	S	100%	VI Aura Transmission Limited, London, UK	S	100%
Orsted InvestCo Limited, Taipei City, Taiwan	S	100%	Walney (UK) Offshore Windfarms Limited, London, UK	S	50%
Orsted Isle of Man (UK) Limited, Isle of Man	S	100%	Walney Extension Holdings Limited, London, UK	JO	50%
Orsted Lincs (UK) Ltd., London, UK	S	100%	Walney Extension Limited, London, UK	JO	50%
Orsted London Array II Limited, London, UK	S	100%	West of Duddon Sands, London, UK	JO	50%
Orsted London Array Limited, London, UK	S	100%	Westermost Rough (Holding) Limited, London, UK	JO	50%
Orsted North America Inc., Delaware, USA	S	100%	Westermost Rough Limited, London, UK	JO	50%
Orsted Power (Gunfleet Sands) Ltd, London, UK	S	100%	Ørsted - Anholt Offshore A/S, Fredericia, Denmark	S	100%
Orsted Power (Participation) Ltd, London, UK	S	100%	Ørsted Horns Rev 2 A/S, Fredericia, Denmark	S	100%
Orsted Power (UK) Limited, London, UK	S	100%	Ørsted Horns Rev I A/S, Fredericia, Denmark	S	100%
Orsted Race Bank (Holding) Ltd., London, UK	S	100%	Ørsted Hornsea 1 Holdings Limited, London, UK	S	100%
Orsted Shell Flats (UK) Limited, London, UK	S	100%	Ørsted Nearshore Wind ApS, Fredericia, Denmark	S	100%
Orsted Speicher R GmbH, Hamburg, Germany	S	100%	Ørsted VE A/S, Fredericia, Denmark	S	100%
Orsted Taiwan Ltd., Taipei City, Taiwan	S	100%	Ørsted Vind A/S, Fredericia, Denmark	S	100%
Orsted UK III Limited, London, UK	S	100%	Ørsted Wind Power A/S, Fredericia, Denmark	S	100%
Orsted Walney Extension Holdings Limited, London, UK	S	100%	Ørsted Wind Power Denmark A/S, Fredericia, Denmark	S	100%
Orsted West of Duddon Sands (UK) Limited, London, UK	S	100%	Ørsted Wind Power Holding A/S <sup>1</sup> , Fredericia, Denmark	S	100%
Orsted Westermost Rough Limited, London, UK	S	100%	Ørsted Wind Power TW Holding A/S, Fredericia, Denmark	S	100%
Orsted Wind Power Germany GmbH, Hamburg, Germany	S	100%	<b>Bioenergy &amp; Thermal Power</b>		
Orsted Wind Power Netherlands B.V., 's-Gravenhage, Netherlands	S	100%	Cure Renaissance B.V., 's-Gravenhage, Netherlands	S	50%
Orsted Wind Power Netherlands Holding B.V., 's-Gravenhage, Netherlands	S	100%	DE Thermal Power Nr. 1 A/S in voluntary liquidation, Fredericia, Denmark	S	100%
Orsted Wind Power North America LLC, USA	S	100%	DONG Energy Kraftwerke Greifswald Verwaltungs GmbH in liquidation, Stralsund, Germany	S	100%
Race Bank Wind Farm (Holding) Limited, London, UK	JO	50%	DONG Energy New Bio Solutions Co. Ltd., Beijing, China	S	100%
Race Bank Wind Farm Limited, London, UK	JO	50%	Emineral A/S, Fredericia, Denmark	S	50%
Rhiannon Wind Farm Limited, Windsor, UK	JV	50%	Enecogen V.O.F, Europoort Rotterdam, Netherlands	JO	50%
Scarweather Sands Limited, Coventry, UK	JV	50%	Haderslev Kraftvarmeværk A/S in voluntary liquidation, Fredericia, Denmark	S	100%
SMart Wind Limite, London, UK	S	100%	Inbicon A/S, Fredericia, Denmark	S	100%
Smart Wind SPC8 Limited., London, UK	S	100%	Kalundborg Bioenergi A/S, Skanderborg, Denmark	S	40%
Sonningmay Wind Limited, London, UK	S	100%	Konsortiet for etablering af Maabjerg Energy Concept, Holstebro, Denmark	NC	50%
Soundmark Wind Limited, London, UK	S	100%	Maabjerg Energy Concept A/S, Fredericia, Denmark	S	70%
UMBO GmbH, Hamburg, Germany	A	90%	Orsted Holding Ludwigsau I GmbH, Hamburg, Germany	S	100%

Segment/company/registered office	Type <sup>1</sup>	Ownership interest
Orsted Kraftwerke Holding GmbH, Hamburg, Germany	S	100%
Orsted Netherlands B.V., 's-Gravenhage, Netherlands	S	100%
Orsted Power Rotterdam B.V., 's-Gravenhage, Netherlands	S	100%
Orsted Renescience Northwich Limited, London, UK	S	100%
Orsted Renescience Northwich O&M Limited, London, UK	S	100%
Orsted SP (UK) Limited, London, UK	S	100%
Orsted SP Holding (UK) Limited, London, UK	S	100%
Pyroneer A/S, Fredericia, Denmark	S	100%
Renescience A/S, Fredericia, Denmark	S	100%
Severn Power Funding Ltd., London, UK	S	100%
Stignsæs Vandindvinding I/S, Slagelse, Denmark	NC	64%
Vejen Kraftvarmeværk A/S in voluntary liquidation, Fredericia, Denmark	S	100%
Ørsted Bioenergy & Thermal Power A/S <sup>3</sup> , Fredericia, Denmark	S	100%
Ørsted Energy Storage Holding A/S, Fredericia, Denmark	S	100%
Ørsted New Bio Solutions China A/S, Fredericia, Denmark	S	100%
Ørsted New Bio Solutions Holding A/S, Fredericia, Denmark	S	100%
<b>Distribution &amp; Customer Solutions</b>		
Danish Offshore Gas Systems A/S, Fredericia, Denmark	S	100%
Danish Oil Pipe A/S <sup>3</sup> , Fredericia, Denmark	S	100%
Etzel-Kavernenbetriebsgesellschaft mbH & Co. KG, Bremen, Germany	A	33%
Etzel-Kavernenbetriebs-Verwaltungsgesellschaft mbH, Bremen, Germany	A	33%
GNG ApS, Copenhagen, Denmark	A	31%
Obviux A/S, Fredericia, Denmark	S	100%
Orsted AB, Malmö, Sweden	S	100%
Orsted Energy Solutions (UK) Limited, London, UK	S	100%
Orsted Infrastructure GmbH <sup>3</sup> , Hamburg, Germany	S	100%
Orsted Leitung E GmbH, Hamburg, Germany	S	100%
Orsted Markets GmbH, Hamburg, Germany	S	100%
Orsted Power Sales (UK) Limited, London, UK	S	100%
Orsted S&D (UK) Limited, London, UK	S	100%
Orsted Sales (UK) Limited, London, UK	S	100%
Orsted Sales GmbH, Hamburg, Germany	S	100%

Segment/company/registered office	Type <sup>1</sup>	Ownership interest
Orsted Services B.V.'s, Gravenhage, Netherlands	S	100%
Orsted Speicher E GmbH, Hamburg, Germany	S	100%
Radius Elnet A/S, Fredericia, Denmark	S	100%
Ørsted Pipelines A/S, Fredericia, Denmark	S	100%
Ørsted Real Estate A/S, Fredericia, Denmark	S	100%
Ørsted Sales & Distribution A/S <sup>3</sup> , Fredericia, Denmark	S	100%
Ørsted Salg & Service A/S <sup>3</sup> , Fredericia, Denmark	S	100%
<b>Other</b>		
EM EL Holding A/S, Fredericia, Denmark	S	100%
EnergiGruppen Jylland EL A/S, Fredericia, Denmark	S	100%
EnergiGruppen Jylland EL Holding A/S, Fredericia, Denmark	S	100%
Lithium Balance A/S, Egedal, Denmark	A	15%
Orsted (UK) Ltd., London, UK	S	100%
Orsted Services Malaysia Sdn. Bhd., Kuala Lumpur, Malaysia	S	100%
Orsted Polska Sp. z o. o., Warszawa, Poland	S	100%
Ørsted EGJ A/S, Fredericia, Denmark	S	100%
Ørsted EL A/S <sup>3</sup> , Fredericia, Denmark	S	100%
Ørsted Insurance A/S <sup>3</sup> , Fredericia, Denmark	S	100%
Ørsted nr. 1 2008 A/S <sup>2, 3</sup> , Fredericia, Denmark	S	100%
Ørsted Nr. 1 2014 A/S <sup>2, 3</sup> , Fredericia, Denmark	S	100%
Ørsted Nr. 2 2014 A/S <sup>2, 3</sup> , Fredericia, Denmark	S	100%
Ørsted Nr. 3 2014 A/S <sup>2, 3</sup> , Fredericia, Denmark	S	100%
Ørsted Nr. 4 2014 A/S <sup>2, 3</sup> , Fredericia, Denmark	S	100%
Ørsted Services A/S <sup>3</sup> , Fredericia, Denmark	S	100%



<sup>1</sup> S = subsidiary

A = associate

JO = joint operation

JV = joint venture

NC = non-consolidated entity

<sup>2</sup> The company applies the provision in section 5 or section 6 of the Danish Financial Statements Act to omit presenting a separate annual report.

<sup>3</sup> Subsidiaries owned directly by Ørsted A/S

# Consolidated ESG statements (additional information)

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# Introduction

## Consolidated ESG statements

In the consolidated ESG statements, we give an account of our results, objectives and accounting policies in accordance with our strategic targets, business drivers and selected environmental, social and governance data.

## Consolidation

Unless otherwise stated, ESG data are consolidated according to the same principles as the financial statements.

Data for accident statistics are calculated according to operational scope, which means that data are included for operations where Ørsted is responsible for safety, including the safety of external suppliers.

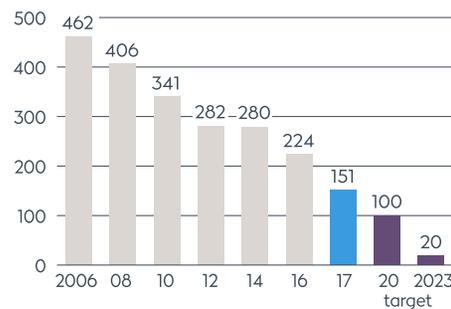
## For further ESG data

Our full ESG data set can be seen in the independent publication 'ESG performance report 2017', which includes:

- a description of Ørsted's work for greater gender diversity at management level in accordance with section 99b of the Danish Financial Statements Act
- the distribution of selected ESG indicators by business unit and country.

In addition, we report on our sustainability efforts in the publication 'Sustainability report 2017'.

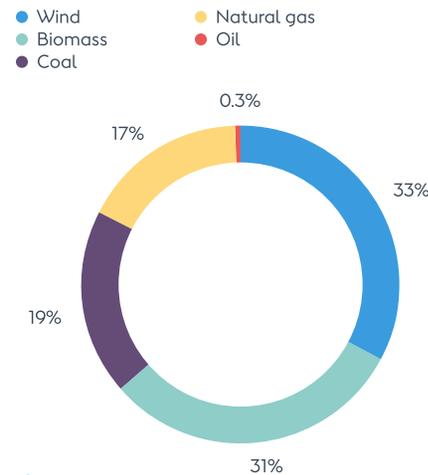
Greenhouse gas intensity, CO<sub>2</sub>e/kWh



In 2017, our CO<sub>2</sub>e/kWh target was approved as a science-based target. Through this target, we are contributing to keeping the temperature increase below 2°C, which is the objective of the Paris Agreement from 2015.

Our goal is to reduce greenhouse gas emissions from heat and power generation by 96% by 2023 relative to 2006.

Total power and heat generation 2017 by energy source



The green share of the generation increased from 50% in 2016 to 64% in 2017.

The increase was due to higher generation from off-shore wind combined with increased use of biomass and reduced use of coal for thermal generation.

# TRIR of 6.4

Total Recordable Injury Rate (TRIR) has been reduced from 6.8 in 2016 to 6.4 in 2017. The target is a TRIR of 5.7 or less by the end of 2020.

# LTIF of 1.6

The Lost-Time Injury Frequency (LTIF) has been reduced from 1.8 in 2016 to 1.6 in 2017.

# 0 fatal accidents

Our last fatal accident was in 2012.

# Environment

Strategic target	Business driver	Title	Unit	Target	2017	2016
		<b>Capacity</b>				
●	●	Decided (FID) capacity, offshore wind	GW		8.9	7.4
	●	Installed capacity, offshore wind	GW	11-12 (ambition in 2025)	3.9	3.6
	●	Generation capacity, offshore wind	GW		2.5	2.0
	●	Wind speed	m/s		9.3	8.9
	●	Wind energy content	%		95	93
	●	Load factor	%		44	41
	●	Availability	%		93	92
		<b>Generation</b>				
	●	Power generation	TWh		16.7	14.4
	●	– Power generation, wind	TWh		8.5	6.0
	●	– Power generation, thermal	TWh		8.2	8.4
	●	Heat generation	TWh		9.0	9.2
	●	Degree days	Number		2,705	2,715
		<b>Coal and biomass in thermal heat and power generation</b>				
		Coal share of fuels used for thermal heat and power generation	%	0 (2023)	30	46
		Biomass share of thermal heat and power generation	%		47	32
		Sourcing of certified biomass	%	100% (2020)	72	61
		<b>Greenhouse gases</b>				
●		Greenhouse gas intensity	g CO <sub>2</sub> e/kWh	≤ 100 (2020) ≤ 20 (2023)	151	224
		<b>Renewable energy</b>				
●		Green share of heat and power generation	%	≥ 95 (2023)	64	50



Decided offshore wind capacity rose by 1.5GW from 2016 to 2017. The increase was mainly due to the investment decision on Hornsea 2, which contributed 1.4GW.

Installed offshore wind capacity increased by 0.3GW to a total of 3.9GW after the opening of Burbo Bank Extension in 2017. Our 2025 ambition is to construct 11-12GW of offshore wind capacity.

The generation capacity of offshore wind increased by 0.5GW from 2016 to 2017. The increase can be attributed to Burbo Bank Extension as well as generation from the first offshore wind turbines at Race Bank and Walney Extension.

The combination of higher offshore wind capacity and better wind conditions contributed to 42% higher wind-based generation in 2017 than in 2016.

In 2017, thermal heat and power generation was 2% lower than in 2016. In 2017, we inaugurated the converted Skærbæk Power Station, which can now use biomass instead of natural gas. We will continue the transition from fossil fuels to biomass, and we will stop the use of coal by 2023.

As a result of the above, the green share of our generation increased from 50% in 2016 to 64% in 2017.

At the same time, we reduced our greenhouse gas intensity (mainly CO<sub>2</sub>) by 33% from 2016 to 2017.

## Accounting policies

### Decided (FID) capacity, offshore wind

Decided (FID) capacity is the cumulative installed offshore wind capacity, including capacity for offshore wind farms where a final investment decision (FID) has been made.

### Installed capacity, offshore wind

Installed offshore wind capacity is calculated as the cumulative offshore wind capacity installed by Ørsted. The capacity is calculated as installed gross capacity before divestments.

### Generation capacity, offshore wind

Generation capacity is calculated as the power generation capacity which Ørsted produces and reports. The same scope and consolidation as for power generation are used.

Generation capacity is calculated and included from the time when individual offshore wind turbines pass the 240-hour test. Generation capacity, offshore wind has been calculated at 31 December. The Gunfleet Sands and Walney 1 and 2 offshore wind farms have been consolidated according to ownership interest. The other wind farms are financially consolidated.

### Availability, load factor, wind speed and wind energy content for offshore wind

Availability, load factor, wind speed and wind energy content are calculated only for offshore wind farms. The time-based availability factor (availability) is calculated as the ratio of the number of hours the offshore wind farms are available for power generation to the total number of hours in a given period. Total availability is determined by weighting the individual offshore wind farms' availability by the capacity of the offshore wind farm. Availability is commercially adjusted.

The load factor is calculated as the ratio between actual generation over a period relative to potential generation which is possible by continuously exploiting the maximum capacity over the same period. The load factor is commercially adjusted.

Commercially adjusted means that, for Danish and German offshore wind farms, availability and load factor, respectively, are adjusted if the offshore

wind farm has been financially compensated by the transmission system operators in situations where the offshore wind farm is available for generation, but the output cannot be supplied to the grid due to maintenance or grid interruptions. Offshore wind farms in the UK are not compensated for non-access to the grid.

New offshore wind turbines are included in the calculation of availability and load factor once they have passed the 240-hour test.

Wind speed shows the wind speeds of Ørsted's offshore wind farms. The wind speed is delivered for a number of areas where the individual offshore wind farms are located. Wind speed measurements are weighted on the basis of the capacity of the individual offshore wind farms and consolidated into an Ørsted total in the same way as generation. The wind speed of the period can be compared to a historical average. The wind speed measurements are provided by an external supplier.

Wind energy content is calculated as the ratio between actual gross generation in a given period and generation in a 'normal wind year'. Actual generation is calculated as actual net generation adjusted for availability. The wind energy content for new offshore wind farms is included from the beginning of the first calendar year in which the entire offshore wind farm is in operation.

### Generation

Power generation from wind is calculated as sold generation. The Gunfleet Sands and Walney 1 and 2 offshore wind farms have been consolidated according to ownership interest. The other wind farms are financially consolidated.

Thermal power generation is determined as net generation sold based on settlements from the official Danish production database. Data for generation from foreign facilities are provided by the operators.

Thermal heat and steam generation is measured as net output sold to heat customers.

Degree days are a measure of how cold it has been and thus indicate the amount of energy needed to heat a building. The number of degree days helps to compare the heat demand for a given year with

a normal year. A degree day is an expression of a difference of 1°C between the inside daily mean temperature of 17°C and the outside daily mean temperature over a period of 24 hours. The number of degree days in a day is therefore calculated as the difference between 17°C and the outside daily mean temperature. The source of degree days is the Danish Technological Institute, Energy and Climate.

### Coal share of fuels used for thermal heat and power generation

The fuel consumption for heat and power generation at the individual power plants is stated in GJ. The coal share is calculated as the coal consumption in GJ relative to the total fuel volume in GJ.

### Biomass share of thermal heat and power generation

This is calculated as the green share of heat and power generation, but is only shown for thermal generation, i.e. for the business unit Bioenergy & Thermal Power.

### Sourcing of certified biomass

Certified biomass is defined as wood-based biomass; wood pellets and wood chips.

Certified biomass must be certified within at least one of the categories defined in the Danish industry agreement on sustainable biomass.

Certified biomass is calculated as the share of sourced certified wooden biomass out of the total sourcing of wooden biomass delivered to the CHP plants.

The reporting of certified biomass began in August 2016 on the start date of the Danish industry agreement on certification and reporting of certified biomass.

### Greenhouse gas emissions

Greenhouse gas intensity is defined as the greenhouse gas emissions divided by the total heat, power and steam generation.

Greenhouse gases comprise greenhouse gas emissions in accordance with the GHG Protocol from the combustion of fuels in thermal heat and power generation. Greenhouse gases thus comprise CO<sub>2</sub> (carbon dioxide), N<sub>2</sub>O (dinitrogen oxide) and CH<sub>4</sub> (methane).

In practice, waste is considered a partially carbon-neutral fuel, as it consists of both fossil fuels and biomass-based fuels. We use a conversion factor to calculate the carbon emissions from the incineration of waste. The conversion factor (37kg CO<sub>2</sub>/GJ waste) has been used by the Danish Centre for Environment and Energy since 1990 and until today.

### Green share of heat and power generation

The green (renewable energy) share of our heat and power generation and the distribution of the generation on the individual energy sources and fuels are calculated on the basis of the generation from the plants.

Wind-based generation is calculated as a total, as there is only one source of power.

For the CHP plants which can use several different fuels the calculation is as follows: For the individual CHP plant unit in the given period, the share of the specific fired fuel (e.g. biomass) is calculated relative to the total fired fuel quantity. The fired fuel share is then multiplied by the total heat and power generation (including steam) for the specific unit in the specific period.

This results in the fuel-based generation for the individual unit – for example the biomass-based generation of heat and power in the CHP plant unit.

All the calculated fuel-based generation and the wind power generation are then added up to a total, which tallies with the total generation.

The percentage share of the individual energy sources is calculated by dividing the generation from the individual energy source by the total generation.

In practice, waste consists of a mixture of biomass and fossil fuel-based parts. When calculating the renewable energy share, waste fuel is therefore divided into a biodegradable and a non-biodegradable part. Key figures from the Danish Centre for Environment and Energy are used for this purpose.

The following energy sources and fuels are considered renewable energy: wind, biomass, waste (biodegradable). The following energy sources are considered fossil energy sources: coal, natural gas, oil and waste (non-biodegradable).

# Social

Strategic target	Business driver	Title	Unit	Target	2017	2016
		<b>Employees</b>				
		Total number of employees at 31 December	Number of FTEs		5,638	5,775
		Average number of employees for the year	Number of FTEs		5,738	5,894
		Loyalty	Scale 0-100		84	83
●		Employee satisfaction	Scale 0-100	≥ 77 (2020)	76	76
		<b>Safety</b>				
		Fatal accidents	Number	0	0	0
		LTIF (lost-time injury frequency)	Per million working hours		1.6	1.8
●		TRIR (total recordable injury rate)	Per million working hours	≤ 5,7 (2020)	6.4	6.8
		<b>Sales and distribution</b>				
	●	Gas sales	TWh		129.0	143.4
	●	Power sales	TWh		37.5	36.5
	●	Power distribution	TWh		8.4	8.5
		<b>Reliability of supply</b>				
●		Reliability of supply (power cuts per customer, SAIFI)	Number	≤ DK average	0.42	0.39
		<b>Customer satisfaction</b>				
●		Customer satisfaction, B2C in Denmark	Scale 1-100	≥ 80 (2020)	76	76
●		Customer satisfaction, B2B	Scale 1-100	≥ 80 (2020)	77	75
●		Customer satisfaction, distribution customers in Denmark	Scale 1-100	≥ 80 (2020)	82	83



The number of employees fell by 2% from 2016 to 2017. The decrease was due to the divestment of the company A2SEA and staff reductions in the business units Bioenergy & Thermal Power and Distribution & Customer Solutions. On the other hand, the number of employees increased in Wind Power.

Loyalty and satisfaction are both high. With an employee satisfaction score of 76 in this year's employee satisfaction survey, we are close to achieving our target of 77 in 2020.

Safety KPIs showed good progress again in 2017.

In 2017, we introduced a new safety target, TRIR. TRIR decreased from 6.8 in 2016 to 6.4 in 2017. The aim is for a TRIR of less than 5.7 in 2020.

LTIF decreased from 1.8 in 2016 to 1.6 in 2017.

There were no fatal accidents in 2017.

We have increased our satisfaction target for business customers (B2B) to at least 80 in 2020 (previously 75).

## Accounting policies

### Employees

The reporting covers contractually employed employees in Danish and foreign Ørsted companies in which Ørsted holds an ownership interest of more than 50%. Employees in associates are not included.

Employee data are recognised based on records from the Group's ordinary registration systems. The number of employees is determined as the number of employees at the end of each month converted to full-time equivalents (FTEs).

Employees who have been made redundant are recognised until the expiry of their notice period, regardless of whether they have been released from all or some of their duties during their notice period.

### Employee satisfaction and loyalty

Ørsted conducts a comprehensive employee satisfaction survey once a year. All Ørsted employees are invited to participate in the survey. In the survey, a number of questions are asked, for example, about employee satisfaction and loyalty. The answers are given on a scale from 1 to 10 and are subsequently converted to index figures on a scale from 0 to 100.

### Safety

Occupational injuries are calculated according to operational scope. Data from companies wholly or partly owned by Ørsted and where Ørsted is responsible for safety are included. Occupational injuries and lost-time injuries are calculated for both our own employees and suppliers. Data from Danish and foreign locations are recognised.

The lost-time injury frequency (LTIF) is calculated as the number of lost-time injuries per one million hours worked. The number of hours worked is based on 1,667 working hours annually per full-time employee and monthly records of the number of employees converted into full-time employees. For suppliers, the actual number of hours worked is recognised on the basis of data provided by the supplier, access control systems at locations or estimates.

LTIF includes lost-time injuries defined as injuries that result in incapacity for work for one or more calendar days in addition to the day of the incident.

In addition to lost-time injuries, TRIR also includes injuries where the injured person is able to perform restricted work the day after the accident as well as accidents where the injured person has received medical treatment.

### Power and gas sales

Sales of power and natural gas are calculated as physical sales to retail and wholesale customers and exchanges. Sales of power and gas are based on readings from Ørsted's trading systems. Internal sales to Bioenergy & Thermal Power are not included in the statement.

### Power distribution

Power distribution is determined on the basis of data from the official system in Denmark, which measures and calculates total area consumption.

### Reliability of supply

The frequency of announced and unannounced power cuts for customers is expressed in terms of SAIFI (system average interruption frequency index), which is calculated as the average number of power cuts per customer per year.

In 2017, we adjusted SAIFI to only include the distribution networks for which Radius is responsible. This means that SAIFI is shown exclusive of transmission grids. Comparative figures are adjusted accordingly. In the ESG performance report 2017, SAIFI is shown both with and without transmission grids.

### Customer satisfaction

Customer satisfaction for residential customers (B2C) in Denmark is measured according to interaction between the customer and Ørsted. The score is therefore not an expression of customers' overall satisfaction with Ørsted, but is rather related to a given situation. The score is calculated as a weighted score based on a number of different types of touch points. The current touch points are customer service for gas and power, outbound sales and web. An external supplier conducts interviews.

Customer satisfaction for business customers (B2B) is determined on the basis of customer satisfaction surveys among Ørsted's business customers in Denmark, the UK and Sweden. Customer satisfaction is determined on the basis of interviews about customers' satisfaction with Ørsted as a whole. The survey only comprises active customers with whom Ørsted has been in touch in connection with contracts for the supply of power or gas in the previous or next month. So-called sleeping customers are therefore not included in the statement. The method follows the ACSI model based on the EPSI scale. External agencies conduct the interviews and report absolute and weighted results. As of 2017, B2B customer satisfaction is extended from comprising Danish customers only to also include customers from other markets.

Customer satisfaction for distribution customers in Denmark is determined on the basis of different types of interactions with distribution customers: Disruption of supply, replacement of meters as well as customer and market support. Customer satisfaction is measured as the customer's satisfaction in a specific context. Respondents are randomly selected, and the survey is carried out by an external supplier.

Customer satisfaction for residential and distribution customers thus relates to a specific situation, whereas customer satisfaction for business customers is an expression of customers' satisfaction with Ørsted as a whole. We have a number of very large business customers. In respect of these, it is important for us to assess the customer relationship in general and not just the experience of a specific situation.

# Governance

Strategic target	Business driver	Title	Unit	Target	2017	2016
<b>Board members</b>						
		Women on the Board of Directors of Ørsted A/S	%		50	38
<b>Good business conduct</b>						
		Substantiated whistleblower cases	Number		3	3
		– Cases transferred to the police	Number		0	0



In 2017, there was equal gender representation on the Board of Directors, as the share of women was 50%.

In 2017, three substantiated cases of inappropriate or unlawful behaviour were reported through our whistleblower scheme. Two cases concerned violation of employment policies, and one case concerned a conflict of interest.

The cases have had consequences for the employees involved.

None of the cases reported were critical to the business or affected Ørsted's financial results.

We take all cases seriously and do what we can to prevent recurrences.

## Accounting policies

### Women on the Board of Directors of Ørsted A/S

The employee representatives on the Board of Directors are not included in the data and the targets for women on the Board of Directors.

### Substantiated whistleblower cases

Ørsted's whistleblower hotline is available to both internal and external business partners so that they can report suspected or actual cases of inappropriate or illegal business conduct.

Whistleblower cases are received and handled by Internal Audit, which also receives similar reports through the management system and from compliance officers.

All cases are handled in accordance with the guidelines for the handling of whistleblower reports approved by the Audit and Risk Committee which is ultimately responsible for the whistleblower scheme.

Only cases which are closed during the financial year, and which have been reported to the Audit and Risk Committee as fully or partially substantiated, are included.

### Cases transferred to the police

Cases transferred to the police are the number of whistleblower cases reported in accordance with the accounting policies mentioned above which are transferred to the police.

# Basis of reporting

## Accounting policies

This section describes the accounting policies applied to the ESG statements for the Group as a whole, while the specific accounting policies for the individual items are described in the previous sections.

## Requirements, standards and guidelines

Pursuant to section 99a of the Danish Financial Statements Act, Ørsted is obliged to account for the company's CSR activities and report on business strategies and activities with regard to human rights, labour rights, anti-corruption as well as the environment and the climate.

Ørsted is a signatory to the UN Global Compact. The UN Global Compact provides enterprises with a strategic framework for incorporating ten principles on human rights, labour rights, anti-corruption measures as well as the environment and the climate into their strategy and business processes. The ten principles form the basis of Ørsted's sustainability efforts. Ørsted is consistently working to promote the principles.

Companies which are signatories to the UN Global Compact are under an obligation to submit and publish their annual communication on progress (COP) report, in which they must detail the progress made in implementing the ten UN Global Compact principles.

By publishing its COP report, Ørsted complies with section 99a of the Danish Financial Statements Act, provided that the annual report includes a reference to where the information is publicly available.

Ørsted's Sustainability Report (Orsted.com/baeredygtighed2017) is the Group's COP report and is available on the Global Compact website at <https://www.unglobalcompact.org/what-is-gc/participants/2968#cop>.

Under section 99b of the Danish Financial Statements Act, Ørsted must account for the company's objectives and policies which over time will ensure greater diversity in relation to gender representation at management level. This account can be found in our report 'ESG performance report 2017', but information about gender distribution is also included in Ørsted's COP report and consolidated ESG statements.

## Consolidation of ESG data

Unless otherwise stated, ESG data are consolidated according to the same principles as the financial statements – financial scope.

Thus, the consolidated ESG statements include the parent company Ørsted A/S and subsidiaries controlled by Ørsted A/S. Data from associates and joint ventures are not included in the consolidated ESG statements.

Data for accident statistics are calculated according to operational scope, which means that data are included for operations where Ørsted is responsible for safety, including the safety of external suppliers.

In 2017, we divested our Oil & Gas business unit. Data for Oil & Gas are therefore not included in the consolidated ESG statements, neither for 2017 nor for previous years, as it is a discontinued activity.

## Materiality assessment

In 2017, we focused the contents of the ESG statements on areas which are strategic focus areas for Group Executive Management. These are areas which are either included in the Group's strategic targets, or which are categorised as business drivers. We also include the other ESG data described in the Group's annual report.

In 2017, this has resulted in a number of – primarily supplementary sustainability indicators – being omitted from the consolidated ESG statements compared to 2016.

## In 2017, the following indicators are not included compared to 2016

- Biomass share of Danish CHP generation capacity
- EU ETS carbon emissions
- Gas distribution
- Customer complaints
- Reputation
- Employee turnover rate
- Gender diversity in management (organisational levels)
- Lost-time injuries (number)
- Environmental accidents
- Share of employees who have completed a course in good business conduct
- Business partner screenings

## In 2017, the following indicators were added compared to 2016

- Wind speed
- TRIR

# Parent company financial statements

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# Income statement

1 January - 31 December

Note	Income statement, DKK million	2017	2016
	Revenue	232	229
	Other operating income	-	1
2	Employee costs	(31)	(28)
	External expenses	(315)	(453)
	<b>Operating profit (loss) (EBIT)</b>	<b>(114)</b>	<b>(251)</b>
	Gain on divestment of enterprises	(4,210)	1,527
3	Financial income	13,667	20,221
3	Financial expenses	(10,486)	(21,645)
	<b>Profit (loss) before tax</b>	<b>(1,143)</b>	<b>(148)</b>
4	Tax on profit (loss) for the year	(76)	623
5	<b>Profit (loss) for the year</b>	<b>(1,219)</b>	<b>475</b>

# Balance sheet

31 December

Note	Assets, DKK million	2017	2016
6	Investments in subsidiaries	41,762	54,755
7	Receivables from subsidiaries	48,706	50,402
	Other receivables	1,325	-
	<b>Financial assets</b>	<b>91,793</b>	<b>105,157</b>
	<b>Non-current assets</b>	<b>91,793</b>	<b>105,157</b>
	Receivables from subsidiaries	15,664	7,628
8	Derivatives	3,596	19,980
	Other receivables	524	209
	<b>Receivables</b>	<b>19,784</b>	<b>27,817</b>
9	Securities	24,806	16,061
	Cash	862	438
	<b>Current assets</b>	<b>45,452</b>	<b>44,316</b>
	<b>Assets</b>	<b>137,245</b>	<b>149,473</b>

Note	Equity and liabilities, DKK million	2017	2016
	Share capital	4,204	4,204
	Reserves	(467)	20,782
	Retained earnings	27,522	11,958
	Proposed dividends	3,783	2,522
	<b>Equity attributable to shareholders in Ørsted A/S</b>	<b>35,042</b>	<b>39,466</b>
10	Hybrid capital	13,239	13,248
	<b>Equity</b>	<b>48,281</b>	<b>52,714</b>
4	Deferred tax	81	1,744
11	Other provisions	775	-
10	Bank loans and issued bonds	25,715	22,164
10	Other payables	27	1,516
	<b>Non-current liabilities</b>	<b>26,598</b>	<b>25,424</b>
	Bank loans and issued bonds	6,509	2,015
8	Derivatives	4,020	19,171
	Trade payables	159	173
	Payables to subsidiaries	48,638	48,461
	Other payables	2,433	886
	Income tax	607	629
	<b>Current liabilities</b>	<b>62,366</b>	<b>71,335</b>
	<b>Liabilities</b>	<b>88,964</b>	<b>96,759</b>
	<b>Equity and liabilities</b>	<b>137,245</b>	<b>149,473</b>

# Statement of changes in equity

1 January - 31 December

Statement of changes in equity, DKK million	Share capital	Hedging reserve	Share premium reserve	Retained earnings	Proposed dividends	Shareholders in Ørsted A/S	Hybrid capital	Total
Equity at 1 January 2017	4,204	(497)	21,279	11,958	2,522	39,466	13,248	52,714
Transferred to retained earnings	-	-	(21,279)	21,279	-	-	-	-
Profit (loss) for the year	-	-	-	(1,935)	-	(1,935)	716	(1,219)
Ordinary dividends distributed	-	-	-	1	(2,522)	(2,521)	-	(2,521)
Proposed dividends for the financial year	-	-	-	(3,783)	3,783	-	-	-
Value adjustments of hedging instruments	-	254	-	-	-	254	-	254
Value adjustment transferred to gain on divestment of enterprises	-	(444)	-	-	-	(444)	-	(444)
Value adjustments transferred to financial income and expenses	-	229	-	-	-	229	-	229
Tax on changes in equity	-	(9)	-	-	-	(9)	-	(9)
Coupon payments, hybrid capital	-	-	-	-	-	-	(640)	(640)
Tax on coupon payments and costs, hybrid capital	-	-	-	-	-	-	141	141
Additions of issued hybrid capital	-	-	-	-	-	-	3,668	3,668
Hybrid capital transferred to payables	-	-	-	-	-	-	(3,894)	(3,894)
Share-based payment	-	-	-	2	-	2	-	2
<b>Changes in equity in 2017</b>	<b>-</b>	<b>30</b>	<b>(21,279)</b>	<b>15,564</b>	<b>1,261</b>	<b>(4,424)</b>	<b>(9)</b>	<b>(4,433)</b>
<b>Equity at 31 December 2017</b>	<b>4,204</b>	<b>(467)</b>	<b>-</b>	<b>27,522</b>	<b>3,783</b>	<b>35,042</b>	<b>13,239</b>	<b>48,281</b>
Equity at 1 January 2016	4,177	(399)	21,279	14,581	-	39,638	13,248	52,886
Issuance of bonus shares	27	-	-	(27)	-	-	-	-
Profit (loss) for the year	-	-	-	(24)	-	(24)	499	475
Proposed dividends for the financial year	-	-	-	(2,522)	2,522	-	-	-
Value adjustments of hedging instruments	-	(358)	-	-	-	(358)	-	(358)
Value adjustments transferred to financial income and expenses	-	232	-	-	-	232	-	232
Tax on changes in equity	-	28	-	-	-	28	-	28
Coupon payments, hybrid capital	-	-	-	-	-	-	(640)	(640)
Tax on coupon payments and costs, hybrid capital	-	-	-	-	-	-	141	141
Purchases of treasury shares	-	-	-	(53)	-	(53)	-	(53)
Share-based payment	-	-	-	3	-	3	-	3
<b>Changes in equity in 2016</b>	<b>27</b>	<b>(98)</b>	<b>-</b>	<b>(2,633)</b>	<b>2,522</b>	<b>(172)</b>	<b>-</b>	<b>(172)</b>
<b>Equity at 31 December 2016</b>	<b>4,204</b>	<b>(497)</b>	<b>21,279</b>	<b>11,958</b>	<b>2,522</b>	<b>39,466</b>	<b>13,248</b>	<b>52,714</b>



Share capital composition and dividends are disclosed in note 6.2 to the consolidated financial statements. You can also find information on treasury shares.

# 1. Basis of reporting

## Accounting policies

The parent company financial statements have been prepared in accordance with the provisions of the Danish Financial Statements Act (reporting class D).

The accounting policies remain unchanged from the previous year.

Unless otherwise stated, the financial statements are presented in Danish kroner (DKK) rounded to the nearest million.

The parent company accounting policies are consistent with the accounting policies described for the consolidated financial statements, with the following exceptions:

## Foreign currency translation

We recognise exchange rate adjustments of receivables from and payables to subsidiaries as financial income and expenses in the income statement when the balances are accounted for as part of the total net investment in foreign enterprises. Likewise, we recognise foreign exchange gains and losses on loans and derivatives in the income statement as financial income and expenses when they have been entered into to hedge the net investment in the foreign enterprises.

## Revenue

Rental income comprises income from commercial leases and is recognised over the term of the lease. Income from services is recognised when delivery has taken place.

## Dividends from investments

Dividends from subsidiaries and associates are recognised in the income statement for the financial year in which the dividends are approved at the annual general meeting. If the dividends exceed the total income after the time of takeover, the dividends are recognised as a reduction of the cost of the investment under assets.

## Investments

We measure our investments in subsidiaries and associates at cost. If there is any indication that the value of a company is lower than our future earnings in the company, impairment testing of the company is carried out as described in the consolidated financial statements. The carrying amount is written down to the recoverable amount whenever the carrying amount exceeds the future earnings in the company (recoverable amount).

If we have a legal or constructive obligation to cover a deficit in subsidiaries and associates, we recognise a provision for this.

## Tax

In 2005, we chose Danish international joint taxation. We have continuously assessed when it will be the most appropriate time to withdraw from the international joint taxation scheme, and we currently expect that this will be for the 2017 income year, which is reflected in the annual report. We will make the final decision in 2018 when preparing the tax returns for 2017. Therefore, the retaxation liability has been transferred to tax payable in 2017.

Ørsted A/S is taxed jointly with its Danish subsidiaries. The jointly taxed companies are part of joint taxation with the parent company as the management company.

Subsidiaries are included in the joint taxation from the date they are consolidated in the consolidated financial statements and up to the date on which they are no longer consolidated.

Current tax for 2017 is recognised by the individual jointly taxed companies.

## Statement of cash flows

We do not prepare a separate statement of cash flows for the parent company. Reference is made to the consolidated statement of cash flows on page 68.

## Key accounting estimates

In connection with the preparation of the financial statements, a number of accounting estimates have been made that affect the profit (loss) and balance sheet. Estimates are regularly reassessed by management on the basis of historical experience and other relevant factors.

### Impairment test

If there is any indication that the carrying amount is lower than our future earnings in a company, we test for impairment as described in the consolidated financial statements. The future earnings of the company (recoverable amount) are calculated based on assumptions concerning significant estimates.

## 2. Employee costs

Employee costs, DKK million	2017	2016
Wages and salaries	24	20
Share-based payment	2	3
Remuneration for the Board of Directors	5	5
<b>Total employee costs</b>	<b>31</b>	<b>28</b>

Remuneration for the Executive Board, DKK '000	Henrik Poulsen		Marianne Wiinholt		Executive Board, total	
	2017	2016	2017	2016	2017	2016
Fixed salary	10,024	9,425	5,255	5,062	15,279	14,487
Variable salary	4,504	2,751	2,312	1,560	6,816	4,311
Share-based payment	1,367	1,427	713	889	2,080	2,316
Social security	2	2	2	2	4	4
<b>Total</b>	<b>15,897</b>	<b>13,605</b>	<b>8,282</b>	<b>7,513</b>	<b>24,179</b>	<b>21,118</b>

The remuneration report in the management's review and notes 2.6 and 2.7 to the consolidated financial statements describe the remuneration of the Executive Board and the Board of Directors, share-based payment, termination and bonus scheme for the Executive Board and details on the remuneration of the Board of Directors.

The parent company had an average of five employees in 2017 (2016: five employees).

## 3. Financial income and expenses

Financial income and expenses, DKK million	2017	2016
Interest income from cash, etc.	14	18
Interest income from subsidiaries	1,432	1,842
Interest income from securities at market value	211	417
Capital gains on securities at market value	55	141
Foreign exchange gains	664	1,715
Value adjustments of derivatives	8,751	14,363
Dividends received	2,513	1,630
Other financial income	27	95
<b>Total financial income</b>	<b>13,667</b>	<b>20,221</b>
Interest expenses relating to loans and borrowings	(1,584)	(1,685)
Interest expenses to subsidiaries	(9)	(50)
Capital losses on securities at market value	(217)	(252)
Foreign exchange losses	(1,549)	(4,282)
Value adjustments of derivatives	(7,106)	(15,349)
Other financial expenses	(21)	(27)
<b>Total financial expenses</b>	<b>(10,486)</b>	<b>(21,645)</b>
<b>Net financial income and expenses</b>	<b>3,181</b>	<b>(1,424)</b>

## 4. Tax on profit (loss) for the year and deferred tax

Income tax, DKK million	2017	2016
Tax on profit (loss) for the year	(76)	623
Tax on changes in equity	132	169
<b>Total tax for the year</b>	<b>56</b>	<b>792</b>
<b>Tax on profit (loss) for the year can be broken down as follows:</b>		
Current tax	(1,379)	(231)
Adjustments to deferred tax	1,298	803
Adjustments to current tax in respect of prior years	(360)	670
Adjustments to deferred tax in respect of prior years	365	(619)
<b>Tax on profit (loss) for the year</b>	<b>(76)</b>	<b>623</b>

Development in deferred tax, DKK million	2017	2016
Deferred tax at 1 January	1,744	1,928
Adjustment for the year recognised in profit (loss) for the year	(1,298)	(803)
Adjustments to deferred tax in respect of prior years	(365)	619
<b>Deferred tax at 31 December</b>	<b>81</b>	<b>1,744</b>

Specification of deferred tax, DKK million	2017	2016
Non-current liabilities	81	(3)
Current liabilities	-	17
Retaxation	-	1,730
<b>Deferred tax</b>	<b>81</b>	<b>1,744</b>

## 5. Distribution of net profit

Distribution of net profit, DKK million	2017	2016
<b>Profit (loss) for the year is attributable to:</b>		
Shareholders of Ørsted A/S, proposed dividends for the financial year	3,783	2,522
Shareholders of Ørsted A/S, retained earnings	(5,718)	(2,546)
Coupon and bond discount after tax, hybrid capital owners of Ørsted A/S	716	499
<b>Profit (loss) for the year</b>	<b>(1,219)</b>	<b>475</b>

## 6. Investments in subsidiaries

### Investments in subsidiaries, DKK million

	2017	2016
Cost at 1 January	70,436	54,291
Additions	2,333	16,500
Disposals	(31,007)	(355)
<b>Cost at 31 December</b>	<b>41,762</b>	<b>70,436</b>
Value adjustments at 1 January	(15,681)	(12,175)
Impairment losses	-	(3,506)
Disposals	15,681	-
<b>Value adjustments at 31 December</b>	<b>-</b>	<b>(15,681)</b>
<b>Carrying amount at 31 December</b>	<b>41,762</b>	<b>54,755</b>



Note 8.5 of the consolidated financial statements contains a complete overview of subsidiaries, etc.

We have tested investments in subsidiaries for impairment by comparing the expected future income from the individual subsidiaries with their carrying amounts.

Disposal for the year concern primarily the divestment of our Oil & Gas business, which was closed on 29 September 2017. The divestment resulted in a loss of DKK 4,179 million in the parent company financial statements. See also the description in note 3.6 to the consolidated financial statements.

The sale resulted in a gain of DKK 2,179 million in the consolidated financial statements. The difference occur due to different accounting policies.

Our impairment test in 2017 did not give rise to any impairment of investments in subsidiaries.

In 2016, we impaired the carrying amount of our subsidiaries by DKK 3,506 million. At the same time, a write-down of receivables from subsidiaries from 2015 of DKK 3,506 million was reversed.

## 7. Receivables from subsidiaries

### Non-current receivables from subsidiaries, DKK million

	2017	2016
Cost at 1 January	50,402	64,435
Additions	18,552	21,667
Disposals	(20,248)	(35,700)
<b>Cost at 31 December</b>	<b>48,706</b>	<b>50,402</b>

## 8. Derivatives

Ørsted A/S has assumed the subsidiaries' currency risks via forward exchange contracts, which have subsequently been hedged in the market. Furthermore, hedging contracts have been concluded to hedge the currency risk associated with investments in subsidiaries in foreign currencies.

We have also entered into a number of interest rate swaps to manage our interest rate risk.

The company has fair value hedged loans in GBP and EUR. The value of the fair value hedge offset in the income statement amounted to DKK 289 million (2016: DKK 1,793 million).

Derivatives at the end of December 2017 mature as follows: 2018: DKK -24 million, 2019: DKK -76 million, after 2019: DKK -324 million (2016: 2017: DKK 1,344 million, 2018: DKK -379 million, after 2018: DKK -156 million).

Overview of derivative positions, DKK million	2017		2016	
	Contractual principal amount	Market value	Contractual principal amount	Market value
Oil derivatives	-	-	6,016	1,300
Gas derivatives	-	-	4,834	257
Interest derivatives	550	-	2,022	50
Currency derivatives	4,817	(424)	26,364	(798)
<b>Total</b>	<b>5,367</b>	<b>(424)</b>	<b>39,236</b>	<b>809</b>
<b>Assets</b>		<b>3,596</b>		<b>19,980</b>
<b>Equity and liabilities</b>		<b>(4,020)</b>		<b>(19,171)</b>



See note 7.1 to the consolidated financial statements and the management's review on pages 47-50 for more details on risk and risk management.

## 9. Securities

Securities are primarily liquid AAA-rated Danish mortgage bonds that qualify for repo transactions in the Danish central bank 'Danmarks Nationalbank'. Repo transactions

are transactions where securities are provided as collateral for a loan.

Securities, DKK million	2017	2016
Securities, available	24,766	15,864
Securities, not available for use	40	197
<b>Total securities</b>	<b>24,806</b>	<b>16,061</b>



Securities not available for use are used as collateral for repo loans and trading in financial instruments.

## 10. Loans and borrowings

At 31 December 2017, we had issued hybrid capital with a total notional amount of DKK 17,125 million (2016: DKK 13,371 million). In 2018, one hybrid bond with a notional amount of DKK 3,723 million is expected to be redeemed early and is therefore included in current liabilities. The other hybrid bonds have a 1,000-year term and expire as follows: DKK 5,212 million in 3013, DKK 4,467 million in 3015 and DKK 3,723 million in 3017, respectively.

The long-term portion of bank loans and issued bonds amounted to DKK 25,715 million at 31 December 2017 (2016: DKK 22,164 million), of which DKK 16,528 million (2016: DKK 16,901 million) falls due in more than five years.

The long-term portion of other payables amounted to DKK 27 million at 31 December 2017 (2016: DKK 1,516 million) and falls due in 1-5 years.

## 11. Other provisions

We have made provisions for non-current liabilities totalling DKK 775 million of which DKK 0 million falls due in more than five years. The liabilities concern the divestment of our Oil & Gas business, which was closed on 29 September 2017.

## 12. Contingent liabilities

### Contingent liabilities

#### Guarantees

Ørsted A/S has provided guarantees in connection with participation by subsidiaries and subsidiaries' joint operations and joint ventures in the construction and operation of offshore wind farms and natural gas installations, and has provided guarantees in respect of leases, decommissioning obligations, and purchase, sale and supply agreements, etc.

Ørsted A/S also acts as guarantor with primary liability for bank balances in certain subsidiaries.

#### Indemnities

Ørsted is a member of the reinsurance company Oil Insurance Ltd. In the event of exit, an exit premium will be payable, which has been calculated at USD 6.8 million at 31 December 2017 (2016: USD 19.8 million).

Ørsted A/S is taxed jointly with other companies in the Ørsted Group. As management company, the company has unlimited and joint and several liability together with the other jointly taxed companies for Danish income taxes and withholding taxes on dividends, interest and royalties within the jointly taxed companies.

#### Litigation

Ørsted A/S is not a party to any litigation proceedings or legal disputes that could have an effect on the company's financial position, either individually or collectively.

## 13. Related-party transactions

Related parties are the Board of Directors, the Executive Board, Ørsted A/S's subsidiaries and the Danish State.

Remuneration of the Board of Directors and the Executive Board is disclosed in notes 2.6 and 2.7 and the remuneration report in the review in the consolidated financial statements.

Our related-party transactions are made on arm's length terms.

## 14. Operating lease obligations

We have entered into leases for office premises, primarily in Gentofte (expiring in 2028), Virum (expiring in 2027) and Esbjerg (expiring in 2035). In 2017, an amount of DKK 153 million was recognised (2016: DKK 173 million) in profit (loss) for the year in respect of operating lease payments.

We have entered into leases with subsidiaries for subleasing of office premises.

In 2017, an amount of DKK 123 million was recognised (2016: DKK 146 million) in profit (loss) for the year in respect of rental income.

We have minimum payments of DKK 1,816 million (2016: DKK 2,196 million), most of which concerns subleasing via subleasing agreements.

## 15. Auditor's fees

Auditor's fees, DKK million	2017	2016
Statutory audit	2	1
Other assurance engagements	1	12
Tax and VAT advice	-	8
Other services	1	7
<b>Total fees to PwC</b>	<b>4</b>	<b>28</b>

## 16. Ownership information

Ownership information	Registered office	Ownership interests	Voting share
The Danish State represented by the Danish Ministry of Finance	Copenhagen K, Denmark	50.12%	50.12%
EuroPacific Growth Fund	Los Angeles, USA	5.83%	0%
SEAS-NVE A.M.B.A.	Svinninge, Denmark	9.54%	9.54%
The Capital Group Companies, Inc.	Los Angeles, USA	<5%	9.77%



The table shows the shareholders with ownership interests and voting shares of at least 5%. Difference between ownership interests and voting share occur when issuing power of attorney.

# Management statement, auditor's reports and glossary

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# Statement by the Executive Board and the Board of Directors

The Board of Directors and the Executive Board have today considered and approved the annual report of Ørsted A/S for the financial year 1 January - 31 December 2017.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements in the Danish Financial Statements Act. The financial statements of the parent company, Ørsted A/S, have been prepared in accordance with the provisions of the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements provide a fair presentation of the Group's and the parent company's assets, liabilities and financial position at 31 December 2017 and of the results of the Group's and the parent company's operations and the Group's cash flows for the financial year 1 January - 31 December 2017.

In our opinion, the management's review provides a fair presentation of the development in the Group's and the parent company's operations and financial circumstances, of the results for the year and of the overall financial position of the Group and the parent company as well as a description of the most significant

risks and elements of uncertainty facing the Group and the parent company.

In our opinion, the consolidated ESG statements (Additional information) represent a reasonable, fair and balanced representation of the Group's social responsibility and sustainability performance and are presented in accordance with the stated accounting policies.

We recommend that the annual report be adopted at the annual general meeting.

Skærbæk, 1 February 2018

## Executive Board:

**Henrik Poulsen**  
President and CEO

**Marianne Wiinholt**  
CFO

## Board of Directors:

**Thomas Thune Andersen**  
Chairman

**Lene Skole**  
Deputy chairman

**Lynda Armstrong**

**Pia Gjellerup**

**Peter Korsholm**

**Benny D. Loft**

**Hanne Sten Andersen\***

**Poul Dreyer\***

**Benny Gøbel\***

**Jens Nybo Sørensen\***

\* Employee representative

# Independent Auditors' Report

## To the shareholders of Ørsted A/S

### Our opinion

In our opinion, the Consolidated Financial Statements give a true and fair view of the Group's financial position at 31 December 2017 and of the results of the Group's operations and cash flows for the financial year 1 January to 31 December 2017 in accordance with International Financial Reporting Standards as adopted by the EU ('IFRS') and further requirements in the Danish Financial Statements Act.

Moreover, in our opinion, the Parent Company Financial Statements give a true and fair view of the Parent Company's financial position at 31 December 2017 and of the results of the Parent Company's operations for the financial year 1 January to 31 December 2017 in accordance with the Danish Financial Statements Act.

Our opinion is consistent with our Auditor's Long-form Report to the Audit and Risk Committee and the Board of Directors.

### What we have audited

The Consolidated Financial Statements of Ørsted A/S for the financial year 1 January to 31 December 2017, pp 63-146 and 166, comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement

and the notes to the consolidated financial statements, including summary of significant accounting policies.

The Parent Company Financial Statements of Ørsted A/S for the financial year 1 January to 31 December 2017, pp 155-166, comprise the income statement, the balance sheet, the statement of changes in equity and the notes to the parent company financial statements, including summary of significant accounting policies.

Collectively referred to as the "Financial Statements".

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and

the additional ethical requirements applicable in Denmark. We have also fulfilled our other ethical responsibilities in accordance with the IESBA Code.

To the best of our knowledge and belief, prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 were not provided.

### Appointment

We were first appointed auditors of Ørsted A/S on 19 April 2010 for the financial year 2010. We have been reappointed annually

### Key Audit Matter

#### Divestment of the Oil & Gas-business

In 2016, the Board of Directors initiated a process with the aim of ultimately exiting from the Group's Oil & gas-business. The divestment was completed On 29 September 2017.

We focused on this area because the divestment is considered a non-routine transaction, with estimates and judgements in respect of the identification and measurement of guarantees, indemnities etc. given to the purchaser.

Refer to note 3.6 in the Consolidated Financial Statements and note 11 in the Parent Company Financial Statements.

by shareholder resolution for a total period of uninterrupted engagement of 8 years including the financial year 2017.

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements for 2017. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### How our audit addressed the Key Audit Matter

We evaluated whether Management had appropriately determined the divestment gain by for example:

- Reading the share purchase agreement.
- Testing the gain statement including the provisions recognised to cover guarantees, indemnities etc. in the share purchase agreement.
- Consider whether the disclosures of the discontinued Oil & gas-business and divestment thereof was in compliance with IFRS.

### Key Audit Matter

#### Divestments of partnership interests

In connection with divestments of partnership interests (often 50%) in offshore wind farms under construction, estimates and judgement are required in respect of the sales price for accounting purpose for the divestment and the subsequent construction contract, respectively, and in calculating the divestment gain. Furthermore, judgement is required in respect of classifying the divested interest as either divestment of assets (gain recognised as part of Other income) or divestment of an enterprise (gain recognised as part of Gain/loss from divestment of enterprises). Finally, judgement is required in respect of whether the Group's retained share in the partnership is a joint operation or a joint venture.

We focused on this area because the calculation of the divestment gain is dependent on complex and subjective judgements by Management and because the presentation in the Income statement is dependent on judgement about the partnership interest disposed and whether the partnership interest retained is a joint operation or a joint venture.

Refer to note 2.5 in the Consolidated Financial Statements.

#### Construction contracts

The accuracy of the revenue recognition related to work in progress of large construction contracts and its presentation in the consolidated income statement is dependent on complex estimation methodologies, including estimates such as the forecasted costs related to the constructions and the degree of completion for construction contracts.

We focused on this area because the revenue recognised with reference to degree of completion both requires complex and subjective judgements by Management.

Refer to note 2.2 and 4.2 in the Consolidated Financial Statements.

### How our audit addressed the Key Audit Matter

We evaluated whether Management had appropriately determined the divestment gain, the presentation hereof and the subsequent treatment of the partnership interest by for example:

- Reading the share purchase agreements.
- Reading the shareholders agreements.
- Reading the construction and other related agreements.
- Consider the sales price for accounting purpose for the divestment and the construction contract, respectively.
- Testing the gain statement on the divestment of the partnership interest including the provisions recognised to cover guarantees, indemnities etc. in the share purchase agreement.
- Consider whether the disclosures of the divestment gain and the subsequent recognition and presentation of the partnership was in compliance with IFRS.

On a sample basis, we tested whether revenue is accurately recorded and challenged the forecasted costs related to the constructions, including the assumptions used, and by evaluating the outturn of previous estimates by agreeing the actual costs incurred post-year end to the forecasted costs for the period.

We also assessed how the project managers determined that the degree of completion was correctly determined through obtaining their calculations and agreeing the inputs to documentary evidence or our independently formed expectation as appropriate.

### Key Audit Matter

#### Transactions with energy financial derivative contracts

The Group enters into a number of energy contracts. Certain of these arrangements are accounted for as derivative financial instruments and are recorded at fair value.

Judgement is required in valuing these derivative contracts, particularly where the life of the contract is beyond the liquid market period.

In addition, Ørsted uses business performance as an alternative to profit (loss) for the year stated in accordance with IFRS. Business performance represents the underlying financial performance of the Group in the reporting period adjusted for temporary fluctuations in the market value of contracts (including hedging transactions) relating to other periods.

We focused on this area because the valuation of financial instruments are dependent on complex and subjective judgements by Management and because the business performance reporting is dependent on consistent use and documentation of hedging rules.

Refer to note 1.1 and 7.2 in the Consolidated Financial Statements.

### How our audit addressed the Key Audit Matter

We assessed the overall trading process for energy contracts, including internal risk management procedures and the system and controls around origination and maintenance of complete and accurate information relating to derivative contracts.

We tested the valuation of derivative contracts at the year-end date. Our audit procedures focused on the integrity of these valuation models and the incorporation of the contract terms and the key assumptions, including future price assumptions and discount rates.

We tested the prices in the models and recalculated valuations for a sample of derivatives, as well as performing sensitivity analyses for level 3 energy derivatives.

We considered Management's use of business performance and tested the adjustments between IFRS and business performance. In this connection, we assessed the hedging rules applied under the business performance accounting policies and whether these are used consistently from period to period.

### Key Audit Matter

#### Onerous contracts and other contractual claims and obligations

The Group's operations include exposures to the risk of litigation, contractual claims from and against third parties and contracts being onerous, particularly in relation to long-term contracts.

We focused on this area because of the range of potential outcomes and the considerable uncertainty around (a) the resolution of various litigations, claims and contractual disputes, and (b) the determination of the amount, if any, to be recognised in the financial statements as a provision, and the related disclosures are inherently subjective.

Refer to note 3.2 in the Consolidated Financial Statements.

### How our audit addressed the Key Audit Matter

We considered the provisions recognised to cover contractual obligations and claims raised against the Group by third parties, inspected relevant legal advice received by the Group in connection with such claims and obtained formal confirmations from the Group's lawyers on the status and potential outcomes of any legal claims with which the Group is dealing. Moreover, we considered the assets related to claims raised by the Group against third parties.

We challenged the valuation of the onerous contract provisions by evaluating whether appropriate judgements and assumptions had been applied in determining the unavoidable costs of meeting the obligation and the estimate of the expected benefits to be received under the contract.

Finally, we also considered the Group's disclosures relating to provisions and/or contingent liabilities and assets for legal and other contractual obligations and claims.

### Statement on Management's Review

Management is responsible for the Management's Review, pp 4-62.

Our opinion on the Financial Statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the Financial Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Moreover, we considered whether Management's Review includes the disclosures required by the Danish Financial Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Consolidated Financial Statements and the Parent Company Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement in Management's Review.

### Management's responsibilities for the Financial Statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act

and for the preparation of parent company financial statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, Management is responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit in accordance with ISAs and additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Hellerup, 1 February 2018

**PricewaterhouseCoopers**

Statsautoriseret Revisionspartnerselskab  
CVR-nr. 33 77 12 31

**Lars Baungaard**

State Authorised Public Accountant  
mne23331

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# Limited assurance report of the independent auditor

## To the Stakeholders of Ørsted A/S

Ørsted A/S engaged us to provide limited assurance on the data described below and set out in the Environment, Social and Governance (ESG) Statement of the Annual Report of Ørsted A/S for the year ended 31 December 2017.

## Our conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that data in the 2017 ESG Statement on pages 147-154 of the Annual Report for the year ended 31 December 2017 has not been prepared, in all material respects, in accordance with the accounting policies.

This conclusion is to be read in the context of what we say in the remainder of our report.

## What we are assuring

The scope of our work was limited to assurance over data in the ESG Statement on pages 147-154 of the Ørsted A/S Annual Report for the year ended 31 December 2017.

## Professional standards applied and level of assurance

We performed a limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) 'Assurance Engagements other than Audits and Reviews of Historical Financial Information'. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of

internal control, and the procedures performed in response to the assessed risks; consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

## Our independence and quality control

We have complied with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which includes independence and other ethical requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. The firm applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. Our work was carried out by an independent multidisciplinary team with experience in sustainability reporting and assurance.

## Understanding reporting and measurement methodologies

Data and information need to be read and understood together with the accounting principles (pages 147-154 of the 2017 Ørsted A/S Annual Report), which Management are solely responsible for selecting and applying. The absence of a significant body of established practice on which to draw to evaluate and measure non-financial information allows for different,

but acceptable, measurement techniques and can affect comparability between entities and over time.

## Work performed

We are required to plan and perform our work in order to consider the risk of material misstatement of the data. In doing so and based on our professional judgement, we:

- Conducted interviews with Group functions to assess consolidation processes, use of company-wide systems and controls performed at Group level;
- Performed an assessment of materiality and the selection of topics for the 2017 Ørsted A/S ESG Statement;
- Conducted analytical review of the data and trend explanations submitted by all business units for consolidation at Group level;
- Evaluated internal and external documentation to determine whether information in the 2017 Ørsted A/S ESG Statement is supported by sufficient evidence.

## Management's responsibilities

Management of Ørsted A/S is responsible for:

- Designing, implementing and maintaining internal control over information relevant to the preparation of data in the 2017 ESG Statement on pages 147-154 in the Annual Report that are free from material misstatement, whether due to fraud or error;
- Establishing objective accounting principles for preparing data;
- Measuring and reporting data in the 2017 ESG Statement based on the accounting principles; and

- The content of the 2017 ESG Statement.

## Our responsibility

We are responsible for:

- Planning and performing the engagement to obtain limited assurance about whether data in the 2017 Ørsted A/S ESG Statement on pages 147-154 of the 2017 Annual Report are free from material misstatement, whether due to fraud or error;
- Forming an independent conclusion, based on the procedures we have performed and the evidence we have obtained; and
- Reporting our conclusion to the Stakeholders of Ørsted A/S.

Hellerup, 1 February 2018

## PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab  
CVR-no. 33 77 12 31

## Lars Baungaard

State Authorised Public Accountant  
mne23331

## Rasmus Friis Jørgensen

State Authorised Public Accountant  
mne28705

# Glossary

**Availability:** Time-based availability is the ratio of the number of hours in a given period the offshore wind farms are available for power generation to the total number of hours in the same period. Total availability is weighted on the basis of the size of the individual wind farms. Availability is adjusted for breakdowns if compensation is received from the transmission owner.

**Biomass conversion:** When a CHP plant is converted from using fossil fuels to using biomass such as wood pellets, wood chips and straw. After the conversion, the CHP plant will typically be able to use biomass along with the original fuel types.

**Carbon emissions allowances:** Carbon dioxide emissions allowances subject to the European Union Emissions Trading Scheme (EU ETS).

**CfD:** A Contract for Difference is a subsidy that guarantees the difference between the market reference price and the exercise price won.

**CHP plant:** A Combined Heat and Power (CHP) plant generates both heat and power in the same process.

**Commissioning/COD:** When our assets are in operation, and the legal liability has been transferred from the supplier to us.

**Cost of electricity:** Average cost measured as present value per megawatt hour (MWh) generated from offshore wind power covering costs for development and construction as well as subsequent operation and maintenance of the offshore wind farm.

**Decided (FID) capacity:** Installed offshore wind capacity plus capacity for wind farms where a final investment decision has been made.

**Degree days:** Number of degrees in absolute figures in difference between the average temperature and the official Danish indoor temperature of 17 degrees Celsius.

**EEX:** European Energy Exchange, German power exchange.

**EPC:** Engineering, Procurement and Construction. The part of our business which handles the construction and installation of our offshore wind farms.

**FTE:** Employees (Full-Time Equivalent). The number of full-time employees during a fixed time period.

**Generation capacity:** Ørsted's ownership of the wind turbines. The wind turbines are included when each wind turbine has passed the 240-hour test.

**Green certificates:** Certificate awarded to producers of environment-friendly power as a supplement to the market price of power in the given price area.

**Green dark spread (GDS):** Green dark spread represents the contribution margin per MWh of power generated at a coal-fired CHP plant of a given efficiency. It is determined as the difference between the market price of power and the cost of the coal (including associated freight costs) and carbon emissions allowances used to generate the power.

**Green spark spread (GSS):** Green spark spread represents the contribution margin per MWh generated at a gas-fired power station of a given efficiency. It is determined as the difference between the market price of power and the costs of the gas and carbon emissions allowances used to generate the power.

**Hedging instruments:** Financial and physical instruments that can be used to guarantee a specific price for the purchase or sale of, for example, commodities and currency.

**Installed capacity:** Installed capacity where the offshore wind farm has been completed and has passed the 200-hour test.

**LNG:** Liquefied Natural Gas. Gas that has been liquefied by cooling to minus 161 degrees Celsius. LNG takes up 600 times less space than conventional gas.

**Load factor:** The ratio between the actual power generation in a given period relative to the potential generation which is possible by continuously exploiting the maximum capacity over the same period.

**LTIF:** Lost-Time Injury Frequency. Ørsted defines lost-time injuries as occupational injuries resulting in at least one day's absence from work in addition to the day of the injury.

**NBP:** National Balancing Points, UK gas hub.

**Nord Pool:** The Norwegian-based Nordic power exchange, which facilitates power trading in Norway, Sweden, Finland and Denmark.

**Offshore transmission assets:** Offshore transmission assets connect offshore generation to the onshore grid, and typically include the offshore power transmission infrastructure, an onshore substation and the electrical equipment relating to the operation of the substation.

**O&M:** Operation and Maintenance. The part of our business that operates and maintains our offshore wind farms after installation.

**Partnership income:** Income originating from our partners' purchase of ownership interests in the offshore wind farms. Includes both the gain in connection with the farm-down and the subsequent construction of the wind farm.

**Power station:** A power station generates power only.

**PSO:** Indirect taxes regarding the public service obligation (PSO) which are used to finance research and green energy and are charged to power customers along with other tariff elements.

**Public obligation:** A company with a public obligation is bound by law to deliver power or natural gas to a certain geographic area at prices approved by the Danish Energy Regulatory Authority.

**QHSE:** Quality, Health, Safety and Environment.

**Ramp-up:** Generation until an offshore wind farm has been completed and commissioned.

**ROCs:** Renewable Obligation Certificates issued by Ofgem in the UK to operators of accredited generating stations for the eligible renewable energy they generate. Operators can trade ROCs with other parties.

**Stress:** Method of measuring the market trading risk of loss on a portfolio from day to day, calculated on a fair-value basis.

**Thermal generation:** Power and heat generated through the combustion of fossil fuels, biomass or waste.

**TRIR:** In addition to lost-time injuries, TRIR also includes injuries where the injured person is able to perform restricted work the day after the accident as well as accidents where the injured person has received medical treatment.

**TTF:** Title Transfer Facility, Dutch gas hub.

**TWh:** Terawatt hour. The amount of energy generated in one hour with the effect of 1TW. 1TWh is equivalent to 1,000GWh or 1,000,000MWh.

**Value at Risk (VaR):** A financial term used for measuring the loss that may occur in connection with a risk position, assuming a certain volatility and that the position is held for a certain period of time

**Wind energy content:** The ratio between the actual reported generation in a given period, adjusted for availability losses, and the generation in a 'normal wind year', based on historical wind data for the individual areas where the offshore wind farms are located.

**Wind speed:** Shows the wind speed for Ørsted's offshore wind farms. The wind measurements are weighted on the basis of our generation capacity and can be compared to a normal wind period, based on 20 years' historical wind observations.

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Borkum Riffgrund 1 offshore wind farm  
off the coast of Germany

This report has been prepared in  
Danish and English.  
In case of discrepancies,  
the Danish version applies.

**ATTACHMENT 7-3**

**Ørsted Annual Report 2018**



**Ørsted**  
**Annual report**  
**2018**



**Our vision**  
Let's create  
a world that  
runs entirely  
on green  
energy

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# Chairman's statement

## Green light ahead

The UN's 2030 Agenda for Sustainable Development calls for making significant progress on some of the world's greatest challenges. Global climate change caused by man-made carbon emissions is one of the key threats to human societies and the planet, and urgent action is needed. Human activity has already caused an increase of approx 1.1°C above pre-industrial levels. If emissions continue at the current rate, global warming is likely to reach 1.5°C above pre-industrial levels at the earliest in 2030, crossing a key threshold set by climate science to avoid irreversible climate change.

The challenge of global warming requires a profound transformation of our global energy systems – from black to green energy. At Ørsted, our vision is a world that runs entirely on green energy. As one of the global leaders

in green energy, we are committed to providing tangible and scalable solutions to transform global energy systems from black to green.

In 2018, we continued our successful deployment of green energy, reaching 8.3GW of renewable energy capacity built by Ørsted. Over the past decade, Ørsted and our partners have invested approx DKK 165 billion in deploying green energy. For the next seven years, we plan to further accelerate our build-out. By 2025, more than 99% of our energy generation will come from renewable sources, and by 2030, our ambition is to reach more than 30GW of green energy deployed, allowing more than 50 million people to be powered by green energy built by Ørsted. The ambitious decarbonisation of our power and heat generation puts the carbon reduction from our own operations 27 years ahead of the decarbonisation trajectory for the energy industry

that is recommended by climate scientists to stay below the 2°C-threshold defined in the Paris Agreement. We further commit ourselves to reduce our carbon emissions in line with the recent scientific recommendation to limit global temperature increases to no more than 1.5°C above pre-industrial levels.

In 2018, we took important steps in shaping our portfolio towards becoming one of the world's leading renewable energy companies. We announced our intention to exit our power distribution and residential customer businesses, which will allow us to focus entirely on renewable energy generation and market access. We also announced the acquisition of Lincoln Clean Energy, which will serve as our platform for creating a leading North American onshore renewables business, spanning onshore wind, solar energy and storage. Finally, we announced the acquisition of Deepwater Wind, creating a leading offshore wind platform in the US together with our existing US organisation.

Our commitment to people remain strong. Particularly, safety is a focus area for us, and in 2018, we once again improved workplace safety with a total recordable injury rate per million working hours (TRIR) at a record low level of 4.7. Furthermore, we reaffirmed our commitment to being an inclusive workplace for all employees regardless of personal characteristics by joining the UN LGBTI Standards of Conduct for Business. To further support gender diversity

in management, we implemented the 'Female Spotlight' programme that prepares talented women for senior leadership positions.

Profit for the year amounted to DKK 19.5 billion, Ørsted's best result ever. The Board of Directors recommends paying a dividend of DKK 9.75 per share.

On behalf of the Board of Directors, I would like to thank the employees and management of Ørsted for their spirited commitment to turning the vision of green energy into reality, and for bringing green solutions to existing and new markets that share our vision of a world that runs entirely on green energy.



**Thomas Thune Andersen**  
Chairman

“  
**As one of the global leaders in green energy, we are committed to providing tangible and scalable solutions to transform global energy systems from black to green.**

# CEO's review

Strong operational and financial results and strategic acquisitions have strengthened our position as a world leader in green energy:

- Operating profit (EBITDA) increased by 33% and totalled DKK 30.0 billion.
- Operating profit from offshore wind farms in operation increased by 29% to DKK 11.0 billion.
- Farm-down of 50% of Hornsea 1 was one of the largest renewable energy M&A transactions ever and contributed DKK 15.1 billion to EBITDA.
- Green share of generation increased from 64% to 75%.
- Strong progress in the construction of our new wind projects.
- New offshore wind projects awarded in the US, Germany and Taiwan.
- Acquisition of the US-based onshore wind developer Lincoln Clean Energy.
- Acquisition of the leading US-based offshore wind developer Deepwater Wind.
- Decision to exit our Danish power distribution and residential customer businesses.
- New ambitious targets for the Group's long-term strategic and financial development.

## Financial results

In 2018, we achieved a strong operating profit (EBITDA) which significantly exceeded our expectations at the beginning of the year.

EBITDA (excluding new partnerships) increased by 18% to DKK 15.0 billion. The good results were driven by an increase in generation from our offshore wind farms in operation, which led to an increase of 29% in EBITDA from these activities. Including new partnerships, EBITDA increased by 33% to DKK 30.0 billion, of which DKK 15.1 billion came from the 50% farm-down of Hornsea 1.

Return on capital employed (ROCE) was 32% compared to 25% in 2017.

Net profit amounted to DKK 19.5 billion, which was DKK 6.2 billion higher than last year.

Following the bioconversions of our CHP plants and the continued ramp-up of our offshore wind capacity, the green share of our heat and power generation increased from 64% to 75% in 2018.

## Strategic development

Our vision is to create a world that runs entirely on green energy. We expect the global market for renewable energy to more than triple towards 2030. As one of the leading companies within renewable energy, Ørsted has a strong platform to take part in this build-out. In November, we launched new, ambitious targets for our long-term strategic and financial development.



**Towards 2030, it is our strategic ambition to reach an installed capacity of more than 30GW renewable energy, provided that the build-out creates value for our shareholders.**

By the end of 2018, our portfolio consisted of 12GW of offshore and onshore wind farms and biomass-fired combined heat and power plants that are either in production, under construction or have obtained final investment decision (FID). We also have projects with a capacity of 4.8GW for which we have been awarded the construction concessions or entered into offtake agreements, but are yet to make FID. In addition, we have a strong pipeline of projects under development. Towards 2030, it is our strategic ambition to reach an installed capacity of more than 30GW renewable energy, provided that the build-out creates value for our shareholders. Contributing to this ambition, we raised our 2025 ambition for offshore wind from 11-12GW to 15GW.

Our strategic ambition will be supported by an extensive investment programme. From 2019 to 2025, we currently expect total gross investments of approx DKK 200 billion. Investments in offshore wind farms are expected to constitute 75-85% of this programme. Onshore investments are expected to constitute 15-20%, while our investments in Bioenergy and Customer Solutions combined are expected to constitute 0-5%. The allocation reflects the changes we made to our asset portfolio in 2018, including the two acquisitions in the US and the decision to exit our power distribution and residential customer businesses.

The strategic plan is subject to our four capital allocation priorities. Firstly, we maintain our strong commitment to our credit rating target (BBB+/Baa1). Secondly, we intend to increase our annual dividends by a high single-digit percentage. The horizon of this dividend commitment is extended from 2020 to 2025. Thirdly, we will invest in value-creating growth. Finally, potential excess capital will be returned to our shareholders in the form of additional dividends and/or share buy-backs.

### Offshore

In 2018, we reached significant milestones in our ambitious green strategy. In the UK, we commissioned Race Bank in January and Walney Extension, the world's largest wind farm, in May, and in Germany, we commissioned Borkum Riffgrund 2 in December. All were

commissioned ahead of schedule, underpinning our experience and efficiency within the construction of offshore wind farms. Together with the rest of the portfolio, the three commissioned offshore wind farms contributed to the continued growth in earnings.

In addition, our current offshore wind construction projects continue to progress according to plan. We have installed most of the foundations at Hornsea 1 in the UK, which will be the world's largest wind farm when completed, expectedly in the second half of this year.

The build-out of our portfolio also includes Borssele 1 & 2 in the Netherlands and Hornsea 2 in the UK. In February, we selected Siemens Gamesa Renewable Energy's 8MW wind turbines with a 167-metre rotor for Hornsea 2.

We continued our partnership model in 2018 with the 50% farm-down of Hornsea 1 to Global Infrastructure Partners. As part of the agreement, we will provide long-term operations and maintenance services (O&M) as well as a route to market for the power generated through our Customer Solutions business. The farm-down was one of the largest renewable energy M&A transactions ever and included the largest single-project renewable energy financing scheme to date. The valuation underpins the attractiveness of our offshore wind assets.

In April, we were awarded 900MW capacity in the first Taiwanese grid allocation as Greater Changhua 1 & 2a were awarded 605MW and 295MW, respectively. In the price auction in June, we were awarded an additional 920MW. With a total capacity of 1,820MW, we are as such able to fully utilise our Greater Changhua 1, 2 and 4 sites.

On 30 January 2019, the 2019 feed-in tariff was announced. We take note of the 6% tariff reduction compared to the 2018 tariff as well as the introduction of a cap on annual full-load hours, and we will now collaborate closely with the supply chain to mitigate the adverse impact of these PPA changes with the objective of making the projects investable.

Greater Changhua 1 & 2a are facing extraordinarily high costs related to creating a local supply chain at scale, reinforcing the onshore grid infrastructure and building, operating and maintaining offshore wind farms in challenging site and weather conditions.

We continue to work with the Taiwanese authorities and local stakeholders to reach

key outstanding project milestones, such as obtaining the establishment permit, completing the supply chain plan and signing the power purchase agreement.

Once we have clarity on the outcome of supply contract renegotiations and have achieved all key project milestones, Ørsted's Board of Directors will review and decide on the final investment case.

In Germany, we were awarded the right to build Borkum Riffgrund West 1 and Gode Wind 4 with a capacity of 420MW and 132MW, respectively. Combined with the awards from the auction in 2017, we have secured the full capacity of 900MW in the Borkum Riffgrund cluster (Cluster 1) without subsidies. In addition, we have secured a total capacity of 242MW for Gode Wind 3 and 4 at a weighted average feed-in tariff of EUR 81 per MWh. Subject to FID, the wind farms are expected to be operational in 2024/25, respectively.

In October, The Crown Estate in the UK confirmed that we have satisfied the application criteria for the development of our Race Bank Extension offshore wind farm, which expectedly will now be subject to a plan-level Habitats Regulations Assessment (HRA). Subject to all necessary consents being granted, Race Bank Extension will be able to participate in future auctions under the contracts for difference (CfD) scheme.

Early October, we entered into an agreement to acquire Deepwater Wind. The acquisition was completed in November at an enterprise value of DKK 4.7 billion. Deepwater Wind is the leading US-based offshore wind developer

### Portfolio changes support focus on renewable generation

Entering Ørsted portfolio →		Ørsted	→ Exiting Ørsted portfolio
<p><b>Lincoln Clean Energy</b></p> <p>– Transaction closed</p>	<p><b>Deepwater Wind</b></p> <p>– Transaction closed</p>	<div style="display: flex; justify-content: space-around;"> <div style="text-align: center;">  <p>Offshore</p> </div> <div style="text-align: center;">  <p>Onshore</p> </div> </div> <div style="display: flex; justify-content: space-around; margin-top: 20px;"> <div style="text-align: center;">  <p>Bioenergy</p> </div> <div style="text-align: center;">  <p>Customer Solutions</p> </div> </div>	<p><b>Power distribution, residential customer (B2C) and city light businesses</b></p> <p>– Expected in 2019</p>

with an attractive and geographically diverse portfolio of projects along the US East Coast.

In the US, we were awarded an additional 104MW in December in the clean energy auction in Connecticut. Our Revolution Wind project has now secured a total capacity of 704MW connecting into New England, including previously awarded capacity in Rhode Island and Connecticut, which we will construct as one joint project, and thus unlock significant procurement, construction and operational synergies.

By end 2018, the Deepwater Wind portfolio totals a capacity of approx 2.6GW, consisting of 30MW in operation, 954MW of development projects with long-term revenue contracts in place or under negotiation and approx 1.6GW which potentially may be developed in three awarded lease areas.

In October, we bid into Rhode Island's auction for up to 400MW of renewable energy. Further, in December 2018, we bid into the 1,100MW New Jersey auction with our Ocean Wind project, and we expect to bid into the announced 800MW auction in New York in February 2019.

In January 2019, we furthermore announced that we have signed a memorandum of understanding to work jointly with Tokyo Electric Power Company (TEPCO) on the Choshi offshore wind project near Tokyo, and towards a broader strategic partnership.

We look forward to expanding our footprint in both Europe, the US and Asia-Pacific and working together with our new partners.

### Onshore

In August, we entered into an agreement to acquire Lincoln Clean Energy (LCE), a US-based developer, owner and operator of onshore wind farms. The acquisition was completed on 1 October 2018 at an enterprise value of DKK 5.6 billion. Through LCE, our onshore business will be a growth platform and provide strategic diversification to Ørsted's portfolio.

Our aim is to create a leading North American company within renewable energy, including onshore wind, solar energy and energy storage.

Lincoln Clean Energy has an operating portfolio of 813MW and a near-term portfolio of 714MW of onshore capacity in advanced stages of development.

In December, we commissioned the 300MW onshore wind farm Tahoka in Texas. Furthermore, we took FID on the onshore wind farm Lockett. The wind farm is under construction and is expected to be commissioned in Q3 2019.

In addition, we announced a 500MW wind and solar power purchase agreement (PPA) with ExxonMobil, distributed evenly between the Sage Draw onshore wind farm and the Permian solar PV project.



From our Capital Markets Day in Gentofte on 28 November.



## // 2018 was a year with many changes, and with the acquisitions of Lincoln Clean Energy and Deepwater Wind, we welcome more highly skilled employees to our company.

### Utility business

In June, we announced our plans to divest our Danish power distribution, residential customer and city light businesses. The process came to a stop in January when our majority shareholder, the Danish State, informed us that there was no longer the necessary political support. It is still the Board of Directors assessment that Ørsted is not the best long-term owner of these businesses. Consequently, we have classified the businesses as assets held for sale and continue to investigate the different options for exiting them. We expect an exit from all of these businesses during 2019.

In June, we divested our 50% ownership share in the gas-fired power plant Enecogen in the Netherlands. The divestment reinforces our focus on green energy.

In June, we commissioned our new biogas plant in Kalundborg, Denmark, together with our partner Bigadan. The plant will recycle

waste from the local production facilities of our corporate customers Novozymes and Novo Nordisk and convert it into biogas. We are looking to expand our portfolio of biogas plants in the future.

The development of our first Renaissance plant in the UK is still in progress. By means of enzymes, the technology efficiently converts household waste into biogas and recyclable materials. While the enzymatic process is working satisfactory, we have experienced mechanical challenges in the sorting process and have had to undertake a programme to enhance flexibility and redundancy in the sorting hall. We are currently finalising this optimisation. Final commissioning is expected during the first half of this year.

In May, the High Court of Western Denmark ruled that Elsam, one of the six companies that merged into DONG Energy, now Ørsted, back in 2006, had not abused its dominant

market position in 2005 and the first half of 2006. In October, the Danish Appeals Permission Board ruled in favour of Ørsted and decided that the Danish competition authorities would not be given permission to try the ruling before the Supreme Court. Consequently, the ruling of the High Court stands. We are pleased that we can put this court case behind us and move forward. However, we are still awaiting the development in the Elsam competition case for the period 2003 to 2004 and the related compensation case.

At the end of December, 679,000 smart meters installed by Radius and Kamstrup had been taken into use by our power distribution customers. This is a significant milestone, marking that we are well on our way to replacing meters for all our 1 million customers by the end of this year.

Finally, our Customer Solutions business has signed a 15-year agreement with Innogy to balance the power generation from their 860MW offshore wind farm Triton Knoll in the UK. Under the agreement, Ørsted will sell the expected generation from the wind farm on the power market on a day-ahead basis, thus handling deviations from the expected generation the following day.

### Employees

We have a strong focus on the safety and well-being of our employees. In 2018, we achieved a positive development in the total recordable injury rate (TRIR) and saw yet another year with no life-changing accidents. The 2018 employee survey showed a continued high score on satisfaction and motivation – in line with the 2017 results. It positions

Ørsted in the top 10% compared to external benchmarks in all major markets.

Once again, 2018 was a year with many changes, and with the acquisitions of Lincoln Clean Energy and Deepwater Wind, we welcome more highly skilled employees to our company. The integration of the organisations is already well under way. All our employees deserve credit and acknowledgement for their dedicated performance during the past year. Their strong competences and entrepreneurial spirit – fuelled by the passion for what Ørsted stands for and the work we do – constitute the very foundation of our company.



**Henrik Poulsen**  
CEO and President

# Performance highlights

## Profits and returns

**Operating profit (EBITDA)**  
DKKbn



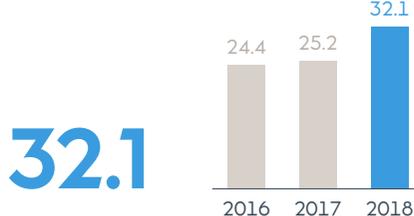
In 2018, we achieved a strong EBITDA which significantly exceeded our expectations at the beginning of the year. It was the highest to date and was driven by an increase in generation from our offshore wind farms and profit from the 50% farm-down of Hornsea 1. The amount above the dotted lines represent profits from new partnerships.

**Net profit (continuing operations)**  
DKKbn



Profit for the year amounted to DKK 19.5 billion, Ørsted's best result ever driven by the strong operating profit.

**Return on capital employed (ROCE)**  
%



ROCE was also significantly impacted by the Hornsea 1 farm-down gain in 2018. Our target is an average ROCE of around 10% for the Group in the 2019-2025 period.

## Sustainability

**Green share of generation**  
%



The green share of heat and power generation continued to increase to a new high of 75%, following continued ramp-up of our offshore wind capacity, and full-year effect from our most recent biomass-converted CHP plants.

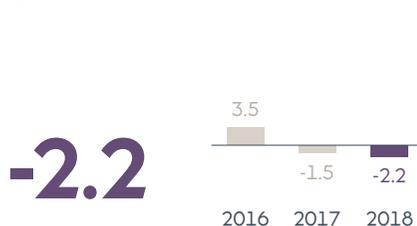
## Cash flow and balance sheet

**Gross investments**  
DKKbn



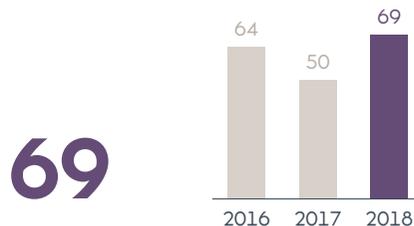
The gross investment level was high in 2018 due to the acquisitions of Deepwater Wind (DKK 4.0 billion) and Lincoln Clean Energy (DKK 5.6 billion) in addition to high construction activity in our project portfolio.

**Interest-bearing net debt**  
DKKbn



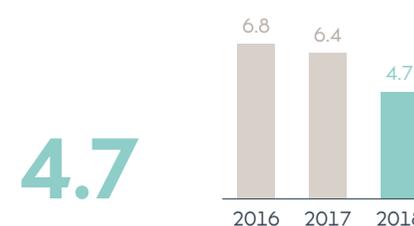
We had a net cash position of DKK 2.2 billion at the end of 2018.

**Credit metric (FFO/adjusted net debt<sup>1)</sup>**  
%



The credit metric 'funds from operations' (FFO) relative to adjusted net debt amounted to 69% in 2018, positively affected by our strong operating profit and low adjusted net debt.

**Safety TRIR**



We have a strong focus on the safety and well-being of our employees. In 2018, we achieved a record-low total recordable injury rate (TRIR).

<sup>1)</sup> Interest-bearing net debt, including 50% of hybrid capital and securities not available for use (with the exception of repo transactions), present value of lease obligations, and decommissioning obligations less deferred tax.

## Follow-up on outlook announced for 2018

In the outlook announced in our annual report for 2017, we expected EBITDA without new partnerships of DKK 12-13 billion and gross investments of DKK 16-18 billion for 2018.

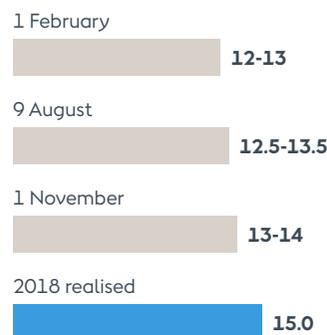
With EBITDA, excluding new partnerships, of DKK 15.0 billion, our expectations were exceeded. The main reasons were good progress on the construction of our new offshore wind farms Walney Extension and Borkum Riffgrund 2 during the year, including higher earnings from construction agreements, as well as faster ramp-up than expected. Furthermore, we had a positive outcome of an arbitration related to a gas purchase contract, positive effect in our gas portfolio business from increasing gas prices in 2018 (which all other things equal will have a reverting negative effect in 2019) and better than expected performance in our LNG business from strong market fundamentals.

EBITDA, including the profit from the Hornsea 1 partnership, amounted to DKK 30.0 billion, which was significantly higher than the 2017 EBITDA level of DKK 22.5 billion, in line with our guidance.

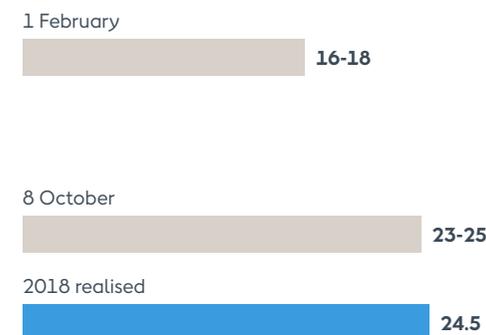
Gross investments amounted to DKK 24.5 billion. The main reasons for the increase were the acquisitions of Lincoln Clean Energy and Deepwater Wind and early investments in the US offshore and onshore portfolio in Q4 2018 to qualify for future tax credits. In addition, gross investments related to construction of offshore wind farms were lower than expected due to shifts in spending across years and the Race Bank and Walney Extension construction projects being finalised at a lower capex spend than expected.

In Bioenergy, the focus has been on realising positive free cash flows from 2018. The free cash flows was positive and amounted to DKK 518 million of which the divestment of Enecogen contributed with DKK 383 million.

EBITDA excl. new partnerships, realised vs guidance DKKbn



Investments, realised vs guidance, DKKbn



# Outlook 2019

## EBITDA guidance method

As in 2018, our guidance is based on our existing activities and thus only include the effect of existing partnership agreements. Earnings from new partnerships in 2018 concerned Hornsea 1 and amounted to DKK 15.1 billion. We do not expect new partnerships in 2019.

## EBITDA

EBITDA (business performance), excluding new partnership agreements, is expected to be DKK 15.5-16.5 billion in 2019, corresponding to an increase of 4-10%. The outlook is based on the expected development in the business units (compared to 2018), as described below.

### Offshore – higher

- Earnings from offshore wind farms in operation are expected to increase as a result of the full commissioning of Hornsea 1 in H2 2019 as well as higher earnings from Borkum Riffgrund 2 and Walney Extension, which were fully commissioned during 2018.
- Earnings from existing partnership agreements, which amounted to DKK 3.7 billion in 2018, are expected to decline. In 2019, earnings from existing partnerships will primarily come from the remaining part of the Hornsea 1 farm-down (approx 15%).
- Expensed project development costs are expected to increase as a result of efforts

to drive global expansions. Other, including project development costs, are expected to make up approx DKK 2.4 billion.

### Onshore – significantly higher

- As we acquired Lincoln Clean Energy on 1 October 2018, 2019 will be the first full year of operation from this business unit.
- Earnings from onshore wind farms in operation are expected to increase as a result of ramp-up from our new wind farms. In December 2018, we commissioned Tahoka, and we expect to commission Lockett in Q3 2019.

### Bioenergy – higher

- Total EBITDA from our heat and power generation activities is expected to increase, primarily as a result of expected increased generation on biomass and expected increase in Danish wood pellet spreads and green dark spreads.
- Earnings from our ancillary services were high in 2018, driven by higher demand during the summer and increased demand from Germany (DK/DE connection). We expect 2019 earnings from our ancillary services to be in line with 2017.

### Customer Solutions – significantly lower

- We expect a significant decline in Markets due to gains from increasing gas prices in 2018 reverting with negative impact in 2019.

Outlook 2019, DKKbn	2018 realised	2019 guidance
EBITDA (without new partnerships)	15.0	15.5-16.5
Offshore (without new partnerships)	12.7	Higher
Onshore	0.0	Significantly higher
Bioenergy	0.4	Higher
Customer Solutions	2.0	Significantly lower
Gross investments	24.5	21-23



Our EBITDA guidance for the Group is the prevailing guidance, whereas the directional earnings development per business unit serve as a means to support this. Higher/lower indicates the direction of the business unit's earnings relative to the results for 2018.

- Earnings from the gas portfolio were further positively affected by a positive outcome of an arbitration case in 2018, which is not expected to be repeated in 2019.
- In 2018, earnings from our LNG business was positively affected by strong market fundamentals. We expect lower earnings from these activities in 2019.
- We plan to exit our Danish power distribution and residential customer businesses during 2019, but have included them throughout the year in our outlook. We do not expect any significant changes in earnings from these compared to 2018.

### IFRS 16 impact

EBITDA in 2019 is expected to be positively affected by DKK 0.6 billion from the

implementation of IFRS 16, compared to a continued expensing of operational lease costs. The majority of the impact is in Offshore.

### Gross investments

Gross investments for 2019 are expected to amount to DKK 21-23 billion. The outlook reflects a high level of activity in Offshore (Hornsea 1, Borssele 1 & 2, Hornsea 2 and Greater Changhua 1 & 2a (assuming FID)), Onshore (Lockett, Sage Draw and Plum Creek), biomass conversion of Asnæs Power Station and installation of smart meters.

In addition to gross investments, significant funds are temporarily tied up in connection with the construction of transmission assets for offshore wind farms in the UK and for our partners. These funds are a part of our operating cash flows.

At the end of 2018, funds tied up in work in progress totalled DKK 9.7 billion. During 2019, we expect to divest the Walney Extension and Race Bank offshore transmission assets, but we still expect to see high level of funds tied up in work in progress in 2019 as a result of the construction of transmission assets at Hornsea 1 and 2. The construction of Hornsea 1 for partners is expected to be operating cash flow neutral, as we will receive milestone payments continuously from our partner during the construction phase.

#### Uncertainties, prices and hedges

Our offshore wind farms are largely subject to publicly regulated prices, implying a high degree of certainty about the income. This means that we know the price per generated MWh for most wind farms in Denmark and Germany as well as the CfD wind farms in the UK. For our British ROC wind farms, we also know the subsidy per generated MWh which we will receive in addition to the market price. In 2019, the ROCs are expected to account for 62% of the total income from these wind farms. In 2019, the total publicly regulated prices and subsidies are expected to account for 78% of the income from our offshore wind farms in operation.

The part of our generation from offshore wind farms and power stations which is exposed to market prices has to a large extent been hedged for 2019. The same applies to our currency risks. The market value of financial hedging instruments and US power purchase agreements relating to our operations and divestment of assets deferred for recognition in business performance EBITDA in 2019 amounted to DKK -1.5 billion at the end of

2018. This effect is included in the outlook for 2019 (see note 1.6).

The most significant uncertainty surrounding the operating profit from existing activities in 2019 relates to the size of our power generation, which depends on wind conditions, the ramp-up of new wind farms and potential break-downs, and to a lesser extent our earnings from existing partnership agreements, timing in value adjustments related to gas at storages, heat and market trading activities. In addition, we are subject to litigation cases that potentially are concluded in 2019.

If a financially viable way forward is not found for our Greater Changhua projects, and we consequently decide not to progress with the projects during 2019, we have made certain commitments, which we will need to provide for.

#### Forward-looking statements

The annual report contains forward-looking statements which include projections of our short and long-term financial performance and targets as well as our financial policies. These statements are by nature uncertain and associated with risk. Many factors may cause the actual development to differ materially from our expectations.

These factors include, but are not limited to, changes in temperature, wind conditions and precipitation levels, the development in power, coal, carbon, gas, oil, currency and interest rate markets, changes in legislation, regulation or standards, the renegotiation of contracts, changes in the competitive environment in our markets and reliability of supply. Read more about the risks in the chapter 'Risk and risk management' and in note 7.



# Financial estimates and policies

## Financial estimates

In connection with our Capital Markets Day in November 2018, we introduced new strategic estimates towards 2025.

From 2019-2025, we expect total gross investments of approx DKK 200 billion. Investments in offshore wind farms are expected to constitute 75-85% of the investment programme. Onshore investments are expected to constitute 15-20%, while our combined investments in Bioenergy and Customer Solutions are expected to constitute 0-5%.

Towards 2023, we expect an average increase in operating profit (EBITDA) from offshore and onshore wind farms in operation (including O&M agreements and power purchase contracts) of 20% a year, reaching an estimated level of DKK 25-26 billion in 2023.

The largest share of Ørsted's operating profit (EBITDA) will still be generated by contract-based or regulated activities. We expect an average of around 90% of EBITDA in 2019-2025 to come from contract-based or regulated activities.

Our target is an average return on capital employed (ROCE) of around 10% for the Group in the 2019-2025 period. The reduction compared to our earlier target of 12-14% for 2018-2023 is a result of earnings from the partial divestment of Hornsea 1 in 2018 being outside the new period and the acquisitions of Lincoln

Clean Energy and Deepwater Wind, which will increase the capital expenditure in these years, but contribute to earnings with some delay.

## Financial policies

The Board of Directors recommends to the annual general meeting that dividends of DKK 9.75 per share be paid for 2018, equating an increase of 8% and a total of DKK 4.1 billion.

Supported by the expected increased cash flows from future offshore and onshore wind farms, we still intend to increase annual dividends by a high single-digit percentage compared to the previous year's dividends. This policy has been extended to cover the period until 2025 (previously 2020).

Our dividend policy and other expected capital allocations are subject to our commitment to our BBB+/Baa1 rating profile.

Financial estimates	Target	Year
Total CAPEX spend	DKK 200bn	2019-2025
Average return on capital employed (ROCE)	~10%	2019-2025
Average share of EBITDA from regulated and contracted activities	~90%	2019-2025
Average yearly increase in EBITDA from offshore and onshore wind farms in operation	~20%	2017-2023

Financial policies	
Rating	Min. Baa1/BBB+/BBB+ (Moody's/S&P/Fitch)
Capital structure	~30% (FFO/adjusted net debt)
Dividend policy	Ambition to increase the dividend paid by a high single-digit rate compared to the dividends for the previous year up until 2025



We have a ROCE target of 10% on average for the period 2019-2025. Read more about our key metrics, financial targets and policies in the presentation from our Capital Markets Day in November 2018 on [orsted.com/en/capital-markets-day](http://orsted.com/en/capital-markets-day)



Our current rating is in accordance with the policy.

# Our business

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# The green transformation

One third of all global carbon emissions come from the production of energy. To avoid an irreversible change in the global climate and ensure a habitable planet for future generations, we need to transform the world's energy systems from black to green.

The Sustainable Development Goals (SDGs) were adopted by all United Nations' member states in 2015. The goals cover the world's greatest challenges that must be addressed towards 2030 to improve conditions for people and the planet. The defining challenge of our generation, impacting all other SDGs, is to decelerate climate change – addressed in SDG 13.

The latest report by the UN's IPCC confirms that human activity has already caused temperatures on our planet to increase by approx 1.1°C above pre-industrial levels. Staying below 1.5°C warming necessitates a 45% reduction of emissions by 2030 (from 2010-levels) and 'net-zero' emissions by 2050. This requires an almost completely decarbonised power sector.

Carbon emissions originate from a range of sectors that all need to be decarbonised to effectively avoid severe climate change: electricity and heat generation (25%), other energy generation (10%), industry (21%), transportation (14%), land use (24%) and buildings (6%).

So far, global decarbonisation has mainly taken place in power generation, driven by the deployment of renewable energy at scale, reducing cost to a level which is now competitive to fossil fuels and nuclear power in many markets. This is good news for the continued decarbonisation of global energy production and for other sectors benefitting from increased electrification.

The continued deployment of renewable energy systems will create significant business opportunities for green energy solutions. From 2018 to 2030, Bloomberg New Energy Finance (BNEF) expects global investments in renewable energy to amount to approx USD 3.5 trillion.

## Living up to the Paris Agreement

The Paris Agreement, signed by 195 countries in 2016, is the most ambitious and comprehensive global political framework advancing SDG 13 on climate action. The agreement demonstrates the global commitment among a vast majority of the world's countries to combat climate change. According to the Paris Agreement, the countries commit to keeping the global temperature increase well below 2°C and to pursue efforts to limit the temperature increase even further to 1.5°C.

However, actions and decisions taken so far by the countries under the Paris Agreement currently put the world on a path towards

a global warming of more than 3°C. Hence, there is a need for more ambitious national action plans to channel investments towards a greener and more climate-resilient economy.

## Climate-related financial disclosures

Capital allocation decisions are one of the key levers for decarbonising the global economy. In 2017, the industry-led Task Force on Climate-Related Financial Disclosures (TCFD) launched its recommendations on how to improve the way climate-related risks and opportunities are factored into investment decisions. The initiative was launched by the G20 and illustrates how political and private sector leaders can unite in facilitating progress towards the climate-related SDGs.

The TCFD recommendations aim to improve understanding and disclosure of companies' climate-related risks and opportunities. These include physical factors, such as the sea level rising or storms that can affect assets, and transitional factors, such as carbon prices or technology shifts that can affect business strategies. By adopting the recommendations, companies signal that they are considering and acting on the impacts of climate change on their business. Ultimately, this will help fight climate change and drive the transition towards a sustainable, low-carbon economy.

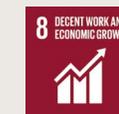
## Top three SDGs that we help promote



Adopted by all United Nations member states in 2015, the 17 Sustainable Development Goals (SDGs) constitute the most pressing economic, social and environmental challenges that the world needs to solve. In Ørsted, we focus particularly on advancing two of the SDGs, namely 7 (clean and affordable energy) and 13 (fighting climate change), and by consequence we also contribute significantly to SDG 8 (economic growth).



SDG 7 aims to ensure access to clean and affordable energy for all. Today, 81% of global energy consumption is based on fossil fuels. To achieve the goal, societies need to accelerate the transformation of our energy systems from black to green.



SDG 8 aims to promote sustainable economic growth and decent work for all. Converting the world's energy systems from black to green requires significant investments that create economic growth and employment.



SDG 13 calls for urgent action to fight climate change and its impacts. Approx 75% of global carbon emissions come from the use of fossil-based energy. This energy is used for power, heat, industrial processes and for transportation. The remaining 25% of global emissions come from agriculture, forestry and other land use. Creating a world on green energy will be necessary to limit climate change.

### Ørsted's response to the global climate challenge

Society's need to phase out fossil fuels and deploy renewable energy at scale has been the key driver in Ørsted's decade-long strategic transformation from black to green energy. From being one of the most coal-intensive utilities in Europe a decade ago, we are today among the global leaders in renewable energy, driven by a vision of creating a world that runs entirely on green energy.

We are keenly committed to being among the leading companies that help make societies progress towards the SDGs.

We contribute to the achievement of SDG 7 by deploying renewable energy at scale. Our strategic target is to increase the green energy share of our heat and power generation to 99% by 2025. By 2025, our installed offshore wind capacity alone will be able to power more than 30 million people.

Through our green energy investments, we also contribute to SDG 8. We have invested DKK 120 billion in deploying green energy in the past 10 years. Including our partners' share of Ørsted-led offshore wind build-outs, investments amount to DKK 165 billion in this period. In a lifecycle perspective, our and our partners' investments in deploying green offshore energy have created approx 180,000 jobs from the installed capacity and FID projects. Towards 2025, we plan to invest DKK 200 billion within renewables, adding significantly to further local economic growth and job creation, not least in our new markets.

The decarbonisation of our heat and power generation also helps contribute significantly to SDG 13. So far, we have reduced our carbon intensity by 72% from 462g CO<sub>2</sub>e/kWh in 2006 to 131g CO<sub>2</sub>e/kWh in 2018. In absolute terms, we have reduced our carbon emissions from 18 million tonnes in 2006 to 3.4 million tonnes in 2018. This has been realised by reducing our coal consumption by 81%, replacing it with sustainable biomass. Adding to this, we have contributed to avoiding more than 31 million tonnes of carbon emissions by deploying offshore wind farms.

As we deploy green energy and plan to phase out coal entirely by 2023, our carbon intensity will be reduced by 96% in 2023 compared to 2006. Our target puts us 27 years ahead of the 2°C trajectory projected by the International Energy Agency. This places our strategy well ahead of the Paris Agreement.

By pursuing our green vision and strategy, we are aligned with the TCFD recommendations to a large extent, and we decided to endorse the recommendations in 2018. The Board of Directors is directly or indirectly addressing climate-related risks and opportunities when assessing and deciding on new investments in assets or activities or on discontinuation of activities. In addition, climate-related risks are assessed as an integral part of our risk management processes. Still, however, the TCFD recommendations help us improve our understanding of climate-related financial risks and opportunities and disclose it in a useful way to our investors and other stakeholders. Our vision is aligned with investors who

are still more observant of climate-related risks as well as business opportunities offered to companies positioned to benefit from the important transformation from black to green.

Ørsted's response to the global climate challenge and our full range of sustainability programmes and SDG contributions are documented in our sustainability report.

### Corporate social responsibility reporting

Our sustainability strategy and results are reported on in our sustainability and ESG performance reports which constitute our annual Communication on Progress to the UN Global Compact. The reports highlight areas in which our expertise can make a real difference when it comes to promoting the UN's global goals for sustainable development. With these reports, we live up to the requirements for corporate social responsibility reporting set out in section 99a of the Danish Financial Statements Act as well as section 99b on the gender balance at management levels, etc.

See and download the reports here:  
[orsted.com/sustainability2018](https://orsted.com/sustainability2018)  
[orsted.com/ESGperformance2018](https://orsted.com/ESGperformance2018)

# Our strategic playing field

The renewable energy value chain is made up of various components. These range from generation of green power, through storage, transmission and distribution to the consumption side. Within this energy system, we have taken the following strategic positions.

Offshore wind is our core focus and has been since we decided to transform Ørsted to a green energy company. It is a rapidly growing market in the global energy system with attractive value-creating opportunities. We have been successful in leveraging our capabilities to become the leading global player in the offshore wind market, representing a 30% share of the total capacity in operation or under construction.

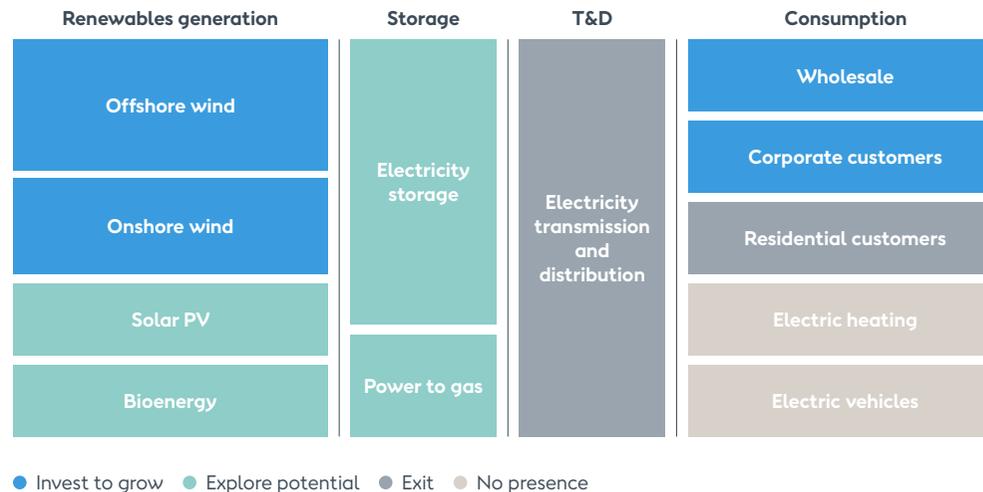
Onshore wind is our second growth platform where we now have a strong regional position, with the acquisition of Lincoln Clean Energy in the US. The US onshore market offers attractive value-creating opportunities and has significant long-term growth potential. The transaction provides technology and market diversification and enables us to serve the future energy demand through a multi-technology business platform. In addition, the US market will add to our scale and critical mass.

To secure market access, our strategic focus is on wholesale and corporate customers which account for the largest share of energy consumption. This position enables a route to market for our green energy generation.

Besides existing market positions, we explore the strategic and financial potential of additional green growth opportunities. Both solar PV, bioenergy and storage offer significant growth opportunities on the back of significant cost reductions.

Considering our rapidly growing global portfolio of renewable energy assets, we decided to initiate a structured divestment process of our Danish power distribution, residential customer and city light businesses in June 2018. Although the political support for continuing this structured process ceased on 13 January this year, we are continuing to investigate different options for exiting the businesses during 2019. In addition, following the political agreement in support of our IPO, we are conducting a structured divestment process of our offshore gas pipeline (including the Nybro Gas Treatment Plant) and oil pipeline (including the Frederica stabilisation plant). The transactions are expected to be signed in 2019.

Although we acknowledge electric heating and electric vehicles as key components in the renewable energy value chain, we have no actual plans to enter these markets.



# Our markets

## The market share of renewables is increasing

The renewable energy share of global power generation is increasing. Excluding hydro, it grew from less than 2% in 2000 to 12% in 2018. This share is expected to continue to grow and to reach 26% by 2030. With renewable energy representing 27% of Europe's total power generation in 2018 (excl. hydro), Europe is leading the transformation. By 2030, renewable energy is expected to account for more than half of the European power generation (55%).

The global installed capacity of renewables (excluding Middle East, Africa and hydro) was 1,153GW in 2018 and is forecast to more than triple by 2030, reaching 3,678GW according to Bloomberg New Energy Finance (BNEF).

In 2018, China and Europe were the regions with most renewable capacity installed, each accounting for approx 30%. The global installed capacity is expected to continue to grow 10% annually, with China and Europe remaining the major regions followed by North America.

The technologies that constituted the largest share of installed renewable capacity in the world in 2018 were onshore wind and solar photovoltaics (PV). Onshore wind accounted for almost half of the renewable capacity, 46%, while solar PV accounted for 41%. Both technologies will remain the primary sources, accounting for 88% of the total renewable

capacity. However, offshore wind is expected to grow the fastest towards 2030 at an annual rate of 16%.

A key driver behind the growth in renewable energy is the rapidly declining costs. Onshore wind has become the most cost-competitive energy technology due to its rapidly expanding global capacity, which has contributed to economies of scale, higher learning effects and more technological innovation. On the other hand, conventional non-renewable technologies, such as coal, are facing increased costs due to reduced capacity factors, as they face increasing competition from renewable technologies.

## Offshore wind

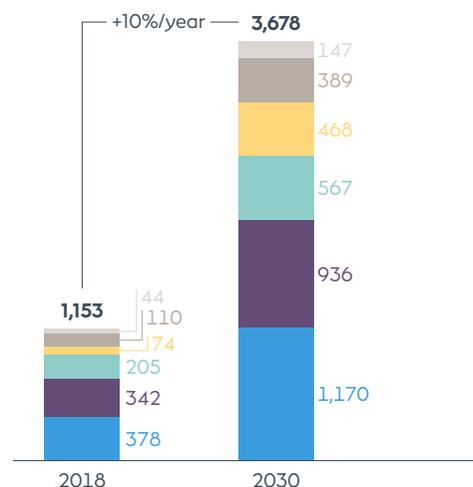
Installed global offshore wind capacity reached 21GW in 2018. In just three years, it has almost doubled, with an annual growth rate of 22%. According to BNEF, the offshore wind market is expected to continue this strong growth trajectory.

With an annual addition of more than 6GW, the capacity is expected to reach 34GW by 2020. Thereafter, it is expected to grow by 15% on average, bringing the global installed capacity to 132GW in 2030.

Currently, most offshore wind farms are located in Europe, which makes up approx 80%

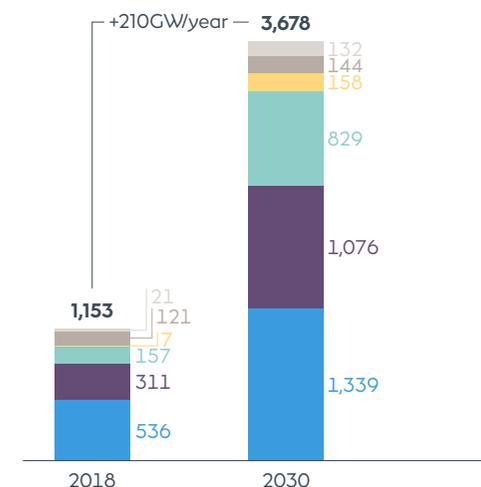
Global<sup>1</sup> renewable capacity by geography, GW installed

- China
- Europe
- North America
- India
- Rest of Asia Pacific
- Latin America



Global<sup>1</sup> renewable capacity by technology<sup>2</sup>, GW installed

- Onshore wind
- Large-scale PV
- Small-scale PV
- Storage
- Biomass
- Offshore wind



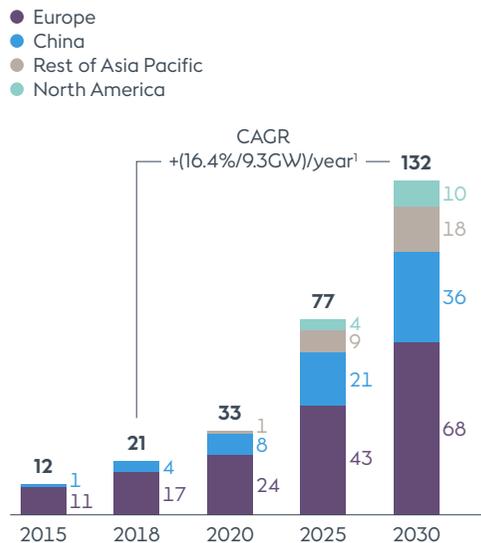
Source: Bloomberg New Energy Finance (BNEF), H1 2018 offshore wind market outlook. US includes the latest BNEF US offshore wind forecast from September 2018 (3GW higher than H1 2018 offshore wind market outlook from July 2018).

<sup>1</sup> Excludes Middle East and North Africa

<sup>2</sup> Excludes 'Other' (solar, thermal and geothermal), accounting for less than 2%

of the total market. Europe is expected to continue growing at strong double-digit rates towards 2030, thus upholding the position as the largest offshore wind market in the world with an expected share of the global installed capacity of 50% in 2030.

**Installed offshore wind capacity, GW**



Source: Bloomberg New Energy Finance (BNEF), 1H 2018 offshore wind market outlook. US includes the latest BNEF US offshore wind forecast from September 2018 (3GW higher than the H1 2018 offshore wind market outlook from July 2018)

<sup>1)</sup> Global CAGR

However, new markets in Asia Pacific (APAC) and North America are expected to follow with booming growth. Asia Pacific, excluding China, is expected to grow at an average annual growth rate of 58% towards 2030. North America is also expected to grow significantly after 2020, with installed capacity expected to increase from 30MW in 2018 to 10GW by 2030 according to BNEF. This expectation does not fully take the recent 9GW by 2035 ambition from the New York Governor into account.

The strong growth in offshore wind can be attributed to the significant reduction in costs. In 2018, the levelised cost of electricity for newly commissioned generation capacity in North-western Europe was reduced by approx 45% compared to the level four years earlier, and it is expected to decrease further.

Newly built offshore wind has become more competitive than conventional generation technologies using gas and coal. The continuous reductions in offshore wind costs are evident in recent auctions in Germany and the Netherlands where some developers bid for zero subsidy projects.

**Onshore renewables**

**Onshore wind**

The global onshore wind market, excluding Middle East and Africa, shows strong growth as the installed capacity reached 536GW in 2018, up from 395GW in 2015, growing at 11% annually. The global market is forecasted to almost triple by 2030.

Among key markets, Asia Pacific represents 43% of the global onshore capacity, driven by China. Europe reached 164GW installed capacity in 2018, representing 31% of the market. Another key market is North America with 121GW, representing 23% of the global capacity.

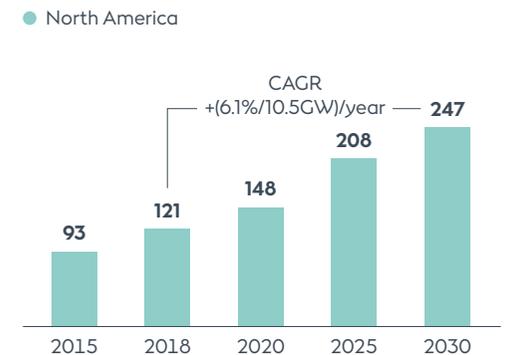
Onshore wind is the most cost-competitive renewable energy resource, with the lowest levelised cost of electricity in the US in 2018. North America is expected to continue installing onshore wind with an annual average growth rate of 11% towards 2020 and to double its capacity by 2030. In the short term, the market will continue to be driven by projects that have secured production tax credits (PTCs), but once all PTC-backed projects have been built in 2024, the low cost of onshore wind will be the main driver for further capacity build-outs.

**Solar photovoltaic (PV)**

Among the new renewable technologies, solar PV witnessed the fastest growth, as the global capacity grew by 31% from 2015 to 2018. The global capacity, excluding Middle East and Africa, reached 468GW in 2018. This strong growth is expected to continue towards 2030, reaching 1,905GW installed capacity at an annual growth rate of 12%. Large-scale PV, with a power capacity greater than 1MW, represented 66% of the total capacity in 2018, while small-scale PV, typically for residential use with a 5kW power capacity, is expected to catch up towards 2030, reaching a share of 43% of cumulative solar PV installations.

North America reached 65GW in 2018 and was one of the fastest growing regions. It is expected to continue this growth trajectory with an

**Installed onshore wind capacity, GW**



Source: Bloomberg New Energy Finance (BNEF), New Energy outlook 2018

annual growth rate of 23% towards 2020 and is to quadruple its installed capacity, reaching 261GW by 2030.

Towards 2023, the levelised cost of electricity for solar PV is expected to be cheapest in North America, barely overtaking onshore wind. Key drivers supporting cost reductions are scale, material savings due to less waste, and more incentives for technological innovations.

**Energy storage**

As the share of intermittent renewable sources is increasing in the global energy mix, the need for more dynamic dispatchable units to store energy and support rapid load-shifting

is also growing. Battery storage solutions can balance electricity supply and demand and may also provide ancillary services.

Global energy storage, excluding Middle East and Africa, is expected to rise significantly over the next decade. In 2018, it had grown by 58% from 2015, reaching 6GW, and it is expected to continue this strong growth path to reach 158GW by 2030.

Today, most of the capacity (73%) is developed for large-scale and only 27% for small-scale storage. Large-scale storage systems (+1MW) primarily provide services directly to the grid, while small-scale storage systems typically provide end-customer services.

A key driver for the strong outlook is the decreasing cost of lithium-ion battery packs. Between 2010 and 2017, prices fell by 80% and going forward, BNEF forecasts further cost reductions, supported by economies of scale from increasing battery manufacturing capacity.

## Bioenergy

Global waste volumes are rapidly increasing. In 2004, the municipal solid waste (MSW) generated globally amounted to 680 million tonnes per year. By 2016, volume had tripled to 2.0 billion tonnes per year, and it is expected to continue growing. In 2016, only 17% of MSW was recycled, while the majority was sent to landfilling, which can potentially have significant negative effects on the environment. Regulation is attempting to boost the recycling share. The EU has set targets to

increase the recycling share of MSW to 65% by 2030 and reduce landfilling to less than 10%.

Alternatives to landfilling, such as incineration and full-source separation, contribute to high carbon emission levels and only marginally to recycling. Hence, it is increasingly important to find alternative solutions.

In addition to MSW, industries produce waste from their production activities, e.g. organic residues and by-products, that need to be handled. In 2014, bio-based waste from industrial processes and agriculture, forestry, fishing and water treatment in the EU accounted for 157 million tonnes per year. For companies that depend on natural gas and are looking for greener processes, the conversion of organic waste into bio-methane is an appealing solution.

## Customer Solutions

In 2018, the downstream electricity market size in Europe was 3.3PWh. Of this, the business segment accounted for the largest share with 60-70%, while residential customers accounted for 30-40%.

In 2018, 42% of the European power demand was met by renewable energy (incl. hydro), and the share is forecasted to reach 69% by 2030. Considering the growth in renewables, the consequent increase in intermittent power generation will lead to continuous discrepancies between forecasted and actual production. There is value in efficiently managing this gap for wholesale customers by providing balancing services.

With subsidies for renewable power generation trending lower and eventually reaching zero, it becomes increasingly important to find ways to manage the increasing merchant power price exposure. This entails development of new products and solutions for the wholesale and retail markets.

In the business segment, many corporate customers demand greener and more innovative energy solutions that are also sustainable and cost efficient. To address this demand, the market for corporate power purchase agreements (cPPA) has experienced considerable growth. Despite remaining a smaller share of the total downstream power market, the global market size for cPPAs is expected to reach 28GW in 2018, up from only 9GW in 2015. As customers pursue sustainable and greener solutions, 74% of the cPPAs are sourced from wind and 24% from solar energy.

# Our strategy and capital allocation

## Strategic direction and growth

Our strategic shift from black to green energy is reflected in our capital base. In 2007, only 16% of our total capital employed was invested in renewables. In 2018, the share of renewables had increased to 87%.

In addition, our strategic transformation to become a green energy company has positioned Ørsted as one of the largest commercial renewable energy companies in the world, measured by the capacity of renewable energy that is installed and under construction. By the end of 2018, we had 12GW of renewable energy capacity installed, under construction, or where a FID has been taken, with the vast majority being in offshore wind. In addition, we have been awarded or contracted projects with a capacity of 4.8GW where investment decisions are yet to be taken. Furthermore, we have a strong pipeline of projects under development.

Towards 2030, we expect that the global market for renewable energy will more than triple to 3,600GW. As one of the leading companies in renewable energy, Ørsted is strongly positioned to take part in this growth.

We have increased our ambition for offshore wind from a capacity of 11-12GW to a capacity of 15GW by 2025. By 2030, our strategic ambition is to achieve an installed renewable capacity of more than 30GW, provided that the development creates value for our shareholders.

## Strategic growth platform

	Europe	Americas	Asia
<b>Offshore</b> — Wind — Transmission — Storage	<b>Global leader in offshore wind</b> — Strategic core — Growth and value creation — Scale — Keep pioneering and innovating		
<b>Onshore</b> — Wind — Solar PV — Storage		<b>Leading US renewable company</b> — Strategic diversification — Scale — Technology integration — New value-creating growth platform	
<b>Bioenergy</b> — Biomass — Renescience — Biogas	— Explore growth and value creation potential of Bioenergy		
<b>Customer Solutions</b>	— Route to market for Ørsted's product portfolio — Risk management — Incremental value creation		

We have a strong growth platform to support our strategic ambition, comprising our four business units: Offshore, Onshore, Bioenergy and Customer Solutions.

Our Offshore business unit includes offshore wind, transmission and storage. We strive to maintain our global market leadership in offshore wind and will continue to expand

in Europe, North America, and Asia. We will keep pioneering and innovating the industry. Offshore wind will remain the strategic core of our company.

The second growth avenue is our Onshore business unit, where the aim is to create a leading North American company within renewable energy, with a main emphasis on

onshore wind, but also including solar energy and energy storage.

Bioenergy includes our biomass-converted combined heat and power plants in Denmark and our waste-to-energy and biogas technologies. We will continue to explore the growth and value creation potential within bioenergy.

Customer Solutions provides route-to-market services for our product portfolio as it brings our power, gas and green certificates to market, while also managing the risk profile of our portfolio.

Our key milestones for 2019 are shown in the figure to the right.

Towards 2025, we plan to invest substantially in green energy, thereby contributing to the conversion of the global energy system and creating value for our shareholders and the communities within our footprint.

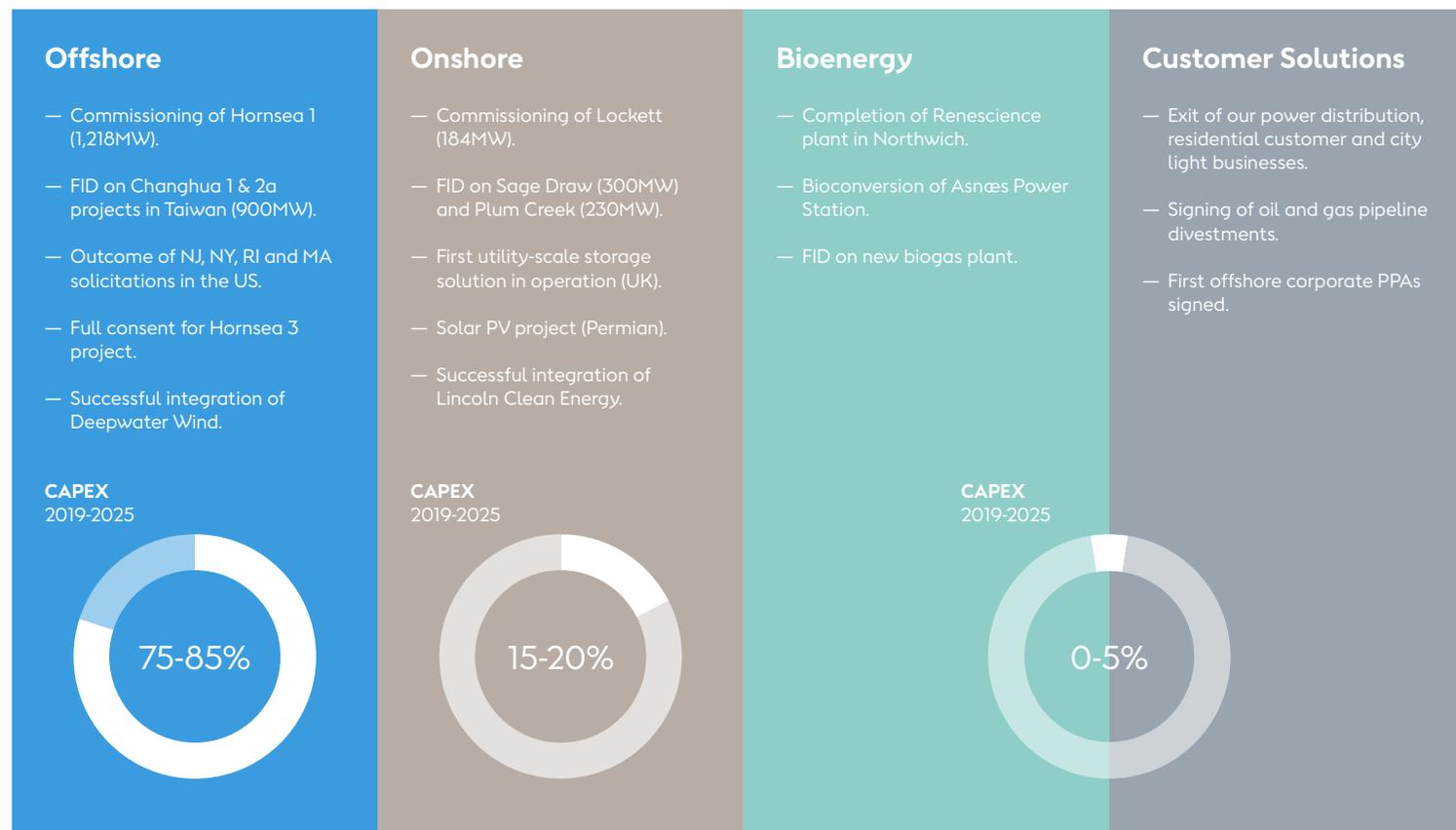
**Capital allocation**

Subject to continued value creation, we expect to invest DKK 200 billion in the period 2019-2025 to continue our growth towards an installed renewables capacity of +30GW by 2030. Our capital will be allocated to the best risk-return project opportunities in our portfolio. We have already committed gross investments of DKK 40-45 billion in the period, assuming no further partial divestments of offshore wind farms in Europe after the recent Hornsea 1 farm-down. Additional investments will primarily be allocated to our awarded 3.9GW offshore wind projects, our offshore pipeline as well as our contracted 0.9GW onshore wind and solar projects and our onshore pipeline.

In the period discussed, we expect to allocate 75-85% of our gross investments to Offshore, 15-20% to Onshore, and 0-5% to Bioenergy and Customer Solutions together.

Based on the above anticipated build-out of offshore and onshore wind, including the

**Key milestones for 2019 for our four business units**



acquisitions of Lincoln Clean Energy and Deepwater Wind, we expect our current financial headroom, relative to our rating commitment, to be deployed within a few years. Thus, our leverage, based on market value, is expected to increase from 8% at the end of 2018 to 25% in the early 2020's.

We expect our average return on capital employed (ROCE) for the years 2019-2025 to be around 10%.

In addition to our ambitious investment plan, we aim at maintaining a high single-digit annual growth in dividends until 2025.

**Enablers of the strategy**

To support our ambitious strategy and enable our businesses to perform effectively and profitably, we continue to invest significantly in talent, digitalisation, operational excellence and innovation.

## Talent

As one of the global leaders in renewable energy, Ørsted offers a strong environment for professional growth and career development. With our global growth ambition, we will need gifted, ambitious and world-class talent to drive our business forward. Our aim is to hire the best people and to offer unparalleled opportunities for professional development through attractive learning opportunities for all employees and through dynamic and mobile careers. To support our ambition, we are strengthening our employer branding and talent acquisition efforts, our people development and performance management approaches and our talent development activities. As we expand our global business, we will also increase workforce diversity to create a truly international culture. To drive more structured talent acquisition, development and deployment of high potentials, we are establishing cross-business 'talent pipeline forums' led by senior business executives.

## Digitalisation

Our digital strategy focuses on keeping us at the forefront of our industry. The key focus areas lie within offshore wind power operations, customer solutions, market trading and risk management, combined heat and power plant operations and shared services. Across these areas, we have defined financial targets and established rigorous processes for delivering and tracking value. The key drivers for increased digital value creation are increasing deployment of advanced analytics and artificial intelligence, strengthening interfaces and mobility by augmenting our employees' or customers' experiences through human-machine interfaces, as well as a raised

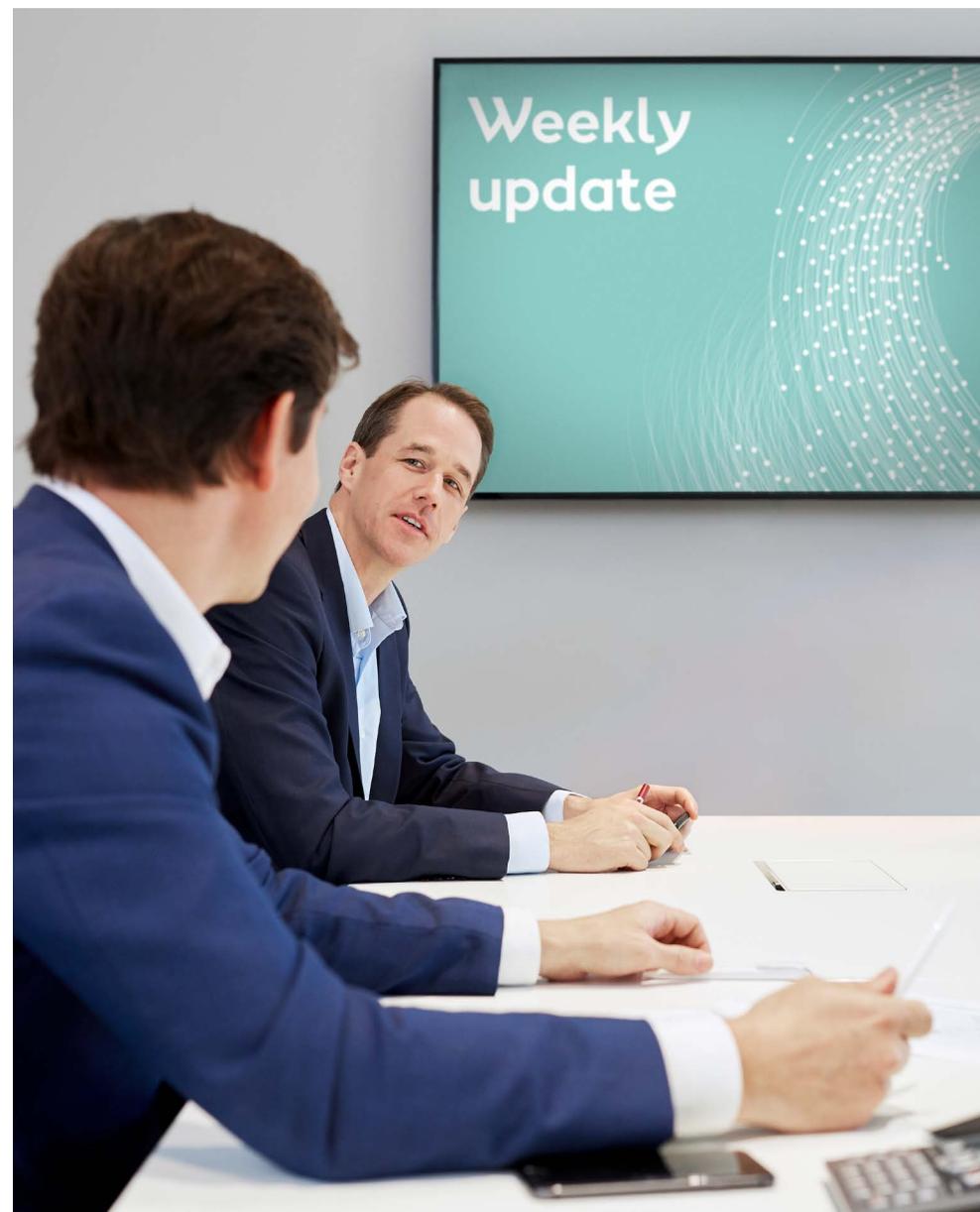
level of automation. In 2018, we significantly scaled up our digitalisation efforts, increasing external recruitment and further leveraging our in-house capabilities.

## Operational effectiveness

We continuously drive asset productivity, cost efficiency and quality across all major operational areas. In particular, we run operational excellence programmes within O&M and EPC in offshore wind, our CHP plants, shared services and our sales operations. Across our businesses, all operational excellence programmes are driven rigorously, based on clear target setting, well-defined initiatives and clear follow-up processes for delivering and tracking value creation.

## Innovation

To maintain our competitive edge and stay at the forefront of a rapidly evolving renewable energy industry, innovation is a key priority. Across our business units, we invest significantly in innovating and strengthening our existing product offerings and in bringing new solutions into our portfolio. To reinforce our strategic radar for emerging technologies and business models, we established Ørsted Ventures in Silicon Valley, California, in 2017. In 2018, we expanded our venture engagements to also include our European markets. To nurture internal innovation, we run cross-organisational Innovation Games, where internal teams from across the company present innovative business ideas aimed at promoting growth and strengthening our competitive edge.



# Our business model

## Key resources

## Core activities

## Value created

### Financial capital

We finance our investments through cash flows from operations, debt and divestment of ownership interests.

### Energy assets

We invest in scalable, innovative green technologies and solutions.

### Natural resources

We rely on natural resources, such as construction materials, biomass, as well as locations with attractive wind speeds and seabed conditions.

### Human resources

We rely on a highly skilled workforce to operate our business.

### Innovative culture

We continuously innovate our energy solutions to drive competitiveness.

### Stakeholder engagement

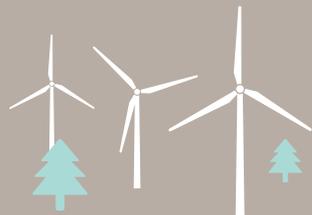
We depend on constructive relations with our key stakeholders to ensure supportive framework conditions for our business.



Capital employed 79%

### Offshore

- Develop, build, own and operate offshore wind farms (three wind farms are under construction).
- Own 26 offshore wind farms of which we operate 22.
- Development projects in progress in the UK, Germany, Taiwan and the US.
- Additional new markets being developed in Asia and Europe.



Capital employed 6%

### Onshore

- Develop, build, own and operate onshore wind farms.
- Three wind farms are in operation, one wind farm is under construction, and two wind farms are under development.
- Explore opportunities within solar PV and storage.



Capital employed 2%

### Bioenergy

- Convert our CHP plants to biomass.
- Own and operate ten CHP plants in Denmark.
- Enter into long-term contracts with our heat customers and sell power to the market.
- Explore opportunities within biogas and waste recycling.



### Customer Solutions

- Route-to-market services for our own and partners' power, gas and certificates.
- Manage the Group's energy portfolio risks.

Capital employed 13% of which assets we plan to exit 10%

### Society

We address profound societal challenges by developing green, independent and economically viable energy systems that reduce greenhouse gas emissions and stimulate local growth and job creation.

### Customers

We fulfil our customers' energy needs through green, innovative and efficient energy solutions.

### Employees

We are committed to a sustainable working life and keep a constant focus on being a great and safe place to work with motivated and satisfied employees.

### Shareholder return

We create value for our shareholders in the form of competitive total returns.

# Strategic targets

## 1. EBITDA from operating wind farms, %

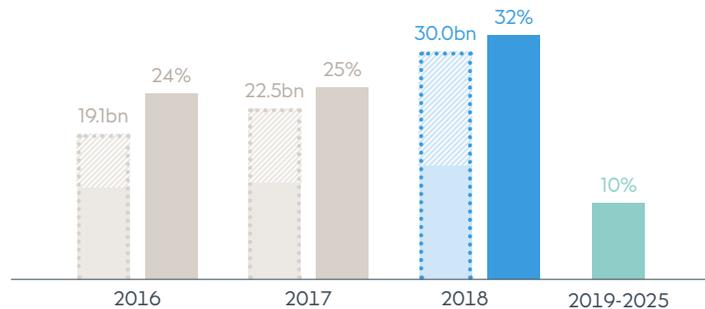
EBITDA from our wind farms in operation is on average expected to increase by 20% per year from 2017 to 2023.



## 2. ROCE, %

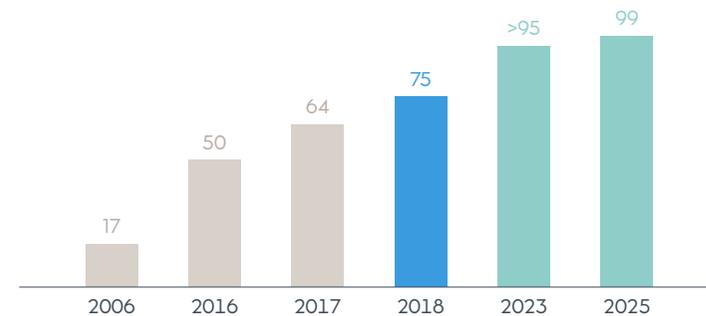
Our target is an average return on capital employed (ROCE) of around 10% for the Group in the 2019-2025 period. EBITDA in 2016-2018 has been positively impacted by significant profits from new partnership agreements, particularly divestment gains, which are not expected to be repeated going forward.

● ROCE ● EBITDA ▨ of which EBITDA from new partnerships



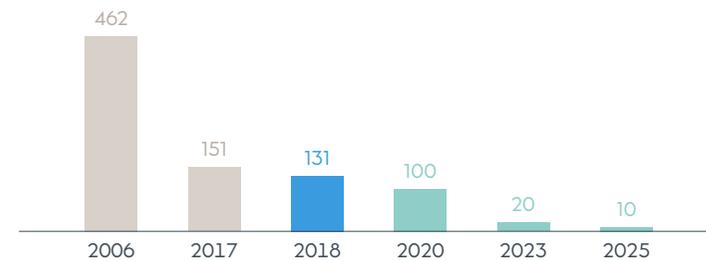
## 3. Green share of generation, %

In 2018, we increased the green share of generation by 11%-points compared to the previous year. We are on track to meet our objective of exceeding 95% by 2023 and reaching 99% by 2025.



## 4. Carbon emissions, g CO<sub>2</sub>e/kWh

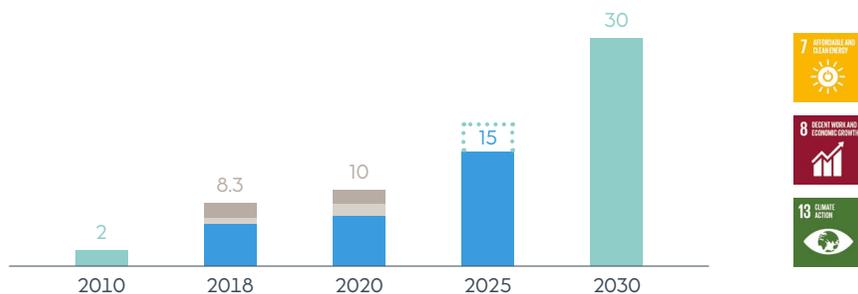
The conversion of our heat and power stations to sustainable biomass, together with our build-out of offshore wind, has reduced our carbon emissions intensity by 72% since 2006. We are well on track to meet our target of an emission intensity of no more than 20g CO<sub>2</sub>e per kWh in 2023 and 10g CO<sub>2</sub>e in 2025.



## 5. Installed renewable capacity, GW

In 2018, we defined an ambition of installing more than 30GW of green capacity by 2030 through offshore wind, onshore wind, bioenergy and solar PV technologies. In addition, our ambition is to have installed 15GW of offshore wind by 2025, up from our previous target of 11-12GW. The upward revision is based on strong progress since we set the ambition in 2016, with 5.6GW installed by 2018, 3.4GW under construction towards 2022 and 3.9GW of capacity awarded.

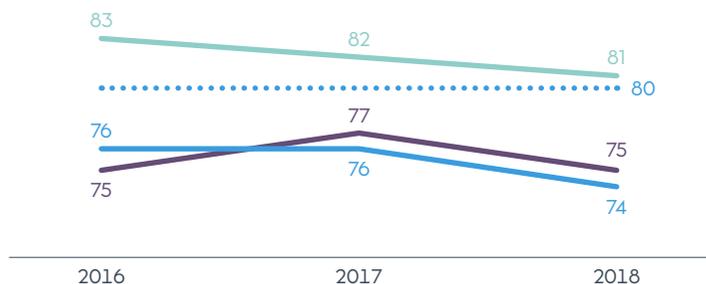
● Offshore wind ● Onshore wind ● Bioenergy ● Other renewables ● Total renewables



## 6. Customer satisfaction, scale 1-100

Our ambition is to deliver a market-leading customer experience for our corporate customers, which we continuously strive to do. Our target is a customer satisfaction of at least 80 by 2020.

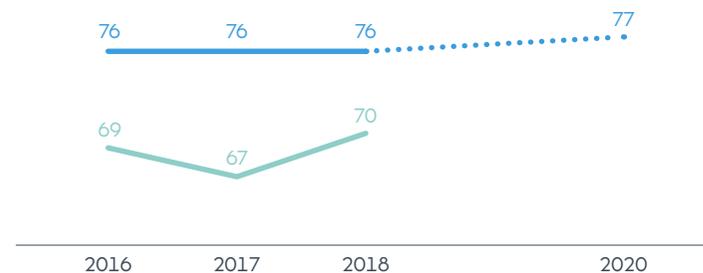
— B2C — B2B — Distribution ●●● Target 2020



## 7. Employee satisfaction, scale 1-100

We believe that well-being and positive results go hand in hand. Therefore, we are continuously working to maintain and increase employee satisfaction. The employee satisfaction in Ørsted is above comparable companies.

— Ørsted — Ennova benchmark



## 8. Safety, TRIR

From 2018, we introduced a new safety target – total recordable injury rate (TRIR). In 2018, TRIR significantly improved and outperformed the target of 5.7 we had set for 2020. We have therefore raised our ambition and set a target of reducing TRIR to 3.3 by 2025. In 2019, we expect a TRIR of 5.2. The increase compared to 2018 is due to future activities in new markets with immature offshore wind supply chains.



# Our global footprint

## USA

-  Amazon (253MW)  
Tahoka (300MW)  
Willow Springs (250MW)
-  Lockett (184MW)
-  Plum Creek (230MW)  
Sage Draw (300MW)
-  Block Island (30MW)
-  Coastal Virginia Offshore Wind (12MW) (EPC contract)
-  South Fork (130MW)  
Skipjack (120MW)  
Revolution Wind (704MW)
-  Bay State Wind (up to 2,000MW)  
Garden State (up to 800MW)  
Ocean Wind (up to 3,500MW)  
Revolution Wind (up to 1,200MW)
-  Oak solar
-  Permian solar

## Sweden

## Denmark

-  Anholt (400MW)  
Horns Rev 1 (160MW)  
Horns Rev 2 (209MW)  
Nysted (166MW)

-  Asnæs  
Avedøre 1 & 2  
Esbjerg  
H.C. Ørsted  
Herning  
Kalundborg Bioenergi  
Kyndby  
Skærbæk  
Studstrup  
Svanemølle

## UK

-  Barrow (90MW)  
Burbo Bank (90MW)  
Burbo Bank Extension (258MW)  
Gunfleet Sands 1 & 2 (173MW)  
Lincs (270MW)  
London Array 1 (630MW)  
Race Bank (573MW)  
Walney 1 & 2 (367MW)  
Walney Extension (659MW)  
Westermost Rough (210MW)  
West of Duddon Sands (389MW)

-  Hornsea 1 (1,218MW)  
Hornsea 2 (1,386MW)

-  Hornsea 3 (up to 2,400MW)  
Hornsea 4 (up to 1,200MW)  
Race Bank Extension (573MW)

-  Rescience Northwich

## Germany and the Netherlands

-  Gode Wind 1 (345MW)  
Gode Wind 2 (263MW)  
Borkum Riffgrund 1 (312MW)  
Borkum Riffgrund 2 (465MW)

-  Borssele 1 & 2 (752MW)

-  Borkum Riffgrund West 1 (420MW)  
Borkum Riffgrund West 2 (240MW)  
Gode Wind 3 (110MW)  
Gode Wind 4 (132MW)  
OWP West (240MW)

## Taiwan

-  Formosa 1 (128MW)
-  Greater Changhua Projects (1,820MW)

### Symbols

    In operation

   Under construction

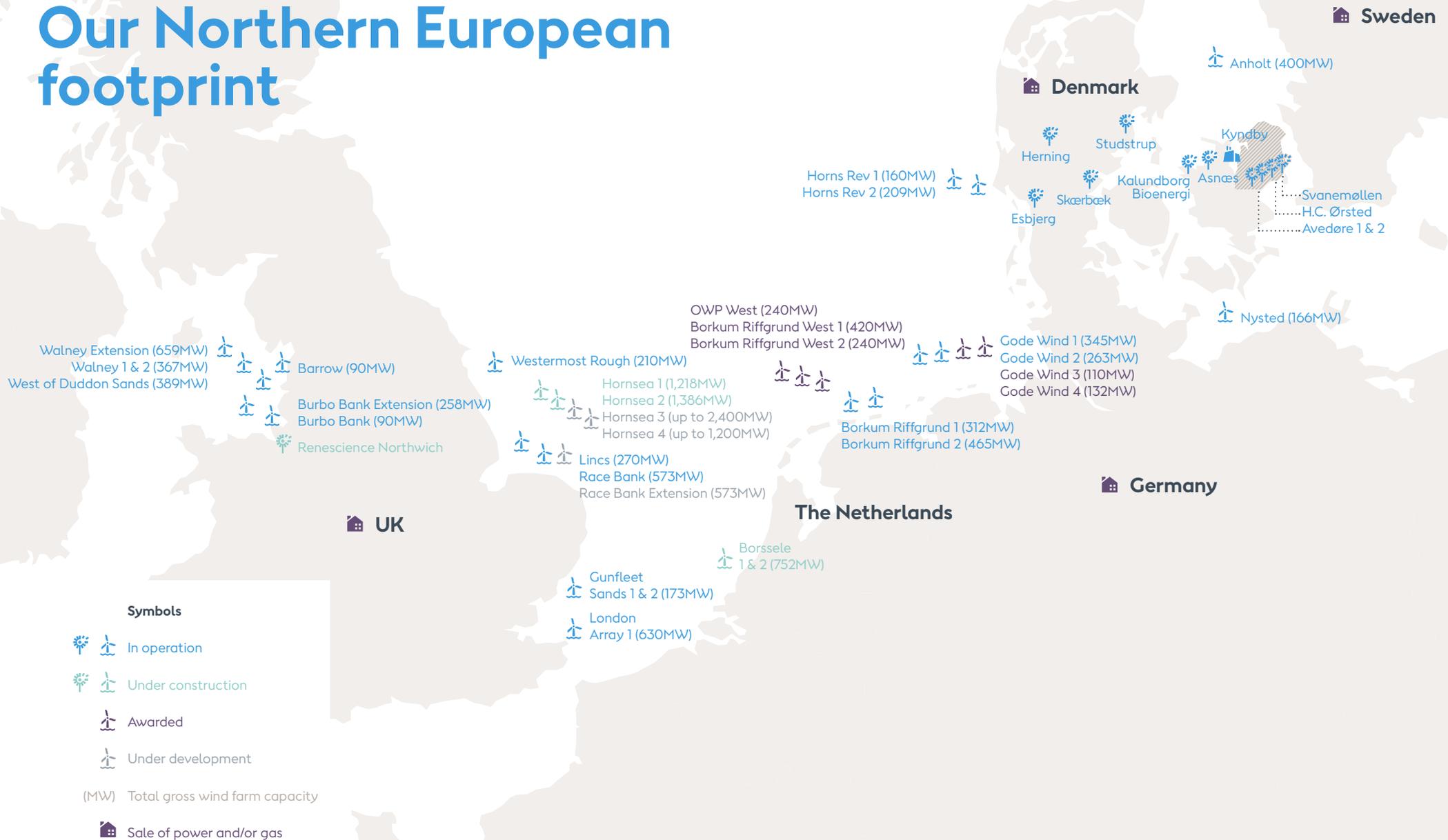
 Awarded

   Under development

(MW) Total gross wind farm capacity

 Sale of power and/or gas

# Our Northern European footprint



# Results

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# Results

## Assets held for sale

We have classified our power distribution, residential customer and city light businesses as assets held for sale at the end of 2018, as we expect to exit these activities within the next 12 months. Contrary to the classification of our upstream oil and gas activities as assets held for sale in 2016, these activities are not presented as discontinued operations due to their more limited relative size for the Group. This means that the results and cash flows are still presented together with the rest of the Group. EBITDA from the power distribution, residential customer and city light businesses amounted to DKK 1.1 billion in 2018 (4% of total EBITDA), while capital employed amounted to DKK 8.3 billion (10% of total capital employed).

## Financial results

### Revenue

Power generation from offshore wind farms increased by 18% to 10.0TWh in 2018 due to the ramp-up of generation from Race Bank, Walney Extension and Borkum Riffgrund 2. Power generation from onshore wind farms amounted to 0.6TWh in 2018. Thermal power generation was 18% lower than in 2017, driven by the divestment of our Dutch power plant in June, and amounted to 6.7TWh. Power generation from our Danish CHP plants increased by 4%, while heat generation decreased by 2% to 8.8TWh in 2018. Offshore and onshore wind farms accounted for 62% of our total power generation, an increase of 11 percentage points compared to last year. The renewable energy share of our total heat and power generation accounted for 75% of total generation in 2018 compared with 64% in 2017.

Revenue amounted to DKK 76.9 billion. The increase of 29% relative to 2017 was primarily due to higher revenue from construction agreements due to high activity on construction of offshore wind farms for partners and divestment of transmission assets, higher revenue from wind farms in operation and higher gas and power prices in 2018.

### EBITDA

Operating profit (EBITDA) totalled DKK 30.0 billion compared with DKK 22.5 billion in 2017. Earnings from Offshore increased by 35% to

## Business performance vs. IFRS

Ørsted uses business performance as an alternative to the results prepared in accordance with IFRS. Business performance represents the underlying financial performance of the Group in the reporting period as results are adjusted for temporary fluctuations in the market value of contracts (including hedging transactions) relating to other periods. The difference between the two principles will be eliminated as the contracts expire. Apart from this, there is no difference between business performance and the IFRS results.

EBITDA calculated in accordance with IFRS amounted to DKK 28.5 billion in 2018 against DKK 22.6 billion in 2017. Calculated in accordance with the business performance principle, EBITDA was DKK 30.0 billion and DKK 22.5 billion, respectively. The difference between the two principles was thus DKK 1.5 billion in 2018 compared with DKK 0.1 billion in 2017 and is specified below.

In the presentation of the results according to IFRS, Ørsted does not apply the provisions on hedge accounting of commodities and related currency exposures. The market value adjustments of these are continuously recognised in the income statement, which means that the IFRS results for the individual years are not comparable. IFRS results do not reflect the commercial risk hedging, according to which the business units and the Group are managed and evaluated. In the management's review, comments are based on the business performance principles only, unless otherwise specified. Reference is also made to note 1.6.

Business performance vs. IFRS, DKKm	2018	2017
<b>EBITDA – business performance</b>	<b>30,029</b>	<b>22,519</b>
Market value adjustments for the year of financial and physical hedging contracts relating to a future period	(1,734)	(138)
Reversal of deferred gains (losses) relating to hedging contracts from previous periods, where the hedged production or trade is recognised in business performance EBITDA in this period	196	193
<b>EBITDA – IFRS</b>	<b>28,491</b>	<b>22,574</b>

DKK 27.8 billion, of which the farm-down of Hornsea 1 represented more than half (DKK 15.1 billion). Higher power generation due to ramp-up and commissioning of new offshore wind farms contributed to a 29% increase in earnings from offshore wind farms in operation.

Earnings from Onshore contributed marginally, while Bioenergy earnings more than doubled and amounted to DKK 0.4 billion due to higher spreads as well as full-year impact from the bioconversion of Skærbæk Power Station, which was inaugurated in Q4 2017.

Earnings from Customer Solutions were almost flat year-on-year and amounted to DKK 2.0 billion.

**EBIT**

EBIT increased by DKK 8.4 billion to DKK 24.7 billion in 2018, primarily as a result of the higher EBITDA.

Depreciation increased by DKK 0.2 billion to DKK 6.0 billion in 2018. The increase was due to a higher number of wind farms in operation.

In connection with the classification of the power distribution activities as assets held for sale, we have reversed a previous impairment loss of DKK 0.6 billion.

**Gain (loss) on divestment of enterprises**

Gain (loss) on divestment of enterprises primarily concerned the divestment of our 50% share of the Dutch gas-fired power plant Enecogen in 2018.

**Financial income and expenses**

Net financial income and expenses amounted to DKK -1.3 billion and were DKK 0.2 billion higher than last year. The increase was mainly due to a lower level of capitalised interests, mainly related to Walney Extension and Race Bank, due to the progress of the projects.

**Tax and tax rate**

Tax on profit for the year amounted to DKK 4.0 billion, which was DKK 2.3 billion higher than in 2017. The effective tax rate was 17% against 12% in 2017. In both years, the tax rate was affected by non-taxable divestment gains. Gain on the 50% farm-down of Hornsea 1 impacted the effective tax rate in 2018, while gains on the farm-downs of Walney Extension, Borkum Riffgrund 2 and Race Bank impacted the tax rate in 2017.

**Profit for the year from continuing operations**

Profit for the year from continuing operations totalled DKK 19.5 billion, DKK 6.2 billion higher than in 2017. The increase was primarily due to the higher EBIT, partly offset by higher net finance costs and higher taxes.

**EBITDA**

- Offshore
- Onshore
- Bioenergy
- Customer Solutions



**EBITDA, DKKbn**

- EBITDA, excl. new partnerships
- EBITDA, new partnerships



EBITDA, excluding new partnerships increased by 18%.

Financial results, DKKm	2018	2017	%
Revenue	76,946	59,504	29%
EBITDA	30,029	22,519	33%
Depreciation	(5,978)	(5,739)	4%
Impairment reversals (losses)	603	(545)	n.a.
Operating profit (loss) (EBIT)	24,654	16,235	52%
Gain (loss) on divestment of enterprises	127	(139)	n.a.
Profit (loss) from associates and JVs	1	(10)	n.a.
Net financial income and expenses	(1,278)	(1,042)	23%
Tax	(4,018)	(1,765)	128%
Tax rate	17%	12%	5%p
Profit for the year from continuing operations	19,486	13,279	47%
Profit for the year from discontinued operations	10	6,920	(100%)
Profit (loss) for the year	19,496	20,199	(3%)



In 2018, regulated and quasi-regulated activities and contracted activities accounted for 31% and 64% of our EBITDA, respectively, whereas market exposed activities accounted for 5%.

Read more about profit for the year from discontinued operations in note 3.7.

## Cash flows and net debt

### Cash flows from operating activities

Cash flows from operating activities totalled DKK 10.3 billion in 2018 compared with DKK 1.0 billion in 2017. The increase of DKK 9.3 billion was due to the higher EBITDA (excluding gains from divestments which are not recognised in cash flows from operating activities), settlement of intra-group hedges related to the now divested oil and gas business having a negative effect in 2017, a lower increase of funds tied up in work in progress and other working capital as well as a positive contribution from tax equity partners related to the Tahoka onshore wind farm.

This was partly offset by higher net interest, etc., due to a lower level of capitalised interests, lower accrued interest and exchange rate losses as well as higher paid taxes.

In 2018, funds tied up in work in progress increased by DKK 2.3 billion and primarily related to the construction of Borkum Riffgrund 2 and Walney Extension as well as offshore transmission assets at Hornsea 1 and Hornsea 2 in the UK. This was partly offset by milestone payments from partners related to the construction of Race Bank, Borkum Riffgrund 2, Walney Extension and Hornsea 1 as well as the divestment of the Burbo Bank Extension transmission assets.

Less funds were tied up in other working capital due to funds being tied up in clearing accounts in 2017 and less funds tied up in receivables in 2018. This was partly offset by the repayment of a VAT export credit loan to the Danish tax authorities in 2018.

### Investments and divestments

Gross investments amounted to DKK 24.5 billion against DKK 17.7 billion in 2017. The main investments in 2018 were:

- offshore wind farms (DKK 11.1 billion), including Hornsea 1 and Walney Extension in the UK, Borkum Riffgrund 2 in Germany, Borssele 1 & 2 in the Netherlands and early investments in the US to qualify for future tax credits
- onshore wind farms (DKK 1.1 billion), including Lockett and Tahoka in the US
- the acquisitions of Deepwater Wind (DKK 4.0 billion) and Lincoln Clean Energy (DKK 5.6 billion)
- power stations (DKK 1.4 billion), mainly the bioconversion of Asnæs Power Station.

Cash flow from divestments in 2018 related to the 50% farm-down of Hornsea 1, receipt of deferred proceeds from the farm-down of 50% of Walney Extension in 2017 and proceeds from the divestment of our 50% ownership share in Enecogen.

### Interest-bearing net debt

Interest-bearing net debt totalled DKK -2.2 billion (net cash position) at the end of 2018. The free cash flow of DKK 5.8 billion more than offset the payment of dividends to shareholders (DKK 3.8 billion) and non-controlling interests (DKK 0.4 billion) and interests on hybrid capital (DKK 0.5 billion).

Cash flows and net debt, DKKm	2018	2017	%
Cash flows from operating activities	10,343	1,023	911%
EBITDA	30,029	22,519	33%
Financial instruments	369	(528)	n.a.
Change in provisions	(278)	98	n.a.
Reversal of gain (loss) on sale of assets	(14,995)	(10,835)	38%
Other items	203	297	(32%)
Interest paid and similar items, net	(700)	36	n.a.
Paid tax	(3,367)	(2,660)	27%
Change in work in progress	(2,326)	(3,674)	(37%)
Change in tax equity liabilities	1,835	-	n.a.
Change in other working capital	(427)	(4,230)	(90%)
Gross investments	(24,481)	(17,744)	38%
Divestments	19,950	16,982	17%
Free cash flow	5,812	261	n.a.
Net debt at 1 January	(1,517)	3,461	n.a.
Free cash flow from continuing operations	(5,812)	(261)	n.a.
Free cash flow from discontinued operations	(209)	(9,025)	(98%)
Interest-bearing receivables re Oil & Gas divestment	292	(1,014)	n.a.
Dividends and hybrid coupons paid	4,700	3,523	33%
Exchange rate adjustments, etc.	327	1,799	(82%)
Net debt at 31 December	(2,219)	(1,517)	46%
<b>Key ratios, DKKm, %</b>	<b>2018</b>	<b>2017</b>	<b>%</b>
ROCE	32.1%	25.2%	6.9%p
Adjusted net debt	15,516	15,900	(2%)
FFO/adjusted net debt	69.0%	50.3%	18.7%p



Gain (loss) on sale of assets is part of EBITDA, but is presented as part of the 'divestment' cash flow. The EBITDA effect is thus reversed in the specification of cash flows from operating activities.



ROCE and FFO/adjusted net debt is specified in notes 2.1 and 6.6.

## Equity and capital employed

### Equity

Equity was DKK 85.1 billion at the end of 2018 against DKK 71.8 billion at the end of 2017. The increase was primarily due to the positive result for the year less dividends paid.

### Capital employed

Capital employed was DKK 82.9 billion at the end of 2018 against DKK 70.3 billion at the end of 2017. Offshore's share of capital employed was 79% at the end of 2018.

## Financial ratios

### Return on capital employed (ROCE)

Return on capital employed was 32% in 2018, up 7 percentage points compared to 2017. The increase was mainly attributable to the higher EBIT. Both years were significantly positively impacted by farm-downs – Hornsea 1 in 2018 and Walney Extension and Borkum Riffgrund 2 in 2017.

### Credit metric (FFO/adjusted net debt)

The credit metric 'funds from operations' (FFO) relative to adjusted net debt was 69% in 2018 relative to 50% in 2017. The increase was due to a higher FFO together with lower adjusted net debt in 2018.

## Non-financial results

### Green share of heat and power generation

The green share of our heat and power generation amounted to 75% in 2018, up 11 percentage points relative to 2017. The increase was due to higher generation from offshore wind farms, a larger share of biomass-based generation as a result of the bioconversion of Skærbæk Power Station as well as a decrease in the use of gas following the divestment of the Enecogen power plant.

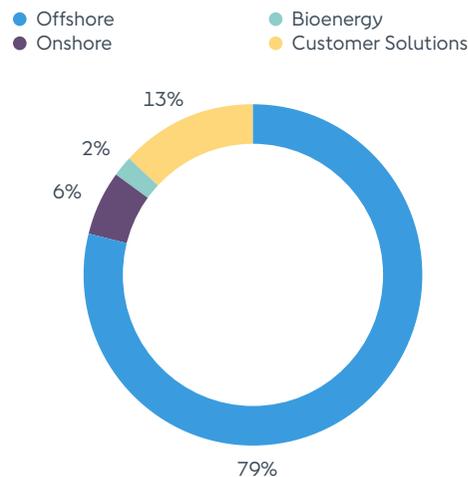
### Carbon emissions

Carbon emissions from our heat and power generation decreased by 13% to 131g CO<sub>2</sub>e/kWh in 2018 against 151g CO<sub>2</sub>e/kWh in 2017. Carbon emissions per kWh decreased for the same reasons as mentioned above.

### Safety

In 2018, we registered 98 total recordable injuries (TRIs), 61 of which involved employees working for our suppliers. Over the past 12 months, our total recordable injury rate (TRIR) has declined from 6.4 in 2017 to 4.7 in 2018.

### Capital employed, %



# Five-year summary

Income statement (business performance), DKKm	2018	2017	2016	2015	2014
Revenue	76,946	59,504	61,201	65,444	61,280
EBITDA	30,029	22,519	19,109	8,730	7,798
Offshore	27,809	20,595	11,867	6,151	6,057
Onshore	44	-	-	-	-
Bioenergy	367	152	100	283	422
Customer Solutions	1,970	2,082	7,108	2,173	1,404
Other activities	(161)	(310)	34	123	(85)
Depreciation and amortisation	(5,978)	(5,739)	(5,232)	(5,673)	(5,319)
Impairment losses	603	(545)	-	(1,184)	(216)
Operating profit (loss) (EBIT)	24,654	16,235	13,877	1,873	2,263
Gain (loss) on divestment of enterprises	127	(139)	1,250	56	1,258
Net financial income and expenses	(1,278)	(1,042)	(767)	(1,409)	(838)
Profit (loss) from associates and joint ventures	1	(10)	(8)	(8)	(484)
Profit (loss) before tax	23,504	15,044	14,352	512	2,199
Tax	(4,018)	(1,765)	(2,191)	455	(298)
Profit (loss) for the year from continuing operations	19,486	13,279	12,161	967	1,901
Profit (loss) for the year from discontinued operations	10	6,920	1,052	(13,051)	(7,185)
Profit (loss) for the year	19,496	20,199	13,213	(12,084)	(5,284)
<b>Balance sheet</b>					
Assets	174,575	146,521	136,489	147,457	149,914
Total equity	85,115	71,837	57,500	51,736	61,533
Shareholders of Ørsted A/S	68,488	54,791	39,106	32,090	41,736
Non-controlling interests	3,388	3,807	5,146	6,398	6,561
Hybrid capital	13,239	13,239	13,248	13,248	13,236
Interest bearing net debt	(2,219)	(1,517)	3,461	9,193	3,978
Capital employed	82,896	70,320	60,961	60,930	65,511
Additions to property, plant and equipment	14,436	20,022	17,750	19,843	15,350
<b>Cash flows</b>					
Cash flows from operating activities	10,343	1,023	11,272	7,521	9,568
Gross investments	(24,481)	(17,744)	(14,960)	(12,709)	(10,327)
Divestments	19,950	16,982	9,055	1,982	10,559
Free cash flow	5,812	261	5,367	(3,206)	9,800
<b>Financial ratios</b>					
Return on capital employed (ROCE) <sup>1</sup> , %	32.1	25.2	24.4	3.6	4.3
FFO/adjusted net debt <sup>2</sup> , %	69.0	50.3	64.2	28.8	31.6
Number of outstanding shares, 31 December, '000	420,045	420,155	420,155	417,726	417,726
Share price, 31 December, DKK	435.7	338.7	267.6	-	-
Market capitalisation, 31 December, DKKbn	183.0	142.3	112.5	-	-
Earnings per share (EPS) (BP), DKK	45.3	46.4	30.6	(30.7)	(14.9)
Dividend yield, %	2.2	2.7	2.2	-	-
<b>Income statement (IFRS)</b>					
Revenue	75,520	59,709	57,393	66,708	61,866
EBITDA	28,491	22,574	16,939	9,888	7,546
Profit (loss) for the year from continuing operations	18,266	13,321	10,467	1,854	1,708

Business drivers	2018	2017	2016	2015	2014
<b>Offshore</b>					
Decided (FID) and installed capacity <sup>3</sup> , offshore wind, GW	9.0	8.9	7.4	5.1	3.8
Installed capacity, offshore wind <sup>3</sup> , GW	5.6	3.9	3.6	3.0	2.5
Generation capacity, offshore wind <sup>3</sup> , GW	3.0	2.5	2.0	1.7	1.4
Wind speed <sup>3</sup> , m/s	9.1	9.3	8.9	9.7	9.2
Load factor <sup>3</sup> , %	42	44	41	45	44
Availability <sup>3</sup> , %	93	93	92	93	94
Power generation, TWh	10.0	8.5	6.0	5.8	5.0
<b>Onshore</b>					
Installed capacity, GW	0.8	-	-	-	-
Wind speed, m/s	7.3	-	-	-	-
Load factor, %	41	-	-	-	-
Availability <sup>3</sup> , %	92	-	-	-	-
Power generation, TWh	0.6	-	-	-	-
<b>Bioenergy</b>					
Degree days <sup>3</sup> , number	2,526	2,705	2,715	2,621	2,462
Heat generation, TWh	8.8	9.0	9.2	9.3	8.7
Power generation, TWh	6.7	8.2	8.4	7.1	8.7
<b>Customer Solutions</b>					
Regulatory value of power distribution assets <sup>4</sup>	10,957	10,623	10,648	10,778	10,373
Power distribution, TWh	8.4	8.4	8.5	8.4	8.4
Power sales, TWh	35.3	37.7	36.7	35.5	34.5
Gas sales, TWh	134.1	136.1	150.4	159.1	151.3
<b>People and environment</b>					
Employees (FTE), end of year, number	6,080	5,638	5,775	5,947	5,751
Total recordable injury rate (TRIR)	4.7	6.4	6.8	9.7	10.9
Fatalities, number	0	0	0	0	0
Green share of heat and power generation, %	75	64	50	49	44
Carbon emissions, g CO <sub>2</sub> e/kWh	131	151	224	220	280



## Business performance vs. IFRS

Business performance represents the underlying financial performance of the Group in the reporting period as results are adjusted for temporary fluctuations in the market value of contracts (including hedging transactions) relating to other periods. Apart from this, there is no difference between business performance and IFRS results. Read more in note 1.6.

ROCE is calculated for continuing operations.

<sup>1)</sup> EBIT/average capital employed.

<sup>2)</sup> Net debt, including 50% of hybrid capital, cash and securities not available for use (with the exception of repo transactions), present value of lease obligations, and decommissioning obligations less deferred tax.

<sup>3)</sup> See definition on page 192 and in the ESG statements.

<sup>4)</sup> The figures indicate values from the latest regulatory financial statements (updated in June).

# Fourth quarter

## Financial performance – Group

### Revenue

Revenue in Q4 2018 increased by 51% relative to Q4 2017 and amounted to DKK 23.5 billion. The increase was mainly driven by construction agreements where revenue increased by DKK 4.6 billion to DKK 6.3 billion due to the partial divestment of the Hornsea 1 transmission assets as part of the 50% farm-down of Hornsea 1. In addition, revenue increased due to higher gas and UK power prices and higher generation from offshore wind farms.

### EBITDA

Operating profit (EBITDA) totalled DKK 19.2 billion in Q4 2018 compared with DKK 13.0 billion in Q4 2017. The 47% increase was mainly due to the 50% farm-down of Hornsea 1 in Q4 2018, which was only partly offset by the 50% farm down gains from Walney Extension and Borkum Riffgrund 2 in Q4 2017. Earnings from offshore wind farms in operation increased by 26% as a result of ramp-up at Walney Extension, Race Bank and Borkum Riffgrund 2.

Earnings from our Bioenergy and Customer Solutions businesses were in line with Q4 2017. Earnings from Onshore had a limited impact.

### Profit from continuing operations

Profit for the period from continuing operations increased by DKK 5.8 billion to DKK 15.2 billion. The increase was mainly due to the higher EBITDA.

### Cash flows from operating activities

Cash flows from operating activities totalled DKK 7.6 billion in Q4 2018 compared with DKK 3.1 billion in Q4 2017.

The increase of DKK 4.5 billion was due to lower paid Danish taxes (taxes were paid on account in March in 2018 and in November in 2017), a tax equity contribution received from our partner at the Tahoka onshore wind farm and lower receivables.

This was partly offset by a lower release of funds tied up in work in progress, mainly due to prepayments and milestone payments received from partners in Q4 2017 at Walney Extension and Borkum Riffgrund 2 and high construction activity at Hornsea 1 in Q4 2018.

### Gross investments and divestments

Gross investments amounted to DKK 14.9 billion in Q4 2018, of which DKK 9.6 billion related to the acquisitions of Deepwater Wind and Lincoln Clean Energy. The other main investments related to Hornsea 1, Borssele 1 & 2, Lockett and early investments in the US to qualify for future tax credits.

Divestments amounted to DKK 18.7 billion in Q4 2018 and related mainly to the 50% farm-down of Hornsea 1.

### Financial performance, DKKm

	Q4 2018	Q4 2017	%
Revenue	23,527	15,598	51%
EBITDA	19,206	13,032	47%
EBIT	18,112	10,970	65%
Profit (loss) before tax	18,038	10,349	74%
Tax	(2,878)	(999)	188%
Profit (loss) for the period from continuing operations	15,160	9,350	62%
Profit (loss) for the period from discontinued operations	34	79	(57%)
Profit (loss) for the period	15,194	9,429	61%

### Cash flows and net debt, DKKm

	Q4 2018	Q4 2017	%
Cash flows from operating activities	7,565	3,078	146%
EBITDA	19,206	13,032	47%
Financial instruments	(658)	470	n.a.
Change in provisions	(122)	461	n.a.
Reversal of gain (loss) on sale of assets	(15,085)	(9,468)	59%
Other items	209	333	(37%)
Interest expenses, net	244	(136)	n.a.
Paid tax	(264)	(2,652)	(90%)
Change in work in progress	723	2,262	(68%)
Change in tax equity liabilities	1,835	-	n.a.
Change in other working capital	1,477	(1,224)	n.a.
Gross investments	(14,916)	(5,805)	157%
Divestments	18,749	14,875	26%
Free cash flow	11,398	12,148	(6%)
Net debt, beginning of period	8,957	10,260	(13%)
Free cash flow from continuing operations	(11,398)	(12,148)	(6%)
Free cash flow from discontinued operations	(337)	(289)	17%
Interest-bearing receivables re Oil & Gas divestment	316	(1,014)	n.a.
Dividends and hybrid coupon paid	238	211	13%
Exchange rate adjustments, etc.	5	1,463	(100%)
Net debt, end of period	(2,219)	(1,517)	46%

## Financial performance – business units

### Offshore

Power generation was up 14% in Q4 2017 due to ramp-up of generation at Walney Extension and Borkum Riffgrund 2.

Revenue totalled DKK 10.7 billion in Q4 2018 against DKK 5.6 billion in Q4 2017. The increase was driven by revenue from wind farms in operation, which was up 15% as a result of increased power generation, and an increase in revenue from construction agreements due to the partial divestment of the Hornsea 1 transmission assets.

EBITDA was up 49%, totalling DKK 18.8 billion in Q4 2018 compared with DKK 12.6 billion in Q4 2017.

Earnings from offshore wind farms in operation increased by 26% as a result of the commissioning of new offshore wind farms. Earnings from partnership agreements increased by DKK 5.4 billion and related primarily to the farm-down of Hornsea 1 in Q4 2018 compared to the farm-downs of 50% of Walney Extension and Borkum Riffgrund 2 in Q4 2017.

EBITDA from other activities totalled DKK -0.7 billion in Q4 2018, which was in line with the same period last year, and related primarily to project development costs.

Cash flows from operating activities totalled DKK 3.6 billion in Q4 2018 in line with Q4 2017. Release of funds tied up in work in progress contributed more positively in Q4 2017, where prepayments and milestone payments were received from partners at Walney Extension and Borkum Riffgrund 2. This was partially offset by lower paid taxes in Q4 2018.

### Onshore

For Onshore, the quarterly and full-year results are identical. See page 46.

### Bioenergy

Revenue was DKK 1.9 billion in Q4 2018 against DKK 1.8 billion in Q4 2017. The increase was due to higher power prices which led to higher income despite lower power generation in Q4 2018. Revenue from heat generation remained unchanged.

EBITDA was at the same level as the year before and amounted to DKK 0.2 billion.

### Customer Solutions

Revenue amounted to DKK 12.9 billion in Q4 2018 compared with 10.4 billion in Q4 2017. The increase was mainly due to higher gas and UK power prices.

EBITDA was at the same level as Q4 2017 and amounted to DKK 0.2 billion.

EBITDA from Markets decreased by DKK 0.5 billion, primarily due to an increase in the value of gas at storages in Q4 2017 compared to a loss in Q4 2018, where the gas prices decreased during December.

EBITDA from our LNG activities increased by DKK 0.5 billion, mainly as a result of provisions in Q4 2017 related to the onerous contract at the Gate terminal in Rotterdam as well as provisions regarding purchase contracts.

Cash flows from operating activities totalled DKK 0.7 billion in Q4 2018, DKK 0.5 billion higher than in Q4 2017. The positive effect was mainly due to lower receivables in Q4 2018 and lower paid taxes.



For more details on quarterly figures for our business units, please go to [orsted.com/financial-reports](https://orsted.com/financial-reports)

Offshore's results, DKKm	Q4 2018	Q4 2017	%
Revenue	10,716	5,558	93%
Sites, O&M and PPA	4,415	3,848	15%
Construction agreements	6,271	1,678	274%
Other	30	32	(6%)
EBITDA	18,791	12,591	49%
Sites, O&M and PPA	4,053	3,226	26%
Construction agreements and divestment gains	15,413	10,033	54%
Other, incl. project development	(675)	(668)	1%
Cash flows from operating activities	3,572	3,590	(1%)
Free cash flow	15,253	13,417	14%

Bioenergy's results, DKKm	Q4 2018	Q4 2017	%
Revenue	1,926	1,788	8%
Heat	892	850	5%
Power incl. ancillary services	1,034	938	10%
EBITDA	203	240	(15%)
Heat	245	235	4%
Ancillary services	133	122	9%
Power	(175)	(117)	50%
Cash flows from operating activities	982	600	64%
Free cash flow	579	147	294%

Customer Solutions' results, DKKm	Q4 2018	Q4 2017	%
Revenue	12,917	10,396	24%
EBITDA	156	179	(13%)
Distribution	299	172	74%
Sales	(72)	21	n.a.
Markets	57	575	(90%)
LNG	(128)	(589)	(78%)
Cash flows from operating activities	745	214	248%
Free cash flow	146	(71)	n.a.

# Quarterly summary, 2017-2018

## Income statement

(business performance), DKKm	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Revenue	23,527	15,018	18,593	19,808	15,598	11,869	15,540	16,497
EBITDA	19,206	2,225	3,079	5,519	13,032	1,757	4,442	3,288
Offshore	18,791	1,972	3,090	3,956	12,591	1,674	4,191	2,139
Onshore	44	-	-	-	-	-	-	-
Bioenergy	203	(204)	(71)	439	240	(142)	(153)	207
Customer Solutions	156	478	122	1,214	179	202	516	1,185
Other activities	12	(21)	(62)	(90)	22	23	(112)	(243)
Depreciation and amortisation	(1,697)	(1,437)	(1,462)	(1,382)	(1,517)	(1,385)	(1,541)	(1,296)
Impairment losses	603	-	-	-	(545)	-	-	-
Operating profit (loss) (EBIT)	18,112	788	1,617	4,137	10,970	372	2,901	1,992
Gain (loss) on divestment of enterprises	(28)	181	(16)	(10)	(14)	(108)	(6)	(11)
Net financial income and expenses	(43)	(436)	(504)	(295)	(649)	22	(81)	(334)
Profit (loss) from associates and joint ventures	(3)	2	4	(2)	42	(7)	(2)	(43)
Profit (loss) before tax	18,038	535	1,101	3,830	10,349	279	2,812	1,604
Tax	(2,878)	(117)	(225)	(798)	(999)	(70)	(306)	(390)
Profit (loss) for the period from continuing operations	15,160	418	876	3,032	9,350	209	2,506	1,214
Profit (loss) for the period from discontinued operations	34	(13)	(19)	8	79	2,931	2,484	1,426
Profit (loss) for the period	15,194	405	857	3,040	9,429	3,140	4,990	2,640
<b>Balance sheet</b>								
Assets	174,575	150,909	149,149	147,739	146,521	126,190	133,550	132,030
Total equity	85,115	68,701	69,744	70,823	71,837	64,203	62,160	58,112
Shareholders of Ørsted A/S	68,488	52,029	52,884	53,861	54,791	47,050	43,990	39,828
Non-controlling interests	3,388	3,433	3,621	3,723	3,807	3,905	4,922	5,036
Hybrid capital	13,239	13,239	13,239	13,239	13,239	13,248	13,248	13,248
Interest-bearing net debt	(2,219)	8,957	4,603	4,331	(1,517)	10,260	10,332	6,523
Capital employed	82,896	77,658	74,347	75,154	70,320	74,462	72,491	64,635
Additions to property, plant and equipment	4,575	2,942	3,137	3,782	7,137	4,795	5,475	2,615
<b>Cash flows</b>								
Cash flows from operating activities	7,565	(117)	3,293	(398)	3,078	(1,095)	(1,848)	888
Gross investments	(14,916)	(4,385)	(3,109)	(2,071)	(5,805)	(5,150)	(4,287)	(2,502)
Divestments	18,749	380	(14)	835	14,875	1,882	160	65
Free cash flow	11,398	(4,122)	170	(1,634)	12,148	(4,363)	(5,975)	(1,549)
<b>Financial ratios</b>								
Return on capital employed (ROCE) <sup>1,5</sup> , %	32.1	23.0	23.5	26.7	25.2	15.0	18.4	17.4
FFO/Adjusted net debt <sup>2,5</sup> , %	69.0	41.7	44.3	45.6	50.3	26.5	32.0	34.2
Number of outstanding shares, end of period, '000	420,045	420,155	420,155	420,155	420,155	420,155	420,155	420,155
Share price, end of period, DKK	435.7	436.3	386.0	392.0	338.7	360.4	293.9	268.9
Market capitalisation, end of period, DKKbn	183.0	183.3	162.3	164.7	142.3	151.5	123.5	113.0
Earnings per share (EPS) (BP), DKK	35.6	1.1	1.4	7.2	21.7	7.1	11.2	6.4
<b>Income statement (IFRS)</b>								
Revenue	26,165	12,798	16,859	19,698	14,711	11,647	15,925	17,426
EBITDA	20,914	567	1,725	5,285	12,311	1,643	4,777	3,843
Profit (loss) for the period from continuing operations	16,472	(875)	(180)	2,849	8,787	120	2,765	1,649

## Business drivers

	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
<b>Offshore</b>								
Decided (FID) and installed capacity <sup>3</sup> , GW	9.0	8.9	8.9	8.9	8.9	8.9	7.5	7.4
Installed capacity <sup>3</sup> , GW	5.6	5.1	5.1	4.4	3.9	3.8	3.8	3.6
Generation capacity <sup>3</sup> , GW	3.0	2.9	2.8	2.7	2.5	2.3	2.2	2.1
Wind speed <sup>3</sup> , m/s	10.3	7.7	7.9	10.3	11.0	7.9	8.5	9.9
Load factor <sup>3</sup> , %	53	32	31	55	54	34	38	50
Availability <sup>3</sup> , %	93	92	93	94	92	92	93	93
Power generation, TWh	3.3	1.9	1.8	3.0	2.9	1.7	1.8	2.1
<b>Onshore</b>								
Installed capacity, onshore wind, GW	0.8	-	-	-	-	-	-	-
Wind speed <sup>3</sup> , m/s	7.3	-	-	-	-	-	-	-
Load factor <sup>3</sup> , %	41	-	-	-	-	-	-	-
Availability <sup>3</sup> , %	92	-	-	-	-	-	-	-
Power generation, TWh	0.6	-	-	-	-	-	-	-
<b>Bioenergy</b>								
Degree days <sup>3</sup> , number	884	76	149	1,417	895	115	451	1,244
Heat generation, TWh	2.8	0.3	0.9	4.8	2.8	0.7	1.3	4.2
Power generation, TWh	1.8	0.7	0.9	3.3	2.3	1.2	1.5	3.2
<b>Customer Solutions</b>								
Regulatory value of power distribution assets <sup>4</sup>	10,957	10,957	10,957	10,623	10,623	10,623	10,623	10,648
Power distribution, TWh	2.3	1.8	1.9	2.4	2.2	1.9	2.0	2.3
Power sales, TWh	10.4	6.6	6.8	11.5	10.6	8.2	8.8	10.1
Gas sales, TWh	26.0	31.5	34.1	42.5	36.9	29.4	28.3	41.5
<b>People and environment</b>								
Employees, end of period, number	6,080	5,882	5,741	5,662	5,638	5,641	5,802	5,787
Total recordable injury rate (TRIR) <sup>5</sup>	4.7	5.0	6.2	6.7	6.4	6.7	6.5	6.4
Fatalities, number	0	0	0	0	0	0	0	0
Green share of heat and power generation, %	83	71	80	68	76	60	64	56
Carbon emissions, g CO <sub>2</sub> e/kWh	87	212	123	147	106	203	150	170



## Business performance vs. IFRS

Business performance represents the underlying financial performance of the Group in the reporting period as results are adjusted for temporary fluctuations in the market value of contracts (including hedging transactions) relating to other periods. Apart from this, there is no difference between business performance and IFRS results. Read more in note 1.6.

ROCE is calculated for continuing operations.

<sup>1)</sup> EBIT/average capital employed.

<sup>2)</sup> Net debt, including 50% of hybrid capital, cash and securities not available for use (with the exception of repo transactions), present value of lease obligations, and decommissioning obligations less deferred tax.

<sup>3)</sup> See definition on page 192 and in the ESG statements.

<sup>4)</sup> The figures indicate values from the latest regulatory financial statements (updated in June).

<sup>5)</sup> Last 12 months.

# Business units

Our business units	40
Offshore	41
Onshore	46
Bioenergy	49
Customer Solutions	52



# Our business units

**Ørsted**

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**EBITDA 2017-2018<sup>1)</sup>**

2017  
 DKK 22.5bn

2018  
 DKK 30.0bn

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**Key figures 2018**

Revenue	DKK 76.9bn
Gross investments	DKK 24.5bn
Capital employed	DKK 82.9bn
ROCE	32.1%
TRIR	4.7
Number of employees	6,080

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**Financial target**

ROCE	10% (avg. 2019-2025)
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 **Offshore**

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**EBITDA 2017-2018<sup>1)</sup>**

2017  
 DKK 20.6bn

2018  
 DKK 27.8bn

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**Key figures 2018**

Revenue	DKK 30.6bn
Gross investments	DKK 15.1bn
Capital employed	DKK 65.8bn
ROCE	37.2%
TRIR	3.8
Number of employees	2,431

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 **Onshore**

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**EBITDA 2017-2018<sup>1)</sup>**

2017  
 DKK 0.0bn

2018  
 DKK 0.0bn

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**Key figures 2018**

Revenue	DKK 0.1bn
Gross investments	DKK 6.8bn
Capital employed	DKK 4.8bn
ROCE	(0.3)%
TRIR	10.8
Number of employees	40

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 **Bioenergy**

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**EBITDA 2017-2018<sup>1)</sup>**

2017  
 DKK 0.2bn

2018  
 DKK 0.4bn

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**Key figures 2018**

Revenue	DKK 6.4bn
Gross investments	DKK 1.4bn
Capital employed	DKK 1.9bn
Free cash flow (FCF)	DKK 0.5bn
TRIR	6.4
Number of employees	731

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 **Customer Solutions**

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**EBITDA 2017-2018<sup>1)</sup>**

2017  
 DKK 2.1bn

2018  
 DKK 2.0bn

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**Key figures 2018**

Revenue	DKK 48.0bn
Gross investments	DKK 1.2bn
Capital employed	DKK 10.7bn
ROCE	17.6%
TRIR	9.3
Number of employees	1,254

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<sup>1)</sup> The sum of the business units' key figures for 2018 does not equal the consolidated key figures due to other activities and eliminations. Read more in note 2.1.

# Offshore

## Highlights 2018

- We inaugurated the Race Bank and Walney Extension offshore wind farms.
- Borkum Riffgrund 2 was commissioned by the end of 2018, ahead of schedule.
- We divested 50% of the 1,218MW Hornsea 1 offshore wind farm in the UK to Global Infrastructure Partners.
- We were awarded two offshore wind farm projects in Germany with a total capacity of 552MW, one of which was won with a zero-subsidy bid.
- We were awarded 900MW grid capacity in Taiwan's first offshore wind grid allocation process and an additional 920MW in the country's first offshore wind auction, resulting in a total build-out pipeline in Changhua of 1,820MW.
- We acquired Deepwater Wind and created a leading US offshore wind platform.
- In the US, we were awarded an additional 104MW in December in the clean energy auction in Connecticut.
- Application criteria were fulfilled for further development of the Race Bank Extension offshore wind farm.

## Financial performance

Power generation increased by 20% relative to 2017, primarily due to the ramp-up of generation from Race Bank, Walney Extension and Borkum Riffgrund 2. We commissioned Race Bank in January, Walney Extension in May and Borkum Riffgrund 2 in December 2018.

Wind speeds were 2% lower than in 2017 and amounted to a portfolio average of 9.1m/s, which was in line with a normal wind year. The availability of 93% was at the same level as the year before.

Revenue increased by 50% to DKK 30.6 billion. Revenue from offshore wind farms in operation increased by 23% due to the above-mentioned ramp-up from new offshore wind farms. Revenue from construction agreements increased by DKK 7.8 billion due to high activity on construction of the Borkum Riffgrund 2 and Walney Extension offshore wind farms for partners as well as the divestment of the Burbo Bank Extension transmission asset and a partial divestment of the Hornsea 1 transmission assets as part of the 50% farm-down of Hornsea 1. Following the implementation of IFRS 15, revenue from construction of transmission assets are recognised at the time of divestment.

EBITDA increased by 35%.



## Performance highlights

		2018	2017	%
<b>Business drivers</b>				
Decided (FID) and installed capacity	GW	9.0	8.9	1%
Installed capacity	GW	5.6	3.9	44%
Generation capacity	GW	3.0	2.5	20%
Wind speed	m/s	9.1	9.3	(2%)
Load factor	%	42	44	(2%p)
Availability	%	93	93	0%p
Power generation	TWh	10.0	8.5	18%
Denmark		2.2	2.5	(12%)
United Kingdom		6.1	4.5	36%
Germany		1.7	1.5	13%
Power price, LEBA UK	GBP/MWh	57.9	46.0	26%
British pounds	DKK/GBP	8.4	8.5	(1%)
<b>Financial performance</b>				
Revenue	DKKm	30,566	20,352	50%
Sites, O&M and PPA		13,918	11,319	23%
Construction agreements		16,560	8,734	90%
Other		88	299	(71%)
EBITDA	DKKm	27,809	20,595	35%
Sites, O&M and PPA		11,042	8,529	29%
Construction agreements and divestment gains		18,765	13,667	37%
Other, incl. project development		(1,998)	(1,601)	25%
Depreciation	DKKm	(4,456)	(4,080)	9%
Impairment losses	DKKm	0	(545)	n.a.
EBIT	DKKm	23,353	15,970	46%
Cash flows from operating activities	DKKm	5,814	3,353	73%
Gross investments	DKKm	(15,081)	(15,462)	(2%)
Divestments	DKKm	19,676	16,737	18%
Free cash flow	DKKm	10,409	4,628	125%
Capital employed	DKKm	65,846	59,652	10%
ROCE	%	37.2	28.4	8.8%p

EBITDA increased by 35% relative to 2017.

EBITDA from sites, O&Ms and PPAs amounted to DKK 11.0 billion, up DKK 2.5 billion compared to 2017. The increase was driven by the factors mentioned above.

EBITDA from construction agreements was DKK 5.1 billion higher than in 2017, amounting to DKK 18.8 billion in 2018. The total gain from the farm-down of Hornsea 1 (DKK 15.1 billion) as well as a high level of activity related to the construction of Walney Extension and Borkum Riffgrund 2 for partners contributed positively in 2018. In 2017, EBITDA was positively affected

by the farm-down of Walney Extension (DKK 7.5 billion) and Borkum Riffgrund 2 (DKK 2.2 billion), construction progress on Race Bank and completion of Burbo Bank Extension and Gode Wind 1 & 2 as well as the recognition of a deferred farm-down gain on Race Bank.

EBITDA from other activities amounted to DKK -2.0 billion against DKK -1.6 billion in 2017. The decrease of DKK 0.4 billion was mainly due to higher project development costs.

Depreciation increased by 9% due to the commissioning of new offshore wind farms in the UK and Germany.

Cash flows from operating activities amounted to DKK 5.8 billion in 2018 compared to DKK 3.4 billion in 2017. The increase was due to the higher EBITDA (adjusted for farm-down gains), a lower increase in funds tied up in construction of offshore wind farms for partners and a VAT refund. This was partly offset by higher paid taxes. Paid taxes in 2018 were significantly higher than in 2017, mainly due to taxation of construction agreement gains in the year of commissioning (Race Bank, Walney Extension and Borkum Riffgrund 2 in 2018 compared to Burbo Bank Extension in 2017) as well as higher earnings from offshore wind farms in operation.

In 2018, funds tied up in work in progress increased by DKK 2.3 billion and primarily related to the construction of Borkum Riffgrund 2 and Walney Extension as well as the offshore transmission assets at Hornsea 1 and Hornsea 2. This was partly offset by milestone payments from partners related to the construction of Race Bank, Walney Extension, Borkum Riffgrund 2 and Hornsea 1 and the divestment of the Burbo Bank Extension transmission asset.

### Introduction to Offshore

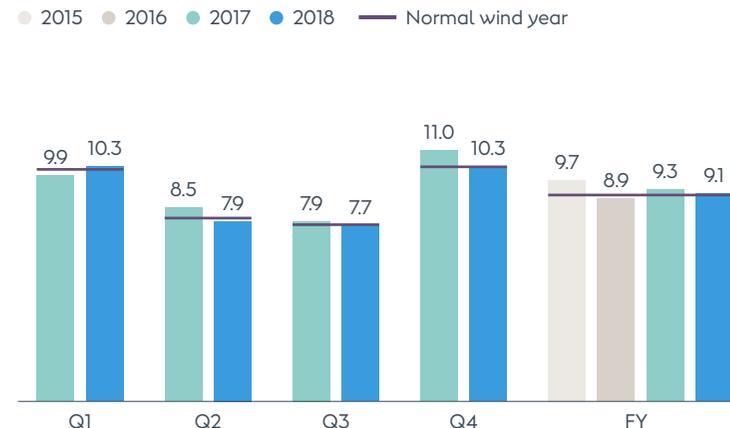
- We are active in all parts of the value chain and develop, construct, own and operate offshore wind farms in Denmark, the UK, Germany, the Netherlands, the US and Taiwan.
- We have been pioneers in the industry since we built the world's first offshore wind farm in 1991, and we have established ourselves as the market leader within global offshore wind power generation with 25+ years of experience, 26 offshore wind farms in operation and presently three offshore wind farms under construction.
- Worldwide, we are the company that has constructed most offshore wind farms with a total installed capacity of 5.6GW, which has provided us with an unparalleled experience. Our integrated EPC organisation has a strong

- track record of delivering projects on time and on budget and can construct multiple large-scale wind farms in parallel across regions.
- With 3.4GW currently under construction, we have the largest market share with approx 30% of the total global capacity.
- Our total installed capacity of 5.6GW covers more than 12 million people's annual power consumption with carbon-free electricity.
- By 2020, we will have expanded our installed offshore wind capacity to 7.6GW, and we aim for a capacity of 15GW in 2025.



Quarterly and annual wind speed for our offshore wind farms, m/s

The wind speed indicates how many metres per second the wind has blown in the areas where we have offshore wind farms. The weighting is based on our generation capacity.



Gross investments amounted to DKK 15.1 billion in 2018, of which the acquisition of Deepwater Wind amounted to DKK 4.0 billion (including acquired debt and excluding DKK 0.7 to be paid in 2019). The largest investments related to the construction of Hornsea 1, Borkum Riffgrund 2, Borssele 1 & 2, Walney Extension and early investments in the US to qualify for future tax credits.

Cash flows from divestments in 2018 related to the 50% farm-down of Hornsea 1 and receipt of deferred proceeds from the farm-down of 50% of Walney Extension in 2017.

ROCE increased by 9 percentage points to 37% and was in both periods impacted by gains from farm-downs – Hornsea 1 in 2018 and Walney Extension and Borkum Riffgrund 2 in 2017.

## Strategy follow-up

Offshore wind is our core business, and we will continue pioneering and innovating the industry. It is a rapidly growing market in the global energy system with attractive value creation opportunities, and we will maintain our global market leadership in offshore wind and continue the expansion in Europe, North America and Asia Pacific.

### Offshore's strategic focus is to:

- maintain our market leadership in offshore wind with a targeted capacity of 15GW in 2025
- continue to pioneer new markets and develop a global business
- continue to reduce the cost of electricity
- implement operational excellence and innovation and digitalisation initiatives across the business
- leverage our market-leading partnership model.

### Maintain our market leadership in offshore wind with a targeted capacity of 15GW in 2025

In 2018, we commissioned Race Bank and Walney Extension in the UK and Borkum Riffgrund 2 in Germany. Walney Extension is currently the world's largest offshore wind farm and was delivered well ahead of schedule and below budget before summer. Together, the three wind farms added approx 1.7GW to our installed capacity, and we have now installed 5.6GW of offshore wind capacity.

All of our current construction projects are progressing according to plan. In January 2018, offshore construction began at Hornsea 1, and

we expect commissioning in late 2019. At Borssele 1 & 2, the procurement phase is completed with main contracts well within budget, and construction work for the O&M building started in December 2018. For the Hornsea 2 project, we have selected Siemens Gamesa Renewable Energy as exclusive supplier of wind turbines, and recently we passed the first 12-month milestone delivery requirement under the contracts for difference (CfD) scheme. When Hornsea 2 is commissioned in 2022, we will have 9.0GW of capacity installed.

In addition to these three wind farms, we are also constructing the 12MW Coastal Virginia demonstration project in the US on behalf of our partner Dominion Energy. Further, a final investment decision has been taken on phase 2 of the Formosa 1 project in Taiwan, in which we have a 35% ownership share. After receiving the construction permit in September, manufacturing and preparation for the construction phase of the 120MW wind farm have commenced.

In April, the results of the second German transitional auction for offshore wind were announced, and we were awarded the right to build Borkum Riffgrund West 1 and Gode Wind 4 in the German North Sea. Borkum Riffgrund West 1 was won with a zero-subsidy bid, while Gode Wind 4 was won at a price of EUR 98.3 per MWh. The two offshore wind farms have a total capacity of 552MW, which, together with the three projects awarded in April 2017, gives us an option of 1,142MW new offshore wind capacity in Germany for commissioning in 2024/2025, subject to us taking final investment decision, expectedly in 2021.

Also in April, following a thorough and comprehensive grid allocation process, Taiwan's Ministry of Economic Affairs awarded us 900MW grid capacity for our Greater Changhua offshore wind farms. In June, following Taiwan's first and highly competitive auction process, we were awarded an additional 920MW of grid capacity for our Greater Changhua projects. Overall, we now have a total offshore wind pipeline in Changhua of 1,820MW.

On 30 January 2019, the 2019 feed-in tariff was announced. We take note of the 6% tariff reduction compared to the 2018 tariff as well as the introduction of a cap on annual full-load hours, and we will now collaborate closely with the supply chain to mitigate the adverse impact of these PPA changes with the objective of making the projects investable.

Greater Changhua 1 & 2a are facing extraordinarily high costs related to creating a local supply chain at scale, reinforcing the onshore grid infrastructure and building, operating and maintaining offshore wind farms in challenging site and weather conditions.

We continue to work with the Taiwanese authorities and local stakeholders to reach key outstanding project milestones, such as obtaining the establishment permit, completing the supply chain plan and signing the power purchase agreement.

Once we have clarity on the outcome of supply contract renegotiations and have achieved all key project milestones, Ørsted's Board of Directors will review and decide on the final investment case.

In 2018, we continued to establish ourselves in the US market. The merger of our existing US organisation with Deepwater Wind at the end of 2018 added an attractive and geographically diverse US East Coast portfolio of projects at varying degrees of development with significant synergy potential, both in terms of geography and project timing. As part of the Deepwater Wind portfolio, we have secured offshore wind development projects with a combined capacity of 954MW with long-term revenue contracts in place or under negotiation with expected completion of the projects in 2022/2023, subject to final investment decisions in the early 2020s. Of the awarded 954MW capacity, 104MW was won in Connecticut's clean energy auction in December.

Our ambition, as set out in 2016, was to drive profitable growth and have 11-12GW installed offshore wind capacity worldwide by 2025. With the awarded capacity in Germany and Taiwan and the addition of Deepwater Wind's 954MW secured capacity in the US, our total secured capacity has increased to 12.9GW. Having reached our 2025 ambition well ahead of time, we have increased our ambition to approx 15GW by 2025.

**Continue to pioneer new markets and develop a global business**

The US is a key market to us. With favourable wind and seabed conditions off the East Coast, and the federal states' growing interest in developing clean energy, we continue to see the US as a significant, long-term growth opportunity. With New York Governor Cuomo's recent commitment to 9GW offshore wind by 2035, the states along the US East Coast have

set out accumulated targets of close to 20GW of offshore wind capacity towards 2035. With the integration of Deepwater Wind, we now have the largest project pipeline in the US with a gross capacity of 7.5GW to bid in future auctions in the North East and Mid-Atlantic regions.

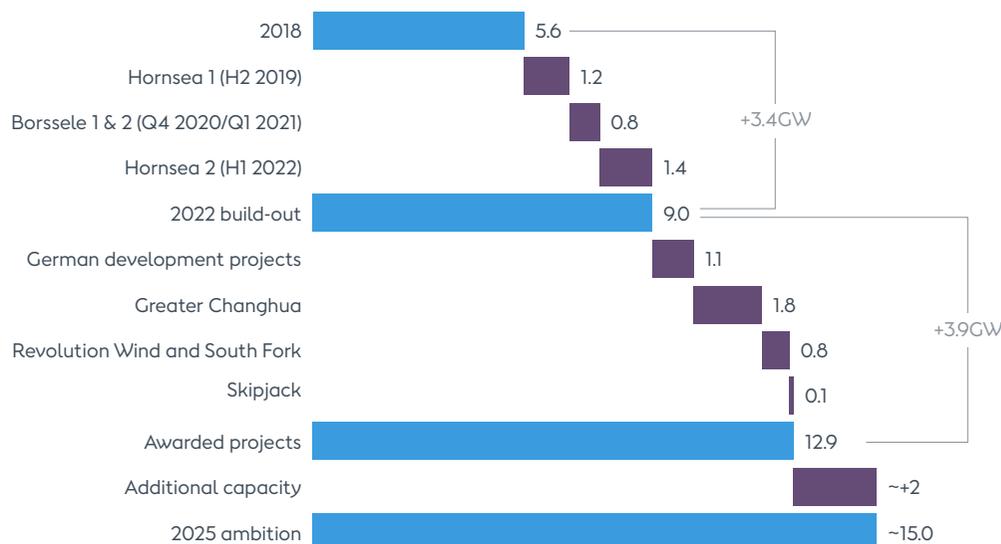
In October 2018, we bid in Rhode Island's auction for up to 400MW of renewable energy. Further, in December 2018, we bid in the New Jersey Board of Public Utilities' auction to build our Ocean Wind project. Outcomes of both auctions are expected in Q2 2019.

In the UK, The Crown Estate has confirmed that we have satisfied the application criteria for the development of our Race Bank Extension offshore wind farm with a capacity of 573MW. Together with Hornsea 3's 2,400MW capacity and Hornsea 4's 1,200MW capacity, we have a total pipeline of opportunities of up to 4.2GW, which underlines our continued commitment to the UK's energy transition. Subject to all necessary consents being granted, the three projects will be able to participate in future auctions under the contracts for difference (CfD) scheme.

Further, we announced that we have signed a memorandum of understanding to work jointly with Tokyo Electric Power Company (TEPCO) on the Choshi offshore wind project near Tokyo and towards a strategic partnership for broader collaborations in Japan. In addition, we see potential in selected next-horizon markets for offshore wind in the APAC region, such as South Korea.

In addition to the opportunities in the US, the UK and Japan, 2019 will see two 760MW tenders in the Netherlands. They will be followed

Build-out towards 2025, installed GW



The figure shows our current build-out plan towards 2025.

by additional 760MW tenders in 2020 and 2021, respectively. In 2020-2021, we will see the first of three 800MW tenders in Denmark, and in 2021, we expect a tender of approx 700MW in Belgium and the first central tender in Germany.

#### Continue to reduce the cost of electricity

Levelised cost of electricity (LCoE) has decreased substantially since the first large-scale wind farms were constructed, and costs are continuously being reduced across the industry by means of increasing levels of industrialisation, economies of scale and innovation. At Ørsted, we strive to deliver continuous reductions in LCoE through a systematic, institutionalised approach.

#### Implement operational excellence and innovation and digitalisation initiatives across the business

Since its infancy, we have played a key role in developing offshore wind energy into a fully matured industry and globally, we are the company that has constructed most offshore wind farms. Our integrated EPC organisation possesses a complete set of strong inhouse engineering, procurement and construction capabilities which set us apart from our peers. An example of our approach to innovation is how we continue to work with turbine suppliers to be first movers in bringing new technology to the offshore wind market. Another example is foundations, where we continue to optimise steel design and design tools. At Borkum Riffgrund 2 and Hornsea 1, grouted connections between the monopile and the transition piece were replaced by bolted connections, leading to large cost reductions on supply and the possibility for all-year installation.

We are the largest offshore wind operator globally with approx 1,100 wind turbines in operation. Our operational portfolio is growing which provides substantial scale benefits, but at the same time fleet complexity remains low, currently with five different turbine platforms from two original equipment manufacturers only, which allows for deep technical insights.

The share of turbines we operate ourselves is increasing, improving our ability to drive standardisation and performance improvements as well as implement digital solutions, reduce service hours and increase power generation from turbines. An example of our approach to innovation and digitalisation is how we utilise the vast amounts of data captured from each turbine we have in operation. Through state-of-the-art data analytics, we are able to continuously improve processes leading to an uplift in power generation and reduced lifetime maintenance costs.

In terms of operational excellence, we have implemented regional hub structures across the portfolio to reap full-scale and synergy benefits from clusters. Today, we operate two hubs in the UK and one hub in Germany, each with a capacity of 1-2GW. An example of hub benefits includes having a regional support organisation, allowing for standardisation of processes and activities leading to performance optimisation across a region instead of a single-site focus.

Also, a growing cluster capacity allows for investment in better logistics, e.g. in the form of joint facilities and vessel operations.

#### Leverage our market-leading partnership model

In 2018, our market-leading partnership model yet again proved its value through the 50% farm-down of the 1,218MW offshore wind farm Hornsea 1 to Global Infrastructure Partners (GIP). This is our third partnership with GIP, which also owns 50% of our German offshore wind farms Gode Wind 1 and Borkum Riffgrund 2. Hornsea 1 is under construction and will by far be the world's largest offshore wind farm when commissioned by the end of 2019.

In the Taiwanese market, which is still new to the offshore wind industry, we see an advantage in establishing partnerships, particularly with local investor involvement, to combine our international experience with local expertise. Subject to a FID, we will look into the possibility of farming down a 50% interest in the 605MW Greater Changhua 1 project to local and international partners.

In the US, we will also consider diversifying risks by either partnering with domestic utilities or potentially farming down on projects to reduce single-asset exposure.

# Onshore

## Highlights 2018

- We acquired Lincoln Clean Energy (LCE) in October.
- We commissioned the 300MW Tahoka wind farm in Texas in December.
- We took FID on the 184MW Lockett wind farm.
- We secured PPAs for our near-term onshore portfolio projects Sage Draw (250MW) and Plum Creek (additional 104MW) and our first large-scale solar PV project Permian Solar (250MW).
- Our first 20MW battery storage project, Carnegie Road, in the UK is now in operation.

## Introduction to Onshore

- The acquisition of Lincoln Clean Energy has provided a strong onshore renewables growth platform in the US, which is one of our strategic growth markets.
- We are active in the value chain as a developer, owner and operator, with a lean execution and asset management business model.
- We are able to deliver wind, solar PV and battery solutions and thereby shape the generation profile to customer demand.
- Our total installed capacity of 813MW comprises three operating wind farms in Texas and a small solar project in New Jersey. In addition, our near-term portfolio includes three onshore wind farms with a total capacity of 714MW to be constructed by 2020.
- It is our ambition to realise an additional 1GW through 2022 in the US onshore renewable market. We are pursuing a portfolio of regionally diversified projects across the ERCOT, SPP and MISO markets.

## Financial performance

This sections covers Q4 2018, as we acquired LCE and established the Onshore business unit on 1 October.

Power generation amounted to 552GWh in 2018, of which our Amazon and Willow Springs wind farms accounted for most of the generation. Power generation from newly commissioned Tahoka had a limited impact in 2018. Wind speed averaged 7.3m/s, which was slightly lower than in a normal wind year in Texas.

Revenue from wind farms in operation amounted to DKK 80 million, of which the majority came from Amazon and Willow Springs.



There are no comparable figures as the Onshore business unit was established in 2018.

## Performance highlights

2018

### Business drivers

Decided (FID) and installed capacity	MW	997
Installed capacity	MW	813
Wind speed	m/s	7.3
Load factor	%	41
Availability	%	92
Power generation	GWh	552
Net realised price	USD/MWh	17.4
US dollars	DKK/USD	6.5

### Financial performance

Revenue	DKKm	80
EBITDA	DKKm	44
Sites		40
Production tax credits and tax attributes		85
Other, including project development		(81)
Depreciation	DKKm	(51)
EBIT	DKKm	(7)
Cash flows from operating activities	DKKm	1,868
Gross investments	DKKm	(1,143)
Acquisitions	DKKm	(5,636)
Divestments	DKKm	1
Free cash flow	DKKm	(4,910)
Capital employed	DKKm	4,779
ROCE	%	(0.3)

EBITDA from onshore wind farms in operation amounted to DKK 40 million, and production tax credits (PTCs) contributed with DKK 85 million.

Project development and other costs amounted to DKK -81 million.

Cash flows from operating activities amounted to DKK 1.9 billion, which primarily comprised a tax equity contribution from our partner at the Tahoka wind farm in Texas in December.

Gross investments amounted to DKK 6.8 billion, of which DKK 5.6 billion was the acquisition price paid for Lincoln Clean Energy (including acquired debt). The largest investments related to the Tahoka and Lockett wind farms.

### Strategy follow-up

By acquiring Lincoln Clean Energy (LCE) in October 2018, we established a strong and scalable platform for the US onshore market, which is expected to grow significantly in the coming years. Our aim is to create a leading North American company within renewable energy, including onshore wind, solar energy, and energy storage. Onshore wind is expected to be the key growth platform and provide strategic diversification to Ørsted's portfolio.

As Onshore is a new business unit, an overall introduction is provided in the following sections:

- onshore wind farms, from development to owning and operating
- operational and near-term portfolio
- pipeline, ambition and strategy
- tax credits and tax equity partnerships.

#### Onshore wind farms, from development to owning and operating

Large-scale onshore wind projects have certain similarities with the offshore wind development business, especially within EPC (e.g. turbine supply agreements and park layout) and O&M (e.g. performance analytics and predictive maintenance), however, the project risk profile is different. The development of an onshore wind farm takes two to three years and construction another 9 to 12 months compared to offshore wind projects which typically have significantly longer development and construction cycles.

We are present in the value chain as a developer, owner and operator. As the US onshore

market has matured, industry standardisation has developed. We act as facilitator between project functions and select experienced industry partners with proven track records to perform construction activities. This model provides the ability to scale quickly and efficiently.

Typical development activities include preliminary site selection, assessment of wind resources and environmental impact, securing real estate, transmission and congestion analyses, securing interconnection rights as well as local, state and federal permissions, offtake, etc.

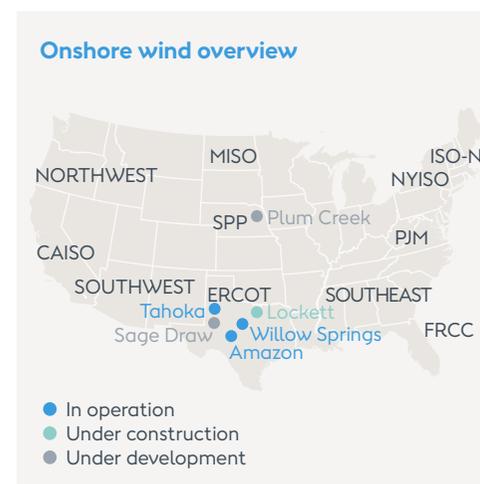
Turbine selection is based on project-specific levelised cost of electricity (LCoE) analysis, taking into account installation cost, power generation and long-term O&M costs.

We seek to capitalise on continued technological advancement and increasing size of swept wind area.

#### Operational and near-term portfolio

The geographic focus has been Texas, where all of our onshore wind farms in operation are situated. A small operational solar project is located in New Jersey.

Our current portfolio comprises three operating wind farms, Willow Springs (250MW), Amazon (253MW) and Tahoka (300MW) as well as a solar PV asset (Oak, 10MW) with a total capacity of 813MW. The operational wind portfolio is recently commissioned, supported by power offtake agreements for more than 650MW through long-term contracts with solid corporate and blue-chip partners.



Our near-term pipeline (2020 projects) includes three onshore wind farms (Lockett, Sage Draw and Plum Creek) with a total capacity of 714MW. We made final investment decision (FID) on Lockett in late 2018, and we expect it to reach commercial operation date (COD) in Q3 2019. At Plum Creek, we have secured more than 70% offtake and expect COD in 2020.

In November, we announced 500MW of wind and solar PPAs with ExxonMobil, equally divided between Sage Draw and the solar PV project Permian Solar, with expected COD dates of 2020 and 2021, respectively.

**Pipeline, ambition and strategy**

We expect to build on our solid operational and near-term portfolio and add up to 1GW of additional capacity by 2022, taking our total US capacity to 2.5GW. We are pursuing a portfolio of regionally diversified projects across the ERCOT, SPP and MISO markets, including:

- Greenfield onshore wind projects with an average size of 250-300MW and eligible for at least 60% PTC
- Greenfield solar PV opportunities (including Permian Solar), where opportunities arise via corporate and utility PPA partnerships.

Beyond the production tax credit (PTC) era, we are in a favourable position to meet demands for onshore wind power in the US by leveraging our value chain experience. Our growth will thus be driven by our ability to remain a significant market developer, providing competitive LCoE levels. Our onshore development activities are focused on areas where large-scale opportunities with a high likelihood of success have been available, and where onshore wind LCoE is competitive with the alternatives on a pure LCoE basis.

**Tax credits and tax equity partnerships**

Federal support for renewable energy is provided in the form of tax incentives, of which production tax credits (PTCs) dominate within onshore wind. PTCs are inflation-adjusted per kilowatt-hour (kWh) tax credits for power generated by eligible energy resources for the first ten years of operation. Projects eligible for 100% PTCs must have started construction by the end of 2016 and must be completed before the end of 2020, four years from qualifying.

Federal tax attributes constitute a significant component of overall project economics and have led to projects being able to offer long-term offtake prices to customers (e.g. PPAs with utilities or C&I customers) at a discount to merchant power price projections.

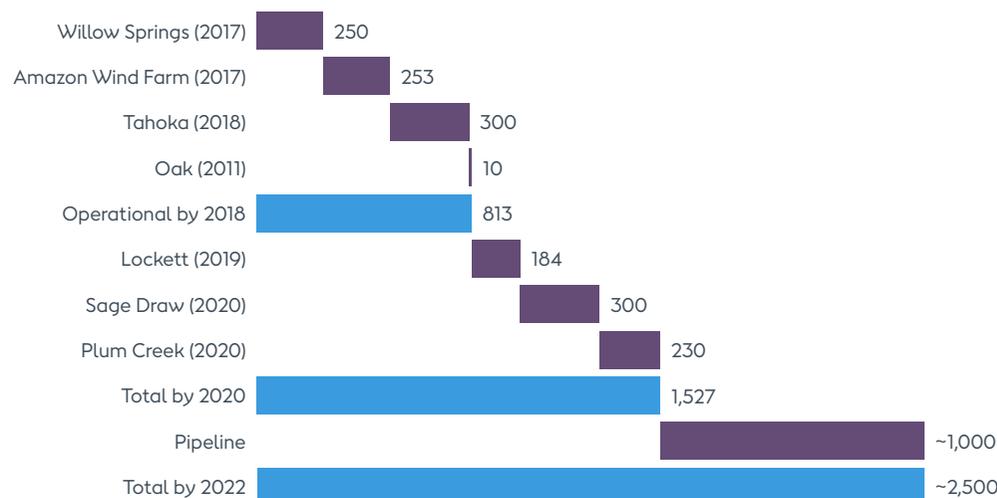
PTCs are currently being phased out with a linear decline by 20% per year until 2019, after which it expires. However, competitive LCoE projections of new built onshore wind and consumer demand drive significant growth expectations from the mid-2020s onward.

Our three operational wind farms and three near-term development projects are all eligible for 100% PTCs, and they are expected to be commissioned before the end of 2019 and 2020, respectively. In addition, our pipeline of 1GW by 2022 is eligible for 60% PTCs.

Solar investment tax credits (ITCs) provide a direct credit based on a percentage of the eligible capital expenditures. Projects starting construction in 2019 receive the full ITC of 30%. During the next few years, the ITC percentage will gradually decline and end at 10% from 2021.

The tax attributes can only be utilised by a tax-paying entity. Since we are currently not in a tax-paying position in the US due to significant investments, we partner with investors who contribute capital to efficiently monetise the tax attributes. Upon achievement of commercial operations, these tax equity investors contribute a substantial portion of the total project investment.

**Build-out plan, installed MW**



# Bioenergy

## Highlights 2018

- The High Court of Western Denmark and the Danish Appeals Permission Board ruled in favour of Ørsted in the case concerning the former Elsam.
- We commissioned the green gas facility 'Kalundborg Bioenergi', which transforms the organic waste of long-time corporate customers Novo Nordisk and Novozymes into green gas that is utilised in Novo Nordisk's production.
- We divested our 50% ownership share in the Dutch gas-fired power plant Enecogen.

## Introduction to Bioenergy

Bioenergy consists of our combined heat and power generation business (CHP) in Denmark and our growth platform within green biogas and waste, Green Waste Solutions (GWS).

- Our CHP business is a leading generator of district heating in Denmark through our large combined heat and power plants and dedicated heat plants. We provide around one quarter of Denmark's district heating and around one third of Denmark's thermal power.
- GWS offers innovative green waste solutions in Denmark and the UK through our patented enzyme technology, Renescience, and our biogas production and upgrading facilities.

## Financial performance

Revenue increased by DKK 0.5 billion to DKK 6.4 billion in 2018.

Power generation was 18% lower than in 2017, driven by the divestment of our Dutch power plant, and amounted to 6.7TWh. Power generation from our Danish plants increased by 4% driven by higher spreads, while heat generation decreased slightly by 2% to 8.8TWh in 2018 due to warmer weather.

Revenue from heat sales increased by 11% despite a decrease in heat generation. This was due to the bioconversion of the Skærbæk Power Station as well as higher revenue from the Avedøre Power Station due to ramp-up in Q1 2017 following the bioconversion in December 2016. Revenue from power and ancillary services increased by 6% to DKK 3.5 billion, driven by an increase of 45% in power prices compared to last year. This more than offset the 18% decrease in generation due to the divestment of the Enecogen power plant.

EBITDA increased by DKK 0.2 billion and amounted to DKK 0.4 billion in 2018. The increase was due to higher spreads in 2018 as well as the bioconversion of Skærbæk Power Station, partly offset by higher project development costs related to new activities.

		2018	2017	%
<b>Performance highlights</b>				
<b>Business drivers</b>				
Degree days	number	2,526	2,705	(7%)
Heat generation	TWh	8.8	9.0	(2%)
Power generation	TWh	6.7	8.2	(18%)
Power price, DK	EUR/MWh	45.1	31.0	45%
Green dark spread, DK	EUR/MWh	2.5	(1.6)	n.a.
Green spark spread, DK	EUR/MWh	(6.3)	(6.2)	2%
<b>Financial results</b>				
Revenue	DKKkm	6,353	5,864	8%
Heat		2,903	2,607	11%
Power, incl. ancillary services		3,450	3,257	6%
EBITDA	DKKkm	367	152	141%
Heat		765	695	10%
Ancillary services		404	321	26%
Power		(802)	(864)	(7%)
Depreciation	DKKkm	(657)	(690)	(5%)
EBIT	DKKkm	(290)	(538)	(46%)
Cash flows from operating activities	DKKkm	1,491	592	152%
Gross investments	DKKkm	(1,356)	(1,390)	(2%)
Divestments	DKKkm	383	2	n.a.
Free cash flow	DKKkm	518	(796)	n.a.
Capital employed	DKKkm	1,943	2,554	(24%)
ROCE	%	(12.9)	(22.2)	9.3%p

EBITDA from ancillary services was DKK 0.1 billion higher than in 2017 driven by higher demand during the summer and increased demand from Germany (DK1/DE connection).

Cash flows from operating activities amounted to DKK 1.5 billion and was thus DKK 0.9 billion higher than in 2017. The increase was due to the higher EBITDA, prepayments related to the bioconversion of Asnæs Power Station, and lower receivables.

Gross investments amounted to DKK 1.4 billion in 2018. The largest investments related to the bioconversion of Asnæs Power Station.

Bioenergy achieved positive free cash flows of DKK 0.5 billion, of which the divestment of Enecogen contributed with DKK 0.4 billion.

### Strategy follow-up

In Bioenergy, we are completing the conversions of our Danish combined heat and power (CHP) plants to sustainable biomass, and we continue to explore the potential for growth and value creation within waste-to-energy and biogas technologies.

#### Bioenergy's strategic focus is to:

- complete the conversion of our Danish CHP plants to sustainable biomass and phase out coal by 2023
- operate our plants smartly and safely and prepare for a transition towards a more electrified green district heating system
- establish a leading growth platform within biogas and waste recycling.

#### Complete the conversion to sustainable biomass and phase out coal by 2023

For several years, we have been committed to converting our heat and power plants to using sustainable wood pellets and wood chips instead of fossil fuels. We will phase out coal entirely towards 2023, thereby reducing our annual carbon emissions in Denmark significantly. In just over ten years, we will have gone from being one of the most coal-intensive utilities in Europe to having a completely coal-free generation by 2023.

Along with other European energy companies, we remain committed to the Sustainable Biomass Programme (SBP) which promotes a robust and independent system for the certification of sustainable biomass. In 2018, all our biomass came from sustainable sources, mostly in the form of residues from timber production such as sawdust, branches

and thinnings, and 83% was certified by third parties. We expect that 100% of our biomass will be third party certified by 2020.

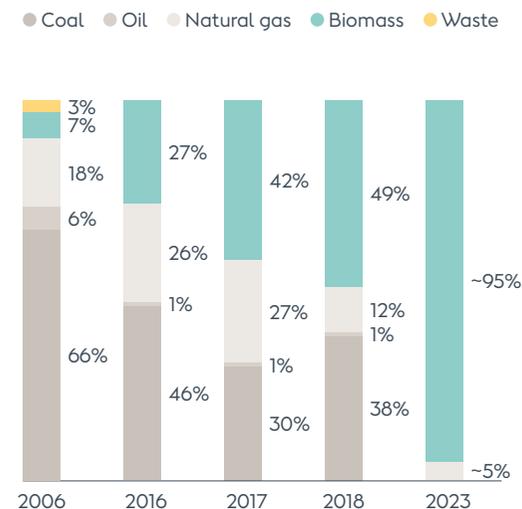
In 2018, we experienced an increase in the use of coal, reflecting improved power market conditions and a demand for our power stations to supplement the intermittent generation from wind and solar PV, also at times when no heat generation was required.

In collaboration with our heat customers, we have reached important milestones in 2018. Our conversion of the Asnæs Power Station is progressing on schedule, implying that we will be supplying green district heating to the general Kalundborg area from 2020 onwards, while providing green steam to Novo Nordisk's and Novozymes' production facilities. We are also progressing our flue gas condensation project in Herning, enabling us to substantially increase the heat and power output of the biomass used from mid-2019 onwards.

The Esbjerg Power Station is our last remaining unconverted CHP plant. The heat customers in the Esbjerg and Varde areas have been granted an exemption from the regulatory requirement to apply CHP solutions for providing district heating. This means that there is no longer a viable business case for Ørsted for a new CHP plant. We have consequently informed the heat customers that we will cease providing districting heat to the area by the end of 2022.

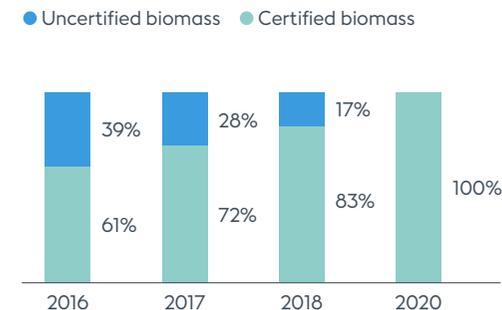
As part of our green transition, we divested our 50% share in Enecogen, a gas-fired power plant in the Netherlands, to Castleton Commodities International LLC in July 2018.

#### Share of fuels in the thermal heat and power generation, %



Biomass conversions will support a continued reduction in the usage of coal in the coming years.

#### Certified biomass, %



Further, we have entered into a conditional agreement to transfer our Svanemølle Power Station to CPH City & Port Development by 2023. The transfer is made to allow for an extensive assessment of the feasibility of transforming the iconic buildings into a state-of-the-art Science & Technology Museum. The power station currently provides district heating during peak hours to two utility companies in Copenhagen.

#### **Operate our plants smartly and safely and prepare for a transition towards a more electrified green district heating system**

Our portfolio of large bio-converted CHP plants in Denmark will continue to be a key component in the green transition of the heat and power sector in Denmark, while also supporting the power grid during times of low wind and solar generation.

To operate them efficiently, we are rolling out a comprehensive digitalisation programme at our power stations, allowing us to further optimise generation and reduce costs. In parallel, we are taking initial steps to investigate opportunities in electrified district heating, for instance in the form of large-scale heat pumps and heat storage.

#### **Establishing a leading growth platform within biogas and waste recycling**

During 2018, we continued to test and improve our Renescence facility in Northwich in the UK. The Renescence technology efficiently converts household waste into biogas and recyclable materials through enzymes and mechanical sorting technologies. The Northwich plant has confirmed that the core enzymatic sorting process works as expected,

also when applied in large scale. We are currently finalising the optimisation of the plant's mechanical operations, which has been more challenging and taken longer than expected. Final commissioning is expected during the first half of 2019.

In April 2018, we commissioned our first industrial Danish biogas plant together with Bigadan – Kalundborg Bioenergi. The facility transforms 300,000 tonnes of organic waste from Novo Nordisk and Novozymes in Kalundborg into biogas for approx 5,000 Danish homes and utilises the remaining products as fertiliser for farmland. In addition, we finalised the construction of the extension of the Danish Linkogas biogas-upgrading facility in December. We are now operating four major biogas-upgrading facilities in Denmark. We are investigating similar opportunities in collaboration with industrial partners, collectively promoting conversion of organic industrial waste into green energy.



# Customer Solutions

## Highlights 2018

- We signed a 15-year route-to-market agreement for the 860MW UK wind farm Triton Knoll.
- We decided to exit the Danish power distribution, residential customer, and city light businesses.
- At the end of December, the customers in our power distribution company, Radius, had taken 679,000 smart meters in use.

## Financial performance

Revenue was up 19% at DKK 48.0 billion in 2018, driven primarily by an average increase in gas and UK power prices of 32% and 26%, respectively, relative to 2017. This was only partly offset by a 1% decline in gas and a 6% decline in power volumes sold.

EBITDA amounted to DKK 2.0 billion compared to DKK 2.1 billion in 2017.

EBITDA from Distribution amounted to DKK 1.2 billion, which was in line with 2017.

EBITDA from Sales decreased compared to 2017 and amounted to DKK -0.1 billion. The decrease was primarily due to higher business development costs in the B2B energy solutions business and implementation of a new billing system in our residential customer (B2C) business.

EBITDA from Markets decreased by DKK 0.5 billion and amounted to DKK 0.9 billion. The decrease was mainly due to high earnings related to trading of our financial energy exposures in 2017, and a negative impact from changes in the value of our gas at storages due to a decline in gas prices in December 2018 (versus a positive effect in 2017). This was partially offset by a one-off compensation awarded following the completion of an arbitration relating to a gas purchase contract in 2018.

EBITDA from LNG increased by DKK 0.5 billion to a marginal loss. The increase was mainly due to provisions in 2017 related to an onerous contract for the Gate terminal in Rotterdam and purchase contracts. Furthermore, 2018 was positively affected by increased gas prices and utilisation of location spreads between Asia and Europe, and optimisation of physical positions.

Previous impairment losses of DKK 0.6 billion regarding the power distribution grid were reversed in connection with the classification as assets held for sale at the end of the year.

Cash flows from operating activities amounted to DKK 2.3 billion in 2018. The increase of DKK 2.9 billion was primarily due to settlement of intra-group hedges related to the negative effect in 2017 of the now divested oil and gas business, less funds tied up in clearing accounts toward trading partners, and less

		2018	2017	%
<b>Performance highlights</b>				
<b>Business drivers</b>				
Regulatory asset base (power)	DKKm	10,957	10,623	3%
Gas sales	TWh	134.1	136.1	(1%)
Sales		39.6	40.8	(3%)
Markets (excl. volumes to Sales)		94.5	95.3	(1%)
Power sales	TWh	35.3	37.7	(6%)
Sales		15.3	11.8	30%
Markets (excl. volumes to Sales)		20.0	26.0	(23%)
Power distribution	TWh	8.4	8.4	0%
Gas price, TTF	EUR/MWh	22.8	17.3	32%
Oil price, Brent	USD/boe	71.0	54.3	31%
UK power, LEBA, UK	GBP/MWh	57.9	46.0	26%
US dollar	DKK/USD	6.3	6.6	(5%)
British pound	DKK/GBP	8.4	8.5	(1%)
<b>Financial results</b>				
Revenue	DKKm	47,999	40,195	19%
EBITDA	DKKm	1,970	2,082	(5%)
Distribution		1,198	1,199	(0%)
Sales		(113)	32	n.a.
Markets		925	1,422	(35%)
LNG		(40)	(571)	(93%)
Depreciation	DKKm	(773)	(933)	(17%)
Impairment losses, reversed	DKKm	603	-	n.a.
EBIT	DKKm	1,800	1,149	57%
Cash flows from operating activities	DKKm	2,279	(628)	n.a.
Gross investments	DKKm	(1,166)	(857)	36%
Divestments	DKKm	(63)	196	n.a.
Free cash flow	DKKm	1,050	(1,289)	n.a.
Capital employed	DKKm	10,699	9,780	9%
ROCE	%	17.6	13.1	4.5%p

funds tied up in receivables due to lower gas sales at the end of 2018 compared to 2017. This was partly offset by more funds tied up in ROC inventories due to higher offshore wind power generation.

Gross investments totalled DKK 1.2 billion in 2018, relating mainly to maintenance of the power distribution grid and the installation of new smart meters.

ROCE increased by 5 percentage points to 18%, mainly due to the higher EBIT.

## Strategy follow-up

Customer Solutions has assumed a more integrated role in Ørsted as the front-end of the value chain, providing efficient route-to-market services. To develop market access to wholesale, corporate and traded markets, we increasingly focus on developing customer relationships to go beyond commodities and revolve around renewable power generation, waste to energy, and energy efficiency.

We will investigate different options for exiting our power distribution, residential customer and city light businesses.

### Customer Solutions' strategic focus is to:

- add further scale to our green power and gas and green certificates business
- mitigate merchant risk through trading and green energy corporate PPAs
- optimise our portfolio of legacy gas-sourcing contracts and LNG positions.

### Add further scale to our green power and gas and green certificates business

During 2018, the power portfolio grew by 1.4GW to more than 4.5GW, as we added long-term route-to-market contracts for the newly commissioned Walney Extension and Borkum Riffgrund 2 offshore wind farms and extended contracts for existing offshore wind farms. Furthermore, we entered into a contract to balance the British offshore wind farm Triton Knoll (860MW) for a 15-year period, starting from the planned commissioning in 2021. These additions add to the diversification and flexibility of our portfolio of power and green certificates.

Ørsted was granted approx 13% of all renewable obligation certificates (ROCs) presented to the UK's Office of Gas and Electricity Markets (Ofgem) for the April 2017-March 2018 ROC period. When selling power to UK corporate customers, we present the required number of ROCs to Ofgem. However, our offshore wind generation in the UK significantly outweighs our UK power sales, and once a year, we therefore auction out parts of our excess ROCs from the latest and the three upcoming ROC periods to UK utilities with ROC imbalances. This ROC

regime will continue until 2037, when the 20-year ROC subsidies will expire for the last renewable assets that were entitled to ROCs.

### Mitigate merchant risk through trading and green energy corporate PPAs

In 2018, we increased our focus on offering corporate power purchase agreements (cPPAs) with fixed power prices and long tenures to our wholesale and corporate customers. The aim of this is twofold. Our customers achieve certainty about their power price for a long period of time and add to their green profile. For Ørsted, these cPPAs reduce the exposure to merchant risk by limiting the power volumes that we will have to sell at prevailing market prices. Today, we have merchant power exposure from our UK wind farms under the ROC regime. Going forward, merchant risk mitigation will also be needed for existing wind farms as subsidies expire and for potential new wind farms without subsidies.

Within our market trading activities, we benefited from proactive trading e.g. by reducing our exposure to the event risk from the UK Government's changes in the carbon price support scheme, and by successfully managing the price volatility during the cold spell in early spring.

In 2018, our energy efficiency advisory services helped our Danish corporate customers achieve aggregated energy savings of approx 133GWh.

Customer satisfaction among our corporate customers remained high at 75, although down from 77 in 2017 (on a scale from 1-100).

## Introduction to Customer Solutions

Customer Solutions provides the Group with access to wholesale, corporate and traded markets.

- We create incremental value by providing route-to-market services for the Group and our partners by selling power, gas and green certificates to the market. In doing so, we own and operate portfolios of contracts within gas and power, which we optimise by leveraging our origination and trading capabilities and utilising the size of the portfolios.
- We generate access to wholesale and corporate customers to whom we seek to develop strong partnerships beyond conventional commodity supply, including offering corporate power purchase agreements (cPPAs), green waste solutions as well as energy efficiency and energy portfolio risk management services.
- We proactively manage the merchant risks arising from our generation assets and

contracts by trading commodities, and we mitigate risks and create value through time-to-market decisions, proxy hedging and netting.

We plan to exit our power distribution, residential customer and city light businesses which comprise:

- Radius, which owns and operates Denmark's largest power distribution grid measured by number of connection points with approx one million customers.
- Our residential customer business with sale of power to approx 725,000 customers and gas to approx 102,000 customers.
- Our city light business which is the largest Danish street light operator, covering 17 municipalities across Zealand.

### Optimise our portfolio of legacy gas-sourcing contracts and LNG positions

During 2018, we settled additional price reviews of our long-term gas-sourcing contracts, with an outcome that ensures profitability of our portfolio of conventional gas contracts.

However, we expect our LNG activities to continue to be loss-making going forward, although losses in 2018 were limited by our increased global trading activities.

### Key focus areas within the businesses held for sale (power distribution, B2C and city light)

During 2018, our power distribution customers experienced a decrease in the security of supply as on average they had 0.65 disconnections, excluding faults in the primary transmission grid owned by the Danish transmission system owner, Energinet. This was an increase of 0.23 disconnections compared to 2017 and worse than our target of 0.50. The increase was influenced by a combination of two unintentional incidents on the 50kV grid in early 2018 as well as damage to the 30kV grid during third-party construction works, which led to repeated disconnections of a large number of customers in Central Copenhagen. The roll-out of smart meters to all customers by 2020 is progressing according to plan and reached a significant milestone in September, where the project was half-way through instalment. By the end of 2018, 679,000 smart meters had been taken into use.

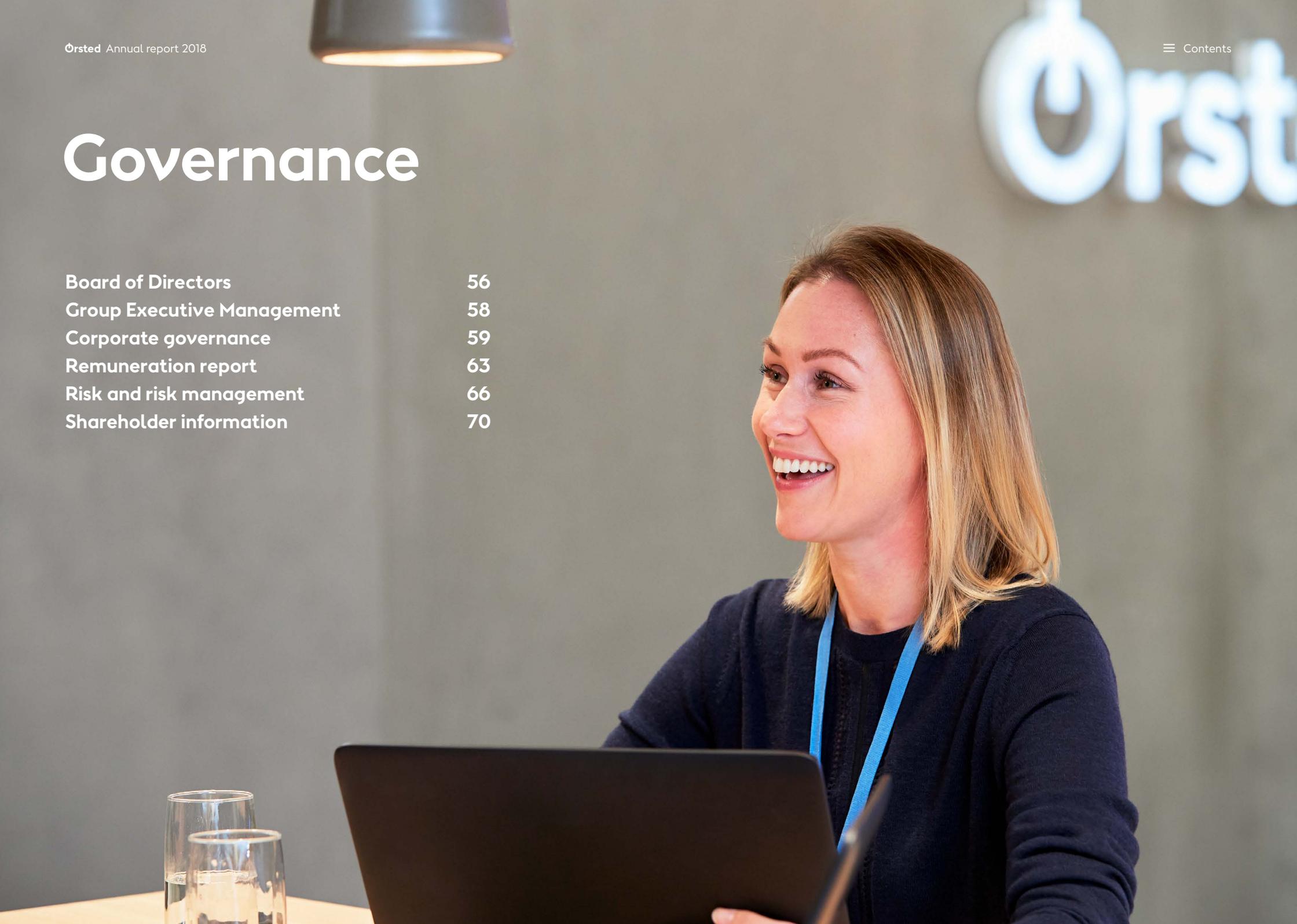
Radius' customer satisfaction remained high at 81, down from 82 in 2017 (on a scale from 1-100) despite the increase in grid disconnections and the replacement of smart meters.

Our residential customer business is pioneering the transition to time-of-day based power prices which have been offered where possible since late 2017. By the end of 2018, 94% of our customers with this option had transitioned. Customer satisfaction among residential customers who had been in contact with us was 74 in 2018, down from 76 in 2017 (on a scale from 1-100). Contrary to this decrease, our loyalty increased to 72 from 71 and our net promoter score turned 0 (on a scale from -100 to +100), following negative scores ranging from -22 to -2 from 2013 to 2017.



# Governance

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# Board of Directors



**Thomas Thune Andersen**

Chairman since 2014.  
Born 1955.  
Independent.  
Joined/re-elected: 2014/2018.  
Term of office expires: 2019.

Extensive Danish managerial experience from leading positions in A.P. Møller-Mærsk and global managerial experience from non-executive directorships in listed and privately held companies within the energy and other sectors.

**Other positions<sup>1</sup>:**

Chairman: Lloyds Register Group and Foundation  
Deputy Chairman: VKR Holding A/S  
Member: Arcon-Sunmark A/S, BW Offshore Ltd, IMI plc., the Danish Committee on Corporate Governance.



**Lene Skole**

Deputy Chairman since 2015.  
Born 1959.  
Independent.  
Joined/re-elected: 2015/2018.  
Term of office expires: 2019.

Highly experienced with managing listed companies from her previous position as CFO of Coloplast and current position as CEO of Lundbeckfonden where she serves as a non-executive director of the portfolio companies of Lundbeckfonden.

**Other positions<sup>2</sup>:**

CEO: Lundbeckfonden, Lundbeckfond Invest A/S  
Chairman: LFI Equity A/S  
Deputy Chairman: ALK-Abelló A/S, H. Lundbeck A/S, Falck A/S.  
Member: Tryg A/S, Tryg Forsikring A/S.



**Hanne Sten Andersen**

Employee representative.  
Born 1960.  
Not independent.  
Joined/re-elected: 2007/2018.  
Term of office expires: 2022.

Hanne Sten Andersen has worked in Ørsted as an HR partner in Customer Solutions since 2003.

**Position:**

Lead HR Business Partner, Customer Solutions.



**Lynda Armstrong**

Born 1950.  
Independent.  
Joined/re-elected: 2015/2018.  
Term of office expires: 2019.

Strong global managerial experience from more than 30 years in leading positions in Shell, including as VP in Shell International, and from non-executive directorships in international companies and large organisations.

**Other positions<sup>3</sup>:**

Chairman: The Engineering Construction Industry Training Board (ECITB)  
Member: KAZ Minerals plc, Central Europe Oil Company.



**Poul Dreyer**

Employee representative.  
Born 1964.  
Not independent.  
Joined/re-elected: 2014/2018.  
Term of office expires: 2022.

Poul Dreyer has worked in Ørsted as a technician in Customer Solutions since 1987.

**Position:**

Technician, Customer Solutions.



**Pia Gjellerup**

Born 1959.  
Independent.  
Joined/re-elected: 2012/2018.  
Term of office expires: 2019.

Extensive experience from a comprehensive political career in Denmark, including as Minister of Finance, Minister of Trade and Industry and Minister of Justice.

**Other positions:**

Centerdirector: National Centre for Public Innovation.  
Chairman: Vanførefonden, Fondet Dansk-Norsk Samarbejde.

<sup>1</sup> Board Committees: Remuneration Committee of Lloyds Register Group, Nomination Committee of Lloyds Register Foundation, Nomination Committee and Remuneration Committee of IMI plc, Audit Committee of BW Offshore Ltd., Nomination Committee of VKR Holding A/S.

<sup>2</sup> Member of the Audit, Nomination and Scientific Committee of ALK-Abelló A/S, member of the Remuneration and Scientific Committee of H. Lundbeck A/S, member of the Audit and Risk Committee of Tryg A/S, member of the Remuneration Committee of Falck A/S.

<sup>3</sup> Chairman of the Remuneration Committee, member of the HSE Committee and member of the Project Assurance Committee of KAZ Minerals plc. Resigned as non-executive director of Central Europe Oil Company as of 31 December 2018.

# Board of Directors



**Benny Gøbel**

Employee representative.  
Born 1967.  
Not independent.  
Joined/re-elected: 2011/2018.  
Term of office expires: 2022.

Benny Gøbel has worked in Ørsted as an engineer in Bioenergy since 2005.

**Position:**  
Engineer, Bioenergy.



**Jørgen Kildahl**

Born 1963.  
Independent.  
Joined: 2018.  
Term of office expires: 2019.

Strong international background in renewable energy and a profound knowledge of how the energy ecosystems work from positions as Executive Vice President of Statkraft and member of the board of management of E.ON.

**Other positions<sup>1</sup>:**  
Chairman: eSmart Systems, Nysäter Wind AB.  
Deputy Chairman: Telenor ASA.  
Member: Hoegh LNG Holding Ltd<sup>1</sup>.  
Other: Senior advisor, Credit Suisse Energy Infrastructure Partners



**Peter Korsholm**

Born 1971.  
Independent.  
Joined/re-elected: 2017/2018.  
Term of office expires: 2019.

Extensive M&A experience from his time as Partner and Head of EQT Partners Denmark and from private investments. Also experience with financial reporting, risk management and capital markets from CFO position at AAK AB.

**Other positions<sup>2</sup>:**  
CEO: DSVM Invest A/S, DSV Miljø Group A/S, Day et Invest ApS, Togu ApS.  
Chairman: ForwardTopCo A/S (FitnessWorld), Nymølle Stenindustri A/S, GDL Transport Holding AB, Lion Danmark I ApS.  
Member: DSVM Invest A/S, A/S United Shipping and Trading Company, DANX Holding I ApS, Day et A/S.



**Benny D. Loft**

Born 1965.  
Independent.  
Joined/re-elected: 2012/2018.  
Term of office expires: 2019.

Highly experienced within financial reporting, risk management and capital markets from more than 20 years of operational experience with listed companies, including as CFO and Executive Vice President of Novozymes.

**Other positions<sup>3</sup>:**  
Chairman: EFD Investment A/S and its subsidiaries European Freeze Dry ApS and European Freeze Dry Ltd.  
Member: New Xellia Group A/S.



**Dieter Wemmer**

Born 1957.  
Independent.  
Joined: 2018.  
Term of office expires: 2019.

Highly experienced within capital markets, investments and risk management from leading positions within the finance sector. Before focusing solely on non-executive directorships, he was the CFO of Allianz.

**Other positions<sup>4</sup>:**  
Member: UBS Group AG, UBS AG.

<sup>1</sup> Member of the Audit Committee and the Sustainability and Compliance Committee of Telenor ASA, member of Audit Committee of Hoegh LNG Holding Ltd.

<sup>2</sup> Chairman of the Investment Committee of Zoscales Partners, Chairman of the Board of Directors of two wholly-owned subsidiaries of Lion Danmark I ApS (Lomax Group). He is also a member of the Board of Directors of three wholly-owned subsidiaries of A/S United Shipping and Trading Company, three wholly-owned subsidiaries of DANX Holding I ApS, and four wholly-owned subsidiaries of DSVM Invest A/S.

<sup>3</sup> CEO of Poelhoei Holding ApS, Chairman of the Finance and Audit Committee of New Xellia Group A/S.

<sup>4</sup> Member of the Audit and Risk Committee of UBS Group AG.

# Group Executive Management



Group Executive Management consists of seven members.

From the left (bottom): **Morten Hultberg Buchgreitz** (Customer Solutions), **Marianne Wiinholt** (CFO), **Anders Lindberg** (Offshore) and **Thomas Dalsgaard** (Bioenergy)

From the left (top): **Ole Kjems Sørensen** (Onshore), **Henrik Poulsen** (CEO and President) and **Martin Neubert** (Offshore)

## Henrik Poulsen

Registered as CEO  
Chief Executive Officer (CEO) and President since August 2012  
Education: MSc in Finance and Accounting, Aarhus School of Business 1994

Born 1967  
Remuneration: DKK 17,344 thousand  
Read more in the remuneration report.

### Career and posts

2012-	Ørsted A/S, CEO and President
2008-2012	TDC A/S, CEO and President
2006-2008	Capstone/KKR, Operating Executive
1999-2006	LEGO, VP, Business Development (1999-2000), SVP, Global Segment 8+ (2000-2002), SVP, Global Innovation and Marketing (2002-2003), Regional Managing Director Europe and Asia (2004-2005), EVP, Markets and Products (2005-2006)
1996-1999	McKinsey & Co., Senior Engagement Manager
1995-1996	Aarsø Nielsen & Partners, Senior Consultant
1994-1995	Novo Nordisk A/S, Controller

### Other positions:

Kinnevik AB: Deputy Chairman and member of the Audit Committee  
ISS A/S: Member of the Board of Directors and Chairman of the Audit Committee  
EQT Partners: Adviser

## Marianne Wiinholt

Registered as CFO  
Chief Financial Officer (CFO) since October 2013  
Education: MSc in Business Administration and Auditing, Copenhagen Business School 1990, State Authorised Public Accountant 1992

Born 1965  
Remuneration: DKK 9,653 thousand  
Read more in the remuneration report.

### Career and posts

2004-	Ørsted A/S, VP, Group Finance and Accounting & Tax (2004-2005), SVP, Group Finance (2005-2013), SVP, CFO Customers & Markets (2013), EVP, Chief Financial Officer (CFO) 2013-
1997-2003	Borealis A/S, Head of Group Accounting and Tax (1997-2001), Head of Group Finance and Auditing (2001-2003)
1987-1997	Arthur Andersen, Auditor

### Other positions:

Hempel A/S: Member of the Board of Directors and Chairman of the Audit Committee  
Norsk Hydro ASA: Member of the Board of Directors and Audit Committee

# Corporate governance

Our governance model has its offspring in our Scandinavian roots and our listing on the Nasdaq Copenhagen Stock Exchange.

The overall and strategic management of the company is anchored in a board of non-executive directors appointed by the shareholders. The Board of Directors has appointed an Executive Board for handling the day-to-day management. None of the members of the Executive Board are members of the Board of Directors.

Our governance model is illustrated in the figure to the right and explained below.

## Shareholders and general meeting

Our shareholders exercise their rights at the general meeting. The general meeting adopts decisions, such as the appointment of the Board of Directors and the auditor, in accordance with the standard Danish rules. However, the approval of a proposal to amend the Articles of Association or dissolve the company requires that the Danish State as majority shareholder participate in the general meeting and vote in favour of the proposal.

## Board of Directors

### Members and duties

Each year at the annual general meeting, the shareholders elect six to eight board members. In addition, our employees may elect members corresponding to half of the board members elected by the general meeting pursuant to Danish mandatory rules. Employee elections are typically held every four years.

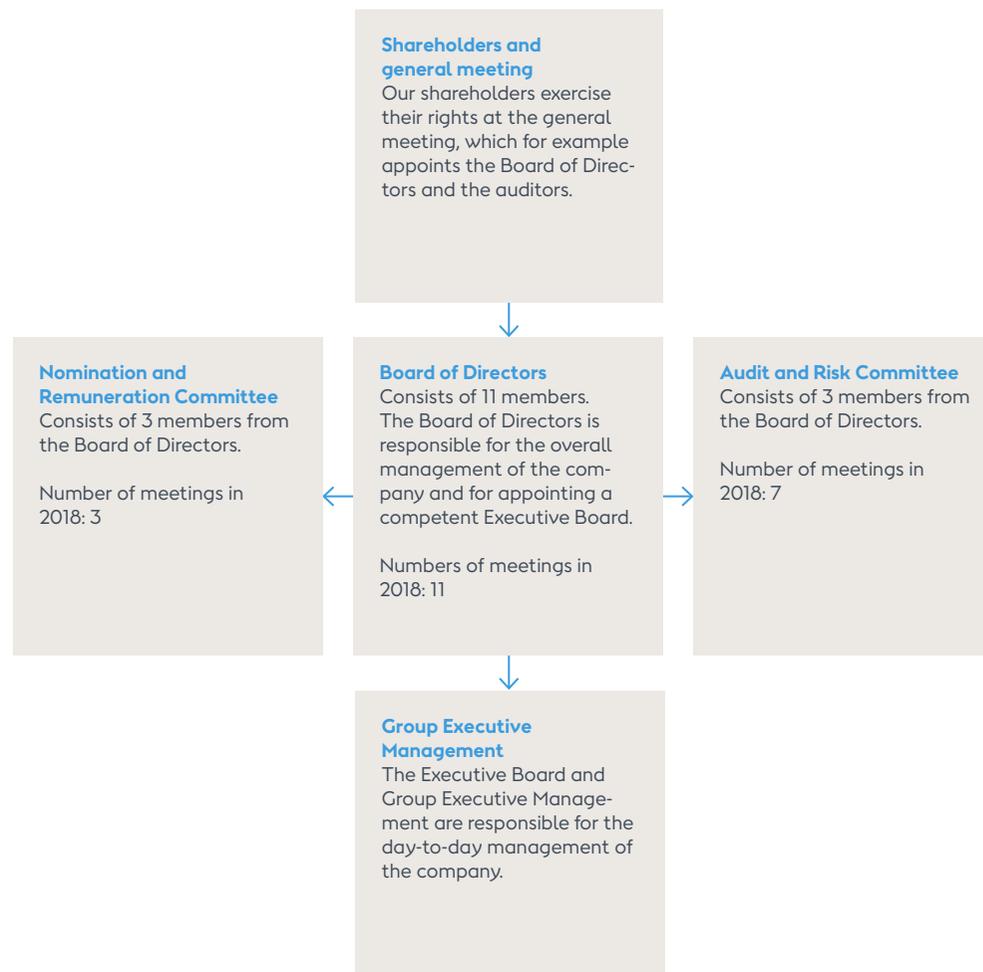
Our Board of Directors currently comprises eleven members, eight members elected by the general meeting and three members elected by the employees.

In 2018, Dieter Wemmer and Jørgen Kildahl joined the Board of Directors as new members elected by the general meeting.

The Board of Directors has prepared an overview of the competences required on the board. The list of required competences can be found on [orsted.com/competences-overview](http://orsted.com/competences-overview). In the table on the next page, we have illustrated how the current board members compare against the required competences.

The Board of Directors is responsible for the overall management of the company and appoints the Executive Board. The Board of Directors lays down the company's strategy

## Our governance model



Competences

Member of the board	Energy sector	General management	Safety management	Financial management	Risk management	Project management	Stakeholder management	Human resources management	IT, technology and digitalisation	Investor and capital markets relationships
Thomas Thune Andersen	✓	✓	✓		✓	✓	✓			
Lene Skole		✓		✓	✓		✓	✓		✓
Lynda Armstrong	✓	✓	✓		✓	✓	✓	✓		
Pia Gjellerup		✓					✓	✓		
Jørgen Kildahl	✓	✓	✓		✓	✓	✓		✓	✓
Peter Korsholm		✓		✓	✓		✓			✓
Benny D. Loft	✓	✓	✓	✓	✓		✓	✓	✓	✓
Dieter Wemmer		✓		✓	✓		✓		✓	✓
Hanne Sten Andersen <sup>1</sup>	✓	✓						✓		
Poul Dreyer <sup>1</sup>	✓									
Benny Gøbel <sup>1</sup>	✓									
Jens Nybo Stilling Sørensen <sup>1,2</sup>										

<sup>1</sup> Employee representative

<sup>2</sup> Resigned in March 2018

and makes decisions concerning major investments and divestments, the capital base, key policies, control and audit matters, risk management and significant operational issues.

The Board of Directors has appointed two committees from among its members: an Audit and Risk Committee and a Nomination and Remuneration Committee.

The rules of procedure of the Board of Directors describe the work and duties of the Board of Directors. Terms of reference are also in place for the two committees.

Information about the members of the Board of Directors, their other supervisory and executive positions and independence can be found on pages 56-57.

**The green transformation is on the board agenda**

Since climate change is fundamental to Ørsted's business strategy and all our investments, climate-related issues are directly or indirectly an agenda item at all board meetings. As such, climate-related issues are integrated in reviewing and guiding our strategy, in setting performance objectives, and in overseeing major

investments, acquisitions and divestments. The Board of Directors monitors and oversees progress related to Ørsted's strategic ambitions and targets for addressing climate-related issues.

**Special tasks in 2018**

Key tasks for the Board of Directors have been the build-out of our offshore wind project portfolio after 2020, the establishment of a new onshore wind platform in the US through the acquisition of Lincoln Clean Energy, the acquisition of the US wind developer Deepwater Wind, the farm-down of Hornsea 1 in the UK and the initiation of a structured divestment

Meeting attendance

Board of Directors		Audit and Risk Committee		Nomination and Remuneration Committee
●	●	●	●	
7/0	4/0			3/0
7/0	4/0	2/0	0/1	3/0
7/0	3/1			
6/1	4/0			3/0
6/0	2/2			
7/0	2/2	5/1	1/0	
7/0	4/0	6/0	1/0	
5/1	4/0	5/0	0/0	
7/0	4/0			
7/0	4/0			
1/0	n.a.			

⬆ ● Ordinary ● Extraordinary

The numbers indicate how many meetings in 2018 the members have attended and not attended, respectively, during the year.

process for our Danish power distribution, residential customer and city light businesses.

The Board of Directors conducted its annual board effectiveness assessment in December 2018. The assessment was conducted with assistance from an external adviser, who conducted a survey and interviewed all board members. The input from the survey and interviews was processed and analysed with international benchmarking. The external adviser also acted as an observer during a board meeting.

## Important tasks for the Board of Directors in 2018

### Investments, acquisitions and divestments

- Acquisition of the US onshore wind developer Lincoln Clean Energy.
- Acquisition of the US offshore wind developer Deepwater Wind.
- Farm-down of the offshore wind farm Hornsea 1 in the UK.
- Initiation of divestment of our Danish power distribution and residential customer and city light businesses.

### Other tasks

- Preparation of new ambitious targets for our long-term strategic and financial development with an ambition to lead the green transformation.
- Appointment of new CEO for Offshore.
- Establishment and appointment of CEO for Onshore.
- Development of our offshore wind project portfolio in the UK, Germany, the Netherlands, Taiwan and the US.
- Development of our onshore wind project portfolio in the US.
- Review of overall IT security.
- Preparation of a Global Diversity & Inclusion Policy.

The external adviser concluded that the Board of Directors has evolved in many dimensions and was in good shape for the challenges ahead. The Board of Directors has a strong and relevant composition with a breadth of skills, competences and perspectives and solid financial knowledge. Although many board members are relatively new, the Board of Directors is well aligned in relation to strategic priorities and its modus operandi, which is steered effectively by the Chairmanship.

### Remuneration

Each year, the general meeting approves the remuneration for the members of the Board of Directors for the coming year. In the section on remuneration on page 65, you can read more about the remuneration of the Board of Directors.

## Nomination and Remuneration Committee

### Members and duties

Thomas Thune Andersen (Chairman), Lene Skole and Pia Gjellerup are the members of the Nomination and Remuneration Committee.

The committee assists the Board of Directors in matters regarding the composition, remuneration and performance of the Board of Directors and Group Executive Management.

You can read more about the Nomination and Remuneration Committee and the terms of reference for the committee at [orsted.com/nomination-remuneration-committee](https://orsted.com/nomination-remuneration-committee).

### Special tasks in 2018

In 2018, the committee discussed, among other matters, payment of retention bonuses granted in connection with the planned divestment of our Danish power distribution, residential customer and city light businesses as well as retention bonuses to individual business-critical employees in companies acquired during the year.

Additionally, the committee discussed a share-based retention tool which was introduced in 2018 and targeted at a limited number of employees responsible for critical long-term projects.

The committee also reviewed an update of the compensation model and governance for our top 100 employees.

## Audit and Risk Committee

### Members and duties

Benny D. Loft (Chairman), Dieter Wemmer and Peter Korsholm are the members of the Audit and Risk Committee.

The committee assists the Board of Directors in overseeing the financial and ESG reporting process, the capital structure development, financial and business-related risks, compliance with statutory and other requirements from public authorities as well as the internal controls.

Moreover, the committee approves the framework for the work of the company's external and internal auditors, evaluates the external auditors' independence and qualifications as

well as monitors the company's whistleblower scheme.

Our Internal Audit function reports to the Audit and Risk Committee and is independent of our administrative management structures. Internal Audit enhances and protects the organisational value by providing risk-based and objective assurance, advice and insight. Further, Internal Audit is primarily involved in auditing and advising on our core processes, governance, risk management, control processes and IT security.

The Chairman of the Audit and Risk Committee is responsible for managing our whistleblower scheme. Internal Audit receives and handles reports submitted. Our employees and other associates may report serious offences, such as cases of bribery, fraud and other inappropriate or illegal conduct, to our whistleblower scheme or through our management system. In 2018, two substantiated cases of inappropriate or unlawful behaviour were reported through our whistleblower scheme. One case concerned violation of procure-to-pay policies, and one case concerned misappropriation of assets. The cases had consequences for the individuals involved. None of the reported cases were critical to our business or impacted our financial results. Whistleblower cases are taken very seriously, and an awareness campaign was conducted to avoid similar cases.

You can read more about the Audit and Risk Committee and the terms of reference for the committee at [orsted.com/audit-risk-committee](https://orsted.com/audit-risk-committee).

### Important tasks for the Audit and Risk Committee in 2018

#### Audit and accounting

- Review of the accounting policy applied for US subsidies and tax attributes.
- Review of the principles and disclosures related to the two acquisitions (business combinations) and divestments.
- Review of the implementation of IFRS 15 as well as supervising the preparation for IFRS 16 implementation in 2019.
- Review of expectations for market prices, exchange rates, discount rates and risk-free interest rates.
- Review of significant provisions and warranties in the Group.
- Monitoring of capital structure development.
- Monitoring of the voluntary limit for non-audit services as well as preliminary approval thereof.

#### Risk

- Monitoring of business and emerging risks.
- Review and assessment of the principles applied for the adopted inflation exposure management policy.
- Review of IT security in operational and administrative areas as well as cybersecurity.
- Assessment of liquidity reserve and capital structure.
- Monitoring of currency and energy hedging mandates.
- Supervision of the work involved in ensuring compliance with the requirements of the General Data Protection Regulation.

### Special tasks in 2018

In 2018, the Audit and Risk Committee focused on the two acquisitions of Lincoln Clean Energy and Deepwater Wind in the US, IT/ cybersecurity together with the implementation of the new General Data Protection Regulation (GDPR) and the inflation exposure management policy adopted in 2018.

Internal Audit undertook special audit and consultancy tasks within the following areas: prevention of cybercrime, GDPR, compliance, internationalisation, asset management, commodity and currency hedging, compliance monitoring and business conduct.

### Executive Board and Group Executive Management

#### Members and duties

Henrik Poulsen (CEO) and Marianne Wiinholt (CFO) are members of the Executive Board of Ørsted A/S.

The Executive Board undertakes the day-to-day management through Group Executive Management, which consists of seven members. In addition to Henrik Poulsen and Marianne Wiinholt, Group Executive Management comprises the executive vice presidents of our four business units: Martin Neubert (Offshore), Ole Kjems Sørensen (Onshore), Thomas Dalsgaard (Bioenergy) and Morten H. Buchgreitz (Customer Solutions) together with Anders Lindberg, Executive Vice President of Offshore EPC and QHSE.

The Board of Directors has laid down guidelines for the work of the Executive Board, including the division of work between the Board of Directors and the Executive Board and the Executive Board's powers to enter into agreements on behalf of the company. The Board of Directors regularly discusses the CEO's performance, for example by following up on developments seen in relation to our strategy and objectives.

The Chairman of the Board of Directors and the CEO also regularly discuss the cooperation between the Board of Directors and the Executive Board.

You can find information about the members of the Executive Board, including their previous employment and other executive functions, on page 58. We describe the remuneration of the Executive Board in the section on remuneration on pages 63-65.

### Our corporate governance positions

We comply or partly comply with all 47 recommendations prepared by the Danish Committee on Corporate Governance as last updated in November 2017 (please see [corporategovernance.dk](http://corporategovernance.dk)).

Our only deviation is that the first grant under the share programme for the Executive Board has a slightly shorter vesting period than the recommended three years. Upon vesting of the first grant in May 2019, we will comply with all 47 recommendations.

Our statutory report on corporate governance can be found at [orsted.com/statutory-reports](http://orsted.com/statutory-reports). The report describes in more detail whether and how we comply with or deviate from the recommendations.

# Remuneration report

## Remuneration policy

The overall objective of our remuneration policy is to attract, motivate and retain qualified members of our Board of Directors and our Executive Board.

In addition, the policy aims to strike the right balance between the Executive Board's fixed and incentive-based remuneration with the target of remunerating the members in relation to the results achieved at company and individual levels. This ensures a tightly aligned interest between the Executive Board and the shareholders.

The remuneration policy is available at [orsted.com/Remuneration-policy-2018](http://orsted.com/Remuneration-policy-2018).

## Remuneration of the Executive Board

### Remuneration structure

In February 2018, the Board of Directors decided to keep the remuneration structure unchanged for 2018 compared to 2017. The remuneration structure and the remuneration for the Executive Board are shown in the table to the right. The two incentive schemes are described in more detail below.

### Cash-based incentive schemes (STI)

The cash-based incentive scheme is an annual bonus with a target of 15% of the fixed salary and may not exceed 30%. The Nomination and Remuneration Committee sets the targets

### Remuneration structure and remuneration for the Executive Board

Element	Henrik Poulsen			Marianne Wiinholt			Objective	Remuneration level	Performance measure
	2018	2017	2016	2018	2017	2016			
Fixed salary	10,500	9,700	9,238	5,900	5,061	4,820	Attract and retain qualified managers.	Competitive, but not market leading, compared to the level in similar major listed Danish companies with international activities.	
Cash-based incentive schemes (STI)	2,993	2,656	2,135	1,637	1,348	1,239	Ensure shared ownership of the entire company's performance and a clear link between value creation and pay-out.	Target of 15% of the fixed salary. The maximum bonus amounts to 30% and will be paid-out in case of full achievement of all performance targets.	The performance reward agreement consists of three targets: <ul style="list-style-type: none"> <li>– specific individual business targets and leadership (60%)</li> <li>– financial target (30%)</li> <li>– safety target (10%).</li> </ul>
Share-based incentive scheme (LTI)	2,306	1,367	1,427	1,231	713	889	Reward long-term value creation and align the Executive Board's interests with those of the shareholders.	Target of 20% of the annual fixed salary at the date of grant. After three years, shares will be allocated at 0-200% of the number of PSUs granted, depending on Ørsted's total shareholder return compared to peers.	The final number of shares will be determined on the basis of Ørsted's total shareholder return benchmarked against ten peers.
IPO Executive Retention Bonus	1,232	1,848	616	643	964	321	Retain the Executive Board after the IPO. Phasing into a share based long-term incentive scheme.	20% of the fixed annual salary at 1 July 2016.	Employment at 1 September 2017 and 1 September 2018, respectively.
Pension, incl. social security and benefits	313	326	187	242	196	244		The members of the Executive Board are not entitled to pension contributions, only social security.	
Severance pay								If a member of the Executive Board is terminated by the company, the person is entitled to 24 months' salary, composed of full remuneration during the 12 month notice period and 12 months of severance pay (fixed salary only).	
<b>Total, DKK '000</b>	<b>17,344</b>	<b>15,897</b>	<b>13,605</b>	<b>9,653</b>	<b>8,282</b>	<b>7,513</b>			
<b>STI in % of maximum bonus</b>	<b>95%</b>	<b>91%</b>	<b>91%</b>	<b>93%</b>	<b>88%</b>	<b>94%</b>			

for and assesses the performance of the CEO. The Chairman of the Board of Directors and the CEO set the targets for and assess the performance of the CFO.

The Executive Board's specific individual business targets are tied directly to Ørsted's green growth strategy to build out renewable energy. The specific individual business targets comprise a number of items which are defined at the beginning of the year and updated during the year if new targets become relevant to ensure continuous alignment with shareholder interests. See table to the right for a more detailed description of the targets.

**Share-based incentive scheme (LTI)**

The Executive Board is covered by a share programme. It is a condition for being granted performance share units (PSUs) that the participant holds a number of Ørsted shares, representing a value equal to a share of each participant's fixed salary. For the CEO, this share is 75% of the fixed salary, and for the CFO it is 50%.

If the participants fulfil the shareholding requirement at the time of the annual grant, they will receive a number of PSUs, representing a value equal to 20% of their fixed salary on the date of granting.

The PSUs granted have a vesting period of three years, after which each PSU entitles the holder to receive a number of shares free of charge, corresponding to 0-200% of the number of PSUs granted. Assuming no share price development since the grant, this would correspond to 0-40% of the fixed salary on the date of grant. The final number of shares

for each participant will be determined on the basis of the total shareholder return delivered by Ørsted, benchmarked against ten comparable European energy companies, i.e. 200% if Ørsted ranks first, 100% if sixth, and no shares if we rank last. At the end of 2018, Ørsted ranked first, second and fourth, respectively, in the three outstanding share-programmes against the ten peers.

If a member of the Executive Board leaves Ørsted as a result of his or her own resignation or due to breach of his or her employment, the entitlement to shares vesting after the notice period is lost.

The IPO Executive Retention Programme, which purpose was to phase into a long-term share based incentive scheme, expired in 2018, as the LTI programme will start to vest from 2019.

The table is a non-exhaustive summary of the individual business targets for our CEO and CFO as well as shared Group targets. They must deliver fully on all their individual targets in order to achieve the maximum cash bonus (STI).

The other members of the Group Executive Management have their own individual business targets and are remunerated according to the same model as described to the right.

**Number of PSUs and shares owned by the Executive Board**

	Henrik Poulsen	Marianne Wiinholt
<b>Share-programme</b>		
Maximum number of PSUs at 31 December 2018	41,368	22,062
Maximum fair value of PSUs at 31 December 2018	DKK 18 million	DKK 10 million
<b>Current holding of Ørsted shares</b>		
Number of Ørsted shares owned	130,500	83,916
<b>Fair value of Ørsted shares at 31 December 2018 in percentage of fixed salary for 2018</b>	<b>542%</b>	<b>620%</b>



The table shows that both members of the Executive Board meet the share capital requirement.

**Overview of targets and performance in the cash bonus (STI)**

Objectives and performance 2018	Henrik Poulsen		Marianne Wiinholt	
	Objectives	Score	Objectives	Score
Safety target (10%)	– TRIR compared to target	100%	– TRIR compared to target	100%
Financial target (30%)	– EBITDA compared to guidance	100%	– EBITDA compared to guidance	100%
Specific individual business targets and leadership (60%)	– First-class safety culture and standards – ROCE in line with plan – Deliver major construction projects on budget and time – Winning auctions and/or securing key access rights/permits in Offshore's existing and new strategic markets, e.g. the US and Taiwan, with a sustained focus on value creation – Investigate and pursue additional value-creating growth opportunities within renewable energy, incl. potential acquisitions – Continue to reduce the cost of electricity in offshore wind – Farm-down of Hornsea 1 – Develop potential new markets for offshore wind	92%	– First-class safety culture and standards – ROCE in line with plan – Manage capital structure within current rating commitments – Support green growth by providing high-quality decision input related to financial analysis, tax, risk management, funding, etc. – Proactively manage risks related to currencies, interest rates and inflation – Increase quality and cost effectiveness in IT and exploit digital opportunities – Develop plan and implement initiatives to raise IT security level – Lead the implementation of the GDPR project – Update the tax strategy	88%



### Clawback clause

The Executive Board's incentive schemes are subject to a clawback clause whereby any paid-out bonus must be repaid if:

- the circumstances and data that the bonus was based on are erroneous
- the Executive Board member knew or should have known about this circumstance.

The Executive Board member must repay any amount of the incentive pay received in excess of the incentive pay calculated, applying the correct data.

### Remuneration 2018

The remuneration paid to our CEO totalled DKK 17.3 million in 2018, representing an increase of 9.1% compared to 2017. The cash bonus (STI) made up DKK 3.0 million, corresponding to 92% of the maximum bonus. The bonus percentage reflects a performance exceeding the targets for the Group's financial and safety results. The score for the CEO's specific individual business targets and leadership is also at the high end of the range. See table on page 64 for an overview of the specific individual business targets.

The remuneration paid to our CFO totalled DKK 9.7 million, representing an increase of 16.6% compared to 2017. The cash bonus (STI) made up DKK 1.6 million, corresponding to 88% of the maximum bonus. The bonus percentage reflects a performance exceeding the targets for the Group's financial and safety results. The score for the CFO's specific individual business targets and leadership is also at the high end of the range.

In 2018, the remuneration under the share-based incentive programme consisted of the market value of the scheme at the time of granting, distributed over the vesting period. Both members of the Executive Board are covered by the share programmes from September 2016, April 2017 and April 2018. The IPO retention bonuses for 2017 and 2018 constitute the phase-in to the vesting of the first share programme in May 2019. The decreases in the IPO retention bonuses in 2018 are attributable to the fact that the scheme covered only eight months of 2018 after which it expired.

### Comparison to development in the Group's average salary

In 2018, the fixed salary for the CEO and CFO increased by 8.2% and 16.6%, respectively, which was more than the average salary increase in the Group of 2.9%<sup>1</sup> (2.8% in Denmark). The higher increases for the CEO and CFO were given to narrow the gap in total remuneration compared to the market median levels for similar roles in large Danish peer companies.

## Remuneration of the Board of Directors

### Remuneration structure

The members of the Board of Directors receive a fixed fee each year. The Chairmanship and the members of the committees also receive a multiple of the fixed fee for their extra work. None of the members receive separate fees for consultancy work for Ørsted. The members' travel costs are covered by the company. The members are not entitled to severance payments.

### Remuneration multiple 2018, Board of Directors and committees

	Board of Directors	Audit and Risk Committee	Nomination and Remuneration Committee
Chairman	3.0	0.6	0.4
Deputy Chairman	2.0	n.a.	n.a.
Member	1.0	0.3	0.25



The remuneration multiples are unchanged from 2017.

### Remuneration of the Board of Directors

DKK '000	Annual fee	Audit and Risk Committee	Nomination and Remuneration Committee	2018	2017
Thomas Thune Andersen <sup>1</sup>	960	-	128	1,088	1,088
Lene Skole <sup>1</sup>	640	24	80	744	803
Hanne Steen Andersen <sup>1</sup>	320	-	-	320	320
Lynda Armstrong	320	-	-	320	320
Poul Dreyer <sup>1</sup>	320	-	-	320	320
Pia Gjellerup	320	-	80	400	400
Benny Gøbel <sup>1</sup>	320	-	-	320	320
Benny D. Loft	320	192	-	512	512
Peter Korsholm (joined in March 2017) <sup>1</sup>	320	96	-	416	347
Dieter Wemmer (joined in March 2018)	267	80	-	347	-
Jørgen Kildahl (joined in March 2018)	267	-	-	267	-
Jens Nybo Stilling Sørensen (resigned in March 2018)	80	-	-	80	320
Poul Arne Nielsen (resigned in March 2017)	-	-	-	-	80
Claus Wiinblad (resigned in March 2017)	-	-	-	-	104
<b>Total</b>	<b>4,454</b>	<b>392</b>	<b>288</b>	<b>5,134</b>	<b>4,934</b>



The table shows the remuneration paid to the members of the Board of Directors and committees. The remuneration of the Board of Directors comprises a fixed fee only, and the fee remains unchanged at DKK 320,000 as last year.

<sup>1)</sup> At 31 December 2018, the board members own the following number of shares in Ørsted A/S: Thomas Thune Andersen 550 (2017: 0), Lene Skole 1,160 (2017: 0), Peter Korsholm 4,500 (2017: 4,500), Hanne Steen Andersen 2,394 (2017: 3,187), Poul Dreyer 837 (2017: 837), Benny Gøbel 1,087 (2017: 837). No other board members own shares in Ørsted A/S.

<sup>1)</sup> Calculated based on the salary after the yearly salary adjustment for all employees who remained employed at the time of the yearly salary adjustment.

# Risk and risk management

Risks are a natural and integral part of our business activities. Our aim is to mitigate our risks and reduce them to an acceptable level through risk management.

We are exposed to several risks. In addition to operational, business and environmental risks, we are exposed to fluctuations in exchange rates, interest rates, inflation and commodity prices, as well as credit and insurance risks. The purpose of our risk management is to identify all risks we are exposed to and decide how best to manage and mitigate them. We assess the extent to which individual risks are acceptable or perhaps even desirable, as well as the extent to which these risks can be reduced to ensure an optimum balance between risk and return.

To a large extent, our earnings are centred within offshore wind and other green energy technologies. Although, Denmark and the UK are key contributors to our current earnings, our future earnings will increasingly be spread across different geographical regions and technologies. Therefore, political and other macroeconomic factors play an important role in our risk management. When we invest in new assets and activities or divest assets, the risk associated with our portfolio changes. We therefore assess the impact of a given decision on the portfolio in advance.

We work systematically with risks and follow a plan for the year according to which all business units and selected staff functions identify and prioritise business risks. An assessment is made of the potential financial impact of individual risks, and whether they are of a short-term (0-2 years), medium-term (2-5 years), long-term (5+ years) or recurring nature. All of our risks are then consolidated and evaluated at Group level. The ultimate responsibility for all the individual risks rests with a member of the Group Executive Committee. As for business risks, similar processes are in place for identifying and prioritising risks related to sustainability, cybersecurity and legal compliance.

The top five business risks identified during 2018 are shown to the right, where they are illustrated based on their potential impact (post-risk mitigation) on our value and credit metrics over the next years. You can read more about these risks on the following pages.

Brexit is not in itself part of our top five business risks, as the UK's decision to leave the EU will not, in our opinion, result in fundamental changes in the UK's energy policy. Recent announcements by the UK Government show that the UK is committed to a clean, green energy future, and offshore wind can be the backbone of this green vision. We have analysed a number of Brexit scenarios and believe that even if a deal is not reached between the UK and the EU, and there is a disruption to the

flow of goods between the UK and the EU, trade and customs facilities will still function in the medium term. Our most significant risk related to Brexit is assessed to be a long-term depreciation of the GBP, which is a part of our top 1 business risks.

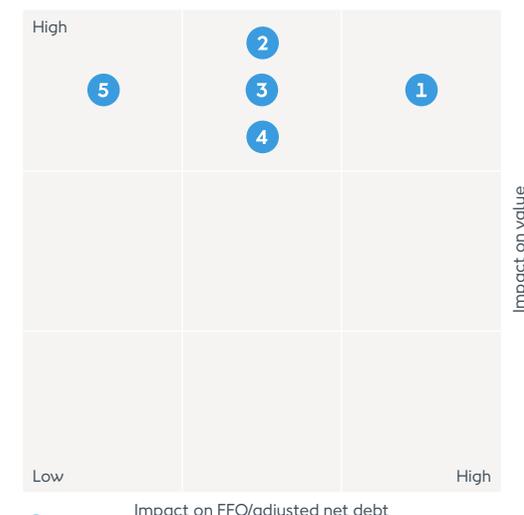
The risks related to sustainability, cybersecurity and legal compliance are assessed using different parameters, which is why we are unable to show a consolidated picture of our combined risks. A description of the most significant sustainability risks can be found in our sustainability report and for each of the other two areas on page 69.

We are also exposed to risks which have a very small probability of occurring, but which could potentially impact our finances and/or reputation substantially. These risks include, but are not limited to:

- 1,000-year storms, hurricanes, typhoons or earthquakes, which may lead to the loss of offshore and onshore wind farms
- broken pipes at the Nybro Gas Treatment Plant in Denmark, which may lead to personal injury and damage to the environment
- breakdowns at power stations that may lead to personal injury and loss of assets.

After risk-reducing measures are implemented, the Group Executive Management assesses whether the level of each risk is appropriate or

**Top 5 business risks**  
Effect on our value and credit metric



Quantification of risks is based on a scenario where the risk occurs with 10% probability (P90). Our Internal Audit function has examined the process for identifying and measuring the accompanying portfolio risks.

- 1** (#1 2017)  
Currency, inflation and interest rates
- 2** (#1 2017)  
Commodity prices
- 3** (#2 2017)  
Development and construction of production assets
- 4** (#3 2017)  
Operation of offshore wind farms
- 5** (#4 2017)  
Regulatory risks within offshore wind

Impact on value

slightly or significantly higher than the desired level. If the risk level is still too high, further risk-reducing measures are initiated to the extent possible.

### Climate-related risks

We address climate-related risks and opportunities as an integral part of our daily business, as these are directly linked to our green vision and strategy. We seek to exploit climate-related opportunities through our development and construction of renewable heat and power generation capacity and adjacent sustainable activities. At the same time, we seek to reduce both our transitional and physical climate-related risks in the short, medium and long term. We do that by, among other things:

- influencing regulators and other public authorities toward ambitious targets for the build-out of renewable capacity and regulatory frameworks that support this
- continuously working to improve the future competitiveness of green technologies, i.e. lowering the levelised cost of electricity
- assessing acute and chronic weather development; in particular wind speeds and patterns, but also the temperature and precipitation levels in general
- taking extreme weather conditions and other relevant factors into account when we design and construct our assets.

In that way, we seek to avoid ending up with stranded assets or assets and activities with a significantly lower value than originally expected, which we potentially need to write down or provide for.

When we prepare business cases for investments in new assets or activities, we take

climate-related risks and opportunities into account by assessing the expected changes in the technology mix that will be delivering heat and power in the future. On this basis, we assess the expected derived impact on input and output prices of energy, including the price development of components and services to be used for the construction of these assets as part of our LCoE analysis.

Our planning scenario until 2040 for the power systems in North Western Europe is in accordance with a carbon emission reduction trajectory for these countries leading to a 2-degree temperature increase.

We track the impact of undertaking these new investments on our carbon footprint to enable us to disclose our own direct greenhouse gas emissions from heat and power generation and the derived avoided emissions from displacing fossil-based generation. We have also recently started to track and assess the total impact on greenhouse gas emissions across our entire business portfolio as well as across the full value chain from our procurement through to the final consumption at our end-users.

### Development in risks in 2018

The acquisitions of US-based Deepwater Wind and Lincoln Clean Energy in 2018 have significantly increased our exposure to the US market, and the allocation of grid capacity in Taiwan will significantly increase our exposure to this market if we continue with our projects. These developments have had an impact on the ranking of our top five business risks.

Due to our increased international activities, we have divided our market risks into currency, inflation and interest rate risks, and commodity price risks. Our exposure to exchange rate fluctuations, primarily GBP, USD and potentially New Taiwan dollar (NTD), has increased due to significant investments in offshore wind in these areas. Currency and interest rate risks are deemed to be our most significant business risk, whereas commodity prices are rated our second largest risk.

Our third largest risk now includes the development and construction of production assets in new markets, where there are higher risks associated with construction, among other things, due to the need for developing the value chain in these immature markets.

Risks associated with the operation of offshore wind farms is our fourth largest risk.

Regulatory risks within offshore wind is our fifth largest risk and has renewed focus due to the expansion into new markets.

A continued reduction of the levelised cost of electricity (LCoE) remains a key focus area, but has moved out of our top five risks.

## 1 Currency, inflation and interest rates

### Description

Our main currency exposure relates to GBP due to our substantial investments in offshore wind farms in the UK. However, our recent expansion has increased our USD exposure and will increase our NTD exposure if we continue with the projects.

To a large extent, our medium- to long-term earnings can be expected to follow the development in consumer and market prices, thereby protecting the real value of our assets and equity. Fixed nominal subsidies from wind assets in Denmark, Germany and the Netherlands, fixed-price power purchase agreements (PPAs) from assets in the US and potentially Taiwan, as well as fixed nominal cash flows related to debt are exceptions. We are exposed to inflation risk in these markets, where an increase in inflation will adversely impact the expected real value of the revenue.

### Potential impact

Fluctuations in exchange rates, interest rates and inflation may adversely impact our earnings.

### Mitigation initiatives

Currency risks are generally hedged for up to five years when cash flows in foreign currency are deemed relatively certain. However, for cash flows related to fixed tariffs and guaranteed minimum prices from offshore wind farms in the UK, we apply a decreasing degree of hedging over the risk management horizon.

Consequently, we are well protected against exchange rate fluctuations in the short-term, but only partly hedged in the medium-term. Our inflation and interest rate exposure is managed by matching assets and liabilities in the same currency and with similar payment structure. Hence, our European fixed nominal subsidies are offset by EUR-denominated fixed-rate debt. The close relationship between inflation and interest rates also protects the equity value of Ørsted against changes in interest rates to some extent.

## 2 Commodity prices

### Description

We are primarily exposed to power price risks from the sale of our wind-based power generation. In addition, we typically enter into agreements to buy our partners' share of the power from our jointly owned offshore wind farms. These investor power purchase agreements (iPPAs) entail further exposure as they include floors and caps related to a pre-determined power price level.

To a lesser extent, we are exposed to oil and gas price risks related to sourcing contracts for gas and LNG on oil-indexed prices as well as the sale of gas at fixed prices. Finally, power generation from our CHP plants entails a spread exposure between the difference in the power price and the fuel price (i.e. biomass, coal, gas and carbon quotas).

### Potential impact

Fluctuations in commodity prices may adversely impact our earnings.

### Mitigation initiatives

We hedge commodity prices for up to five years, and in some cases longer, to reduce cash flow fluctuations. We hedge based on minimum hedging requirements for each of the business units, with a high hedge level in the first two years. The degree of hedging is lower in the subsequent years. This is due to declining certainty about generated volumes and increasing costs due to the declining liquidity of the hedge instruments.

As an alternative to hedging, we seek to enter into long-term corporate power purchase agreements (cPPAs), under which we sell power from our renewable assets. Corporate PPAs or hedges with a duration of 12-15 years are often a prerequisite for obtaining tax equity partnerships in the US. In addition, cPPAs will be a means to reducing business case uncertainty for offshore wind farms to be built without subsidies.

## 3 Development and construction of production assets

### Description

Our strategy includes the construction of large-scale investment projects. Value creation from new projects heavily depends on choosing the right technical and commercial solutions, on the design and construction phase progressing as planned, on our suppliers living up to their obligations, on maturing the value chain in new markets, on avoiding investment budget overruns and on timely start-up of generation.

The majority of our new investments are made in offshore assets, which naturally increases the risks in the construction phase. Some of these are the nature of sea beds, weather conditions and dependence on installation and transit vessels.

Our entry into the US and potentially Taiwan entails some further risks due to the immaturity of offshore wind in these markets. These risks include, local legislation, such as the Jones Act in the US, and the inability to fulfil local content requirements without unappropriated costs and delays due to limited experience among local manufacturers.

### Potential impact

If we fail to take any of the conditions mentioned above into account, we may experience delays and budget overruns. Delays can lead to failure to meet deadlines and possibly partial loss of subsidies, grid connection and/or project rights.

### Mitigation initiatives

We are continuously working on standardising processes based on our vast experience from previous complex investment projects. This has led to, and will continue to lead to, industrialisation of the installation activities. In recent years, this has led to successful completion of several large investment projects, many of which have been completed ahead of schedule and below budget.

## 4 Operation of offshore wind farms

### Description

The risks associated with the operation of offshore wind farms relate to forecasts for availability and operating expenses as well as faults in transmission cables and substations. Faults like this may result in breakdowns and loss of generation from parts of or an entire offshore wind farm over an extended period of time. Such losses are not compensated in the UK, whereas they are fully compensated in Denmark and partly compensated in Germany and Holland.

### Potential impact

Our forecasts for availability and operating expenses are based on several assumptions received from suppliers and on historical data. There is a risk that these assumptions do not hold, and that fault rates and costs are higher than expected. This may lead to deviations between actual generation and forecasts. Faults in transmission assets and substations may have a negative effect on our earnings in case of a lack of compensation thereof.

### Mitigation initiatives

We are implementing an operational excellence programme on all wind farms with the aim of increasing the availability and power generation and reducing operational costs. We have put in place various contingency plans to cater for unforeseeable events, including critical repair services to handle cable faults, monitoring signs of damage and initiating repair campaigns where deemed necessary. In addition, we are working continuously to reduce the risk of faults in the operation of offshore wind farms, e.g. by monitoring and applying advanced analytics to operational data collected and by carrying out preventive remedial work on emerging damage.

## 5 Regulatory risks within offshore wind

### Description

The risk associated with regulatory regimes is twofold. First, it is associated with the possibilities for obtaining subsidies or in other ways support for offshore build-out. Secondly, it is associated with the possibilities for obtaining the needed consents, grid connections and relevant approvals from local authorities, including permits or other agreements needed to secure a viable project.

Although the EU countries have increased their 2030 renewable energy targets, the implementation rests with the member states, which means that some uncertainty still prevails. In the US, several East Coast states have committed themselves to offshore build-out, and Taiwan is also expected to continue the build-out of offshore wind towards 2030.

Most markets have tender or auction-based subsidy regimes, where the only or most important factor is the bid price. However, in some countries, a certain level of local content is required.

### Potential impact

We do not expect changes to be made to the subsidy schemes with retrospective effect for existing offshore wind projects. The greatest risks are associated with the need to obtain relevant consents and approvals from local authorities and to be connected to the grid. Delays in these areas may lead to total or partial loss of subsidies. This risk is significantly reduced for projects where subsidies and possibly project rights are granted in competitive bidding processes.

### Mitigation initiatives

We mitigate the risk by monitoring political and regulatory developments in all relevant countries and by engaging in an active dialogue with relevant authorities about environmental approvals, regulatory milestones and the economic regimes. We also engage in the development of local capabilities to increase local content in the projects.

## Cybersecurity

### Description

In recent years, several major cyberattacks have been launched against companies around the world, and according to the Danish Centre for Cybersecurity, the risk of cyberattacks aimed at Danish companies is high. Thus, we have a strong focus on IT security.

We are responsible for critical infrastructure, and we own various types of intellectual property rights. This means that we are a potential target for cyberattacks or industrial espionage.

### Potential impact

Minor digital risk events like viruses and attempted break-ins are everyday risks without significant impact. However, major cyberattacks or events may impact all or part of our shared infrastructure for administrative systems or industrial control systems. For the latter, the impact could range from a single asset to potentially all assets and activities in the company. Cyberattacks of a certain size can be costly if it forces us to shut down operations for a period of time.

### Mitigation initiatives

We have launched a significant resourced programme with the aim to improve resilience against cyberattacks and other threats across Ørsted. In addition, we are running cyber risk awareness campaigns throughout the organisation in order to decrease threats from phishing campaigns, etc.

Furthermore, we are participating in relevant forums across the energy sector to harvest and contribute with information and experience. One example is the Systems & Cyber Resilience working group organised by the World Economic Forum. We are also part of the Danish Network Security Service under the Danish Ministry of Defence to enhance resilience.

## Legal compliance

### Description

Risks associated with legal compliance are assessed based on financial and reputational significance and probability. Our most significant risks are financial regulation, the EU General Data Protection Regulation (GDPR) and tender law.

We are subject to several financial regulations, such as REMIT, MAR, EMIR, Dodd Frank, MiFID, SFTR and AML. The financial regulations are relevant for a large part of our activities. In relation to GDPR, we are primarily processing personal data regarding our Danish residential customers and our employees. Most of our contracts for goods, services and works are subject to EU and local tender law rules.

### Potential impact

Failure to comply with the above-mentioned rules and regulations may result in severe legal sanctions, such as imprisonment, fines and damage claims.

### Mitigation initiatives

We have implemented comprehensive policies, procedures, training and controls for relevant parts of our business to ensure compliance with financial regulations.

To ensure that we process personal data in compliance with GDPR, we have mapped and analysed our personal data processing and developed a Group-wide compliance programme. The compliance programme includes various organisational and technical measures and mandatory training of employees in risk-exposed positions.

To counter the tender law risk, our procurement department is involved in almost all procurement activities, and our legal department carries out courses on tender law and review of documents for larger tenders.

# Shareholder information

The Ørsted share yielded a total return of 32% in 2018, an increase in the share price of 29%, and dividends of DKK 9 per share.

## Price development for the Ørsted share in 2018

The Ørsted share started the year at a price of DKK 339 and closed the year at DKK 436. Prices of comparable European utility companies decreased by 1%, and the OMX C25 cap decreased by 13% in 2018. The market value

of Ørsted was DKK 183 billion at the end of the year. Since the IPO in June 2016, the Ørsted share has generated an aggregate return from share price appreciation and dividends of 92%.

The year's highest traded price of 474 was on 28 November. The year's lowest traded price of 332 was on 3 January.

The average daily turnover on Nasdaq Copenhagen was 447,000 shares. The trading volume showed a decrease of 38% compared to 2017. This was particularly due to several of

the original shareholders opting to sell all or some of their shareholdings in 2017 at a total trading value of DKK 17 billion.

## Share capital

Ørsted's share capital is divided into 420 million shares, enjoying the same voting and dividend rights. The company's share capital remained unchanged in 2018. At the end of 2018, the company held a total of 335 thousand treasury shares, which will be used to cover incentive schemes.

## Composition of shareholders

At the end of the year, the number of shareholders had increased by 5,175 to 29,727. Although the geographical spread of the share capital was greater, most of it (66%) is still with Danish owners. The figure on the next page shows the composition of our shareholders by country, specifying the three shareholders each holding more than 5% of the share capital. Around 1% of the share capital is owned by private investors.

## Annual general meeting and dividends

The annual general meeting will be held on 5 March 2019 in Copenhagen. Dividends for the year are expected to amount to DKK 9.75 per share, corresponding to DKK 4.1 billion. In 2018, dividends of DKK 9.00 per share were paid for the 2017 financial year, corresponding to a return of 2.2% relative to a share price of DKK 436 at 31 December 2018.

## Selected company announcements in 2018

- 27 Apr. Ørsted wins 552MW in German offshore wind auction
- 30 Apr. Taiwan awards Ørsted 900MW grid capacity for offshore wind
- 24 May The High Court of Western Denmark rules in favour of Ørsted in case concerning the former Elsam
- 22 June Ørsted wins 920MW offshore wind projects in Taiwan
- 26 June Ørsted initiates a structured divestment process for its Danish power distribution and residential customer businesses
- 9 Aug. Ørsted agrees to acquire Lincoln Clean Energy, a US onshore wind developer
- 18 Sep. Ørsted agrees to divest 50% of Hornsea 1 Offshore Wind Farm
- 8 Oct. Ørsted agrees to acquire Deepwater Wind and creates leading US offshore wind platform
- 2 Jan. 2019 Establishment permit and power purchase agreement delayed on Taiwanese offshore wind projects

## Share price development in 2018

Ørsted share price compared to peers.

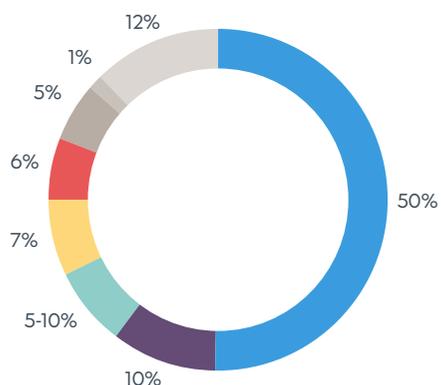


## Financial calendar 2019

- 31 Jan. Annual report 2018
- 5 Mar. Annual general meeting
- 1 May Interim report for the first quarter of 2019
- 8 Aug. Interim report for the first half-year of 2019
- 30 Oct. Interim report for the first nine months of 2019

**Shareholders at 31 December 2018,**  
voting share %\*

- Danish State (majority shareholder)
- SEAS-NVE, Denmark
- The Capital Group
- North America
- The UK
- Danish institutional investors
- Private investors
- Others



\* See note 16 in the parent company financial statements.

**Share information**

ISIN	DK 0060094928220
Share classes	1
Nominal value	DKK 10 per share
Average daily volume	447,103
Exchange	Nasdaq OMX Copenhagen
Ticker	ORSTED
Year high	DKK 474 (28 Nov.)
Year low	DKK 332 (3 Jan.)
Registered share	99,6%
Number of shares	420,381,080 shares
Number of treasury shares	335,904 shares

**Investor Relations**

In order to achieve a fair pricing of our shares and corporate bonds, we seek to ensure a high level of openness and stability in our financial communication. In addition, our management and Investor Relations function engage in regular dialogue with investors and analysts. The dialogue takes the form of quarterly conference calls, roadshows, conferences, capital markets days and regular meetings with individual or groups of investors and analysts. The dialogue is subject to certain restrictions from three weeks prior to the publication of our financial reporting.

On 28 November 2018, Ørsted hosted a Capital Markets Day in Gentofte with more than 150 participants, mainly equity and institutional investors. CEO Henrik Poulsen presented Ørsted's new ambitious targets for the Group's long-term strategy and financial development, followed by breakout sessions hosted by the management team. The full Capital Market Day material is available at [orsted.com/en/capital-markets-day](http://orsted.com/en/capital-markets-day).

The Group is covered by 22 equity analysts and 12 bond analysts. Their recommendations and consensus estimates for Ørsted's future financial performance are available at [orsted.com/en/investors](http://orsted.com/en/investors). On this site, you can also download our financial reports, investor presentations and a wide range of other data.



# Financial statements

# 2018

1 January – 31 December



# Income statement

1 January - 31 December

Note	DKKm	2018			2017		
		Business performance	Adjustments	IFRS	Business performance	Adjustments	IFRS
2.2, 2.4	Revenue	76,946	(1,426)	75,520	59,504	205	59,709
2.3	Cost of sales	(53,906)	(112)	(54,018)	(40,544)	(150)	(40,694)
	Other external expenses	(5,865)	-	(5,865)	(4,241)	-	(4,241)
2.6, 2.7	Employee costs	(3,126)	-	(3,126)	(3,197)	-	(3,197)
	Share of profit (loss) in associates and joint ventures	(6)	-	(6)	(119)	-	(119)
2.5	Other operating income	16,275	-	16,275	11,665	-	11,665
2.5	Other operating expenses	(289)	-	(289)	(549)	-	(549)
	<b>Operating profit (loss) before depreciation, amortisation and impairment losses (EBITDA)</b>	<b>30,029</b>	<b>(1,538)</b>	<b>28,491</b>	<b>22,519</b>	<b>55</b>	<b>22,574</b>
3.1	Amortisation, depreciation and impairment losses on intangible assets and property, plant and equipment	(5,375)	-	(5,375)	(6,284)	-	(6,284)
	<b>Operating profit (loss) (EBIT)</b>	<b>24,654</b>	<b>(1,538)</b>	<b>23,116</b>	<b>16,235</b>	<b>55</b>	<b>16,290</b>
3.4	Gain on divestment of enterprises	127	-	127	(139)	-	(139)
	Share of profit (loss) in associates and joint ventures	1	-	1	(10)	-	(10)
6.5	Financial income	3,179	-	3,179	4,253	-	4,253
6.5	Financial expenses	(4,457)	-	(4,457)	(5,295)	-	(5,295)
	<b>Profit (loss) before tax</b>	<b>23,504</b>	<b>(1,538)</b>	<b>21,966</b>	<b>15,044</b>	<b>55</b>	<b>15,099</b>
5.2	Tax on profit (loss) for the year	(4,018)	318	(3,700)	(1,765)	(13)	(1,778)
	<b>Profit (loss) for the year from continuing operations</b>	<b>19,486</b>	<b>(1,220)</b>	<b>18,266</b>	<b>13,279</b>	<b>42</b>	<b>13,321</b>
3.7	<b>Profit (loss) for the year from discontinued operations</b>	<b>10</b>	<b>-</b>	<b>10</b>	<b>6,920</b>	<b>(816)</b>	<b>6,104</b>
	<b>Profit (loss) for the year</b>	<b>19,496</b>	<b>(1,220)</b>	<b>18,276</b>	<b>20,199</b>	<b>(774)</b>	<b>19,425</b>
	<b>Profit (loss) for the year is attributable to:</b>						
	Shareholders in Ørsted A/S	19,046	(1,220)	17,826	19,493	(774)	18,719
	Interests and costs after tax, hybrid capital owners of Ørsted A/S	425	-	425	716	-	716
	Non-controlling interests	25	-	25	(10)	-	(10)
6.2	<b>Profit (loss) per share, DKK:</b>						
	From continuing operations	45.3	-	42.4	29.9	-	30.0
	From discontinued operations	0.0	-	0.0	16.5	-	14.5
	<b>Total profit (loss) per share</b>	<b>45.3</b>	<b>-</b>	<b>42.4</b>	<b>46.4</b>	<b>-</b>	<b>44.5</b>



## Profit (loss) for the year from our continuing operations

Our former Oil & Gas business, which was divested on 29 September 2017, is presented as discontinued operations.

## Profit (loss) per share

Diluted profit (loss) per share corresponds to profit (loss) per share, as the dilutive effect of the share incentive programme is less than 0.1% of the share capital.

## Accounting policies

### Business performance

The business performance principle is our alternative performance measure. According to IFRS, market value adjustments of energy contracts and related currency risks (including hedging) are recognised on an ongoing basis in the profit (loss) for the year, whereas under the business performance principle, they are deferred and recognised in the period in which the hedged exposure materialises. The difference between IFRS and business performance is specified in the 'Adjustments' column. Read more about the business performance principle in note 1.6 'Business performance'.

# Statement of comprehensive income

1 January - 31 December

Note	DKKm	2018			2017		
		Business performance	Adjustments	IFRS	Business performance	Adjustments	IFRS
		<b>19,496</b>	<b>(1,220)</b>	<b>18,276</b>	<b>20,199</b>	<b>(774)</b>	<b>19,425</b>
		<b>Profit (loss) for the year</b>					
		<b>Other comprehensive income:</b>					
		<b>Cash flow hedging:</b>					
1.6, 7.2	Value adjustments for the year	(2,841)	1,734	(1,107)	652	138	790
6.2	Value adjustments transferred to income statement	961	(196)	765	(2,464)	853	(1,611)
		<b>Exchange rate adjustments:</b>					
	Exchange rate adjustments relating to net investment in foreign enterprises	(417)	-	(417)	(1,513)	-	(1,513)
7.2	Value adjustment of net investment hedges	401	-	401	565	-	565
6.2	Value adjustments and hedges transferred to income statement	(67)	-	(67)	892	-	892
	<b>Tax:</b>						
	Tax on hedging instruments	380	(318)	62	410	(217)	193
	Tax on exchange rate adjustments	31	-	31	62	-	62
	<b>Other:</b>						
	Share of other comprehensive income of associated companies, after tax	(28)	-	(28)			
	<b>Other comprehensive income</b>	<b>(1,580)</b>	<b>1,220</b>	<b>(360)</b>	<b>(1,396)</b>	<b>774</b>	<b>(622)</b>
	<b>Total comprehensive income</b>	<b>17,916</b>	<b>-</b>	<b>17,916</b>	<b>18,803</b>	<b>-</b>	<b>18,803</b>
	<b>Comprehensive income for the year is attributable to:</b>						
	Shareholders in Ørsted A/S	-	-	17,495	-	-	18,256
	Interest payments and costs after tax, hybrid capital owners of Ørsted A/S	-	-	425	-	-	716
	Non-controlling interests	-	-	(4)	-	-	(169)
	<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>17,916</b>	<b>-</b>	<b>-</b>	<b>18,803</b>



## Statement of comprehensive income

All items in other comprehensive income may be recycled to the income statement.

Value adjustments for the year for cash flow hedging according to IFRS of DKK -1,107 million mainly consist of losses related to the divestments of Hornsea 1. The loss is transferred to the income statement.

Value adjustments for the year for cash flow hedging according to the adjustment column of DKK 1,734 million mainly consist of losses on power hedges that are recognised in the income statement under IFRS, but under business performance, the losses are deferred to the period where the hedged exposure relates.

Foreign exchange losses relating to net investments in foreign enterprises of DKK 417 million were in 2018 primarily attributable to a drop of 1% in the GBP exchange rate. 2017, foreign exchange losses relating to net investments in foreign enterprises amounted to DKK 1,513 million and were primarily attributable to a drop of 4% in the GBP exchange rate.

# Balance sheet

31 December

Note	Assets, DKKm	2018	2017	Note	Equity and liabilities, DKKm	2018	2017
3.1	<b>Intangible assets</b>	<b>777</b>	<b>689</b>	6.2	Share capital	4,204	4,204
3.1	Land and buildings	969	1,501	6.2	Reserves	(1,827)	(1,524)
3.1	Production assets	66,310	60,603		Retained earnings	66,111	52,111
3.1	Fixtures and fittings, tools and equipment	342	413		<b>Equity attributable to shareholders in Ørsted A/S</b>	<b>68,488</b>	<b>54,791</b>
3.1	Property, plant and equipment under construction	16,434	13,328	6.3	Hybrid capital	13,239	13,239
	<b>Property, plant and equipment</b>	<b>84,055</b>	<b>75,845</b>	3.8	Non-controlling interests	3,388	3,807
	Investments in associates and joint ventures	457	339		<b>Equity</b>	<b>85,115</b>	<b>71,837</b>
	Receivables from associates and joint ventures	60	48	5.4	Deferred tax	4,025	2,128
	Other securities and equity investments	211	130	3.2	Provisions	12,774	10,840
5.4	Deferred tax	4,588	2,865	6.1	Bond and bank debt	25,095	25,715
4.4	Other receivables	2,670	1,955	4.2	Contract liabilities	3,642	-
	<b>Other non-current assets</b>	<b>7,986</b>	<b>5,337</b>	4.5	Tax equity liabilities	3,728	-
	<b>Non-current assets</b>	<b>92,818</b>	<b>81,871</b>	4.6	Other payables	409	5,714
4.1	Inventories	13,943	3,853		<b>Non-current liabilities</b>	<b>49,673</b>	<b>44,397</b>
7	Derivatives	5,468	4,870	3.2	Provisions	680	680
4.2	Contract assets	1,451	10,817	6.1	Bond and bank debt	2,201	3,921
4.3	Trade receivables	10,741	9,170	7	Derivatives	8,094	4,374
4.4	Other receivables	4,390	3,519	4.2	Contract liabilities	924	1,317
	Income tax	1,525	296		Trade payables	13,082	11,499
6.4	Securities	25,501	25,280	4.5	Tax equity liabilities	445	-
6.4	Cash	3,515	4,203	4.6	Other payables	4,793	6,368
	<b>Current assets</b>	<b>66,534</b>	<b>62,008</b>		Income tax	4,717	1,498
3.6	<b>Assets classified as held for sale</b>	<b>15,223</b>	<b>2,642</b>		<b>Current liabilities</b>	<b>34,936</b>	<b>29,657</b>
	<b>Assets</b>	<b>174,575</b>	<b>146,521</b>		<b>Liabilities</b>	<b>84,609</b>	<b>74,054</b>
				3.6	<b>Liabilities relating to assets classified as held for sale</b>	<b>4,851</b>	<b>630</b>
					<b>Equity and liabilities</b>	<b>174,575</b>	<b>146,521</b>



## Contract assets and contract liabilities

The adoption of IFRS 15 has changed our presentation, as we have introduced contract assets and contract liabilities. As we have implemented IFRS 15 after the modified retrospective method, we have not restated comparative figures. The comparative figures we have shown for 'Contract assets' and 'Contract liabilities' were presented as 'Construction contracts' in the 2017 annual report.

The effects of change in accounting policy are identical for business performance profit (loss). Read more about the impact in note 1.4 'Implementation of new or changed accounting standards and interpretations'.

# Statement of changes in equity

1 January - 31 December

DKK m	2018								2017							
	Share capital	Reserves*	Retained earnings	Proposed dividends	Shareholders in Ørsted A/S	Hybrid capital	Non-controlling interests	Total Group	Share capital	Reserves*	Retained earnings	Proposed dividends	Shareholders in Ørsted A/S	Hybrid capital	Non-controlling interests	Total Group
Equity at 1 January	4,204	(1,524)	48,328	3,783	54,791	13,239	3,807	71,837	4,204	20,218	12,162	2,522	39,106	13,248	5,146	57,500
<b>Comprehensive income for the year:</b>																
Profit (loss) for the year	-	-	17,826	-	17,826	425	25	18,276	-	-	18,719	-	18,719	716	(10)	19,425
<b>Other comprehensive income:</b>																
Cash flow hedging	-	(342)	-	-	(342)	-	-	(342)	-	(821)	-	-	(821)	-	-	(821)
Exchange rate adjustments	-	(54)	-	-	(54)	-	(29)	(83)	-	103	-	-	103	-	(159)	(56)
Tax on other comprehensive income	-	93	-	-	93	-	-	93	-	255	-	-	255	-	-	255
Share of other comprehensive income of associated companies, after tax	-	-	(28)	-	(28)	-	-	(28)	-	-	-	-	-	-	-	-
<b>Total comprehensive income</b>	-	<b>(303)</b>	<b>17,798</b>	-	<b>17,495</b>	<b>425</b>	<b>(4)</b>	<b>17,916</b>	-	<b>(463)</b>	<b>18,719</b>	-	<b>18,256</b>	<b>716</b>	<b>(169)</b>	<b>18,803</b>
<b>Transactions with owners:</b>																
Coupon payments, hybrid capital	-	-	-	-	-	(545)	-	(545)	-	-	-	-	-	(640)	-	(640)
Tax on coupon payments, hybrid capital	-	-	-	-	-	120	-	120	-	-	-	-	-	141	-	141
Additions, hybrid capital	-	-	-	-	-	-	-	-	-	-	-	-	-	3,668	-	3,668
Disposals, hybrid capital	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,894)	-	(3,894)
Share premium reserve transferred to retained earnings	-	-	-	-	-	-	-	-	-	(21,279)	21,279	-	-	-	-	-
Proposed dividends	-	-	(4,099)	4,099	-	-	-	-	-	-	(3,783)	3,783	-	-	-	-
Dividends paid	-	-	2	(3,783)	(3,781)	-	(400)	(4,181)	-	-	1	(2,522)	(2,521)	-	(376)	(2,897)
Purchases of treasury shares	-	-	(48)	-	(48)	-	-	(48)	-	-	-	-	-	-	-	-
Share-based payment	-	-	24	-	24	-	-	24	-	-	15	-	15	-	-	15
Tax on share-based payment	-	-	(5)	-	(5)	-	-	(5)	-	-	(3)	-	(3)	-	-	(3)
Disposals, non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(794)	(794)
Other changes	-	-	12	-	12	-	(15)	(3)	-	-	(62)	-	(62)	-	-	(62)
<b>Total transactions with owners</b>	-	-	<b>(4,114)</b>	<b>316</b>	<b>(3,798)</b>	<b>(425)</b>	<b>(415)</b>	<b>(4,638)</b>	-	<b>(21,279)</b>	<b>17,447</b>	<b>1,261</b>	<b>(2,571)</b>	<b>(725)</b>	<b>(1,170)</b>	<b>(4,466)</b>
<b>Equity at 31 December</b>	<b>4,204</b>	<b>(1,827)</b>	<b>62,012</b>	<b>4,099</b>	<b>68,488</b>	<b>13,239</b>	<b>3,388</b>	<b>85,115</b>	<b>4,204</b>	<b>(1,524)</b>	<b>48,328</b>	<b>3,783</b>	<b>54,791</b>	<b>13,239</b>	<b>3,807</b>	<b>71,837</b>

\* See note 6.2 'Equity' for more information about reserves.

# Statement of cash flows

1 January - 31 December

Note	DKKm	2018	2017
	Operating profit (loss) before depreciation, amortisation and impairment losses (EBITDA), IFRS	28,491	22,574
1.6	Change in derivatives, business performance adjustments	1,538	(55)
	Change in derivatives, other adjustments	369	(528)
	Change in provisions	(278)	98
	Reversal of gain (loss) on sale of assets	(14,995)	(10,835)
	Other items	203	297
4.7	Change in work in progress	(2,326)	(3,674)
4.7	Change in tax equity partner liabilities	1,835	-
4.7	Change in other working capital	(427)	(4,230)
	Interest received and similar items	6,648	3,508
	Interest paid and similar items	(7,348)	(3,472)
5.3	Income tax paid	(3,367)	(2,660)
	<b>Cash flows from operating activities</b>	<b>10,343</b>	<b>1,023</b>

## Accounting policies

Cash flows from operating activities are determined using the indirect method as operating profit (loss) before depreciation, amortisation and impairment losses adjusted for changes in operating items without cash flow effect. Trade payables relating to purchases of intangible assets and property, plant and equipment are not recognised in change in net working capital.

Change in work in progress consists of elements in contract assets, contract liabilities, construction management agreements related to construction of offshore wind farms, construction of offshore transmission assets (inventory) and related trade payables.

Change in tax equity partner liabilities relates to cash contributions from tax equity partners and distributions of PTCs and other tax attributes to tax equity partners. See also note 4.5 'Tax equity liabilities'.

Other items primarily comprise reversal of share of profit (loss) of and dividends in associates and joint ventures as well as changes in bad debt provisions.

Cash flows from investing activities comprise payments in connection with the purchase and sale of non-current assets and enterprises as well as the purchase and sale of securities that are not recognised as cash and cash equivalents.

Cash flows from financing activities comprise changes in the size or composition of equity and loans, including net proceeds from and to tax equity partners. Proceeds from raising of short-term repo loans are presented net.

Cash flows in currencies other than the functional currency are translated at the average exchange rates for the month in question, unless these differ significantly from the rates at the transaction date.

Note	DKKm	2018	2017
	Purchase of intangible assets and property, plant and equipment	(14,655)	(17,592)
	Sale of intangible assets and property, plant and equipment	19,639	16,333
3.3	Acquisition of enterprises	(5,602)	(83)
3.4	Divestment of enterprises	363	588
	Purchase of other equity investments	(78)	-
	Divestment of other equity investments	-	28
	Purchase of securities	(40,444)	(21,162)
	Sale/maturity of securities	39,849	11,965
	Change in other non-current assets	(1)	(5)
	Transactions with associates and joint ventures	(122)	(139)
	Dividends received and capital reduction	25	13
	<b>Cash flows from investing activities</b>	<b>(1,026)</b>	<b>(10,054)</b>
	Proceeds from raising of loans	-	5,468
	Instalments on loans	(6,429)	(4,069)
	Coupon payments on hybrid capital	(545)	(640)
	Proceeds from issuance of hybrid capital	-	3,668
	Dividends paid to shareholders in Ørsted A/S	(3,781)	(2,521)
	Purchase of own shares	(48)	-
3.8	Transactions with non-controlling interests	(391)	(431)
	Net proceeds from tax equity partners	78	-
	Change in other liabilities	422	(11)
	<b>Cash flows from financing activities</b>	<b>(10,694)</b>	<b>1,464</b>
	Cash flows from continuing operations	(1,377)	(7,567)
3.7	Cash flows from discontinued operations	209	9,025
	<b>Total net change in cash and cash equivalents</b>	<b>(1,168)</b>	<b>1,458</b>
6.4	Cash and cash equivalents at 1 January	3,891	2,628
	Total net change in cash and cash equivalents	(1,168)	1,458
	Cash flows for the year from assets classified as held for sale	(27)	(140)
	Exchange rate adjustments of cash and cash equivalents	(33)	(55)
6.4	<b>Cash and cash equivalents at 31 December</b>	<b>2,663</b>	<b>3,891</b>

Our supplementary statements of gross and net investments appear from note 3.5 'Gross and net investments' and free cash flows (FCF) from note 2.1 'Segment information'.



# Note summary

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# 1. Basis of reporting

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# 1.1 Significant changes in the current reporting period

The financial position and performance of the Ørsted Group was particularly affected by the following events and transactions during 2018.

For a detailed discussion about the Ørsted Group's performance and financial position, please refer to our management's review on pages 4 to 54.



## Acquisitions

### Lincoln Clean Energy

In October 2018, we acquired Lincoln Clean Energy, which forms the basis of our new Onshore business unit, see note 3.3 'Acquisition of enterprises'. The transaction has been recognised using the acquisition method whereby all identifiable assets and liabilities have been measured at fair value. The acquisition introduced new accounting concepts, such as tax equity liability, see note 4.5 'Tax equity liabilities', and power purchase agreements (PPAs) (derivatives), classified as financial products with significant elements of non-observable data, see note 7.7 'Fair value measurement'.

With the acquisition, we established a strong and scalable platform for the US onshore market, which will be a key growth platform and provide strategic diversification to our portfolio.

### Deepwater Wind

In November 2018, we acquired Deepwater Wind, which will be part of our existing Offshore business unit, see note 3.3 'Acquisition of enterprises'. The transaction has been recognised using the acquisition method whereby all identifiable assets and liabilities have been measured at fair value. Similar to Lincoln Clean Energy, the acquisition includes a tax equity liability, see note 4.5 'Tax equity liabilities'.

With this acquisition, we created a leading US offshore wind platform with a geographically diverse US East Coast portfolio of projects at varying degrees of development and with significant synergy potential both in terms of geography and project timing.



## Divestments/ assets held for sale

### Hornsea 1 offshore wind farm

In November 2018, we farmed-down 50% of Hornsea 1. The transaction is classified as a divestment of assets, see note 2.5 'Other operating income and expenses' and 3.1 'Intangible assets and property, plant and equipment'.

### Danish power distribution, residential customer and city light businesses

We plan to exit our Danish power distribution, residential customers and city light businesses during 2019 and have therefore classified them as assets held for sale, see note 3.6 'Assets classified as held for sale'.

### Enecogen gas-fired power plant

In July 2018, we divested our 50% ownership share in the Dutch gas-fired power plant Enecogen. The transaction is classified as a divestment of enterprises, see note 3.4 'Divestment of enterprises'.

IFRS

2018



## Accounting policy

### Adoption of IFRS 15

We have adopted the new IFRS standard on revenue from contracts with customers. The standard has an insignificant impact on profit (loss) for the year and diluted profit (loss) per share. The equity and the consolidated statement of cash flows are not affected. The impact on our consolidated financial statements is described in note 1.4 'Implementation of new or changed accounting standards and interpretations'. The disclosure requirements in IFRS 15 is included in note 2.2 'Revenue'.

### New operating segment

The Onshore business unit was established in connection with the acquisition of Lincoln Clean Energy, see note 2.1 'Segment information' and management's review on pages 46 to 48.

## 1.2 Basis of preparation

This section provides an overall description of the accounting policies applied in our consolidated financial statements. We provide a more detailed description of the accounting policies applied in the specific notes. Key estimates and judgements and new and amended IFRS standards and interpretations are discussed in detail in note 1.3 'Key accounting estimates and judgements' and 1.4 'Implementation of new or changed accounting standards and interpretations', respectively.

### Basis of preparation

The financial statements for the period 1 January - 31 December 2018 comprise the consolidated financial statements of Ørsted A/S and its subsidiaries (the Group) as well as separate financial statements for the parent company, Ørsted A/S. See page 178 for the parent company's accounting policies.

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and further requirements in the Danish Financial Statements Act (Årsregnskabsloven).

The financial statements are presented in million Danish kroner (DKK), unless otherwise stated.

All business units in the Ørsted Group apply the Group's accounting policies.

### Measurement basis

The consolidated financial statements have been prepared on the historical cost basis except for derivatives, financial instruments in trading portfolio, and carbon emissions allowances in trading portfolio that are measured at market value.

The accounting policies have been applied consistently to the financial year and for the comparative figures except for:

- the adoption of 'IFRS 15 – Revenue from Contracts with Customers'
- the adoption of IAS 20 'Accounting for Government Grants and Disclosure of Government Assistance' with respect to subsidies received under the Renewable Obligation scheme in the UK and feed-in tariffs in Germany
- the adoption of IFRIC 22 'Foreign Currency Transactions and Advance Consideration'
- the adoption of IFRIC 23 'Uncertainty over Income Tax Treatments' (early adoption).

### Principles for consolidation

The consolidated financial statements include the parent company Ørsted A/S and subsidiaries controlled by Ørsted A/S. See more in note 8.5 'Company overview'.

The consolidated financial statements have been prepared as a consolidation of the parent company's and the individual subsidiaries' financial statements which have been prepared in accordance with the Group's

accounting policies. Intra-group income and expenses, shareholdings, balances and dividends as well as realised and unrealised gains and losses arising from intra-group transactions are eliminated on consolidation.

Unrealised gains resulting from transactions with associates and joint ventures are eliminated to the extent of the Group's ownership interest. Unrealised losses are eliminated in the same way as unrealised gains to the extent that there has been no impairment.

The Group's share in joint operations is recognised in the consolidated balance sheet through recognition of the Group's own assets, liabilities, income and expenses. The Group's share of joint income, expense, assets and liabilities is recognised afterwards. The proportionate share of realised and unrealised gains and losses arising from intra-group transactions between fully consolidated enterprises and joint operations is eliminated.

Investments in associates and joint ventures are measured using the equity method.

If we hold or have the ability to exercise, directly or indirectly, 20%-50% of the voting rights and do not exercise control, such enterprises are accounted for as associates. However, we carry out a specific assessment of our ability to exercise influence, including our ability to influence financial and operational decisions and thus our return. Enterprises

that satisfy the criteria for joint control are accounted for as investments in joint ventures.

We present the profit (loss) from investments in associates and joint ventures before EBITDA when deemed to pertain to our principal activities. The profit (loss) from investments in associates and joint ventures is presented after EBITDA when not deemed to pertain to the Group's principal activities.

Associates and joint ventures with negative net assets are measured at nil.

If we have a legal or constructive obligation to cover the negative equity of an associate or joint venture, the obligation is recognised as a liability.

Receivables from associates and joint ventures are measured at amortised cost. On initial recognition of our receivables, write-downs are made for bad debts.

The proportionate share of associates' and joint ventures' profit (loss) after tax and non-controlling interests is recognised in profit (loss) for the year. We eliminate the proportionate share of internal gains (losses) in the profit (loss) for the year.

On acquisition of investments in associates and joint ventures, the purchase method is applied.

Gains (losses) on the divestment of investments in associates and joint ventures are determined as the difference between the selling price and the carrying amount of net assets, including goodwill at the date of divestment and transaction costs.

Gains and losses are recognised in profit (loss) for the year as gain or loss on the divestment of enterprises. The profit (loss) for the year and total comprehensive income from associates and joint ventures are identical.

#### Key accounting judgements

##### Assessment of classification of partnerships

On initial recognition of investments and in connection with any restructuring of joint ventures and joint operations, we assess whether an investment is a joint venture or a joint operation.

In assessing joint operations, we look at:

- the corporate form of the operation
- whether we are only entitled to the net profit or income and expenses resulting from the operation.

In addition, the fact that the parties buy or are assigned all output, for example the power generated, will lead to the structure being considered a joint operation.

#### Foreign currency translation

For each reporting enterprise in the Group, items are determined in the currency of the primary economic environment in which the individual reporting enterprise operates (functional currency). Transactions in currencies other than the functional currency of each enterprise are accounted for as transactions in foreign currencies and translated on initial recognition at the exchange rate on the transaction date. Exchange differences arising between the exchange rate on the transaction date and on the date of payment are recognised in profit (loss) for the year as financial income or expenses.

Receivables, payables and other monetary items in foreign currencies are translated at the exchange rates on the balance sheet date. The difference between the exchange rate on the balance sheet date and on the date at which the receivable or payable arose is recognised in profit (loss) for the year as financial income or expenses.

For foreign subsidiaries, joint operations, associates and joint ventures, the statements of comprehensive income are translated at monthly average exchange rates in so far as these do not deviate materially from the actual exchange rates at the transaction dates. Balance sheet items are translated at the exchange rates on the balance sheet date.

All exchange differences are recognised in profit (loss) for the year, except for exchange differences arising on:

- translation of the opening equity of these entities at the exchange rates on the balance sheet date
- translation of the statements of comprehensive income of these enterprises from the exchange rates at the transaction date to the exchange rates on the balance sheet date
- translation of balances accounted for as part of the total net investment
- translation of the portion of loans and derivatives that has been entered into to hedge the net investment in these enterprises, and that provides an effective hedge against corresponding foreign exchange gains (losses) on the net investment in the enterprise.

The above types of exchange differences are recognised in other comprehensive income. Such exchange rate adjustments are divided between the equity of the parent company and the equity of the non-controlling interests. On full or partial divestment of the net investment, the accumulated exchange rate adjustments are recognised as follows:

- Disposal results in loss of control: The accumulated exchange rate adjustments, including any associated hedges, are recognised in the profit (loss) for the year if

a foreign exchange gain (loss) is realised by the selling enterprise. Any foreign exchange gain (loss) is transferred to the item in which the gain (loss) from the disposal is recognised. The part of the foreign currency translation reserve that relates to non-controlling interests is not transferred to profit (loss) for the year.

- Disposal does not result in loss of control: A proportionate share of the foreign currency translation reserve is transferred from the parent company shareholders' share of equity to the minority shareholders' share of equity.

Repayment of balances that are considered part of the net investment does not constitute a partial disposal of the subsidiary.

# 1.3 Key accounting estimates and judgements

The use of reasonable estimates and judgements is an essential part of the preparation of the consolidated financial statements.

Given the uncertainties inherent in our business activities, we make a number of estimates regarding valuation and judgements. The estimates and judgements are based on assumptions concerning future developments which affect our application of accounting policies

and reported amounts of our assets, liabilities, sales, costs, cash flows and related disclosures. Actual amounts may differ from the amounts estimated and judgements made as more detailed information becomes available.

We regularly reassess these estimates and judgements, based among other things on historical experience, the current situation in the financial markets and a number of

other relevant factors, ie. the expected effects of Brexit.

Accounting estimates, judgements and assumptions which may entail a risk of material adjustments in subsequent years are listed in the table below.

In addition, we make judgements when we apply the accounting policies.

Reference is made to the specific notes for further information on the key accounting estimates and judgements as well as the assumptions applied.

Note		Key accounting estimates and judgements	Estimate/ judgement	Extent of accounting estimates and judgements
1.2	Basis of preparation	Assessment of classification of partnerships	Judgement	● ● ● ○
2.2	Revenue	Assessment of assumptions for recognition of revenue from the construction of offshore wind farms over time Assumptions for the determination of the expected selling price and expected costs	Judgement Estimate	● ● ● ○ ● ● ● ○
2.5	Other operating income	Assessment of classification of divestment Assumptions for the accounting treatment of divestment gains related to the share purchase agreements and construction agreements	Judgement Estimate	● ● ● ○ ● ● ● ○
3.2	Provisions and contingent assets and liabilities	Assumptions for decommissioning obligations Estimate of onerous contracts Estimate of litigation outcomes	Estimate Estimate Estimate	● ● ○ ○ ● ● ○ ○ ● ● ○ ○
3.3	Acquisition of enterprises	Purchase price allocation in business combinations	Estimate	● ● ● ○
4.5	Tax equity liabilities	Assesment of recognition of tax equity partners	Judgement	● ● ● ○
5.2	Tax on profit (loss) for the year	Estimate regarding the recognition of income tax assets and provisions for uncertain tax positions	Estimate	● ● ○ ○



Extent of accounting estimates and judgements relates to objectivity and business practice.

- ○ ○ ○ Very objective/market-conforming
- ● ○ ○ Objective/partially conforming
- ● ● ○ Partially subjective/partially distinctive
- ● ● ● Subjective/distinctive for Ørsted

# 1.4 Implementation of new or changed accounting standards and interpretations

We regularly assess the impact of new IFRS standards and interpretations. We implement new IFRS standards and interpretations from their mandatory effective dates at the latest.

Effective from 1 January 2018, we have implemented the following new or changed standards (IAS and IFRS) and interpretations:

- IFRS 15 'Revenue from Contracts with Customers' including amendments and clarifications. See separate section below.
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration'.
- IFRIC 23 'Uncertainty over Income Tax Treatments' (early adoption).

Besides the impact from IFRS 15, the adoption of the new and changed standards has not impacted the consolidated financial statements for 2018.

In the following section, you can read more about the impact on recognition and measurement from IFRS 15 'Revenue from Contracts with Customers'. The standard has an insignificant impact on profit (loss) for the year and diluted profit (loss) per share. The equity and the consolidated statement of cash flows are not affected.

## Implementation of IFRS 15

On 1 January 2018, we implemented IFRS 15, 'Revenue from Contracts with Customers', which replaces IAS 11, IAS 18 and associated interpretations.

We have implemented IFRS 15 with retrospective effect. However, we use the relief from restating comparative figures (modified retrospective method).

The most important changes resulting from our implementation can be summarised as follows:

- The model for recognition of revenue is changed from having been based on the transfer of the risks and rewards of ownership of a product or service to being based on the transfer of control of the goods or services transferred to the customer.
- More detailed guidelines for how elements in a contract of sale are identified, and how the individual components will be recognised and measured.
- More detailed guidance for recognition of revenue over time.

## Changes in our accounting policies resulting from IFRS 15

In the UK, we offer construction agreements for offshore transmission assets. When construction of the offshore transmission assets is completed, they are sold to an offshore transmission owner (OFTO) through a regulated sales process. The UK energy regulator 'Office of Gas and Electricity Markets' (Ofgem) manages the sales process, determines the final transfer value and appoints the buyer. Under IFRS 15, a customer relationship does not exist between Ørsted and the final buyer when the construction of the offshore transmission assets commences. Therefore, we have deferred revenue recognition on offshore transmission assets from commencement of construction to the date of entering into a contract with a customer.

In other words, the recognition of revenue begins when we sell a share of the offshore transmission asset under construction to a partner and takes place upon such partner joining the project. We recognise the remaining part of the offshore transmission asset when we find that control has passed to the OFTO.

## Impact on our consolidated financial statements from IFRS 15

In previous reporting periods, offshore transmission assets were recognised in step with the construction based on the completion degree of the asset (over time). Under IFRS 15, revenue from offshore transmission assets are recognised at a later point in time.

The change in policy does not affect the Group's cash flows or results, but only the timing of when income and costs are recognised in the consolidated financial statements.

Historically, we have not had, and we do not expect to have, a significant contribution margin relating to the sale of offshore transmission assets to partners and OFTOs. The Group's EBITDA, balance sheet total and equity will therefore remain unchanged in all material respects as a consequence of the changed accounting policies.

The implementation of the terminology in IFRS 15 had the following effects on the presentation of the construction contracts, receivables and other payables in the balance sheet:

	1 January 2018			31 December 2018		
	Previous accounting policy	Effect of change in accounting policy	New accounting policy	Previous accounting policy	Effect of change in accounting policy	New accounting policy
<b>Extract</b>						
<b>Impact of adoption, DKKm</b>						
<b>Assets</b>						
<b>Current assets</b>						
Inventories	3,853	10,468 <sup>1</sup>	14,321	4,058	9,885	13,943
Construction contracts	10,817	(10,817) <sup>1,2</sup>	-	11,336	(11,336)	-
Contract assets	-	1,693 <sup>2</sup>	1,693	-	1,451	1,451
Trade receivables	9,170	(1,344) <sup>2</sup>	7,826	10,741	-	10,741
<b>Assets</b>	<b>146,521</b>	<b>-</b>	<b>146,521</b>	<b>174,575</b>	<b>-</b>	<b>174,575</b>
<b>Equity and liabilities</b>						
Share capital	4,204	-	4,204	4,204	-	4,204
Reserves	(1,524)	-	(1,524)	(1,827)	-	(1,827)
Retained earnings	52,111	-	52,111	66,111	-	66,111
<b>Equity attributable to shareholders in Ørsted A/S</b>	<b>54,791</b>	<b>-</b>	<b>54,791</b>	<b>68,488</b>	<b>-</b>	<b>68,488</b>
<b>Liabilities</b>						
<b>Non-current liabilities</b>						
Contract liabilities	-	5,327 <sup>2</sup>	5,327	-	3,642	3,642
Other payables	5,714	(5,327) <sup>2</sup>	387	4,051	(3,642)	409
<b>Current liabilities</b>						
Construction contracts	1,317	(1,317) <sup>2</sup>	-	460	(460)	-
Contract liabilities	-	1,455 <sup>2</sup>	1,455	-	924	924
Other payables	6,368	(138) <sup>2</sup>	6,230	5,257	(464)	4,793
<b>Equity and liabilities</b>	<b>146,521</b>	<b>-</b>	<b>146,521</b>	<b>174,575</b>	<b>-</b>	<b>174,575</b>
<b>Income statement, IFRS</b>						
Revenue				80,554	(5,034)	75,520
Cost of sales				(59,052)	5,034	(54,018)
<b>Operating profit (loss) before depreciation, amortisation and impairment losses (EBITDA)</b>				<b>28,491</b>	<b>-</b>	<b>28,491</b>
<b>Profit (loss) for the year</b>				<b>18,276</b>	<b>-</b>	<b>18,276</b>

<sup>1</sup> Effect of change to timing of revenue recognition from transmission assets in profit (loss).

<sup>2</sup> Effect of changed presentation of certain amounts in the balance sheet to reflect the terminology of IFRS 15.

- Construction of offshore transmission assets is classified as inventory.
- Construction agreements other than offshore transmission assets are presented as contract assets and liabilities.
- Construction agreements related to offshore transmission assets are presented as contract assets and liabilities.
- Receivables related to ongoing services or in other ways where the receivables are not unconditional are presented as contract assets.
- Other payables related to prepayments from heat customers are presented as contract liabilities.
- Other payables related to prepayments and deferred revenue as such are presented as contract liabilities.

In summary, the adjustments made to the amounts recognised in the balance sheet on the date of initial application (1 January 2018) are illustrated in the table to the left.



Comparatives for the 2017 financial year are not restated as we have applied the modified retrospective method. The effects of change in accounting policy are identical for business performance profit (loss).

**Change in accounting policy**

On 1 January 2018, we changed our accounting policy with respect to subsidies received under the Renewable Obligation Scheme in the UK, known as green certificates or renewable obligation certificates (ROCs), and feed-in tariffs in Germany under the German Renewable Energy Sources Act (EEG2014).

We apply IAS 20 'Accounting for Government Grants and Disclosure of Government Assistance', under which subsidies are recognised when there is a reasonable assurance that the grant will be received.

Prior to this change in policy, we applied IAS 18 'Revenue' to ROCs and feed-in tariffs in Germany, while we applied IAS 20 to feed-in tariffs in Denmark and contracts for difference (CfDs) in the UK.

We believe the new policy is preferable as it provides more relevant information about the received subsidies, aligns our accounting of all subsidies received for our renewable power generation and allows comparability between years.

This voluntary change in accounting policy did not result in any impact on the current year or any years included within these consolidated financial statements. The recognition, measurement, timing and presentation of ROCs and feed-in tariffs are unchanged.

The change in accounting policy only impacts the presentation of ROCs and feed-in tariffs in Germany.

Profit (loss), equity and the consolidated statement of cash flows are therefore not affected by the change in accounting policy.

**New standards and interpretations**

IASB has issued a number of new or amended standards and interpretations which have not yet entered into force, and which have consequently not been incorporated into the consolidated financial statements for 2018.

In the tabel below, we have assessed how IFRS 16 'Leases' will be implemented and the consequences thereof. IFRS 16 is deemed to be the most relevant of the new or amended standards and interpretations for Ørsted.

**Standard Expected effect**

IFRS 16 'Leases' We have completed our analysis of the impact of implementing IFRS 16 in Ørsted. The conclusion is that the implementation will have limited effect on our balance sheet, income statement and key credit ratios.

When applying IFRS 16, our lease obligations amount to DKK 5,224 million on 1 January 2019, which is slightly higher than our operating lease obligations on 31 December 2018. This amounts to DKK 4,819 million at net present value. The difference between the obligations are primarily due to the fact that the weighed average incremental borrowing rates applied under IFRS 16 are lower than the 3.5%, which we apply for calculation of the net current value of our operating lease obligations in accordance with our present accounting policy for key credit metrics.

IFRS 16 requires that service elements which are incorporated into leases, and which do not entitle us to use an underlying asset, are dealt with separately and treated as current operating expenses. This requirement does not have an effect on our lease obligations as our current accounting policy is to separate the service elements in the leases from the leasing elements. In Ørsted, this matter is partially relevant to leases of office premises.

**Commencement**

IFRS 16 will be implemented on 1 January 2019.

**Transitional provision**

The standard will be implemented with retrospective effect, and the comparative figures will not be restated. The requirements of the standard therefore only apply to ongoing and/or leases commencing on 1 January 2019.

For all leases, we will measure the lease asset at the same amount as the lease debt, adjusted by the amount of prepayments and accrued lease payments on 1 January 2019.

We apply the practical expedient regarding reassessment of whether a contract is, or contains, a lease on 1 January 2019. This means that we do not reassess whether a contract is, or contains, a lease when applying IFRS 16.

We do also make use of the possibility to apply a single rate to a portfolio of leases with reasonable similar characteristics. In accordance with this, we apply incremental borrowing rates per class of underlying asset (nature) in similar economic environments (currency) and remaining lease term.

# 1.5 Alternative performance measures

Performance measures are calculated in accordance with the business performance principle.

<b>Business performance</b>	Business performance is a supplement to our financial statements prepared in accordance with IFRS. Under the business performance principle, the value of the hedging transaction is deferred and recognised for the period in which the hedged risk materialises. Reference is made to note 1.6 'Business performance'.
<b>Gross investments</b>	Gross investments reflect our total investments in assets and enterprises. It comprises cash flows from investing activities, excluding dividends received from associates, joint ventures and equity investments, purchase and sale of securities, loans to joint ventures and joint operations, and divestments of assets and enterprises. To this is added acquired debt and restricted cash in connection with acquisitions.
<b>Net investments</b>	Gross investments less divestments of assets and enterprises, the selling price for non-controlling interests and subsequent capital injections from non-controlling interests. Furthermore, interest-bearing debt transferred in connection with a divestment is deducted.
<b>Funds from operations (FFO)</b>	Supplementary statement for cash flows from operating activities determined as business performance EBITDA less the effect of gains on the divestments of ownership interests in offshore wind farms, interest expenses (net) on interest-bearing net debt and hybrid capital (50%), interest element of decommissioning obligations and current tax. In addition, operating lease obligations have been recognised as if they were finance lease obligations, where operating lease payments have been reversed, and calculated interest expenses of the present value of lease payments have been deducted.
<b>Adjusted interest-bearing net debt</b>	Interest-bearing net debt plus 50% of the hybrid capital, cash and securities not available for use (with the exception of repo transactions), present value of lease payments (operating lease obligations calculated as if they were finance lease obligations), and the present value of decommissioning obligations less deferred tax.

<b>FFO to adjusted interest-bearing net debt</b>	$\frac{\text{FFO}}{\text{Adjusted interest-bearing net debt}}$
<b>Free cash flow (FCF)</b>	Cash flows from operating activities less gross investments and plus divestments.
<b>Capital employed</b>	All assets and liabilities except for equity and interest-bearing net debt.
<b>Average capital employed</b>	$\frac{\text{Capital employed beginning of year} + \text{capital employed year-end}}{2}$
<b>Return on capital employed (ROCE)</b>	$\frac{\text{EBIT}}{\text{Average capital employed}^1}$
<b>Proposed dividend per share (DPS) of DKK 10</b>	$\frac{\text{Total proposed dividend}}{\text{Number of shares year-end}}$
<b>Dividend yield</b>	$\frac{\text{Dividend per share (proposed)}}{\text{Share price on the last trading day of the year}}$
<b>Average number of shares</b>	$\frac{1}{\text{Number of days}} \times \sum_{i=1}^{\text{Number of days}} = X_i$
<b>Net working capital</b>	Inventories, trade receivables and other current operating assets less trade payables, deferred income (net), other current operating liabilities and working capital element of tax equity balances.
<b>Net working capital, excluding trade payables relating to capital expenditure</b>	Net working capital, excluding trade payables relating to purchases of intangible assets and property, plant and equipment.
<b>Profit (loss) per share</b>	$\frac{\text{Shareholders' share of the profit (loss) for the period}}{\text{Average number of shares}}$
<b>Diluted profit (loss) per share</b>	$\frac{\text{Shareholders' share of the profit (loss) for the period}}{\text{Average number of shares, including dilutive effect of free shares}}$

<sup>1</sup> ROCE (continuing operations) is based on average capital employed for the continuing operations. Capital employed related to the oil and gas activities divested on 29 September 2017 are not included.

# 1.6 Business performance

## Description of business performance

In 2011, we introduced an alternative performance measure, business performance, as a supplement to the financial statements prepared in accordance with IFRS. The business performance results reflect our internal risk management and show the results for the period under review. Under the business performance principle, the value of the hedging transaction is deferred and recognised for the period in which the hedged risk materialises. This is illustrated in the example overleaf.

Our reason for introducing the business performance principle in 2011 was:

- that we could not achieve the same timing of recognition of our commercial exposure and hedging contracts in accordance with the IFRS rules, for example with respect to option premiums and certain commercial fixed-price contracts, and
- that there was a high risk that the hedging contracts were not consistent with the IFRS hedge accounting rules, requiring us to recognise the hedging contracts at market value with value adjustments via the income statement, whereas our commercial exposure is accrued.

Our risk management is described in note 7.1 'Market risks'.

## Business performance – background

We hedge market risks for up to five years with the aim of stabilising our cash flows and

create certainty about our finances. With a view to ensuring transparency, we want the financial impact of the hedging transactions to be reflected in the financial reporting simultaneously with the hedged exposure (for example sales of power). We can normally achieve this by applying the IFRS rules on hedge accounting. For energy companies, it is, however, sometimes difficult to ensure simultaneity. This is due to the fact that hedging instruments are not always available which precisely match the exposure which must be hedged, or that there is no sufficiently liquid market available. Consequently, some hedging takes place in alternative markets or subject to alternative time horizons. For example, power generation in Denmark is to some extent hedged by financial contracts for nearby trading areas, such as the European Energy Exchange (EEX) in Germany and Nord Pool in Scandinavia. These areas normally develop relatively uniformly over time compared to Denmark.

This hedging method means that only some of the financial hedging transactions comply with the IFRS rules on hedge accounting even though the financial risk has been reduced. In case of non-compliance, under IFRS the hedging transactions must be recognised in the income statement on a regular basis. This may give rise to considerable fluctuations in the income statement, as the effects of the hedging and for example the sale of power are not recognised in the same period.

Consequently, we have decided not to apply the IFRS rules on hedge accounting to transactions hedging energy prices and associated currency risks. Value adjustments of these hedges are therefore recognised in the income statement in accordance with IFRS.

## Recognition

In the income statement, the business performance results are shown alongside the IFRS results. In the income statement, the difference

between the two performance measures is shown in a separate column, 'Adjustments'.

Two types of contracts are included in the business performance principle:

- hedging contracts concerning energy and related currencies
- commercial contracts concerning energy recognised at market value (typically fixed-price physical gas and power contracts).

When we use hedging instruments which do not fully correspond to the underlying risk, any difference between the hedging instruments and the underlying risk is recognised immediately in the income statement. See note 7.3 'Energy trading portfolio'. The accounting treatment under business performance is otherwise identical to the accounting treatment under IFRS. Our balance sheet, cash flows and equity are consequently not affected. The accounting treatment of our hedging contracts according to IFRS and business performance is summarised in the table below.

Type of hedging	IFRS	Business performance
Hedging of energy and associated currency risks as well as fixed-price physical gas and power contracts	Market value adjustment in the income statement	Market value adjustments are deferred and recognised in the period in which the exposure materialises
Hedging of: – proceeds from the divestment of newly constructed offshore wind farms – interest payments	Market value adjustments are deferred and recognised in the period in which the exposure materialises	Recognition is the same as under IFRS
Hedging of currency risks associated with investments in foreign entities	Market value adjustments are recognised in other comprehensive income	Recognition is the same as under IFRS
Trading portfolio	Market value adjustments in the income statement	Recognition is the same as under IFRS



Only the recognition of the hedging of energy and associated currency risks as well as fixed-price physical gas and power contracts differs under IFRS and the business performance principle.

### Expected impact on business performance EBITDA from energy and currency hedging

At 31 December 2018, a loss of DKK 1,849 million has been deferred (2017: loss of DKK 812 million), which will affect business performance EBITDA in subsequent years. Of the total deferred loss, a loss of DKK 1,470 million is expected on business performance EBITDA in 2019 (2017: DKK 159 million loss in 2018).

Power prices rose in 2018, which means that the market value of the hedges has fallen as we are selling power. The decrease in the deferred gain on currency hedging is primarily attributable to the transfer of gains to the income statement in 2018 as a consequence of the hedged transactions having occurred.

### Expected impact on business performance EBITDA from energy and currency hedging, DKKm

	Deferred for subsequent recognition at 31 December 2018				Deferred for subsequent recognition at 31 December 2017			
	2019	2020	After 2020	Total	2018	2019	After 2019	Total
Power	(1,324)	(1,190)	(353)	(2,867)	(650)	(385)	(519)	(1,554)
Gas	(294)	(118)	-	(412)	(262)	(266)	(97)	(625)
Oil	(65)	(81)	(36)	(182)	174	137	63	374
Coal	6	1	-	7	34	6	1	41
Currency	(2)	254	239	491	545	139	268	952
Inflation	-	-	(69)	(69)	-	-	-	-
<b>Total hedges</b>	<b>(1,679)</b>	<b>(1,134)</b>	<b>(219)</b>	<b>(3,032)</b>	<b>(159)</b>	<b>(369)</b>	<b>(284)</b>	<b>(812)</b>
Deferred revenue from US power purchase agreements	209	183	791	1,183	-	-	-	-
<b>Total</b>	<b>(1,470)</b>	<b>(951)</b>	<b>572</b>	<b>(1,849)</b>	<b>(159)</b>	<b>(369)</b>	<b>(284)</b>	<b>(812)</b>



The table shows when the deferred value adjustments are expected to be recognised in the business performance EBITDA. The table covers both hedging classified as business performance and IFRS. Gains are shown as '+' and losses are shown as '-'. Deferred revenue from US power purchase agreements is explained in more detail in note 7.7 'Fair value measurement'.

### Explanation of the business performance principle

In year 1, we enter into a contract hedging the price risk associated with Offshore's generation of 1,000GWh in year 5 at GBP 52,000 per GWh. This ensures a total revenue of GBP 52 million. In year 5, the cost of power has decreased to GBP 45,000 per GWh, which means that the hedging contract has a positive market value of GBP 7 million (a hedged price of GBP 52,000 per GWh minus the spot price of GBP 45,000 per GWh). This means that we ensure that the total income, including the hedging transaction, is still GBP 52 million. The income of GBP 52 million consists of a gain from the hedging contract of GBP 7 million and GBP 45 million from the sale of 1,000GWh at a spot price of

GBP 45,000 per GWh. The financial impact of the hedging transaction in years 1-5 is shown in the table. Under the business performance principle, the hedging transaction is recognised in the income statement in year 5, i.e. at the same time as the hedged contract with a positive market value of GBP 7 million. The value development is, however, recognised continuously in the income statement according to IFRS. Upon the expiry of the contract in year 5, the total effect on results over the period is the same under the IFRS and the business performance principle. Only the timing differs. The business performance principle ensures simultaneity of recognition of the underlying exposure and the hedging contract.

	Recognition in the income statement, GBP million		Recognised in the income statement as follows			Total financial impact	
	Power price (GBP '000 per GWh)	Sale of power, GBP million	Market value	Business performance	IFRS	Business performance	IFRS
Year 1	52	-	-	-	-	-	-
Year 2	50	-	2	-	2	-	2
Year 3	55	-	(3)	-	(5)	-	(5)
Year 4	46	-	6	-	9	-	9
Year 5	45	45	7	7	1	52	46
<b>Total</b>		<b>45</b>		<b>7</b>	<b>7</b>	<b>52</b>	<b>52</b>



Example of recognition of the market value of a hedging contract according to the business performance and IFRS principles in the income statement.

#### Specification of the difference between EBITDA according to business performance and according to IFRS, DKKm

	2018	2017
EBITDA – business performance	30,029	22,519
Business performance adjustments in respect of revenue for the year	(1,426)	205
Business performance adjustments in respect of cost of sales for the year	(112)	(150)
<b>EBITDA – IFRS</b>	<b>28,491</b>	<b>22,574</b>
<b>Total business performance adjustments for the year comprise:</b>		
Market value adjustments for the year of financial and physical hedging contracts relating to a future period	(1,734)	(138)
Reversal of deferred gains (losses) relating to hedging contracts from previous periods, where the hedged production or trade is recognised in business performance EBITDA in this period	196	193
<b>Total adjustments</b>	<b>(1,538)</b>	<b>55</b>

#### Market value adjustments for the year of financial and physical hedging contracts relating to a future period, DKKm

	2018	2017
Currency	313	150
Power (commercial and hedge)	(1,617)	(836)
Gas (commercial and hedge)	(48)	106
Oil	(382)	404
Coal	-	38
<b>Total value adjustments</b>	<b>(1,734)</b>	<b>(138)</b>

#### Reversal of deferred gains (losses) relating to hedging contracts from previous periods, where the hedged production or trade is recognised in business performance EBITDA in this period, DKKm

	2018	2017
Currency	(165)	(12)
Power (commercial and hedge)	307	297
Gas (commercial and hedge)	262	(106)
Oil	(174)	46
Coal	(34)	(32)
<b>Total deferred gains (losses) from previous periods</b>	<b>196</b>	<b>193</b>

#### Difference between IFRS and business performance for the year

The value adjustment in respect of future periods totalled DKK -1,734 million (2017: DKK -138 million) and reversal of deferred gains (losses) recognised according to business performance in 2018 totalled DKK 196 million (2017: DKK 193 million).

#### Market value adjustments for the year of hedging contracts

2018 was mainly affected by losses on the hedging of power as a result of rising prices, due to a selling position and hedging of oil as a result of lower prices due to a purchase position.



The table shows value adjustments by product. The value adjustments are recognised in IFRS EBITDA, but not in business performance EBITDA, as the value relates to future periods.

#### Deferred gains (losses) from previous periods

In 2018, a loss of DKK 196 million was recognised in business performance EBITDA, but as the loss was recognised in IFRS EBITDA in a previous period, the gain was reversed in the 'Adjustments' column in the income statement. The loss was primarily attributable to the hedging of power and gas, partly reduced by gains on hedging of oil and currency.



The table shows reversal of value adjustments by product. These gains (losses) are recognised in business performance EBITDA. The reversal of value adjustment was recognised in IFRS EBITDA in a previous period.

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Employee costs	102
Share-based payment	103



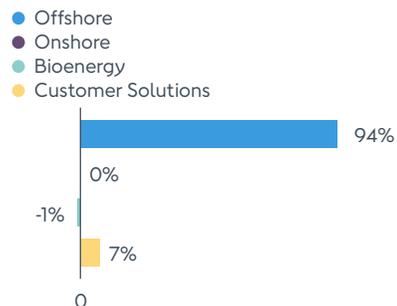
# 2. Return on capital employed

Return on capital employed is a key ratio showing how profitable our business activities are. Our target is an average ROCE of around 10% for the Group for the 2019-2025 period.

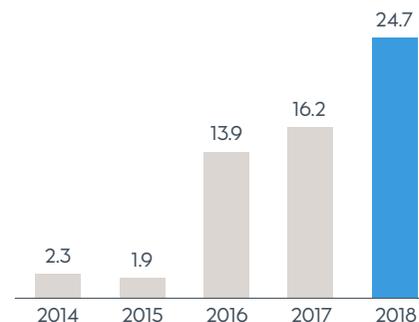
## Return on capital employed

Return on capital employed was 32.1% in 2018 compared to 25.2% in 2017. The increase was mainly due to higher EBIT, which in both years was significantly positively affected by farm-down gains. Reference is made to note 2.1 'Segment information'.

EBIT by segment, percentage of DKK 24,856 million in 2018



EBIT, business performance DKKm



# 30.0bn

EBITDA totalled DKK 30,029 million in 2018 against DKK 22,519 million in 2017.

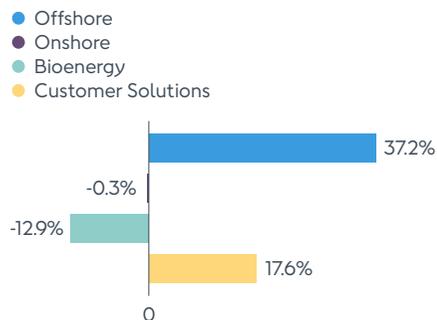
# 24.7bn

Operating profit totalled DKK 24,654 million in 2018 against DKK 16,235 million in 2017.

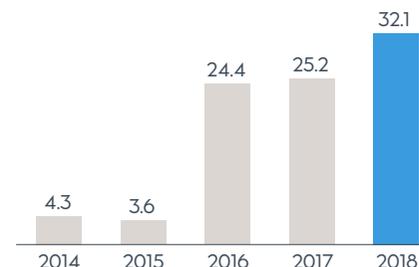
# 32.1%

Return on capital employed (ROCE) totalled 32.1% in 2018 against 25.2% in 2017.

Return on capital employed (ROCE) % 2018



Return on capital employed (ROCE) %



EBIT and return on capital employed are stated according to the business performance principle. EBIT of DKK 24,856 million is calculated as EBIT for reportable segments.



Return on capital employed (ROCE) was 32.1% against 25.2% in 2017. The increase was attributable to a higher EBIT.

# 2.1 Segment information

## Offshore, DKKm

Revenue	30,566
EBITDA	27,809
Gross investments	15,081
Number of employees	2,431

### Primary activity

Development, construction, ownership and operation of offshore wind farms in the UK, Germany, Denmark, the Netherlands, the US and Taiwan.

## Onshore, DKKm

Revenue	80
EBITDA	44
Gross investments	6,779
Number of employees	40

### Primary activity

Development, ownership and operation of onshore wind and solar farms in the US and a minor storage solution in the UK.

## Bioenergy, DKKm

Revenue	6,353
EBITDA	367
Gross investments	1,356
Number of employees	731

### Primary activity

Generation of heat and power from CHP plants in Denmark, operation of a Renaissance plant in the UK, a few biogas upgrade facilities, and a biogas plant.

## Customer Solutions, DKKm

Revenue	47,999
EBITDA	1,970
Gross investments	1,166
Number of employees	1,254

### Primary activity

Distribution of power and sales of power and gas in the wholesale and retail markets in Denmark, Sweden, Germany and the UK as well as optimisation and hedging of the Group's total energy portfolio.

## Geographical distribution of revenue as well as intangible assets and property, plant and equipment

Geographical revenue is broken down, as far as possible, by the customer's geographical location based on supply point.

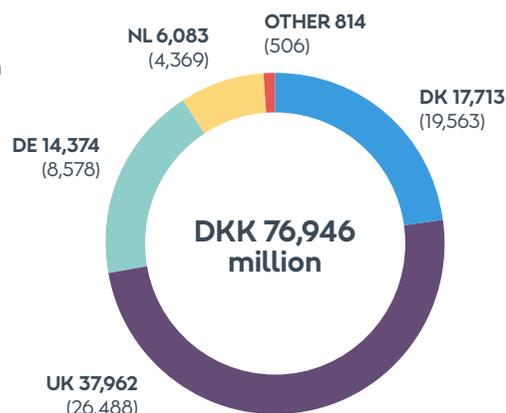
A significant part of our sales takes place via power exchanges and gas hubs in Europe, the physical locations of which do not reflect the geographical locations of our customers. When breaking down these sales by geographical location, we use the physical locations of the exchange or hub since we do not know the physical location of our customers in all cases.

No single customer accounts for more than 10% of our consolidated revenue.

Non-current assets are broken down geographically based on the physical locations of the assets.

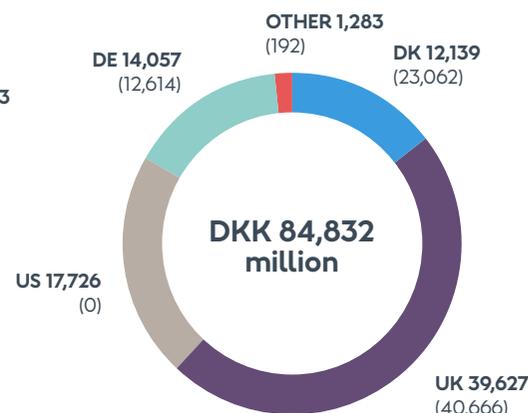
## Revenue, DKKm 2018<sup>1</sup>(2017)

- Denmark (DK)
- UK
- Germany (DE)
- The Netherlands (NL)
- Other



## Intangible assets and property, plant and equipment, DKKm 2018 (2017)

- Denmark (DK)
- UK
- The US
- Germany (DE)
- Other



## Accounting policies

Our operating segments are consistent with our internal reporting to our top decision-making body, Group Executive Management.

We apply the business performance principle, as described in note 1.6 'Business performance', in connection with our internal management.

The operating segments are managed primarily on the basis of EBITDA and investments. Financial income and expenses as well as tax are allocated to the operating segments, while we manage them at Group level.

Segment income and segment expenses are those items that, in our internal management reporting, are directly attributable to individual segments or can be indirectly allocated to individual segments on a reliable basis.



Revenue, intangible assets as well as property, plant and equipment are presented based on the locations of our customers and assets.

<sup>1</sup> Revenue determined according to the business performance principle.

									
2018	Offshore	Onshore	Bioenergy	Customer Solutions	Reportable segments	Other activities/eliminations	Business performance	Adjustments	IFRS
<b>Income statement, DKKm</b>									
External revenue	23,585	80	7,117	46,298	77,080	(134)	76,946	(1,426)	75,520
Intra-group revenue	6,981	-	(764)	1,701	7,918	(7,918) <sup>1</sup>	-	-	-
<b>Revenue</b>	<b>30,566</b>	<b>80</b>	<b>6,353</b>	<b>47,999</b>	<b>84,998</b>	<b>(8,052)</b>	<b>76,946</b>	<b>(1,426)</b>	<b>75,520</b>
Cost of sales	(13,370)	-	(4,527)	(43,859)	(61,756)	7,850	(53,906)	(112)	(54,018)
Employee costs and other external expenses	(5,309)	(121)	(1,480)	(2,125)	(9,035)	44	(8,991)	-	(8,991)
Gain (loss) on disposal of non-current assets	15,076	-	-	(81)	14,995	-	14,995	-	14,995
Additional other operating income and expenses	851	85	22	36	994	(3)	991	-	991
Share of profit (loss) in associates and joint ventures	(5)	-	(1)	-	(6)	-	(6)	-	(6)
<b>EBITDA</b>	<b>27,809</b>	<b>44</b>	<b>367</b>	<b>1,970</b>	<b>30,190</b>	<b>(161)</b>	<b>30,029</b>	<b>(1,538)</b>	<b>28,491</b>
Depreciation and amortisation	(4,456)	(51)	(657)	(773)	(5,937)	(41)	(5,978)	-	(5,978)
Impairment losses	-	-	-	-	-	-	-	-	-
Impairment losses, reversed	-	-	-	603	603	-	603	-	603
<b>Operating profit (loss) (EBIT)</b>	<b>23,353</b>	<b>(7)</b>	<b>(290)</b>	<b>1,800</b>	<b>24,856</b>	<b>(202)</b>	<b>24,654</b>	<b>(1,538)</b>	<b>23,116</b>
<b>Key ratios</b>									
Intangible assets and property, plant and equipment	64,444	10,913	8,253	917	84,527	305	84,832	-	84,832
Equity investments and non-current receivables	269	5	41	295	610	835	1,445	-	1,445
Net working capital, work in progress	9,654	-	-	-	9,654	-	9,654	-	9,654
Net working capital, tax equity	-	(3,719)	-	-	(3,719)	-	(3,719)	-	(3,719)
Net working capital, capital expenditures	(2,612)	(167)	(199)	-	(2,978)	-	(2,978)	-	(2,978)
Net working capital, other items	3,471	(125)	(4,144)	1,918	1,120	369	1,489	-	1,489
Derivatives, net	(1,251)	(722)	(238)	(196)	(2,407)	(219)	(2,626)	-	(2,626)
Assets classified as held for sale, net	-	-	-	10,372	10,372	-	10,372	-	10,372
Decommissioning obligations	(4,010)	(217)	(710)	(535)	(5,472)	-	(5,472)	-	(5,472)
Other provisions	(3,106)	(130)	(906)	(2,982)	(7,124)	(858)	(7,982)	-	(7,982)
Tax, net	(2,123)	(1,059)	(154)	909	(2,427)	(202)	(2,629)	-	(2,629)
Other receivables and other payables, net	1,110	-	-	1	1,111	(601)	510	-	510
<b>Capital employed at 31 December</b>	<b>65,846</b>	<b>4,779</b>	<b>1,943</b>	<b>10,699</b>	<b>83,267</b>	<b>(371)</b>	<b>82,896</b>	-	<b>82,896</b>
Of which capital employed from discontinued operations							(143)		(143)
Of which capital employed from continuing operations							83,039		83,039
<b>Return on capital employed (ROCE) %</b>	<b>37.2</b>	<b>(0.3)</b>	<b>(12.9)</b>	<b>17.6</b>	<b>-</b>	<b>-</b>	<b>32.1</b>	<b>-</b>	<b>-</b>
Cash flows from operating activities	5,814	1,868	1,491	2,279	11,452	(1,109)	10,343	-	10,343
Gross investments	(15,081)	(6,779)	(1,356)	(1,166)	(24,382)	(99)	(24,481)	-	(24,481)
Divestments	19,676	1	383	(63)	19,997	(47)	19,950	-	19,950
<b>Free cash flow (FCF)</b>	<b>10,409</b>	<b>(4,910)</b>	<b>518</b>	<b>1,050</b>	<b>7,067</b>	<b>(1,255)</b>	<b>5,812</b>	<b>-</b>	<b>5,812</b>



Profit (loss) and cash flows are shown only for continuing operations.

The column 'Other activities/eliminations' primarily covers the elimination of inter-segment transactions. Also included are income and costs, assets and liabilities, investment activity, taxes, etc., handled at Group level.

<sup>1</sup> Including the elimination of other activities, the total elimination of intra-group revenue amounts to DKK -10,254 million.

								
2017	Offshore	Bioenergy	Customer Solutions	Reportable segments	Other activities/ eliminations	Business performance	Adjustments	IFRS
<b>Income statement, DKKm</b>								
External revenue	15,034	5,652	38,959	59,645	(141)	59,504	205	59,709
Intra-group revenue	5,318	212	1,236	6,766	(6,766) <sup>1</sup>	-	-	-
<b>Revenue</b>	<b>20,352</b>	<b>5,864</b>	<b>40,195</b>	<b>66,411</b>	<b>(6,907)</b>	<b>59,504</b>	<b>205</b>	<b>59,709</b>
Cost of sales	(6,565)	(4,400)	(36,232)	(47,197)	6,653	(40,544)	(150)	(40,694)
Employee costs and other external expenses	(4,122)	(1,357)	(1,887)	(7,366)	(72)	(7,438)	-	(7,438)
Gain (loss) on disposal of non-current assets	10,811	32	(21)	10,822	13	10,835	-	10,835
Additional other operating income and expenses	238	13	27	278	3	281	-	281
Share of profit (loss) in associates and joint ventures	(119)	-	-	(119)	-	(119)	-	(119)
<b>EBITDA</b>	<b>20,595</b>	<b>152</b>	<b>2,082</b>	<b>22,829</b>	<b>(310)</b>	<b>22,519</b>	<b>55</b>	<b>22,574</b>
Depreciation and amortisation	(4,080)	(690)	(933)	(5,703)	(36)	(5,739)	-	(5,739)
Impairment losses	(545)	-	-	(545)	-	(545)	-	(545)
<b>Operating profit (loss) (EBIT)</b>	<b>15,970</b>	<b>(538)</b>	<b>1,149</b>	<b>16,581</b>	<b>(346)</b>	<b>16,235</b>	<b>55</b>	<b>16,290</b>
<b>Key ratios</b>								
Intangible assets and property, plant and equipment	56,942	7,488	11,771	76,201	333	76,534	-	76,534
Equity investments and non-current receivables	114	41	340	495	692	1,187	-	1,187
Net working capital, work in progress	7,526	-	-	7,526	-	7,526	-	7,526
Net working capital, capital expenditures	(2,901)	(138)	-	(3,039)	-	(3,039)	-	(3,039)
Net working capital, other items	1,860	(3,228)	(1,356)	(2,724)	143	(2,581)	-	(2,581)
Derivatives, net	1,025	(192)	85	918	(422)	496	-	496
Assets classified as held for sale, net	-	-	2,012	2,012	-	2,012	-	2,012
Decommissioning obligations	(3,546)	(733)	(472)	(4,751)	-	(4,751)	-	(4,751)
Other provisions	(2,074)	(764)	(2,952)	(5,790)	(980)	(6,770)	-	(6,770)
Tax, net	(296)	80	350	134	(598)	(464)	-	(464)
Other receivables and other payables, net	1,002	-	2	1,004	(834)	170	-	170
<b>Capital employed at 31 December</b>	<b>59,652</b>	<b>2,554</b>	<b>9,780</b>	<b>71,986</b>	<b>(1,666)</b>	<b>70,320</b>	<b>-</b>	<b>70,320</b>
Of which capital employed from discontinued operations						(236)		(236)
Of which capital employed from continuing operations						70,556		70,556
<b>Return on capital employed (ROCE) %</b>	<b>28.4</b>	<b>(22.2)</b>	<b>13.1</b>	<b>-</b>	<b>-</b>	<b>25.2</b>	<b>-</b>	<b>-</b>
Cash flows from operating activities	3,353	592	(628)	3,317	(2,294)	1,023	-	1,023
Gross investments	(15,462)	(1,390)	(857)	(17,709)	(35)	(17,744)	-	(17,744)
Divestments	16,737	2	196	16,935	47	16,982	-	16,982
<b>Free cash flow (FCF)</b>	<b>4,628</b>	<b>(796)</b>	<b>(1,289)</b>	<b>2,543</b>	<b>(2,282)</b>	<b>261</b>	<b>-</b>	<b>261</b>



Up until the divestment on 29 September 2017, the Oil & Gas business was included in assets classified as held for sale and in discontinued operations. Reference is made to note 3.7 'Discontinued operations'.

Our new reportable segment 'Onshore' is not included in 2017 figures as Lincoln Clean Energy was acquired in October 2018.

We have implemented IFRS 15 after the modified retrospective method. See note 1.4 'Implementation of new or changed accounting standards and interpretations' and note 2.2 'Revenue'.

<sup>1</sup> Including the elimination of other activities, the total elimination of intra-group revenue amounts to DKK -8,887 million.

## 2.2 Revenue

					Other activities/ eliminations	Total
<b>Revenue 2018, DKKm</b>	Offshore	Onshore	Bioenergy	Customer Solutions	Other activities/ eliminations	Total
Sale of gas	-	-	48	23,300	(904)	22,444
Generation and sale of power	4,969	64	3,113	20,743	(7,010)	21,879
Revenue from construction of offshore wind farms	16,560	-	-	-	-	16,560
Generation and sale of heat and steam	-	-	2,903	-	-	2,903
Distribution and transmission	-	-	-	2,777	(32)	2,745
Other revenue	1,529	-	209	584	66	2,388
<b>Total revenue from customers, IFRS</b>	<b>23,058</b>	<b>64</b>	<b>6,273</b>	<b>47,404</b>	<b>(7,880)</b>	<b>68,919</b>
Government grants	7,917	5	560	-	(21)	8,461
Economic hedging	(2,149)	465	(633)	728	2	(1,587)
Other revenue	-	11	272	(805)	249	(273)
<b>Total revenue, IFRS</b>	<b>28,826</b>	<b>545</b>	<b>6,472</b>	<b>47,327</b>	<b>(7,650)</b>	<b>75,520</b>
Adjustments	1,740	(465)	(119)	672	(402)	1,426
<b>Total revenue, business performance</b>	<b>30,566</b>	<b>80</b>	<b>6,353</b>	<b>47,999</b>	<b>(8,052)</b>	<b>76,946</b>
<b>Timing of revenue recognition from customers, IFRS</b>						
At a point in time	6,282	64	3,216	30,201	(452)	39,311
Over time	16,776	-	3,057	17,203	(7,428)	29,608
<b>Total revenue from customers, IFRS</b>	<b>23,058</b>	<b>64</b>	<b>6,273</b>	<b>47,404</b>	<b>(7,880)</b>	<b>68,919</b>



<sup>1</sup> The elimination column includes elimination of the internal sale of ROCs between Offshore (included as government grants, see note 2.4 'Government grants') and Customer Solutions. The ROCs are recognised as inventory in Customer Solutions before being sold to external customers, which creates a mismatch in the timing of the internal purchase and the external sale of the ROCs in Customer Solutions. The amount to be eliminated may exceed the amount of ROCs recognised in Offshore for the period.

The timing of transfer of goods or services to customers is categorised as follows:  
 'At a point in time' mainly comprises:  
 – sale of gas or power in the market, e.g. North Pool, TTF, NBP  
 – transmission assets for offshore wind farms.

'Over time' mainly comprises:  
 – construction agreements of offshore wind farms and transmission assets  
 – long-term contracts with customers to deliver gas, power or heat.

				Other activities/ eliminations	Total
<b>Revenue 2017, DKKm</b>	Offshore	Bioenergy	Customer Solutions	Other activities/ eliminations	Total
Sale of gas	-	-	19,540	(1,556)	17,984
Generation and sale of power	10,052	3,223	17,492	(5,722)	25,045
Revenue from construction of offshore wind farms	8,773	-	-	-	8,773
Generation and sale of heat and steam	-	2,607	-	-	2,607
Distribution and transmission	-	-	2,520	(32)	2,488
Other revenue	1,520	129	534	629	2,812
<b>Total revenue, IFRS</b>	<b>20,345</b>	<b>5,959</b>	<b>40,086</b>	<b>(6,681)</b>	<b>59,709</b>
Adjustments	7	(95)	109	(226)	(205)
<b>Total revenue, business performance</b>	<b>20,352</b>	<b>5,864</b>	<b>40,195</b>	<b>(6,907)</b>	<b>59,504</b>



We have implemented IFRS 15 after the modified retrospective method. Therefore, we have not restated comparative figures.

In 2017, we presented revenue from green certificates, mainly ROCs, as generation and sale of power. In 2018, revenue from green certificates is presented as government grants.

Revenue for the year (business performance) increased by 29% to DKK 76,946 million in 2018. The increase was mainly due to a high activity on construction of offshore wind farms for partners, higher revenue from wind farms in operation as well as higher gas and power prices.

implementation of IFRS 15, revenue from construction of transmission assets are recognised at the time of divestment.

Revenue for the year from the construction of offshore wind farms mainly related to the construction of the offshore wind farms Walney Extension, Borkum Riffgrund 2 and Hornsea 1 as well as the divestment of the Burbo Bank transmission asset and a partial divestment of the Hornsea 1 transmission asset as part of the 50% farm-down of Hornsea 1. Following the

In 2018, revenue totalled DKK 75,520 million according to IFRS, of which DKK 70,736 million was revenue from the sale of goods, and DKK 4,784 million was revenue from the sale of services.

In 2017, revenue totalled DKK 59,709 million according to IFRS, of which DKK 52,347 million was revenue from the sale of goods, and DKK 7,362 million was revenue from the sale of services.

### Unsatisfied long-term contracts

Our remaining performance obligations expected to be recognised in more than one year relate to the construction of wind farms and offshore transmission assets. The constructions are expected to be finalised within two years.

### Key accounting estimates

#### Assumptions for the determination of the expected selling price and expected costs

We make estimates when determining the expected selling price of individual construction agreements. These estimates are influenced by our assessment of:

- the completion degree of the individual offshore wind farms and offshore transmission assets
- total expected costs for the individual contract
- the value of incentive agreements under which we may be paid a bonus for early delivery or have to pay compensation for late delivery
- guarantee commitments undertaken
- share of total costs associated with transmission assets which are expected to be covered upon handover, etc.

Therefore, our determination of profit and the recognition of revenue and related contract assets are subject to significant uncertainty. We believe that our estimates are the most likely outcomes of future events.

### Key accounting judgements

#### Assumptions for the recognition of revenue from the construction of offshore wind farms over time

We construct offshore wind farms with partners, where we construct our partner's share of the wind farm. We assess each construction agreement at the time of conclusion of the agreement.

#### Unsatisfied long-term contracts with customers, DKKm

	31 December 2018	Expected to be recognised in		
		2019	2020	2020+
Aggregate amount of the transaction price allocated to long-term contracts	11,473	91%	9%	0%

In our view, our partner assumes control of the offshore wind farm in step with the construction. This is supported by:

- the regular approval of part deliveries
- approval or rejection of significant variations to the construction
- the partner's take-over of work from subcontractors, both concerning risk and legal title to the wind farm on an on-going basis
- milestone payments from the partner.

Revenue is therefore recognised over time during the construction of the offshore wind farms.

#### Accounting policies

Revenue is measured based on the consideration specified in a contract with a customer (transaction price) and excludes amounts collected on behalf of third parties, i.e. VAT. We recognise revenue when we transfer control over a product or service to a customer.

If a part of the transaction price is variable, i.e. bonus payments, incentive payments for unmissed deadlines, etc., the variable consideration is recognised in revenue when it is highly probable that the revenue will not be reversed in subsequent periods.

We adjust the transaction price for the time value of money if the payments exceed twelve months.

Sales agreements are divided into individually identifiable performance obligations. If a sales agreement includes several performance obligations, the sales agreement's transaction price is allocated to each performance obligation's stand-alone selling price.

In the comparative period, revenue was measured at the fair value of the consideration received or receivable. Revenue from the sale of goods was recognised when the significant risks and rewards of ownership had been transferred to the customer; recovery of the consideration was probable, the associated costs and possible return of goods could be estimated reliably, there was no continuing management involvement with the goods, and the amount of revenue could be measured reliably. Revenue from rendering of services was recognised in proportion to the stage of completion of the work performed at the reporting date.

#### Sale of gas

##### Timing of satisfaction of delivery obligations and significant estimates

Revenue is recognised when control of the gas is transferred to the buyer. Transfer of control occurs either when the gas is injected into the distribution system or physically delivered to the customer.

##### Significant terms of payment and associated estimates and judgements

Sales contracts for a fixed amount of gas at a variable price, or where we are exclusive suppliers to the customer at a variable price, are considered one



The transaction price allocated to the remaining performance obligation (unsatisfied or partially satisfied) as at 31 December 2018.

In accordance with IFRS 15, the overview does not include revenue from contracts with customers to deliver power, gas and heat or our operation and maintenance agreements. For these types of goods and services, we recognise the revenue that correspond directly to the value transferred to the customer.

performance obligation with multiple deliveries to be satisfied over time. For such contracts, we recognise revenue in the amount up to which we have a right to invoice.

Some long-term gas sales contracts include clauses which give the right to renegotiate the fixed sales prices. Expectations for the outcomes of renegotiations are not included in revenue before we know the outcome of the individual renegotiations.

In most cases, the consideration for the gas is due when the gas is injected into the distribution system or delivered to the customer. The delivery of gas is invoiced on a monthly basis, and the payment is due within 10-30 days.

#### Generation and sale of power

##### Types of goods and services

Revenue from generation and sale of power includes the sale of power produced at own wind farms and power plants, the sale of power sourced from other producers, and the sale of ancillary services.

##### Timing of satisfaction of delivery obligations, and significant estimates

Revenue is recognised when control of the goods is transferred to the buyer. Transfer of control occurs when the actual power is delivered to the customer, which for power generated by us occurs when it is produced.

### Significant terms of payment and associated estimates and assessments

Revenue from ancillary services consist of fees for having power plants on standby in periods with a demand for power generation. Ancillary services are considered one performance obligation which is fulfilled over time when the power plants are on standby.

Sales contracts for a fixed amount of power at a variable price, or where we are exclusive suppliers to the customer at a variable price, are considered one performance obligation with multiple deliveries to be satisfied over time. For such contracts and for long-term agreements on selling power at a fixed price, we recognise revenue in the amount up to which we have a right to invoice.

In most cases, the consideration for the power is due when the actual power is delivered to the customer. The delivery of power is invoiced on a monthly basis, and the payment is due within 10-30 days.

Ancillary services are invoiced on a monthly basis, and consideration is payable when invoiced.

### Revenue from construction of offshore wind farms

#### Types of goods and services

Revenue from construction of offshore wind farms includes development and construction.

The construction agreements cover the construction from design to delivery of an operational asset. The agreement consists of two performance obligations:

- Offshore wind farms.
- Offshore transmission assets, if applicable.

The construction agreements cover our partners' shares of the construction of the wind farm and offshore transmission asset, if applicable.

If the contracts include multiple performance obligations, the transaction price will be allocated to each performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on the expected cost-plus margin.

#### Timing of satisfaction of delivery obligations, and significant estimates

We recognise revenue from the construction agreements over time, using an input method to measure progress towards complete satisfaction of

the performance obligation because the customer gains control of the offshore wind farm during the construction process. The input method reflects our ongoing transfer of control to the customer.

When the outcome of the performance obligation in the contract can be measured reasonably, the construction agreement is measured at the transaction price of the work performed less progress billings, based on the percentage of completion of the contract at balance sheet date and the total expected revenues from the individual contracts.

We estimate the degree of completion on the basis of an assessment of the work performed, normally calculated as the ratio between the costs incurred and the total costs expected related to the contract in question.

The transaction price is based on the total expected income from individual contracts. Estimates of revenues are based on the transaction price and the completion degree of the offshore wind farm or offshore transmission asset at the balance sheet date.

Estimates of revenues, costs and percentage of completion are revised if circumstances change. Any resulting increases or decreases in estimated revenue or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision come to our knowledge.

An expected loss is recognised when it is deemed probable that the total construction costs will exceed the total revenue from the individual contracts.

#### Significant terms of payment and associated estimates and assessments

The consideration for the construction of an offshore wind farm consists of a fixed fee and a relatively minor variable fee, depending on when the wind farm can be put into operation.

The consideration for an offshore transmission asset is a fixed fee.

After signing of the construction agreement, we carry out an assessment determining when the wind farm is expected to be completed and calculate the size of the variable payment on this basis. We only recognise the variable fee when it is highly probable that a subsequent reversal will not take place.

At each balance sheet date, an assessment is made of the size of the variable payment which can be included in the transaction price. Revenue is adjusted accordingly.

The customer pays the fixed consideration based on a payment schedule. The payment schedule is determined and based on the expected progress of the construction and transfer of control to the customer.

If the work which we have performed exceeds invoicing on account, a contract asset is recognised. If the payments exceed the work we have performed, a contract liability is recognised.

#### Generation and sale of heat

##### Timing of satisfaction of delivery obligations and significant estimates

Heat is sold under long-term heat contracts.

Revenue is recognised when control is transferred to the customer. Transfer of control occurs when the heat is physically delivered to the customer.

In connection with a biomass conversion of a CHP plant, the heat customer makes a prepayment to finance the majority of our CAPEX associated with the conversion. The prepayment is recognised as a contract liability. The contract liability is recognised as revenue in step with the transfer of heat to the customer.

#### Significant terms of payment and associated estimates and assessments

Payment for the sale of heat consists of fixed costs associated with operation and maintenance of a CHP plant plus fuel costs for the generation of heat and a financial return.

The delivery of heat is invoiced on a monthly basis, and the payment is due within 10-30 days.

#### Distribution and transmission

##### Timing of satisfaction of delivery obligations, and significant estimates

Revenue from the distribution and transmission of gas and power is recognised when the gas or power is delivered to the buyer, or when the capacity is made available.

### Significant terms of payment and associated estimates and assessments

Revenue is calculated as the amount we are entitled to when the service is delivered to the customer and invoiced on a monthly basis, and consideration is payable when invoiced.

#### Other revenue

##### Types of goods and services

Other revenue primarily includes operations and maintenance agreements and other services.

##### Timing of satisfaction of delivery obligations and significant estimates

Revenue from providing services is recognised in the accounting period in which the services are rendered.

For fixed-priced contracts, revenue is recognised based on the actual service rendered at the end of the reporting period as a proportion of the total services to be rendered because the customer receives and uses the benefits simultaneously. This is determined based on the actual labour hours spent relative to the total labour hours expected.

#### Significant terms of payment and associated estimates and assessments

The consideration for operations and maintenance agreements consists of a fixed fee and a minor variable fee, e.g. bonuses or compensation for wind farm availability.

Availability bonuses will be recognised on an ongoing basis when it is highly probable that a subsequent reversal will not take place.

Fixed-price contracts are invoiced on a monthly basis, and consideration is payable when invoiced. Variable fee services are generally due after the services are rendered.

#### Warranty obligations

We typically have a five-year responsibility to remedy defects that exists at the relevant taking-over date when we construct offshore wind farms. These types of warranties are accounted for under IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'. Reference is made to the accounting policy on warranty provisions in note 3.2 'Provisions and contingent assets and liabilities'.

## 2.3 Cost of sales

Cost of sales, DKKm					Other activities/ eliminations	2018 total				Other activities/ eliminations	2017 total
	Offshore	Onshore	Bioenergy	Customer Solutions			Offshore	Bioenergy	Customer Solutions		
Gas	-	-	529	20,428	(558)	20,399	-	976	16,391	(4,477)	12,890
Power	27	-	76	19,580	(7,159)	12,524	188	90	16,520	(5,510)	11,288
Biomass	-	-	2,468	-	-	2,468	-	2,091	-	-	2,091
Coal	-	-	960	2	-	962	-	829	-	-	829
Distribution and transmission costs	754	-	191	2,711	(88)	3,568	625	138	2,496	(102)	3,157
Costs for construction of offshore wind farms	12,590	-	-	38	-	12,628	5,720	-	14	17	5,751
Other cost of sales	(1)	-	334	1,013	123	1,469	32	280	975	3,401	4,688
<b>Total, IFRS</b>	<b>13,370</b>	<b>-</b>	<b>4,558</b>	<b>43,772</b>	<b>(7,682)</b>	<b>54,018</b>	<b>6,565</b>	<b>4,404</b>	<b>36,396</b>	<b>(6,671)</b>	<b>40,694</b>
Adjustments	-	-	(31)	87	(168)	(112)	-	(4)	(164)	18	(150)
<b>Total, business performance</b>	<b>13,370</b>	<b>-</b>	<b>4,527</b>	<b>43,859</b>	<b>(7,850)</b>	<b>53,906</b>	<b>6,565</b>	<b>4,400</b>	<b>36,232</b>	<b>(6,653)</b>	<b>40,544</b>

Cost of sales according to business performance increased from DKK 40,544 million in 2017 to DKK 53,906 million in 2018, up 33%.

The increase was mainly due to higher gas prices, higher sale of ROCs due to higher power generation from offshore wind farms and higher costs in connection with construction of offshore wind farms, including the

divestment of the Burbo Bank transmission asset and a partial divestment of the Hornsea 1 transmission asset as part of the 50% farm-down of the Hornsea 1.

Following the implementation of IFRS 15, cost of sales from construction of transmission assets are recognised at the time of divestment.

 Cost of sales relate partly to trading in gas and power, partly to fuel used at CHP plants in connection with heat and power generation and partly to the construction of offshore wind farms and offshore transmission assets.

## 2.4 Government grants

In Denmark, the Danish transmission system operator, Energinet, administers subsidies for environmentally sustainable power generation, including offshore wind farms. We regard the grant for environmentally sustainable power generation as a government grant as it is paid by the Danish State.

In 2013, the UK introduced a new contracts for difference (CfD) subsidy scheme as a replacement for the Renewable Obligations scheme for renewable energy projects. The Burbo Bank Extension and Walney Extension offshore wind farms were our first offshore wind farms under the CfD regime. In 2017, we received this subsidy for the first time. We treat the payments from the CfD scheme as a government grant.

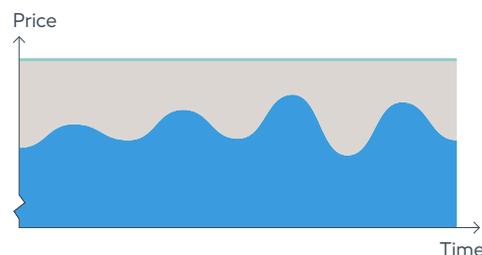
On 1 January 2018, we changed our accounting policy with respect to subsidies under the Renewable Obligation scheme in the UK, known as green certificates or ROCs, and feed-in tariffs in Germany under the German Renewable Energy Sources Act (EEG2014). Consequently, we treat the payments from ROCs and feed-in tariffs as government grants. Reference is made to note 1.4 'Implementation of new or changed accounting standards and interpretations'.

Government grants, DKKm	2018	2017
Government grants recognised in profit (loss) for the year under revenue	8,461	4,527
Government grants recognised in profit (loss) for the year under other operating income	4	4
Government grants recognised in the balance sheet	(4)	(4)
<b>Government grants recognised for the year</b>	<b>8,461</b>	<b>4,527</b>

← Following the changed accounting policy with respect to subsidies, ROCs and feed-in tariffs, we have restated comparatives for the 2017 financial year.

### Illustrative example of CfD

- Market price of power
- Government grants (difference between the market price of power and the power price fixed in the CfD contracts)
- Power price fixed in the CfD contract



When participating in a CfD, we receive a feed-in premium in connection with the generation of power from an offshore wind turbine. The feed-in premium is the difference between the market price of power and the price fixed in the CfD (strike price).

### Accounting policies

Government grants comprise grants for environmentally sustainable power generation, grants for the funding of development projects as well as investment grants, etc.

Government grants are recognised when there is reasonable assurance that the grants will be received.

Grants for the purchase of assets which we recognise in the balance sheet are recognised under deferred revenue and are transferred to other operating income in step with the depreciation of the assets to which the grants relate.

As grants for power generation are intended as a compensation for the price of power, we systematically recognise the grants under revenue in step with the power generation and thus the related revenue.

## 2.5 Other operating income and expenses

Other operating income, DKKm	2018	2017
Gain on divestment of assets	15,086	11,142
Other compensation	594	369
US tax credits and tax equity income	85	-
Miscellaneous operating income	510	154
<b>Total other operating income</b>	<b>16,275</b>	<b>11,665</b>

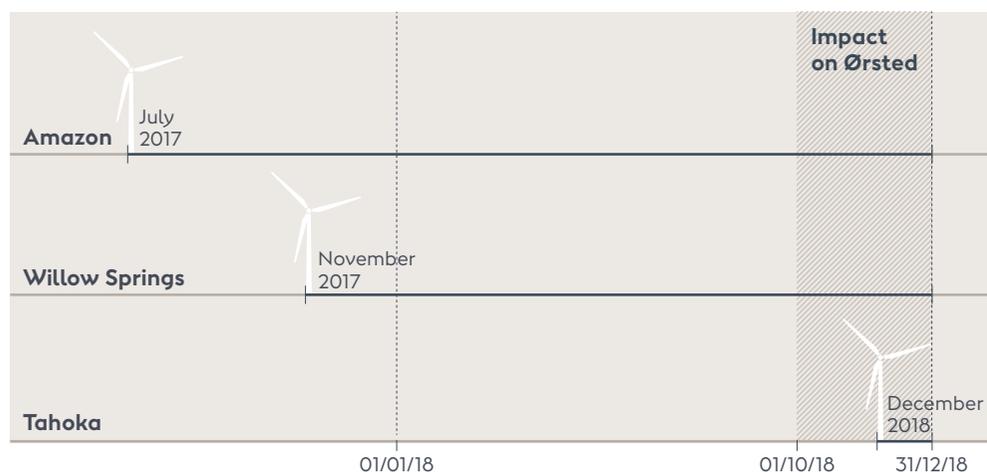
Other operating expenses, DKKm	2018	2017
Loss on divestment of assets	91	307
Miscellaneous operating expenses	198	242
<b>Total other operating expenses</b>	<b>289</b>	<b>549</b>



2018 is the first year of recognising US tax credits and tax equity income originating from our acquisitions and entry in the US market.



US tax credit and tax equity income are earned from the time of commissioning and only in Ørsted's ownership period.



### Other operating income

In 2018, other operating income amounted to DKK 16,275 million, which was 40% higher than in 2017. In 2018, gain on divestment of assets related to the divestment of 50% of the Hornsea 1 offshore wind farm, whereas the 50% farm down of Walney Extension and Borkum Riffgrund 2 and a contingent consideration relating to the divestment of Race Bank in 2016 contributed positively in 2017.

US tax credits and tax equity income originate from our acquisition of Lincoln Clean Energy in October 2018 and correspond to the tax credits and other tax attributes provided to tax equity partners for three months of generated power, as well as our own share.

### Accounting policies

In connection with the divestment of ownership interests in offshore wind farms before or during the construction phase, the gain is recognised on the divestment date under other operating income/ expenses in the income statement.

The gain for the future construction of the partner's share of the offshore wind farm is recognised over time in the income statement in step with the construction. See notes 2.2 'Revenue' and 4.2 'Contract assets and liabilities'.

The accounting policies for US tax credits and tax equity income is described in note 4.5 'Tax equity liabilities'.

### Divestment of ownership interests in our offshore wind farms

When we divest an ownership interest in an offshore wind farm to a partner, we typically also enter into agreements on the future construction and operation of the offshore wind farm.

Contracts in connection with divestment are typically:

- Agreements on the sale of shares (divestment of assets) (SPA).
- Agreements on the future construction of the offshore wind farm (construction agreements).
- Agreements on the future operation of the offshore wind farm (O&M agreements).

### Key accounting judgements

#### Assessment of classification of divestment

When we divest ownership interests in an offshore wind farm under development, we carry out an individual assessment of whether the divestment qualifies as a divestment of an enterprise or a divestment of assets. We have typically assessed that the offshore wind farms do not constitute an enterprise, as no employees are transferred, and processes are transferred to a limited extent only.

### Key accounting estimates

#### Assumptions for the accounting treatment of divestment gains related to share purchase agreements and construction agreements

Our accounting recognition of the gains in the divestment contracts is based on the individual accounting transaction prices of the relevant contracts.

Our accounting treatment of the gains in the contracts is therefore not necessarily identical with the prices negotiated in the individual contracts.

## 2.6 Employee costs

Employee costs, DKKm	2018	2017
Wages, salaries and remuneration	3,768	3,650
Share-based payment	24	15
Pensions	317	310
Other social security costs	124	117
Other employee costs	24	61
<b>Employee costs before transfers to assets</b>	<b>4,257</b>	<b>4,153</b>
Transfers to assets	(1,131)	(956)
<b>Total employee costs</b>	<b>3,126</b>	<b>3,197</b>

### Employee costs

Employee costs before transfer to assets were 2.5% higher in 2018 compared with 2017, mainly reflecting salary increases and a higher average number of employees. Employee costs transferred to assets relate to investment projects, which are capitalised in the balance sheet.

### Pension plans and number of employees

Pension plans are defined-contribution plans that do not commit Ørsted beyond the amounts contributed.

In 2018, our average number of employees was 5,796 (2017: 5,738).

### Remuneration of Group Executive Management

The remuneration of the Executive Board is based on a fixed salary, including personal benefits, such as a company car, free telephone, etc., a variable salary, a retention bonus in connection with the IPO, and share-based payment. The other members of Group Executive Management<sup>1</sup> also receive a pension. The Group Executive Management was expanded by one member in 2018.

The members of the Board of Directors are paid fixed remuneration only for their work in Ørsted. In addition, Ørsted reimburses any travel expenses.

For further details about the remuneration of the Executive Board and the Board of Directors, reference is made to the remuneration report on page 63.

Salaries and remuneration for Group Executive Management and the Board of Directors, DKK '000	Executive Board		Other members of Group Executive Management <sup>1</sup>		Board of Directors		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Fixed salary	16,400	14,761	19,611	16,509	5,133	4,934	41,144	36,204
Cash-based incentive scheme	4,630	4,004	5,329	3,917	-	-	9,959	7,921
Retention bonus etc.	1,875	2,812	2,860	6,535	-	-	4,735	9,347
Share-based payment	3,537	2,080	3,142	949	-	-	6,679	3,029
Pension incl. social security and benefits	555	522	5,060	2,923	-	-	5,615	3,445
Termination payment	-	-	-	5,330 <sup>2</sup>	-	-	-	5,330
<b>Total</b>	<b>26,997</b>	<b>24,179</b>	<b>36,002</b>	<b>36,163</b>	<b>5,133</b>	<b>4,934</b>	<b>68,132</b>	<b>65,276</b>



<sup>1</sup> Other members of Group Executive Management in 2018 are: Thomas Dalsgaard, Morten Hultberg Buchgreitz, Martin Neubert, Ole Kjems Sørensen and Anders Lindberg.

<sup>2</sup> The compensation relates primarily to the non-competition clause in connection with Samuel Leupold's notice of termination.

## 2.7 Share-based payment

### Required number of locked-up shares relative to fixed salary

CEO	75% of fixed salary
CFO and other members of Group Executive Management	50% of fixed salary
Senior vice presidents	25% of fixed salary
Vice presidents and senior directors	15% of fixed salary



The figure shows the value of the Ørsted share in percent of the participants' fixed salary which, at the time of granting, must be locked up for the duration of the executive share programme.

Key assumptions in executive share programme for valuation of PSUs	Time of granting 2018	Time of granting 2017	Time of granting 2016
Share price	392	269	275
Average volatility, peers	24.5%	24.9%	25.6%
Volatility, Ørsted	19.7%	20.3%	24.1%
Risk-free interest rate	(0.3)%	(0.3)%	(0.5)%
Expected term at time of granting	3 years	3 years	2.5 years

### Executive share programme

Group Executive Management and a number of other senior executives participate in our share programme. 94 senior executives participate in the programme. As a condition for the granting of performance share units (PSUs), the participant must own a number of shares in Ørsted corresponding to a portion of the individual participant's annual fixed salary. The portion depends on the employee category and, for our CEO, makes up 75% of the fixed salary; see the figure above for more information. The participants in the programme must invest in Ørsted shares prior to the first granting.

If the participants fulfil the shareholding requirement at the time of granting, they will be granted a number of PSUs each year, representing a value of 15%-20% of the annual fixed salary on the date of granting.

The granted PSUs have a vesting period of approximately three years, after which each PSU entitles the holder, without payment, to receive a number of shares corresponding to 0-200% of the number of PSUs granted. Assuming no share price development since the grant, this would correspond to 0-40% of the fixed salary on the date of grant. The final number of shares for each participant

will be determined on the basis of the total shareholder return delivered by Ørsted, benchmarked against ten comparable European energy companies.

The highest rate will be triggered if Ørsted's results, measured as the total return to shareholders, outperform those of the comparable companies. For each lower ranking, the number of shares granted will fall by 20 percentage points. If, for example, Ørsted ranks third, the participants will be entitled to 160% of the target.

If Ørsted ranks 11 in the comparison, no shares will be granted to the participants. The right to shares is conditional upon continued employment.

### Retention share programme

In 2018 we introduced share-based retention agreements as a replacement for cash-based settlement by using restricted share units (RSUs) when granting new retention agreements.

The target group for the share-based retention agreements will typically be employees responsible for vital, long-term projects. The use of these share-based retention agreements will be limited to 25 concurrent agreements with an individual time frame of up to five years. Members of the Executive Board (CEO and CFO) cannot be granted such retention agreements.

The number of RSUs to be granted will be determined on the basis of the price of Ørsted's shares at the time of the grant and will be limited to an amount corresponding to a maximum of six months' base pay for the employee in question. At vesting, each RSU will entitle the employee to one Ørsted share free of charge. However, the total value of the shares to be received at vesting will be capped at a maximum of twelve months' base pay for the employee in question.

### Accounting policies

The share programme is classified as an equity-based programme as the programme is settled in shares. The market value of the PSUs/RSUs and the estimated number of PSUs granted are measured at the time of granting and recognised:

- in the income statement under employee costs over the vesting period and
- as a set-off in the balance sheet under equity over the vesting period.

The valuation of the PSUs/RSUs and the estimate of the number of PSUs/RSUs expected to be granted are carried out as a probability simulation based on Ørsted's expected total shareholder return relative to ten comparable European energy companies. The expectations are factored into the market value and are not adjusted subsequently. The participants are compensated for any dividend payments by receiving additional PSUs.

## Maximum number of outstanding shares at the time of granting, '000

Time of granting	Executive Board	Other members of Group Executive Management	Senior executives	Other employees	Total	% of share capital	Market value (at time of granting) DKK million	Years until expiry
1 September 2016	21	17	113	-	151	0.04%	24	0.3
1 April 2017	24	18	131	-	173	0.04%	28	1.3
1 April 2018	19	22	83	-	124	0.03%	29	2.3
Share retention programme	-	-	-	18	18	0.00%	4	-
<b>Maximum number of outstanding shares at 31 December 2018</b>	<b>64</b>	<b>57</b>	<b>327</b>	<b>18</b>	<b>466</b>	<b>0.11%</b>	<b>85</b>	

Development in maximum number of outstanding shares, '000	Executive Board	Other members of Group Executive Management	Senior executives	Other employees	2018	2017	2018 in % of share capital
Maximum number of outstanding shares at 1 January	44	34	249	-	327	158	0.08%
Compensation for dividends paid (2016 and 2017 programme)	1	1	5	-	7	3	0.00%
Granted (2018 programme)	19	22	83	-	124	-	0.03%
Granted (2017 programme)	-	-	-	-	-	179	
Cancelled (2017 programme)	-	-	(4)	-	(4)	(6)	0.00%
Cancelled (2016 programme)	-	-	(6)	-	(6)	(7)	0.00%
Share retention program	-	-	-	18	18	-	0.00%
<b>Maximum number of outstanding shares at 31 December</b>	<b>64</b>	<b>57</b>	<b>327</b>	<b>18</b>	<b>466</b>	<b>327</b>	<b>0.11%</b>
(DKKm)							
Market value of share programme at the time of granting	12	11	58	4	85	52	
Maximum market value of share programme on 31 December	28	25	142	8	203	111	



The maximum market value of the share programme at 31 December is based on the assumption that the participants receive the maximum number of shares. This requires that Ørsted delivers the highest shareholder return benchmarked against the ten comparable companies.

# 3. Capital employed

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# 3. Capital employed

**Our capital employed primarily relates to production assets, including assets under construction. We monitor investment projects closely, as a large part of our value is created in the development and construction phases.**

## Investments and divestments in 2018

Our gross investments amounted to DKK 24.5 billion in 2018, of which Offshore accounted for 62%. In addition to offshore wind farms, our gross investments were related to the acquisitions of the onshore wind company Lincoln Clean Energy and the offshore wind company Deepwater Wind in the US, bioconversion of Asnæs Power Station and the replacement of smart meters at our residential power customers in Radius.

Divestments amounted to DKK 20.0 billion and was primarily related to the 50% farm-down of Hornsea 1, receipt of deferred proceeds from the farm-down of 50% of Walney Extension in 2017 and proceeds from the divestment of our 50% ownership share of Enecogen.

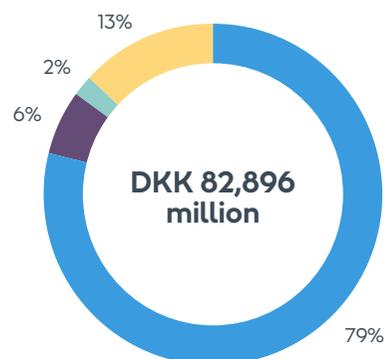
The most significant asset under construction at the end of 2018 was the offshore wind farm Hornsea 1 in the UK.

## Capital employed, DKKm

	2018	2017
Intangible assets and property, plant and equipment	84,832	76,534
Equity investments and non-current receivables	1,445	1,187
Net working capital, work in progress	9,654	7,526
Net working capital, tax equity	(3,719)	-
Net working capital, capital expenditures	(2,978)	(3,039)
Net working capital, other items	1,489	(2,581)
Derivatives, net	(2,626)	496
Assets classified as held for sale, net	10,372	2,012
Decommissioning obligations	(5,472)	(4,751)
Other provisions	(7,982)	(6,769)
Tax, net	(2,629)	(464)
Other receivables and other payables, net	510	169
<b>Total capital employed</b>	<b>82,896</b>	<b>70,320</b>
Of which discontinued operations	(143)	(236)
Of which continuing operations	83,039	70,556

## Capital employed by segment, % 2018

- Offshore
- Onshore
- Bioenergy
- Customer Solutions



Following the divestment of the oil and gas business on 29 September 2017, capital employed from discontinued operations includes our receivables and liabilities from the transaction.

79% of the capital employed is tied up in Offshore.

Capital employed by segment is based on capital employed for reportable segments of DKK 83,267 million.

# 82.9bn

Capital employed totalled DKK 82,896 million on 31 December 2018 against DKK 70,320 million in 2017.

# 24.5bn

Gross investments amounted to DKK 24,481 million in 2018 against DKK 17,744 million in 2017.

# 20.0bn

Cash flows from divestments totalled DKK 19,950 million in 2018 against DKK 16,982 million in 2017.

# 3.1 Intangible assets and property, plant and equipment

Intangible assets and property, plant and equipment DKKm	Intangible assets	Land and buildings	Production assets	Fixtures and fittings, tools and equipment	Property, plant and equipment under construction	Property, plant and equipment
Cost at 1 January 2018	4,775	2,644	97,086	1,174	13,890	114,794
Exchange rate adjustments	-	-	(395)	(1)	(277)	(673)
Addition on acquisition of enterprises	-	11	7,672	-	7,805	15,488
Additions	422	9	5	16	14,406	14,436
Divestment of enterprises	-	(30)	(2,772)	(12)	(125)	(2,939)
Disposals	(171)	-	(1,242)	(2)	(4,809)	(6,053)
Adjustment of decommissioning obligations	-	-	101	-	512	613
Reclassified assets	53	76	14,358	11	(14,498)	(53)
Reclassified to assets classified as held for sale	(915)	(628)	(15,990)	(1)	(299)	(16,918)
<b>Cost at 31 December 2018</b>	<b>4,164</b>	<b>2,082</b>	<b>98,823</b>	<b>1,185</b>	<b>16,605</b>	<b>118,695</b>
Depreciation and amortisation at 1 January 2018	(3,299)	(1,079)	(32,114)	(761)	-	(33,954)
Exchange rate adjustments	-	-	103	1	-	104
Depreciation and amortisation	(158)	(76)	(5,653)	(91)	-	(5,820)
Divestment of enterprises	-	5	391	7	-	403
Disposals	-	-	1,125	1	-	1,126
Reclassified to assets classified as held for sale	712	76	4,727	-	-	4,803
<b>Depreciation and amortisation at 31 December 2018</b>	<b>(2,745)</b>	<b>(1,074)</b>	<b>(31,421)</b>	<b>(843)</b>	<b>-</b>	<b>(33,338)</b>
Impairment losses at 1 January 2018	(787)	(64)	(4,369)	-	(562)	(4,995)
Exchange rate adjustments	-	-	5	-	8	13
Impairment losses and reversals	-	-	603	-	-	603
Divestment of enterprises	-	25	2,379	-	-	2,404
Disposals	-	-	-	-	383	383
Reclassified to assets classified as held for sale	145	-	290	-	-	290
<b>Impairment losses at 31 December 2018</b>	<b>(642)</b>	<b>(39)</b>	<b>(1,092)</b>	<b>-</b>	<b>(171)</b>	<b>(1,302)</b>
<b>Carrying amount at 31 December 2018</b>	<b>777</b>	<b>969</b>	<b>66,310</b>	<b>342</b>	<b>16,434</b>	<b>84,055</b>

## Intangible assets

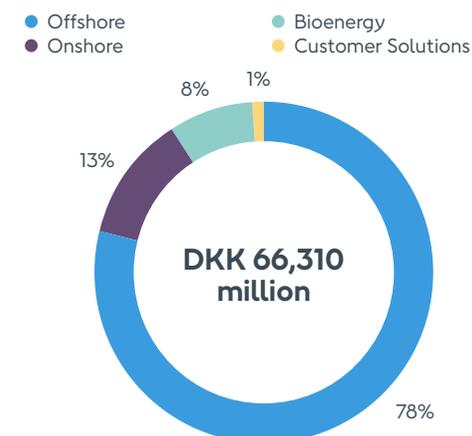
Intangible assets comprise goodwill of DKK 125 million (2017: DKK 125 million), carbon emissions allowances of DKK 330 million (2017: DKK 180 million), other rights of DKK 46 million (2017 DKK 33 million),

completed projects of DKK 142 million (2017: DKK 321 million) and development projects in progress of DKK 134 million (2017: DKK 30 million).

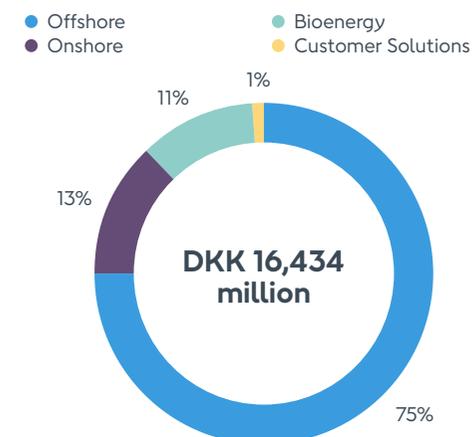
↑  
Addition on acquisition of enterprises comprises property, plant and equipment related to the acquired enterprises Lincoln Clean Energy and Deepwater Wind.

→  
Intangible assets and property, plant and equipment related to our Danish power distribution, residential customer and city light businesses are reclassified to assets held for sale.

## Production assets by segment, % 2018



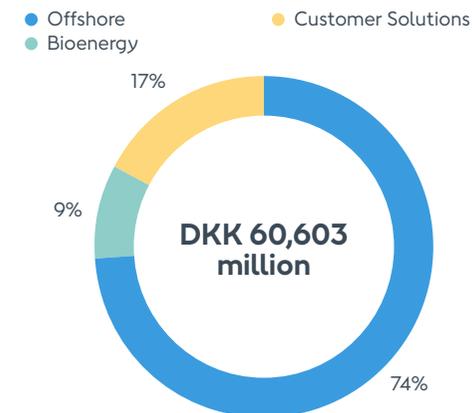
## Property, plant and equipment under construction by segment, % 2018



<b>Intangible assets and property, plant and equipment</b> DKKm	Intangible assets	Land and buildings	Production assets	Fixtures and fittings, tools and equipment	Property, plant and equipment under construction	Property, plant and equipment
Cost at 1 January 2017	4,996	2,625	86,962	1,154	14,531	105,272
Exchange rate adjustments	99	(5)	(1,172)	(43)	(393)	(1,613)
Additions	133	-	2,172 <sup>1</sup>	59	17,791	20,022
Divestment of enterprises	(243)	-	(2,218)	-	-	(2,218)
Disposals	(210)	(64)	(1,844)	(11)	(5,871)	(7,790)
Adjustment of decommissioning obligations	-	-	753	-	368	1,121
Reclassified assets	-	88	12,433	15	(12,536)	-
<b>Cost at 31 December 2017</b>	<b>4,775</b>	<b>2,644</b>	<b>97,086</b>	<b>1,174</b>	<b>13,890</b>	<b>114,794</b>
Depreciation and amortisation at 1 January 2017	(2,999)	(1,056)	(28,872)	(716)	-	(30,644)
Exchange rate adjustments	(23)	6	356	19	-	381
Additions	-	-	(385) <sup>1</sup>	-	-	(385)
Depreciation and amortisation	(286)	(80)	(5,298)	(75)	-	(5,453)
Divestment of enterprises	9	-	467	-	-	467
Disposals	-	51	1,618	11	-	1,680
<b>Depreciation and amortisation at 31 December 2017</b>	<b>(3,299)</b>	<b>(1,079)</b>	<b>(32,114)</b>	<b>(761)</b>	<b>-</b>	<b>(33,954)</b>
Impairment losses at 1 January 2017	(1,042)	(64)	(4,382)	-	-	(4,446)
Exchange rate adjustments	23	-	(15)	-	(17)	(32)
Impairment losses and reversals	-	-	-	-	(545)	(545)
Divestment of enterprises	232	-	28	-	-	28
<b>Impairment losses at 31 December 2017</b>	<b>(787)</b>	<b>(64)</b>	<b>(4,369)</b>	<b>-</b>	<b>(562)</b>	<b>(4,995)</b>
<b>Carrying amount at 31 December 2017</b>	<b>689</b>	<b>1,501</b>	<b>60,603</b>	<b>413</b>	<b>13,328</b>	<b>75,845</b>

<sup>1</sup> An accounting change in the classification of our share of the Lincs offshore wind farm from an equity investment to a joint operation in 2017 resulted in additions of DKK 2,024 million under costs and DKK -385 million under depreciation and amortisation.

Production assets by segment, % 2017



Property, plant and equipment under construction by segment, % 2017





### CGUs in Offshore

The CGUs are made up of individual offshore wind farms, each of which generates cash flows for the segment independently of each other.

Most significant offshore wind farms:  
Anholt – Borkum Riffgrund 1 – Borkum Riffgrund 2 – Borssele 1&2 – Burbo Bank Extension – Gode Wind 1 – Gode Wind 2 – Gunfleet Sands – Hornsea 1 – London Array – Race Bank – Westernmost Rough – Walney – Walney Extension – West of Duddon Sands



### CGUs in Onshore

The CGUs are made up of individual onshore wind farms, each of which generates cash flows for the segment independently of each other.

– Amazon – Lockett – Tahoka – Willow Springs



### CGUs in Bioenergy

The Danish power stations constitute a single CGU as overall production planning is for the entire Danish portfolio of CHP plants. The not yet commissioned waste-to-energy plant Rescience in Northwich in the UK is deemed to constitute an independent CGU.

– Central CHP plants (including goodwill)  
– Rescience Northwich



### CGUs in Customer Solutions

The CGUs are constituted primarily by distribution assets, each of which generates cash flows for the segment independently of each other.

– Power distribution – Oil pipelines – Offshore gas pipelines – City light

## Impairment losses

### Impairment losses relating to goodwill

We have not impaired goodwill or other intangible assets in 2018.

### Impairment losses relating to property, plant and equipment

We have not impaired any property, plant and equipment in 2018.

In connection with reclassification of our power distribution business to assets classified as held for sale, we have reversed an impairment loss from previous years of DKK 603 million as we expect to recover a higher amount than the carrying amounts of the assets after reversal of the impairment loss in previous years.

Certain development projects, which were impaired in previous years, were disposed of in 2018.

In 2017, impairment losses of DKK 545 million were recognised on projects in progress in Offshore.

## Useful lives

Buildings	20-50 years
Offshore wind farms	20-24 years
Onshore wind farms	24-30 years
Production assets, power (thermal) and district heating	20-25 years
Gas transportation system (marine pipelines)	20-40 years
Oil transportation system (marine pipeline)	15 years
Distribution grids, power	20-40 years
Fixtures and fittings, tools and equipment	3-10 years

## Accounting policies

### Intangible assets

Rights are measured at cost less accumulated amortisation and impairment losses. Rights are amortised on a straight-line basis over their estimated future useful lives, which are 5-20 years.

### Property, plant and equipment

Property, plant and equipment is measured at cost less accumulated depreciation and impairment losses. Cost of property, plant and equipment is depreciated on a straight-line basis, using the diminishing-balance method or the reducing-fraction method. The diminishing-balance method and the reducing-fraction method result in decreasing depreciation over the useful life of the offshore wind farm. Cost comprises purchase price and any costs directly attributable to the acquisition until the date the asset is available for use. The cost of self-constructed assets comprises direct and indirect costs of materials, components, sub-suppliers and labour. Borrowing costs relating to both specific and general borrowing directly attributable to assets under construction with a lengthy construction period are recognised in cost during the construction period. Cost is increased by the present value of the estimated obligations for demolition and decommissioning of assets to the extent that the obligations are recognised as a provision.

Subsequent costs, for example in connection with replacement of parts of an item of property, plant and equipment, are recognised in the carrying amount of the asset in question when it is probable that future economic benefits will flow to the Group from the expenses incurred. Other repair and maintenance expenses are recognised in profit (loss) for the year as incurred.

### Assumptions for impairment test

Production assets are tested for impairment if there is any indication of impairment. For production assets with a limited lifetime, such as offshore wind farms and CHP plants, cash flows are calculated based on forecasts for the entire lifetime of the asset. For power distribution, cash flows are based on 25-year forecasts with the addition of a terminal value. The determination of the recoverable amount of production assets is based on a number of assumptions where estimates are made for the determination. These assumptions include future market conditions, market prices of power, biofuel, coal, carbon, weighted average cost of capital (WACC), exchange rates, etc. The market prices applied are based on available forward prices for a period of up to five years and our best estimate of long-term prices for the remainder of the period.

When calculating the recoverable amount of property, plant and equipment under construction, the expected completion costs and the commissioning dates are also assumptions which are based on estimates.

## 3.2 Provisions and contingent assets and liabilities

### Provisions

Decommissioning obligations mainly comprise estimated expenses relating to decommissioning and disposal of our offshore and onshore wind farms, restoration of seabeds and the decommissioning of our CHP plants.

As developers of offshore wind farms, we are obliged to decommission offshore wind farms and restore the surroundings at our own expense. When we construct offshore wind farms in cooperation with partners, they are liable for their share of the decommissioning costs. Therefore, we have included only the decommissioning obligations associated with our ownership interest in the offshore wind farms.

Decommissioning obligations increased by DKK 721 million from 2017 to 2018, primarily due to the construction of new offshore wind farms and the acquisition of Lincoln Clean Energy. The increase in other provisions compared to 2017 primarily relates to Hornsea 1.

Onerous contracts comprise:

- a contract for booked liquified natural gas (LNG) terminal capacity in the Netherlands amounting to DKK 1,235 million (2017: DKK 1,329 million)
- a contract for the lease of gas storage capacity in Germany amounting to DKK 949 million (2017: DKK 1,075 million)
- a contract for the lease of gas storage capacity in Denmark amounting to DKK 229 million (2017: DKK 290 million).

Provisions, DKKm	2018				2017			
	Decommissioning obligations	Onerous contracts	Other provisions	Total	Decommissioning obligations	Onerous contracts	Other provisions	Total
Provisions at 1 January	4,751	2,711	4,058	11,520	3,649	2,596	2,794	9,039
Exchange rate adjustments	(26)	-	(1)	(27)	(58)	-	(8)	(66)
Used during the year	(117)	(373)	(636)	(1,126)	(134)	(436)	(235)	(805)
Provisions reversed during the year	(1)	(8)	(484)	(493)	-	(22)	(28)	(50)
Provisions made during the year	547	-	2,459	3,006	320	464	1,584	2,368
Change in estimates of other factors	86	-	-	86	219	-	-	219
Transferred to assets classified as held for sale	(12)	-	-	(12)	(11)	-	-	(11)
Interest element of provisions	192	88	-	280	766	109	-	875
Additions on acquisition of enterprises	259	-	168	427	-	-	-	-
Disposal on divestment of enterprises	(12)	-	-	(12)	-	-	(49)	(49)
Disposal on sale of assets	(195)	-	-	(195)	-	-	-	-
<b>Total provisions</b>	<b>5,472</b>	<b>2,418</b>	<b>5,564</b>	<b>13,454</b>	<b>4,751</b>	<b>2,711</b>	<b>4,058</b>	<b>11,520</b>
<b>Falling due as follows:</b>								
0-1 year	-	271	409	680	23	335	322	680
1-5 years	193	967	4,508	5,668	43	1,025	3,080	4,148
After 5 years	5,279	1,180	647	7,106	4,685	1,351	656	6,692

Other provisions comprise primarily:

- warranty obligations for offshore wind farms
- possible repayments to power consumers in respect of previous years
- obligations in connection with divestments, primarily in relation to the divestment of our Oil & Gas business and wind farms
- obligations in respect of our own carbon emissions
- other contractual obligations.

### Decommissioning obligations by segment, DKKm

	 Offshore	 Onshore	 Bioenergy	 Customer Solutions	Total
0-5 years	159	-	34	-	193
5-10 years	630	-	92	-	722
10-20 years	1,938	-	443	-	2,381
After 20 years	1,283	217	141	535	2,176
<b>2018</b>	<b>4,010</b>	<b>217</b>	<b>710</b>	<b>535</b>	<b>5,472</b>
<b>2017</b>	<b>3,545</b>	<b>-</b>	<b>733</b>	<b>473</b>	<b>4,751</b>

## Contingent liabilities

This note primarily concerns our continuing operations – see also note 3.7 'Discontinued operations'.

### Liability to pay compensation

In case of any environmental accidents or other types of damage caused by our oil and gas transport, the companies Ørsted Salg & Service A/S and Danish Oil Pipe A/S are liable to pay compensation according to legislation. This also applies if there is no proof of negligence (strict liability). We have taken out insurance to cover any such claims.

### Litigation

We are party to actions relating to the Danish competition authorities' claim that the former Elsam A/S and Elsam Kraft A/S ('Elsam'), now part of Ørsted, charged excessive prices in the Danish wholesale power market in some periods.

In 2006 and 2008, respectively, the Danish Competition Appeals Tribunal concluded that Elsam abused its dominant position in the wholesale power market in Western Denmark to some extent in the periods 1 July 2003 to 31 December 2004 and 1 January 2005 to 30 June 2006 by charging excessive prices. We disputed the rulings and appealed both rulings to the Copenhagen Maritime and Commercial Court, where the parties agreed to stay the case concerning the period 1 July 2003 to 31 December 2004 on the outcome of the case concerning the period 1 January 2005 to 30 June 2006. In the latter case, the Copenhagen Maritime and Commercial Court found Elsam guilty of violating the Danish Competition Act in 2016. Following an appeal,

this judgement was, however, overturned by the High Court of Western Denmark in 2018, and after an unsuccessful attempt from the Danish competition authorities to get permission to appeal the judgement, it also became final in 2018.

In connection with the above-mentioned cases, some energy companies, some of their customers and others have raised claims for damages. In 2007, one group chose to commence legal proceedings before the Copenhagen Maritime and Commercial Court with a claim for damages of approx. DKK 4.4 billion with addition of interest, while suspension agreements have been concluded with others, meaning that the limitation period for these alleged claims has been suspended. In response to the claims for damages, we have made a provision of DKK 298 million plus interest. The provision has been calculated on the basis of the Danish Competition Council's determination of consumer losses.

In addition, we are party to a number of court cases and legal disputes. In our assessment, none of these will significantly impact the company's financial position, neither individually nor collectively.

### Change of control

Some of our activities are subject to consents, permits and licences granted by public authorities. We may be faced with a claim for acceptance of any transfer, possibly with additional terms and conditions, if the Danish State holds less than 50% of the share capital or voting rights in Ørsted A/S. Read more in note 6.1 'Interest-bearing debt'.

## Accounting policies

Provisions are recognised when the following criteria are fulfilled:

- We have a legal or constructive obligation as a result of an earlier event.
- The settlement of the obligation is expected to result in an outflow of resources.
- The obligation can be measured reliably.

For onerous contracts, a provision is made when the expected income to be derived from a contract is lower than the unavoidable cost of meeting our obligations under the contract.

Provisions concerning carbon emissions are recognised when our actual emissions exceed our holding of carbon emissions allowances.

Decommissioning obligations are measured at the present value of the future liability in respect of decommissioning as expected at the balance sheet date. The present value of the provision is recognised as part of the cost of property, plant and equipment and depreciated together with the associated asset. The addition of interest on provisions is recognised in the income statement under financial expenses.

### Key accounting estimates

Timing, probabilities, amounts, etc. which have a bearing on our provisions estimates are updated quarterly based on our expectations.

### Assumptions for decommissioning obligations

Estimates of decommissioning obligations are based on our expectations of, for example:

- timing and scope
- future cost level
- adopted laws and regulations on remediation.

The timing of our decommissioning obligations depends on the expected useful lives of the assets.

We expect that our CHP plants in Denmark must be removed within 12 years of decommissioning at the latest.

In measuring provisions, the costs required to meet the obligations are discounted. In determining decommissioning obligations at 31 December 2018, a discount rate of 3.5% is applied. The rate has been estimated on the basis of expectations concerning the future, long-term interest rate level, based on historical interest rate levels.

Timing as well as decommissioning requirements are assessed based on current legislation and standards in this area. Future cost levels are based, among other things, on expectations with regard to:

- general price developments or developments in market prices
- demand
- development of existing technologies.

### Estimates of onerous contracts

We have entered into a number of contracts with fixed terms. Depending on market developments and uncertainty about obligations incurred under the contracts made, these contracts may become onerous. Our estimates concerning these complex contracts and their future effects are subject to significant uncertainties.

### Estimates of litigation outcomes

When exercising a judgement about a potential liability in connection with litigation, we assess:

- the nature of the litigation, claim or statement
- the development of the case
- the judgements and recommendations of legal or other advisers
- experience from similar cases
- our decision on how we are going to react to the litigation, claim or statement.

## 3.3 Acquisition of enterprises

Cash flows used for acquisitions in 2018, DKKm	Lincoln Clean Energy	Deepwater Wind	Total
<b>Fair value at time of acquisition:</b>			
Property, plant and equipment	9,707	5,781	15,488
Other assets	28	158	186
Cash	77	363	440
Interest-bearing debt	(2,337)	(1,702)	(4,039)
Tax equity liabilities	(2,126)	(90)	(2,216)
Provisions	(384)	(43)	(427)
Derivatives	(1,185)	57	(1,128)
Deferred tax, net	(486)	(1,239)	(1,725)
Other liabilities	(198)	(57)	(255)
<b>Net assets acquired</b>	<b>3,096</b>	<b>3,228</b>	<b>6,324</b>
Goodwill	-	-	-
<b>Purchase price</b>	<b>3,096</b>	<b>3,228</b>	<b>6,324</b>
Cash, available acquired	(28)	(37)	(65)
Contingent consideration	-	(657)	(657)
<b>Cash flow used for acquisition of enterprises</b>	<b>3,068</b>	<b>2,534</b>	<b>5,602</b>
Purchase price	3,096	3,228	6,324
Adjustments for cash	(77)	(363)	(440)
Adjustments for interest-bearing tax equity liability	280	90	370
Adjustments for interest-bearing debt	2,337	1,702	4,039
<b>Enterprise value</b>	<b>5,636</b>	<b>4,657</b>	<b>10,293</b>

In 2018, we have completed acquisitions of enterprises as detailed above. We made no acquisitions in 2017.

On 1 October 2018, we acquired all of the membership interests in Lincoln Clean Energy LLC, effectively gaining control of the company. The acquisition represents the first step into our new business area, Onshore.

On 8 November 2018, we acquired all of the membership interests in Deepwater Wind LLC, effectively gaining control of the company,

which will be incorporated in our offshore business unit.

Part of the purchase price of Deepwater Wind is a contingent consideration of DKK 657 million that we will pay upon the relevant regulator's approval of two specific power purchase agreements. The maximum payable consideration is DKK 657 million.

Since the date of the acquisition, Lincoln Clean Energy has contributed with a revenue according to business performance

principles of DKK 80 million and loss before tax of DKK 14 million. This revenue and profit corresponds to three months of operations for Lincoln Clean Energy and is scalable for what an estimated full-year effect would have been if the acquisition had been made on 1 January 2018. Since the date of the acquisition, Deepwater Wind has contributed with a revenue of DKK 38 million and a loss before tax of DKK 120 million. If the acquisition had been made on 1 January 2018, the full year revenue would have been DKK 187 million, and loss before tax would have been DKK 250 million. The loss was due to project development costs.

As part of the acquisition processes, we have incurred costs amounting to DKK 63 million which have been expensed in our income statement.

The fair values of the assets and liabilities acquired are not considered final until 12 months after acquisition.

### Accounting policies

Acquisition of enterprises are recognised using the acquisition method whereby assets and liabilities as well as contingent liabilities of the acquired enterprise are measured at fair value on the date of acquisition.

The fair value of production assets and assets under construction are normally determined using an income approach where they are valued at present value based on the expected cash flows they can generate, including any non-separable power purchase agreements, as well as income, such as production tax credits.

The fair value of derivatives is determined using our normal approach for such items, based on market prices or expectations for prices over the term of the derivatives, as described in note 7.7 'Fair value measurement'.

The fair values of other assets and liabilities are valued using the approach we find most relevant for the individual item, which can be either a market approach, an income approach or a cost approach.

An acquired enterprise is included in the consolidated financial statements from the date of acquisition, which is the date when we obtain control of the acquired enterprise.

When an acquired enterprise has entered into a power purchase agreement classified as a derivative, the fair value of the agreement will be included in the opening balance. Post-acquisition, this fair value is recognised as an adjustment to revenue over the duration of the contract, based on the fair value calculation at the time of the acquisition.

### Key accounting estimates

**Purchase price allocations in business combinations**  
When we apply the acquisition method for business combinations, by nature this involves judgement in assessing the fair value of identifiable assets and liabilities.

#### Property, plant and equipment

Our assessment of fair value is based on a number of estimates regarding WACC and expected cash flows, which both have a large impact on the fair value.

#### Derivatives

Our assessment of fair value is dependent on expected future prices. See note 7.7 'Fair value measurement' for our valuation principles.

#### Deferred tax

Our expectation to the timing of repayment of tax equity liabilities, and thereby the expected 'flip' of the tax equity structure, impacts the fair value of deferred tax on the assets and liabilities that are part of wind farms with tax equity partners. The expected tax rate also significantly impacts deferred tax.

## 3.4 Divestment of enterprises

Selling price, DKKm	2018	2017
Payment	497	605
Working capital adjustment	(68)	(1)
<b>Selling price on divestment of enterprises</b>	<b>429</b>	<b>604</b>
Transaction costs	(66)	(20)
Of which selling price receivable	-	4
<b>Cash selling price on divestment of enterprises</b>	<b>363</b>	<b>588</b>

Gain (loss) on divestment of enterprises DKKm	2018	2017
Selling price on divestment of enterprises	429	604
Net assets sold	(240)	(725)
Provisions as a result of the transaction	4	2
Transaction costs	(66)	(20)
<b>Gain (loss) on divestment of enterprises</b>	<b>127</b>	<b>(139)</b>

Gain on divestment of enterprises amounted to DKK 127 million compared to DKK -139 million in 2017. In 2018, gain on divestment of enterprises related to the sale of our 50% ownership interest in Enecogen (Bioenergy). Transferred cash and cash equivalents totalled DKK 6 million. In 2017, gain on divestment of enterprises related to the sale of A2SEA. Transferred cash and cash equivalents totalled DKK 278 million.

### Accounting policies

We recognise income from divested enterprises in the income statement up until the date of divestment.

The date of divestment is the date on which we relinquish control of the divested enterprise.

Gains or losses on the divestment or discontinuation of subsidiaries and associates are determined as the difference between the selling price and the carrying amount of the net assets divested.

Moreover, we deduct the fees of advisers, etc., in connection with the divestment, or discontinuation of the enterprise.



The divestment of our Oil & Gas business in 2017 is not included in the figures as it is presented as discontinued activities. See note 3.7 'Discontinued operations'.

## 3.5 Gross and net investments

Gross and net investments, DKKm	2018	2017
Cash flows from investing activities	(1,026)	(10,054)
Dividends received and capital reduction, reversed	(25)	(13)
Purchase and sale of securities, reversed	595	9,197
Loans to associates and joint ventures, reversed	12	47
Sale of non-current assets, reversed	(20,002)	(16,921)
Interest-bearing debt in acquired enterprises	(4,409)	-
Restricted cash in acquired enterprises	374	-
<b>Total gross investments</b>	<b>(24,481)</b>	<b>(17,744)</b>
Transactions with non-controlling interests in connection with divestments	(52)	61
Sale of non-current assets	20,002	16,921
<b>Total cash flows from divestments</b>	<b>19,950</b>	<b>16,982</b>
<b>Total net investments</b>	<b>(4,531)</b>	<b>(762)</b>

Gross investments amounted to DKK 24,481 million in 2018, which was 38% higher than in 2017.

Gross investments in Offshore amounted to DKK 15,081 million and was related to the construction of Hornsea 1 and Walney Extension in the UK, Borkum Riffgrund 2 in Germany, Borssele 1 & 2 in the Netherlands, early investments in the US to qualify for future tax credits as well as the acquisition of Deepwater Wind in the US. In 2017, gross investments primarily related to the construction of Walney Extension, Borkum Riffgrund 2 and Race Bank.

In Onshore, gross investments amounted to DKK 6,779 million and related to the acquisition of Lincoln Clean Energy and construction of the Tahoka and Lockett onshore wind farms in the US.

Divestments amounted to DKK 19,950 million in 2018 and related to the 50% farm-down of Hornsea 1, receipt of deferred proceeds from the farm-down of 50% of Walney Extension in 2017 and proceeds related to the divestment of our 50% ownership share in Enecogen.

In 2017, divestments amounted to DKK 16,982 million and were primarily related to the 50% farm-downs of the offshore wind farms Walney Extension and Borkum Riffgrund 2.

## 3.6 Assets classified as held for sale

At 31 December 2018, assets classified as held for sale comprised our Danish power distribution, residential customer and city light businesses as well as our oil pipe system in Denmark.

We are currently investigating the different options for exiting our Danish power distribution, residential customer and city light businesses. The oil pipe system is to be sold to the Danish transmission system operator, Energinet.

At 31 December 2017, assets classified as held for sale only comprised our oil pipe system in Denmark.

### Accounting policies

Assets classified as held for sale comprise assets and liabilities, the values of which are highly probable to be recovered through a sale within 12 months rather than through continued use.

Assets and liabilities classified as held for sale are measured at the carrying amount at the time of classification as 'held for sale' or at market value less selling costs, whichever is lower. The carrying amount is measured in accordance with the Group's accounting policies.

No depreciation or amortisation is effected on intangible assets and property, plant and equipment from the time of classification as 'held for sale'.

Assets classified as held for sale, DKKm	2018	2017
Intangible assets	80	20
Property, plant and equipment	13,951	2,119
Inventories	16	16
Trade receivables	701	73
Other receivables	430	368
Income tax	45	46
<b>Total assets classified as held for sale</b>	<b>15,223</b>	<b>2,642</b>
Deferred tax	823	99
Provisions	372	359
Contract liabilities	2,737	-
Trade payables	92	80
Other payables	826	92
Income tax	1	-
<b>Total liabilities relating to assets classified as held for sale</b>	<b>4,851</b>	<b>630</b>
<b>Net assets classified as held for sale</b>	<b>10,372</b>	<b>2,012</b>



The table shows assets and liabilities which have been put up for sale, and which are therefore not expected to contribute to our future earnings.



## 3.7 Discontinued operations

Discontinued operations comprise our Oil & Gas business, which was sold to INEOS on 29 September 2017.

### Financial results

Profit (loss) in 2018 amounted to DKK 10 million (2017: DKK 6,920 million, including gain (loss) on disposal of discontinued operations).

Total cash flows in 2018 amounted to DKK 209 million (2017: DKK 9,025 million), of which DKK -53 million was from operating activities and mainly concerned the payment of fees for existing Oil & Gas insurance activities. The insurance fee was provided for at the time of the divestment in 2017. Cash flows from investing activities amounted to DKK 262 million and concerned primarily the receipt of a selling price receivable of USD 50 million. The receivable was interest-bearing and therefore had no impact on our interest-bearing net debt.

### Capital employed

Our capital employed in discontinued operations at 31 December 2018 mainly consisted of provisions relating to the sale (tax indemnifications and payments related to the Fredericia stabilisation plant) as well as a conditional payment (receivable selling price) which does not carry interest.

In addition, we have interest-bearing receivables of USD 100 million (not part of capital employed), which we expect to receive in the period 2019-2020.

### Divestment of Oil & Gas in 2017

The selling price from the transaction amounted to DKK 5,456 million, of which DKK 3,652 million was received and recognised in our free cash flow from discontinued operations in Q3 2017.

All in all, the transaction reduced the Group's net debt by DKK 4,588 million, as USD 150 million of the outstanding selling price was interest-bearing.

### Secondary liability

As part of the divestment of Oil & Gas, we have assumed a secondary liability regarding the decommissioning of offshore installations. We consider the payment of the liability to be very unlikely. The matter is described in further detail in the interim financial report for the first nine months of 2017.

Employee costs, DKKm	2018	2017
Wages, salaries and remuneration	-	365
Pensions	-	27
Other social security costs	-	11
Other employee costs	-	5
<b>Employee costs before transfers to assets</b>	<b>-</b>	<b>408</b>
Transfers to assets	-	(126)
<b>Total employee costs</b>	<b>-</b>	<b>282</b>

Cash flows, DKKm	2018	2017
Cash flows from operating activities	(53)	5,545
Proceeds from the divestment of Oil & Gas	-	3,677
Cash flows from other investing activities	262	(197)
Cash flows from financing activities	-	-
<b>Total cash flows</b>	<b>209</b>	<b>9,025</b>

Capital employed, DKKm	2018	2017
Equity investments and non-current receivables	746	691
Derivatives, net	(106)	-
Other provisions	(820)	(935)
Tax, net	29	(3)
Other receivables and other payables, net	8	11
<b>Total net assets</b>	<b>(143)</b>	<b>(236)</b>



The remaining net assets under discontinued operations consist of the selling price receivable and provisions as a result of the divestment of Oil & Gas.

	2018			2017		
	Business performance	Adjustments	IFRS	Business performance	Adjustments	IFRS
<b>Profit from discontinued operations, DKKm</b>						
External revenue	-	-	-	4,178	(1,047)	3,131
Intra-group revenue	-	-	-	3,821	-	3,821
<b>Revenue</b>	-	-	-	<b>7,999</b>	<b>(1,047)</b>	<b>6,952</b>
Cost of sales	-	-	-	(957)	-	(957)
Employee costs and other external expenses	-	-	-	(920)	-	(920)
Other operating income and expenses	-	-	-	252	-	252
Gain (loss) on disposal of non-current assets	-	-	-	62	-	62
<b>Operating profit (loss) before depreciation, amortisation and impairment losses (EBITDA)</b>	-	-	-	<b>6,436</b>	<b>(1,047)</b>	<b>5,389</b>
Impairment losses and reversals	-	-	-	713	-	713
<b>Operating profit (loss) (EBIT)</b>	-	-	-	<b>7,149</b>	<b>(1,047)</b>	<b>6,102</b>
Gain on divestment of enterprises	(44)	-	(44)	2,432	-	2,432
Financial income and expenses, net	(53)	-	(53)	(393)	-	(393)
<b>Profit (loss) before tax</b>	<b>(97)</b>	-	<b>(97)</b>	<b>9,188</b>	<b>(1,047)</b>	<b>8,141</b>
Tax on profit (loss) for the year	107	-	107	(2,268)	231	(2,037)
<b>Profit from discontinued operations</b>	<b>10</b>	-	<b>10</b>	<b>6,920</b>	<b>(816)</b>	<b>6,104</b>



The profit from discontinued operations relates to our divested Oil & Gas business.

	2018			2017		
	Profit (loss) before tax	Tax	Tax rate	Profit (loss) before tax	Tax	Tax rate
<b>Tax for the period, discontinued operations, DKKm</b>						
Adjustment related to prior years	-	79	-	-	-	-
Oil and gas activities in Norway (hydrocarbon income)	-	-	-	2,308	(1,765)	76%
Oil and gas exploration activities in the UK and the Faroe Islands	-	-	-	530	6	(1)%
Gains (losses) from divestments as well as other non-taxable income and non-deductible costs	(44)	16	36%	2,432	210	(9)%
Impairment losses and reversals	-	-	-	713	-	n.a.
Other activities in Oil & Gas	(53)	12	22%	3,205	(719)	22%
<b>Total, business performance</b>	<b>(97)</b>	<b>107</b>	<b>110%</b>	<b>9,188</b>	<b>(2,268)</b>	<b>25%</b>
<b>Total, IFRS</b>	<b>(97)</b>	<b>107</b>	<b>110%</b>	<b>8,141</b>	<b>(2,037)</b>	<b>33%</b>



Effective tax rate deviates from the statutory rate as a result of adjustments related to prior years of DKK 79 million and non-taxable income of DKK 33 million (tax value DKK 7 million).

## 3.8 Non-controlling interests

Transactions with non-controlling interests, DKKm	2018	2017
<b>Transactions with non-controlling interests</b>		
Dividends paid to non-controlling interests	(400)	(376)
Divestment of equity investments to non-controlling interests	13	(108)
Other capital transactions with non-controlling interests	(4)	53
<b>Total transactions, see statement of cash flows</b>	<b>(391)</b>	<b>(431)</b>
<b>Divestment of equity investments to non-controlling interests</b>		
Selling price	-	8
Of which changes in receivables relating to the acquisition and divestment of non-controlling interests	13	(116)
<b>Cash selling price, total</b>	<b>13</b>	<b>(108)</b>

DKKm	Gunfleet Sands Holding Ltd. group		Walney (UK) Offshore Windfarms Ltd.	
	2018	2017	2018	2017
<b>Statement of comprehensive income</b>				
Revenue	431	419	1,079	1,087
EBITDA	237	263	554	545
Profit (loss) for the year	26	48	66	46
Total comprehensive income	5	(21)	12	(90)
Profit (loss) for the year attributable to non-controlling interests	13	24	33	23
<b>Balance sheet</b>				
Non-current assets	2,153	2,371	5,656	6,159
Current assets	139	164	213	225
Non-current liabilities	311	318	795	776
Current liabilities	88	50	223	217
Carrying amount of non-controlling interests	944	1,081	2,433	2,697
<b>Statement of cash flows</b>				
Cash flows from operating activities	264	246	563	562
Cash flows from investing activities	0	0	(16)	(1)
Cash flows from financing activities	(283)	(227)	(566)	(577)
– of which dividends paid to non-controlling interests	(144)	(113)	(256)	(263)

Subsidiaries with significant non-controlling interests	Non-controlling interest	Registered office
Gunfleet Sands Holding Ltd.	49.9%	London, UK
Walney (UK) Offshore Windfarms Ltd.	49.9%	London, UK



In the table, we provide financial information for subsidiaries with significant non-controlling interests. The amounts stated are the consolidated accounting figures of the individual enterprises/groups, determined according to our accounting policies. Amounts are stated before intra-group eliminations.

### Accounting policies

Transactions with non-controlling interests are accounted for as transactions with the shareholder base.

Gains and losses on the divestment of equity investments to non-controlling interests are recognised in equity when the divestment does not result in a loss of control.

Net assets acquired are not revalued on the acquisition of non-controlling interests. Any difference between the carrying amount and the acquisition or selling price is recognised in equity.

# 4. Working capital

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## 4. Working capital

Our key working capital items consist of inventories, net contract assets, trade receivables and payables, tax equity liabilities and other payables, including prepayments from heat customers. Connection charges in our power distribution business has been classified as assets held for sale at 31 December 2018.

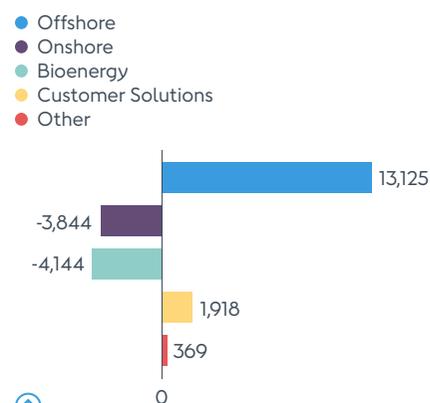
Working capital items vary with the seasonal variations in our generation and sales activities during the year. Our net contract assets relate primarily to construction of offshore wind farms for partners and vary within and across years, depending on the portfolio of offshore construction assets. They also depend on when we reach certain milestones and trigger payments from our partners.

Contract assets, net also include prepayment from heat customers in connection with our bioconversions and therefore vary depending on the progress of these projects. Construction of offshore transmission assets in the UK, which are recognised as inventories, will continue to tie up cash until they are divested. Tax equity liabilities also vary within and across years. This is due to the fact that we receive cash contributions from tax equity partners at the point in time when a US onshore wind farm enters into operation.

Trade payables relating to capital investments are not included in this section as they are presented as part of the cash flows from investing activities.

Working capital, DKKm	2018	2017
Inventories	13,943	3,853
Contract assets, net	(3,115)	9,500
Trade receivables	10,741	9,170
Other receivables	2,968	2,082
Trade payables, excluding trade payables relating to capital expenditure	(10,099)	(8,460)
Tax equity liabilities	(3,719)	-
Other payables	(3,295)	(11,200)
<b>Net working capital, excluding trade payables relating to capital expenditure at 31 December</b>	<b>7,424</b>	<b>4,945</b>
Of which work in progress and related trade payables	9,654	7,526
Of which tax equity partner liabilities and other working capital	(2,230)	(2,581)

### Working capital, DKKm 2018



Offshore primarily has funds tied up in inventories, construction agreements and trade receivables. The most significant working capital item in Onshore consists of liabilities regarding tax equity contributions from our partners. Bioenergy has a negative working capital, mainly as a result of prepayments from heat customers. Customer Solutions has funds tied up mainly in inventories, receivables and clearing counterparties in connection with exchange trading.



The composition of our net working capital has changed relative to last year. In 2017, we recognised offshore transmission assets as construction agreements. Following the implementation of IFRS 15, we recognise offshore transmission assets as inventory. Furthermore, the introduction of tax equity elements in our Onshore business has impacted our working capital. Work in progress consists of inventories related to transmission assets, construction agreements and construction management agreements in connection with the construction of transmission assets and offshore wind farms for partners as well as related trade payables.

# 7.4bn

Our net working capital, excluding trade payables relating to capital expenditure amounted to DKK 7,424 million in 2018 against DKK 4,945 million in 2017.

# 2.5bn

We had an additional amount of DKK 2,479 million tied up in working capital relative to 2017, of which DKK 2,128 million pertained to work in progress and related trade payables in Offshore.

# 4.1 Inventories

Inventories, DKKm	2018	2017
Offshore transmission assets	9,885	-
Biomass	253	258
Gas	1,620	1,526
Coal	261	396
Oil	119	124
Green certificates	1,555	1,441
Carbon emissions allowances	172	52
Other inventories	78	56
<b>Total inventories</b>	<b>13,943</b>	<b>3,853</b>
Inventories recognised as an expense in 'Cost of sales' during the year	25,262	13,180



Following the implementation of IFRS 15, we recognise offshore transmission assets as inventory. In 2017, we recognised offshore transmission assets as construction contracts.

We use biomass, coal, gas and, to a limited extent, oil as fuel at our CHP plants. In 2019, the use of gas will

## Accounting policies

Offshore transmission assets are measured at cost. The cost comprises costs of materials used in construction, site labour costs, costs of renting equipment as well as indirect production costs, such as employee costs.

The cost of gas is determined as a weighted average of the previous month's purchase prices, including transportation costs.

Purchased carbon emissions allowances are measured at market value.

be very limited as a result of the biomass conversion of the Skærbæk Power Station in Denmark and the divestment of the Enecogen Power Station in the Netherlands. Green certificates are primarily renewable obligation certificates (ROCs) which are issued to power generators sourcing from renewable energy sources in the UK.

Green certificates, which we earn by generating power using renewable energy sources, are recognised in inventories in step with our generation. We measure green certificates (earned and bought) at cost using the first in, first out (FIFO) principle.

Other inventories are measured at cost determined on a first in, first out basis or a net realisable value, where this is lower.

Inventories are written down to the lower of net realisable value and cost price.

The net realisable value is the sum (discounted) which the inventories are expected to generate through a normal sale.



## 4.2 Contract assets and liabilities

<b>Contract balances, DKKm</b>	2018	1 January 2018
<b>Contract assets</b>		
Current contract assets	1,451	1,693
<b>Total contract assets</b>	<b>1,451</b>	<b>1,693</b>
<b>Contract liabilities</b>		
Non-current contract liabilities	3,642	5,327
Current contract liabilities	924	1,455
<b>Total contract liabilities</b>	<b>4,566</b>	<b>6,782</b>



As we have implemented IFRS 15 in accordance with the modified retrospective method, we have not restated comparative figures. Read more about the adoption of IFRS 15 and the effect on the changed presentation in note 1.4 'Implementation of new or changed accounting standards and interpretations'.

<b>Revenue from contracts with customers DKKm</b>	2018
Revenue recognised included in contract liabilities at the beginning of the year	228
Revenue recognised from performance obligations satisfied in previous years	95



The tabel shows how much of our revenue recognised in 2018 that relates to contract liabilities carried forward (as prepayments and deferred revenue), and how much that relates to performance obligations satisfied in a prior year (e.g. renegotiations or constraints on variable considerations that are not recognised until they are highly probable).

Contract asset and contract liabilities are primarily related to:

- the construction of offshore wind farms with partners, with each party usually owning 50% of the offshore wind farm
- prepayments from heat customers.

At the end of 2018, contracts assets and liabilities included our construction of our partners' share of the Hornsea 1, Walney Extension and Borkum Riffgrund 2 offshore wind farms.

Non-current contract liabilities amounted to DKK 3,642 million compared to DKK 5,327 million as of 1 January 2018. The decrease was primarily related to a reclassification of grid connection charges and prepayments in our Danish power distribution, residential customer and city light businesses to assets held for sale at the end of 2018. Reference is made to note 3.6 'Assets classified as held for sale'.

### Accounting policies

We recognise a contract asset when we perform a service or transfer goods in advance of receiving consideration, and the consideration is conditional.

When the consideration is unconditional, and the goods or services are delivered, we recognise a receivable. A right to consideration is unconditional if only the passage of time is required before the payment is due.

Contract assets are measured at the transaction price of the good or services which we have performed less invoicing on account.

We recognise a contract liability when the invoicing on account and expected losses exceed the transaction price of the goods or services transferred to our customer.

## 4.3 Trade receivables

Trade receivables, DKKm	2018	2017
Trade receivables, not due	10,186	8,644
Trade receivables, 1-30 days overdue	293	303
Trade receivables, more than 30 days overdue	326	305
Trade receivables, write-down	(64)	(82)
<b>Total trade receivables</b>	<b>10,741</b>	<b>9,170</b>

Trade receivables primarily relates to customers in Customer Solutions. The general terms of payment vary according to customer type and product.

We continuously perform credit ratings of our customers, as described in note 7.5 'Credit risks'. For customers with a general credit risk, a write-down of 0-1% is carried out on initial recognition. In 2018, write-downs of receivables amounted to DKK 35 million (2017: DKK 6 million). Losses for the year totalled DKK 36 million (2017: DKK 25 million).

### Accounting policies

We keep our receivables until maturity, and they are therefore measured at amortised cost.

Write-down is carried out from initial recognition of our receivables. The write-down is calculated as the difference between the carrying amount of the receivable and the net present value of expected future cash flows from the receivable. The discount rate used is the effective interest rate for the individual receivable or the individual portfolio.

We apply the simplified approach to the write-down of trade receivables, which permits calculating the write-down as the full loss during the entire term of the receivable.

## 4.4 Other receivables

Other receivables, DKKm	2018	2017
Receivables from the divestment of assets and investments	3,218	2,680
Receivables from the divestment of equity investments to non-controlling interests	634	648
VAT and other indirect taxes receivable	427	572
Collateral provided	710	775
Prepayments	330	304
Other account receivables	1,741	495
<b>Other receivables</b>	<b>7,060</b>	<b>5,474</b>
Of which working capital	2,968	2,082
Of which other capital employed	2,628	1,770
Of which interest-bearing net debt	1,464	1,622



The table shows our other receivables broken down into working capital, interest-bearing net debt and other capital employed.

In 2018, receivables from the divestment of assets and investments primarily relate to receivables in connection with the divestment of 50% of our ownership interests in the Hornsea 1 wind farm and receivables related to the divestment of our Oil & Gas business. In 2017, receivables from divestment of assets and investments related to the divestment of our Oil & Gas business as well as the divestment of 50% of our ownership interests in the Walney Extension wind farm.

Receivables from the divestment of equity investments to non-controlling interests primarily relate to the divestment in 2011 of our ownership interests in Gunfleet Sands.

The collateral provided by the Group is receivables from banks in connection with trading on energy exchanges.

The short-term portion of other receivables amounted to DKK 4,390 million (2017: DKK 3,519 million).

Other accounts receivables consist primarily of receivables from adjustments in connection with prior year divestments, including the Oil & Gas business, where it is assessed that there is no material credit risk.

## 4.5 Tax equity liabilities

Tax equity liabilities, DKKm	2018	2017
Balance at 1 January	-	-
Contribution received from tax equity partner	1,995	-
Tax equity balances from business acquisitions	2,216	-
Tax attributes and PTCs recognised in other operating income	(79)	-
Cash paid to tax equity partner	(3)	-
Tax equity partners' contractual return	44	-
<b>Balance at 31 December</b>	<b>4,173</b>	<b>-</b>
Of which working capital	3,719	-
Of which interest-bearing debt	454	-



2018 is the first year of recognising US tax liabilities originating from our acquisitions and entry into the US market.

We have entered into several tax equity partner agreements in the US. These agreements are characterised by a tax equity partner who contributes an upfront payment of a part of the initial project investment. The partner does not have an operational role in the project. The partner receives a contractually agreed return on the contribution. The initial contribution and the return is 'repaid' by receiving almost all of the production tax credits (PTCs) the project generates as well as the majority of other tax attributes (accelerated tax depreciation and other taxable results) from the project in the first part of the project's lifetime as well as some cash payments. Once the contribution has been repaid, the agreement 'flips', and the partner is typically

entitled to a minor part of the cash distributions from the project unless we purchase this right from them, which is highly likely.

We have three onshore wind farms with tax equity partners. The first two are Amazon (253MW) and Willow Springs (250MW), which were operational at the time of the acquisition of Lincoln Clean Energy. The third is Tahoka (300MW) where we signed a tax equity agreement in Q4 2018, and which was commissioned in December 2018. In addition we have one offshore wind farm with a tax equity partner. This is Block Island (30MW), which was operational at the time of the acquisition of Deepwater Wind.

### Accounting policies

When a tax equity partner contributes to a US company, we evaluate our right to variable returns as well as our ability to exercise influence, including our ability to influence financial and operational decisions influencing these returns, to determine if the company should be fully consolidated. Due to the operational and financial nature of the projects, and the influence normally given to tax equity partners in such agreements, it is normally possible for us to have the influence to fully consolidate companies that have tax equity partners.

The terms of the tax equity partner's contribution are evaluated to determine the accounting treatment. As the initial contribution of the tax equity partner is repaid, including an agreed return, and as they do not share in the risks of the project in the same way as a shareholder, the contribution has the characteristics of a liability, is accounted for as such and is measured at amortised cost. The liability is based on the expected method of repayment and is divided into:

- a net working-capital element to be repaid through PTCs and other tax attributes
- an interest-bearing debt element expected to be repaid through cash distributions.

The partner's agreed return is expensed as a financial expense and is recognised as an increase of the tax equity liability. PTCs and other tax attributes transferred to the tax equity partner are recognised as other operating income. Tax attributes allocated to the tax equity partner are deferred and recognised on a straight-line basis over the estimated contractual length of the partner structure, while PTCs are recognised in the periods earned, similar to recognition of our own PTCs.

In addition to the above, we recognise a liability for the expected purchase price for the partners post-flip rights to return. This is recognised at fair value and adjustments are expensed as a financial item.

This recognition reflects the intention and high likelihood that we will purchase the right, and that this is part of the financial cost of the arrangement.

If we choose not to buy the partner's right to post-flip returns, the tax equity partner will be entitled to part of the company returns in the post-flip period, and they will share in the risks and rewards in the company as a shareholder. This interest will be considered a non-controlling interest.

### Key accounting judgements

#### Assessment of recognition of tax equity partner

On recognition of a tax equity partner, we assess the appropriate recognition of their contribution as well as the method of recognition for the elements used to repay the partner, such as PTCs and tax attributes.

In assessing recognition of tax equity partners, we look at:

- the expected flows of PTCs, tax attributes and cash payments expected to the partner
- the rights and obligations of both us and the tax equity partner.

The deferral of the income related to tax attributes and the recognition of the contribution as working capital or interest-bearing debt, are affected by our expectation to the size, method and timing of repayments.

## 4.6 Other payables

Other payables, DKKm	2018	2017
Prepaid VAT on exports	-	1,500
Carbon rights	62	42
VAT and other indirect taxes payable	780	1,312
Salary-related items payable	809	762
Accrued interest	687	882
Virtual gas storage	107	83
Prepayments from heat customers	-	3,286
Grid connection charges	-	1,893
Other deferred income	84	1,114
Collateral received	34	119
Purchase price, acquisition of enterprises	653	-
Other	1,986	1,089
<b>Total other payables</b>	<b>5,202</b>	<b>12,082</b>
Of which working capital	3,295	11,200
Of which other capital employed	1,337	882
Of which interest-bearing net debt	570	-



The table shows our other payables broken down into working capital, interest-bearing net debt and other capital employed.

In 2018, other payables were reduced by DKK 6,880 million. Prepayments from heat customers and the majority of deferred income have been classified as contract liabilities from 2018 due to the implementation of IFRS 15. Grid connection charges in the power distribution business have been classified as

'Assets classified as held for sale', due to the expected exit during 2019. In addition, the export VAT was repaid in January 2018.

In 2018, the short-term portion of other payables amounted to DKK 4,793 million (2017: DKK 6,368 million).

## 4.7 Changes in net working capital

Change in net working capital, DKKm	2018	2017
Change in inventories	243	(423)
Change in contract assets and liabilities	(1,478)	(3,318)
Change in trade receivables	(2,261)	(3,705)
Change in other receivables	(31)	(563)
Change in trade payables	1,601	1,188
Change in tax equity liabilities	1,835	-
Change in other payables	(827)	(1,083)
<b>Total change in net working capital</b>	<b>(918)</b>	<b>(7,904)</b>
Of which changes relating to work in progress	(2,326)	(3,674)
Of which changes relating to tax equity liabilities and other working capital	1,408	(4,230)



Work in progress consists of elements in contract assets and liabilities, construction agreements related to construction of offshore wind farms, construction of offshore transmission assets (inventory) and related trade payables.

The change in funds tied up in work in progress and related trade payables was DKK 2,326 million in 2018 due to high activity related to the construction of offshore wind farms for partners (Walney Extension and Borkum Riffgrund 2) as well as offshore transmission assets in the UK (Hornsea 1 and Hornsea 2), partly offset by receipt of milestone payments from partners and the divestment of the Burbo Bank Extension transmission asset.

In 2017, the change in funds tied up in work in progress and related trade payables was

DKK 3,674 million due to the construction of offshore wind farms for partners (mainly Race Bank) as well as offshore transmission assets in the UK (mainly Hornsea 1), partly offset by receipt of milestone payments from partners.

The change in funds tied up in other working capital was a cash inflow of DKK 1,408 million in 2018 and primarily concerned the tax equity contribution from the partner on Tahoka.

# 5. Tax

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# 5. Tax

## Tax on profit (loss) for the year

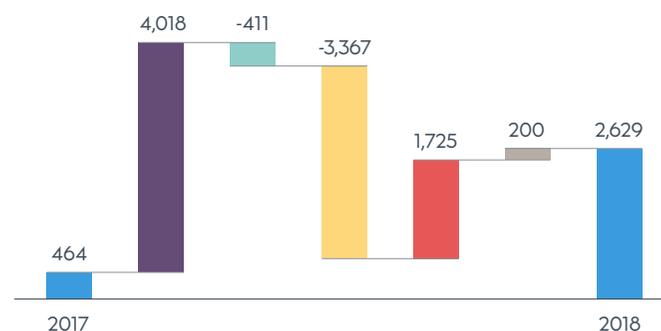
The effective tax rate was 17% for the continuing operations. The effective tax rate was primarily affected by the tax-exempt gain on the farm-down of 50% of Hornsea 1.

## Corporate income taxes paid

We have paid DKK 3,367 million in taxes in 2018, of which DKK 711 million related to residual tax for 2017. We expect to have a residual receivable tax of DKK 245 million regarding 2018 as a higher portion of income related to non-taxable income in 2018 than we expected at the time we paid taxes on account.

## Development in current and deferred tax asset and liabilities (tax, net), 2018 DKKm

- Tax, net liability
- Tax on profit (loss) for the year
- Tax on other comprehensive income and hybrid capital
- Corporate taxes paid
- Addition US investment
- Other effects



The net tax is highly impacted by the US investments.

# 3.4bn

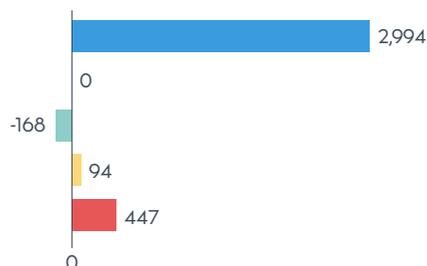
Corporate income tax paid by the Group in 2018 totalled DKK 3,367 million against DKK 2,660 million in 2017.

# 3.2bn

Current corporate income tax in 2018 totalled DKK 3,161 million against DKK 2,698 million in 2017.

## Corporate income tax paid by segment, 2018 DKKm

- Offshore
- Onshore
- Bioenergy
- Customer Solutions
- Ørsted A/S and other activities



2018, DKKm	Business performance		
	Profit (loss) before tax	Tax	Tax in %
Gain (loss) on divestments	14,886	(1,155)	8%
Tax equity, deferred tax liability, Tahoka	-	(444)	n.a.
Rest of the Group	8,618	(2,419)	28%
<b>Effective tax for the year</b>	<b>23,504</b>	<b>(4,018)</b>	<b>17%</b>



Tax on gain (loss) on divestments related to taxable gains. See more in note 2.5 'Other operating income and expenses'. The tax rate for 'Rest of the Group' is higher than the weighted average tax rate in the countries in which we generate income as a result of adjustments relating to previous years as well as non-deductible expenses and non-taxable income.

# 5.1 Tax policy and tax regimes

## Our tax policy

We recognise the key role that tax plays in society and the development of the countries where we operate. We also believe that a responsible approach to tax is essential to the long-term sustainability of the societies where we have activities and of our business across the globe.

The world's governments have defined the greatest challenges for our societies towards 2030 through the UN Sustainable Development Goals (SDGs). At Ørsted, we are committed to running our business in a way that contributes to the SDGs. Tax payments contribute both directly and indirectly to most of the SDGs, in particular target #16.6 on the development of effective, accountable and transparent institutions.

Tax is a core part of our corporate responsibility and governance and is overseen by the Board of Directors. The Board of Directors is accountable for the tax policy, and the responsibility for tax risk management lies with the CFO and overseen by the Audit and Risk Committee.

## Compliance

Our ambition is to apply best practices at all times and act in accordance with applicable legislation on tax computation and

tax reporting to ensure that we pay the right amount of tax at the right time in the countries where we operate. We continuously evaluate our processes and controls to ensure that we are compliant with local and international standards relevant to our business.

## Our attitude to tax planning

We only use business structures that are driven by commercial considerations, aligned with business activity and which have genuine substance.

We make use of incentives and tax reliefs where they apply in areas where we have commercial substance.

We seek, wherever possible, to develop cooperative relationships with tax authorities, based on mutual respect, transparency and trust.

## Transparency

In line with our belief in transparency, we provide regular information to our stakeholders – including investors, policy makers, employees, civil society and the general public – about our approach to tax and taxes paid.

Read more about our tax policy at <https://orsted.com/taxpolicy>

## Tax regimes

At the end of 2018, our major activities were in Denmark, the UK, Germany, the Netherlands and the US.

## US tax equity partnerships

We have entered into several tax equity partnership agreements in the US. For more information on our tax equity partnership structure, see note 4.5 'Tax equity liabilities'. The expected value of the deferred tax liability related to property, plant and equipment at the 'flip date' in the tax equity partnership agreement is included in our accounts when the tax equity partnership is established.

## International joint taxation

For the income year 2017 and going forward, we opted to exit the international joint taxation scheme. The retaxation liability was transferred to tax payable and has been settled.

## Local taxes paid

In terms of taxation, we were affected in Denmark by completed construction agreements in connection with the construction of offshore wind farms in the UK and Germany in 2018.

We have made significant investments in offshore wind farms in the UK, Germany and the Netherlands, resulting in the accumulation of large tax assets in recent years. Accordingly, we have not paid significant taxes in these countries. Going forward, this will change as the offshore wind farms are commissioned and will be generating positive results.

We expect to start paying more significant corporate tax in the UK in 2019, in Germany in 2019 and in the Netherlands in 2021.

We are currently making significant investments in the US, and we do therefore not expect to pay any material corporate income tax in the foreseeable future.

## 5.2 Tax on profit (loss) for the year

Effective tax rate, DKKm/%	2018				2017			
	Business performance		IFRS		Business performance		IFRS	
	DKK million	%	DKK million	%	DKK million	%	DKK million	%
<b>Tax on profit (loss) for the year can be explained as follows:</b>								
Calculated 22% tax on profit (loss) before tax (2017: 22%)	(5,172)	22	(4,834)	22	(3,310)	22	(3,323)	22
Adjustments of calculated tax in foreign subsidiaries in relation to 22% (2017: 22%)	94	-	74	-	86	-	86	-
<b>Tax effect of:</b>								
Non-taxable income and non-deductible costs, etc., net	1,912	(8)	1,912	(9)	1,323	(9)	1,323	(9)
Unrecognised tax assets and capitalisation of tax assets not previously capitalised	(50)	-	(50)	-	(184)	1	(184)	1
Share of profit (loss) in associates and joint ventures	-	-	-	-	(12)	-	(12)	-
Adjustment of tax concerning previous years	(802)	3	(802)	4	332	(2)	332	(2)
<b>Effective tax for the year</b>	<b>(4,018)</b>	<b>17</b>	<b>(3,700)</b>	<b>17</b>	<b>(1,765)</b>	<b>12</b>	<b>(1,778)</b>	<b>12</b>



Non-taxable income and non-deductible expenses primarily concern the tax-exempt gain on divestments and US investment matters. See more in note 2.5 'Other operating income and expenses'.

### Income tax

Tax on business performance profit (loss) was DKK 4,018 million in 2018 against DKK 1,765 million in 2017. The effective tax rate was 17% in 2018 against 12% in 2017.

The effective tax rate in 2018 was particularly affected by a tax-exempt gain on the farm-down of 50% of Hornsea 1. In addition, the effective tax rate was affected by the recognition of a deferred tax liability related to a tax equity partner (see more in notes 4.5 'Tax equity liabilities' and 5.4 'Deferred tax'). The deferred tax liability will be reduced gradually once we have repaid the contribution to the tax equity partners.

The difference in tax rates from 22% to the statutory tax rates across our jurisdiction impacts the effective tax rate.

The effective tax rate in 2017 was primarily affected by tax-exempt gains on the farm-downs of 50% of the Walney Extension and Borkum Riffgrund 2 offshore wind farms. In addition, our effective tax rate was affected by the remaining portion of the tax-exempt gain on Race Bank, which was divested in 2017, and adjustments to prior years.

### Accounting policies

Tax for the year consists of current tax, changes in deferred tax and adjustments in respect of previous years. Tax on profit (loss) for the year is recognised in the income statement. Tax relating to other items is recognised in other comprehensive income.

### Key accounting judgements

#### Estimates regarding recognition of income tax assets and provisions for uncertain tax positions

Ørsted is subject to income taxes in all the countries where we operate. Significant judgement and estimates are required in determining the worldwide accrual for income taxes, income tax assets and liabilities and provisions for uncertain tax positions.

In the course of conducting business around the world, tax and transfer pricing disputes with tax authorities may occur. Judgement is applied to assess the possible outcome of such disputes. We apply the methods prescribed in IFRIC 23 'Uncertainty over Income Tax Treatments' when making provisions for uncertain tax positions, and we consider the provisions made to be adequate. However, the actual obligation may deviate and depends on the result of litigations and settlements with the relevant tax authorities.

Ongoing tax disputes, primarily related to transfer pricing cases, are included as part of 'Tax payables', 'Tax receivables' and 'Deferred tax'.

**Tax on profit (loss) for the year and other comprehensive income**

In 2018, tax on IFRS profit (loss) for the year amounted to DKK 3,700 million, consisting of current tax of DKK 3,161 million, changes in deferred tax of DKK 266 million, tax on assets classified as held for sale of DKK 3 million, and an adjustment of tax in respect of previous years of DKK 802 million. The adjustment primarily relates to amendments of asset values in UK and Germany and reclassification of Danish liabilities.

**Current tax**

Current tax is the tax incurred in Ørsted which is payable within the same year as the profit.

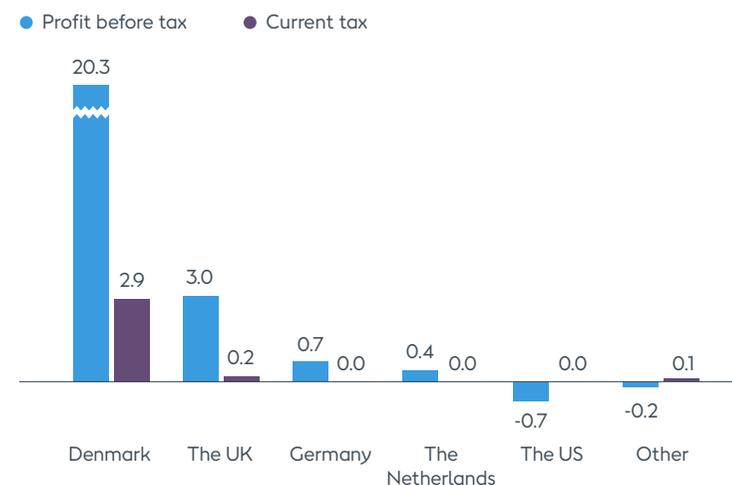
This deviates from taxes paid as a result of payments regarding prior years and residual payments regarding the current year.

Included in the current tax for 2018 is DKK 2,135 million which relate to gains from construction agreements regarding Walney Extension and Borkum Riffgrund 2 and the construction management agreement regarding Race Bank.

Due to the high level of investments and the subsequent deferrals of payable tax as a consequence of tax depreciation, our current tax is generally lower than the statutory corporate tax rates during construction and the initial years after first power.

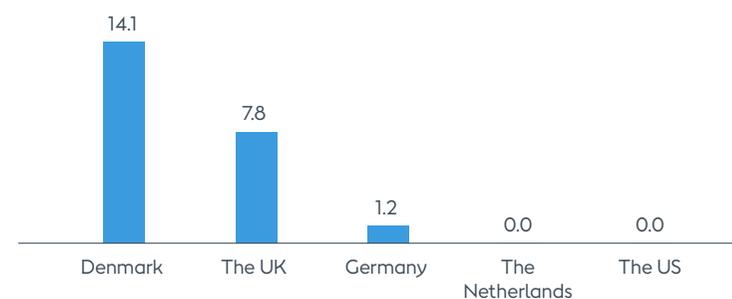
	2018		2017	
	Business performance	IFRS	Business performance	IFRS
<b>Income tax, DKKm</b>				
Tax on profit (loss) for the year	(4,018)	(3,700)	(1,765)	(1,778)
Tax on other comprehensive income	411	93	238	251
Tax on hybrid capital	120	120	141	141
<b>Total tax for the year</b>	<b>(3,487)</b>	<b>(3,487)</b>	<b>(1,386)</b>	<b>(1,386)</b>
Tax on profit (loss) for the year can be broken down as follows:				
Current tax	(3,161)	(3,161)	(2,698)	(2,698)
Deferred tax	(52)	266	586	573
Tax relating to assets classified as held for sale	(3)	(3)	15	15
Adjustment of tax concerning previous years	(802)	(802)	332	332
<b>Tax on profit (loss) for the year</b>	<b>(4,018)</b>	<b>(3,700)</b>	<b>(1,765)</b>	<b>(1,778)</b>
Tax on other comprehensive income can be broken down as follows:				
Current tax	93	93	255	255
Deferred tax	318	-	(17)	(4)
<b>Tax on other comprehensive income</b>	<b>411</b>	<b>93</b>	<b>238</b>	<b>251</b>

**Current tax (business performance), 2018, DKKbn**



The figure shows the relationship between profit before tax and current tax in the main countries where we do business.

**Current tax rate (business performance), 2018, %**



The figure shows the tax rates based on business performance in the main countries where we do business.



Income tax for the year is calculated on the basis of the profit (loss) before tax from continuing operations.

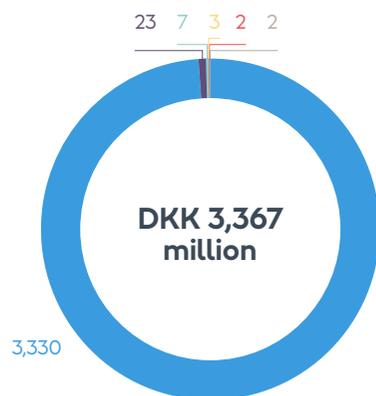
# 5.3 Taxes paid

In 2018, we paid DKK 3,367 million in taxes. The tax payment included residual tax for 2017, amounting to DKK 711 million in total for continuing operations for Denmark.

We paid most of our Danish taxes in March. Accordingly, the income tax paid for the year was based on estimates and preliminary tax positions. As our non-taxable income was higher than expected when we paid our Danish taxes on account, we expect to have a receivable tax of DKK 245 million in Denmark regarding 2018.

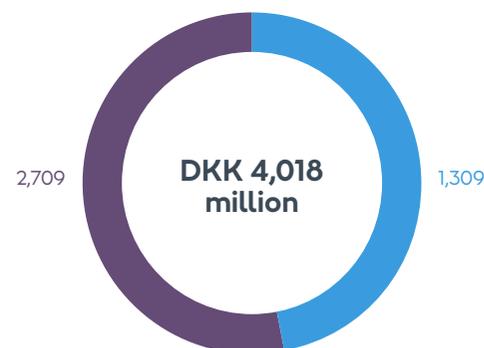
Taxes paid for the year, 2018, DKKm

- Denmark
- Sweden
- Germany
- Poland
- The UK
- The US



Tax on profit (loss) for the year (business performance), 2018, DKKm

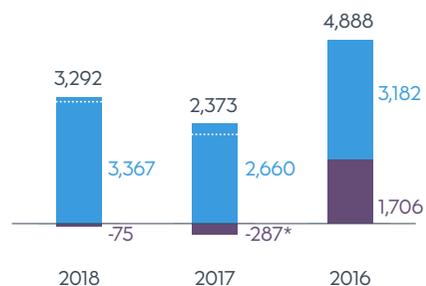
- Denmark
- Other



The figures only show our continuing operations.

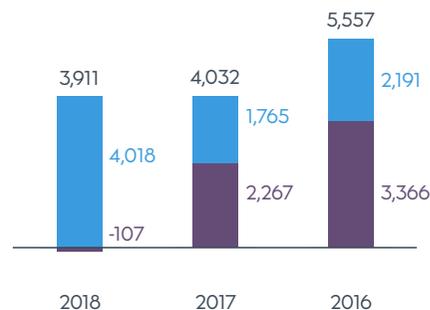
Taxes paid, DKKm

- Continuing operations
- Discontinued operations



Tax on profit (loss) for the year, DKKm

- Continuing operations
- Discontinued operations



The figures show the relationship between the tax on business performance profit (loss) for the year for accounting purposes and the taxes paid for the year.

\* Relates to internal transfers between continuing and discontinued operations.

## 5.4 Deferred tax

### Development in deferred tax

In 2018, deferred tax from continuing operations decreased due to the completion of the construction of Borkum Riffgrund 2 and Walney Extension as these taxes were paid and increased due to the ongoing construction of Hornsea 1. Also, our tax equity partner agreements in the US (see note 4.5 'Tax equity liabilities') have resulted in the recognition of the expected deferred tax liability that we will take over once the contribution from the tax equity partner has been repaid.

The adjustment regarding previous years comprised recognition of tax assets relating to offshore wind farms.

In 2017, deferred tax from continuing operations decreased as a result of deferred tax liabilities materialising as tax payable. This included differences in the tax and accounting treatment of profit received on account on work in progress, differences in the tax and accounting recognition of financial instruments, retaxation due to the expected exit from the international joint taxation scheme and adjustments to prior years.

### Deferred tax by segment

Deferred tax (liabilities) in our segments primarily concerned the following:

- Offshore: recognised profit received on account and property, plant and equipment, in respect of which depreciation for tax purposes exceeds depreciation for accounting purposes.
- Onshore: recognised deferred tax liability regarding wind farm assets in tax equity structures.
- Bioenergy: property, plant and equipment in respect of which depreciation for tax purposes exceeds depreciation for accounting purposes.
- Customer Solutions: financial instruments.
- Other activities/eliminations comprised intra-group eliminations in the joint taxation across segments.

### Accounting policies

Deferred tax is recognised in respect of all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts.

However, deferred tax is not recognised in respect of temporary differences relating to:

- the acquisition of joint operations, including licence interests
- other items, where differences arise at the time of acquisition affecting neither the profit (loss) for the year nor the taxable income. However, this does not include differences arising in connection with company acquisitions.

Deferred tax is measured depending on how we plan to use the assets and settle the liabilities. We set off tax assets and liabilities when the tax assets can be offset against tax liabilities in the year in which the deferred tax assets are expected to be used.

Deferred tax assets are recognised at the value at which they are expected to be used. They may be offset against future earnings or against probable tax losses carried forward. This is done within a joint

taxation scheme. Intra-group gains and losses are eliminated.

Deferred tax is measured based on the tax rules and rates applying when the deferred tax becomes current tax. Changes in deferred tax as a result of changes in tax rates are recognised in profit (loss) for the year.

Deferred tax (net liability) related to the tax equity structures is recognised as tax income in the income statement when we take over the agreements. The liability recognised is the amount that we expect to take over once the contribution from the equity partner is repaid, and the tax equity structure 'flips.'

Liabilities in respect of uncertain tax positions are measured as follows:

- The most-likely-outcome method is applied in cases where there are only two possible outcomes.
- The weighted-average method is used in cases where there are more than two possible outcomes.

The liability is recognised under income tax payable or deferred tax, depending on how the realisation of the tax position will affect the financial statement.

					Other activities/eliminations	Deferred tax at 31 December
<b>Deferred tax 2018, DKKm</b>	Offshore	Onshore	Bioenergy	Customer Solutions		
Deferred tax, assets	3,565	235	40	1,112	(364)	4,588
Deferred tax, liabilities	2,838	1,293	177	72	(355)	4,025
Unrecognised tax assets	53	19	-	64	-	136
<b>Deferred tax 2017, DKKm</b>						
Deferred tax, assets	1,407	-	444	972	42	2,865
Deferred tax, liabilities	1,227	-	352	617	(68)	2,128
Unrecognised tax assets	123	-	-	61	-	184



The table shows the reconciliation of deferred tax to the balance sheet by segment. The non-recognised deferred tax assets are not expected to give rise to any material income tax consequence in the event of dividends received.

	Balance sheet 1 January	Transferred to assets and liabilities classified as assets held for sale	Exchange rate adjustments	Addition of enterprises, individual assets and activities, net	Recognised in profit (loss) for the year	Recognised in other comprehensive income	Adjustments to prior years, etc.	Balance sheet 31 December
<b>Development in deferred tax assets and liabilities, 2018, DKKm</b>								
Intangible assets	61	(13)	-	-	(28)	-	16	36
Property, plant and equipment	2,018	(1,263)	(18)	2,252	150	-	(108)	3,031
Other non-current assets	140	-	(1)	9	132	-	125	405
Current assets	(11)	-	-	-	(13)	-	(1)	(25)
Decommissioning obligations	(797)	3	2	(11)	(8)	-	54	(757)
Other non-current liabilities	(1,106)	436	(2)	(312)	88	-	(490)	(1,386)
Current liabilities	(348)	14	(1)	(67)	(163)	-	(49)	(614)
Tax loss carryforwards	(694)	-	6	(146)	(424)	-	5	(1,253)
<b>Deferred tax</b>	<b>(737)</b>	<b>(823)</b>	<b>(14)</b>	<b>1,725</b>	<b>(266)</b>	<b>-</b>	<b>(448)</b>	<b>(563)</b>
Of which recognised in the balance sheet under assets	2,865							4,588
Of which recognised in the balance sheet under equity and liabilities	2,128							4,025
<b>Development in deferred tax assets and liabilities, 2017, DKKm</b>								
Intangible assets	109	-	-	-	(48)	-	-	61
Property, plant and equipment	2,395	2	(94)	57	1,450	(4)	(1,788)	2,018
Other non-current assets	(1)	-	-	(1)	174	-	(32)	140
Current assets	(6)	37	-	-	(36)	-	(6)	(11)
Decommissioning obligations	(626)	-	(6)	-	(169)	-	4	(797)
Other non-current liabilities	(950)	-	(1)	-	(242)	-	87	(1,106)
Current liabilities	644	-	-	-	(50)	-	(942)	(348)
Retaxation	1,730	-	-	-	(1,730)	-	-	-
Tax loss carryforwards	(1,198)	-	61	329	78	-	36	(694)
<b>Deferred tax</b>	<b>2,097</b>	<b>39</b>	<b>(40)</b>	<b>385</b>	<b>(573)</b>	<b>(4)</b>	<b>(2,641)</b>	<b>(737)</b>
Of which recognised in the balance sheet under assets	88							2,865
Of which recognised in the balance sheet under equity and liabilities	2,185							2,128



The amounts transferred to assets and liabilities classified as assets held for sale concern our Danish power distribution, residential customer and city light businesses.

Addition of enterprises includes the deferred tax liability recognised in relation to our US investments.

Adjustments to prior years primarily relate to movements between deferred tax and tax payable. Also, asset value reassessment in Germany and the UK.

The increase of tax losses carried forward during 2018 is primarily a result of the accelerated depreciation on fixed assets for tax purposes. The tax loss carryforwards will be set off against realisation of either deferred tax liabilities on the same wind farm or jurisdiction or set off against future profits on that wind farm or jurisdiction.

# 5.5 Total tax contribution

According to the OECD classification, tax is a compulsory unrequited payment to general government. This means a payment by Ørsted paid to the government, including amounts paid through an agent. Tax does not result in a return of value to Ørsted for a right or asset used in the business.

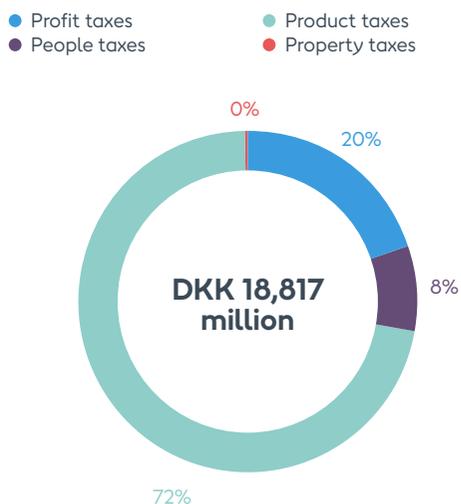
Taxes collected are those which are generated by Ørsted' operations, but not a tax liability for Ørsted. Ørsted generates the commercial activity that gives rise to the taxes and then collects and administers them on behalf of the tax authorities in the countries in which we operate.

Taxes borne by Ørsted are those that represent a direct cost and are reflected in the financial result. Tax borne is charged to the profit and loss account or capitalised as part of an asset's cost.

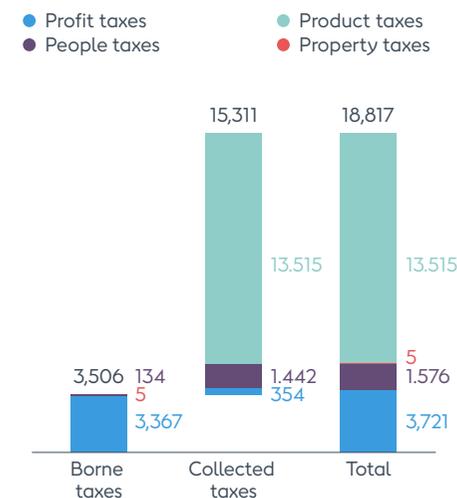
### Total global taxes that we paid in 2018

● Profit taxes	These include taxes on company profits that are borne (such as corporate income tax) and collected (such as withholding tax on payments to third parties). In 2018, Ørsted paid DKK 3,367 million in borne profit taxes and DKK 354 million in collected profit taxes. The collected profit taxes relate to withholding tax on dividends paid to Ørsted's shareholders.
● People taxes	Taxes on employment, both borne and collected (including income tax and social security tax payments). In 2018, Ørsted paid DKK 134 million in borne people taxes and DKK 1,442 million in collected people taxes.
● Product taxes	Indirect taxes on the production and consumption of goods and services, including VAT and sales tax, custom duties and insurance premium tax. In 2018, Ørsted paid DKK 13,515 million in collected product taxes. Borne product taxes were insignificant in 2018 for this summary.
● Property taxes	Taxes on the ownership, sale, transfer or occupancy of property. In 2018, Ørsted paid DKK 5 million in borne property taxes. Collected property taxes were insignificant in 2018 for this summary.

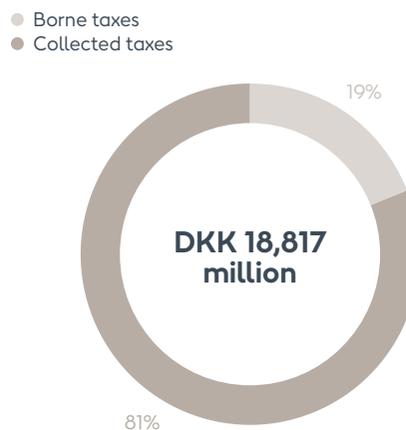
Total tax contribution, 2018, %



Total tax contribution, 2018, DKKm



Total tax contribution, 2018, %



Total tax contribution is highly impacted by collection of VAT, sales tax, duties as well as profit taxes.



The chart shows the distribution between borne and collected taxes in 2018.

# 6. Capital structure

Capital structure	135
Interest-bearing debt	136
Equity	138
Hybrid capital	140
Financial resources	141
Financial income and expenses	143
Funds from operations (FFO)/ adjusted interest-bearing net debt	144



# 6. Capital structure

**In 2018, we acquired Lincoln Clean Energy and Deepwater Wind in the US and thereby entered into tax equity partnerships with associated liabilities. The interest-bearing part of our tax equity liability amounts to DKK 454 million as of 31 December 2018.**

**We have not issued new bonds or raised new loans in 2018. However, we have taken over bank loans in the amount of DKK 4,039 million in connection with the two acquisitions.**

## Capital structure

To ensure the financial strength to operate in the international energy and capital markets and secure financing on attractive terms, we

have defined credit rating and capital structure targets. The overarching capital structure targets are a credit rating of Baa1/BBB+ and an FFO/adjusted net debt credit metric of around 30%.

## Financing policy

The aim of our financing policy is to ensure the best possible loan arrangements, while also minimising financing costs, liquidity and refinancing risks.

The borrowing activities are diversified among various funding sources and maturities. In addition, we have robust financial resources.

Our borrowing activities are consolidated in the parent company, where cash resources are available to the Group's companies via an internal bank.

## Cash management

We have decided to maintain robust financial resources to limit the company's sensitivity to unrest in the financial markets.

The financial resources consist of bank deposits and securities as well as non-cancellable credit facilities from a group of robust Nordic and international banks. The financial resources totalled DKK 37,879 million at 31 December 2018 (2017: DKK 39,158 million).

# 69.0%

Funds from operations (FFO) relative to adjusted interest-bearing net debt amounted to 69% at 31 December 2018 against 50.3% at 31 December 2017.

# -2.2bn

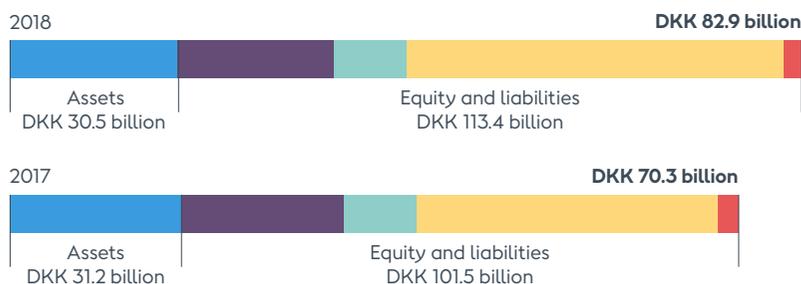
Our interest-bearing net debt totalled DKK -2,219 million at 31 December 2018 against DKK -1,517 million at 31 December 2017.

# 37.9bn

Our financial resources totalled DKK 37,879 million at 31 December 2018 against DKK 39,158 million at 31 December 2017.

## Equity and interest-bearing net debt, DKKbn

- Interest-bearing assets
- Interest-bearing debt
- Hybrid capital
- Equity attributable to shareholders in Ørsted A/S
- Non-controlling interests



# 6.1 Interest-bearing debt

## Interest-bearing debt and interest-bearing assets, DKKm

	2018	2017
<b>Interest-bearing debt comprises:</b>		
Bank debt	3,582	2,069
Bond debt	23,714	27,567
<b>Total bond and bank debt</b>	<b>27,296</b>	<b>29,636</b>
Tax equity liability	454	-
Other interest-bearing debt	570	-
<b>Total interest-bearing debt</b>	<b>28,320</b>	<b>29,636</b>
<b>Interest-bearing assets comprise:</b>		
Securities	25,501	25,280
Cash	3,515	4,203
Receivables from associates and joint ventures	60	48
Other receivables	779	647
Receivables in connection with divestments	684	975
<b>Total interest-bearing assets</b>	<b>30,539</b>	<b>31,153</b>
<b>Total interest-bearing net debt</b>	<b>(2,219)</b>	<b>(1,517)</b>



The tabel shows our interest-bearing net debt split into interest-bearing debt and interest-bearing assets.

## Changes in interest-bearing debt, DKKm

	2018	2017
Interest-bearing debt 1 January	29,636	24,183
Instalments on loans according to the statement of cash flows	(6,429)	(4,069)
Proceeds from raising of loans according to the statement of cash flows	-	5,468
Debt from acquisition of enterprises	4,409	-
Change in other interest-bearing debt	570	-
Reclassification to bond and bank debt	-	4,192
Capital losses on early repayment of debt	-	230
Foreign exchange adjustments and amortisation	134	(368)
<b>Interest-bearing debt 31 December</b>	<b>28,320</b>	<b>29,636</b>



The tabel shows the changes in interest-bearing debt.

## Interest-bearing net debt

Interest-bearing net debt totalled DKK -2,219 million at the end of 2018, up DKK 702 million relative to 2017. The increase in the net cash position comprise of a decrease in interest-bearing assets of DKK 614 million and a decrease in interest-bearing debt of DKK 1,316 million.

In 2018, we have entered the US market where we have entered into tax equity liabilities. The part of the tax equity liability we expect to repay with tax credits (PTCs) and other tax attributes is not considered part of interest-bearing debt. This amounts to DKK 3,719 million (2017: DKK 0 million). The part of the tax equity liability we expect to repay with cash is included in interest-bearing debt.

This amounts to DKK 454 million (2017: DKK 0 million). For more information, see note 4.5 'Tax equity liabilities'.

In July 2018, we redeemed a hybrid bond classified as debt with a notional amount of EUR 500 million, corresponding to DKK 4,208 million.

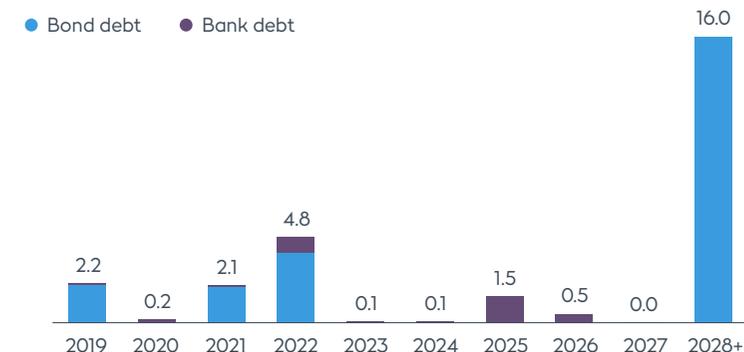
In October and November 2018, we acquired Lincoln Clean Energy and Deepwater Wind. We took over a bank debt of DKK 4,039 million and interest-bearing tax equity liabilities of DKK 370 million in connection with the transactions.

In October and December, bank debt in Lincoln Clean Energy of DKK 2,406 million was repaid.



## Maturity profile, DKKbn

The graph shows the maturity profile for our bank loans and bond debt.



### Market value of bond and bank debt

The market value of our bond and bank debt amounted to DKK 28,048 million and DKK 3,622 million, respectively, at 31 December 2018 (2017: DKK 32,959 million and DKK 2,108 million, respectively). The market value of our bond and bank debt exceeds the carrying amount due to the drop in interest levels since the establishment of the debt.

### Loan arrangements

At 31 December 2018, we had loan obligations totalling DKK 1,964 million (2017: DKK 2,069 million) to the European Investment Bank and the Nordic Investment Bank. The loans are recognised in the balance sheet under bank debt. The loans offered by these multilateral financial institutions include loans to co-fund infrastructure and energy projects on favourable terms and with maturities exceeding those normally available in the commercial banking market. In connection with these loans, the Group may be met with demands

for repayment or collateral in the event of the Danish State holding less than 50% of the share capital or voting rights in Ørsted A/S (change of control), or for repayment in the event of Moody's or Standard & Poor's downgrading our rating to Baa3 or BBB- or below, respectively.

Furthermore, we had non-cancellable credit facilities of DKK 10,447 million at 31 December 2018 (2017: DKK 10,424 million) with a number of Scandinavian and international banks. In connection with these credit facilities, we may be met with demands for cancellation and repayment of any used share in the event of players other than a group consisting of the Danish State and Danish power distribution companies acquiring more than 50% of the share capital or voting rights in Ørsted A/S, or in the event of the Danish State ceasing to hold at least 20% of the share capital. Our financing agreements are not subject to any other unusual terms or conditions.

### Interest rate risk

We have fixed the interest rate on most of our debt by issuing fixed-rate debt. At the end of 2018, 95% (2017: 95%) of the Group's debt was fixed-rate debt. Interest payments on loans in GBP have been covered with forward exchange contracts over the next five years at an average exchange rate of 8.9. See note 7.2 'Hedge accounting and economic hedging' for further information.

At 31 December 2018, the loan portfolio had an average time to maturity of 9.9 years (2017: 9.8 years). Interest-bearing assets consist primarily of short-term bonds with limited risk.

Our interest rate risk is described further in note 7.1 'Market risks'.

### Accounting policies

Bond debt, bank debt and other payables are recognised at inception at market value (typically proceeds received) net of transaction costs incurred. In subsequent periods, the liabilities are measured at amortised cost, so that the difference between the cost (proceeds) and the nominal value is recognised in profit (loss) for the year as interest expenses over the term of the loan, using the effective interest rate method.

Financial liabilities are classified as current, unless the Group has an unconditional right to defer settlement of the liability to at least one year after the balance sheet date.

The market value of issued bonds has been determined as the market value at 31 December (level 1 – quoted prices).

The market value of bank loans has been determined as the present value of expected future instalments and interest payments using the Group's current interest rate on loans as the discount rate (level 2 – observable inputs).

### Senior bond issued at 31 December 2018

Million	Outstanding amount		Coupon (%)	Time of issue	Maturing	Quoted in
	Currency	EUR /GBP				
EUR	280	2,091	6.500	6 May 2009	7 May 2019	London
EUR	272	2,033	4.875	16 Dec. 2009	16 Dec. 2021	London
EUR	517	3,860	2.625	19 Sep. 2012	19 Sep. 2022	London
EUR	750	5,597	1.500	24 Nov. 2017	26 Nov. 2029	London
GBP	750	6,235	4.875	12 Jan. 2012	12 Jan. 2032	London
GBP	500	4,157	5.750	9 Apr. 2010	9 Apr. 2040	London



In addition to senior bonds, we have issued a number of hybrid bonds; see note 6.3 'Hybrid capital'.

## 6.2 Equity

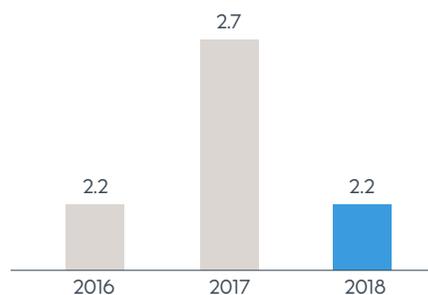
### Share capital

Ørsted's share capital is DKK 4,203,810,800, divided into shares of DKK 10. The share capital is unchanged from last year. No shares are subject to special rights or restrictions on voting rights. The shares are fully paid up.

### Treasury shares

To secure our share programme, we acquired additional treasury shares in November 2018. The total portfolio of treasury shares consist of 335,904 shares at 31 December 2018 (2017: 225,904), corresponding to 0.1% of the share capital.

### Dividend yield, %



The graph shows the proposed dividends in relation to the closing price for an Ørsted share on the last trading day of the year.

### Dividends

The Board of Directors recommends that dividends of DKK 4,099 million (2017: DKK 3,783 million) be paid for the financial year, corresponding to DKK 9.75 per share (2017: DKK 9 per share). The proposed dividends correspond to a dividend yield of 2.2% (2017: 2.7%) calculated on the basis of the closing price for an Ørsted share on the last trading day of the year.

### Owners in Ørsted

The Danish State is the principal shareholder with an ownership interest of 50.1%. In addition, SEAS-NVE and The Capital Group also have significant ownership interests. See note 16 'Ownership information' in the parent company's financial statements.



The table shows earnings per share distributed on continuing and discontinued operations. Diluted profit (loss) per share corresponds to profit (loss) per share, as the dilutive effect of the share programme is 0.1% of the share capital (2017: 0.1% of the share capital).

Earnings per share, DKKm	2018		2017	
	Business performance	IFRS	Business performance	IFRS
Profit (loss) for the year from continuing operations	19,486	18,266	13,279	13,321
Interest and costs after tax, hybrid capital owners of Ørsted A/S	(425)	(425)	(716)	(716)
Non-controlling interests	(25)	(25)	10	10
<b>Ørsted's share of profit (loss) for the year from continuing operations</b>	<b>19,036</b>	<b>17,816</b>	<b>12,573</b>	<b>12,615</b>
Profit (loss) for the year from discontinued operations	10	10	6,920	6,104
<b>Ørsted's share of profit (loss) for the year from discontinued operations</b>	<b>10</b>	<b>10</b>	<b>6,920</b>	<b>6,104</b>
('000)				
Average number of outstanding shares	420,139	420,139	420,155	420,155
Dilutive effect of share programme	466	466	271	271
<b>Average number of outstanding shares, diluted</b>	<b>420,605</b>	<b>420,605</b>	<b>420,426</b>	<b>420,426</b>
(DKK)				
<b>Profit (loss) per share</b>				
From continuing operations	45.3	42.4	29.9	30.0
From discontinued operations	0.0	0.0	16.5	14.5
<b>Total profit (loss) per share</b>	<b>45.3</b>	<b>42.4</b>	<b>46.4</b>	<b>44.5</b>

### Development in share capital, DKKm

	2018	2017
Share capital at 1 January	4,204	4,204
<b>Share capital at 31 December</b>	<b>4,204</b>	<b>4,204</b>

	Foreign currency translation reserve	Hedging reserve <sup>1</sup>				Share premium reserve	Total reserves
		Hedging of net investments	Hedging of revenue	Hedging of divestments	Hedging of interest		
<b>Reserves 2018, DKKm</b>							
Reserves at 1 January 2018	(1,825)	454	10	304	(467)	-	(1,524)
Exchange rate adjustments	(388)	-	-	-	-	-	(388)
Value adjustments of hedging	-	401	(137)	(1,054)	84	-	(706)
<b>Value adjustments transferred to:</b>							
Revenue	-	-	-	(301)	-	-	(301)
Other operating income	259	(326)	-	931	-	-	864
Financial income and expenses	-	-	-	-	135	-	135
<b>Tax:</b>							
Tax on hedging and currency adjustments	48	(17)	30	80	(48)	-	93
<b>Movement in comprehensive income for the year</b>	<b>(81)</b>	<b>58</b>	<b>(107)</b>	<b>(344)</b>	<b>171</b>	<b>-</b>	<b>(303)</b>
<b>Total reserves at 31 December</b>	<b>(1,906)</b>	<b>512</b>	<b>(97)</b>	<b>(40)</b>	<b>(296)</b>	<b>-</b>	<b>(1,827)</b>

<sup>1</sup> Cost of hedging related to basis spread on currency swaps included in hedging reserve amounts to DKK 183 million (2017: 33 million).

#### Reserves 2017, DKKm

Reserves at 1 January 2017	(1,546)	10	-	973	(498)	21,279	20,218
Transferred to retained earnings						(21,279)	(21,279)
Exchange rate adjustments	(1,354)	-	-	-	-	-	(1,354)
Value adjustments of hedging	-	565	13	967	(190)	-	1,355
<b>Value adjustments transferred to:</b>							
Revenue	-	-	-	(283)	-	-	(283)
Other operating income	325	(128)	-	(1,113)	-	-	(916)
Profit (loss) from discontinued operations	562	133	-	(444)	-	-	251
Financial income and expenses	-	-	-	-	229	-	229
<b>Tax:</b>							
Tax on hedging and currency adjustments	188	(126)	(3)	204	(8)	-	255
<b>Movements in comprehensive income for the year</b>	<b>(279)</b>	<b>444</b>	<b>10</b>	<b>(669)</b>	<b>31</b>	<b>-</b>	<b>(463)</b>
<b>Total reserves at 31 December</b>	<b>(1,825)</b>	<b>454</b>	<b>10</b>	<b>304</b>	<b>(467)</b>	<b>-</b>	<b>(1,524)</b>

#### Accounting policies

##### Foreign currency translation reserve

The foreign currency translation reserve comprises:

- exchange rate adjustments arising on translation of the financial statements of foreign entities with a currency that is not the Group's functional currency
- exchange rate adjustments relating to loans that form part of our net investment in such entities
- exchange rate adjustments relating to hedging transactions on our net investment in such entities.

On realisation or partial realisation of the net investment, the exchange rate adjustments are recognised in profit (loss) for the year if a foreign exchange gain (loss) is realised by the divested entity. The foreign exchange gain (loss) is transferred to the item in which the gain (loss) is recognised.

##### Hedging reserve

The hedging reserve covers:

- hedging of net investments in foreign operations
- cash-flow hedging of currency risks and inflation risks associated with revenue
- cash-flow hedging of the currency risk associated with the construction of offshore wind farms and interest expenses.

##### Deferred costs of hedging

Changes in the basic spread on currency swaps and time value of options are included in deferred costs of hedging.

##### Share premium reserve

Retained earnings include the share premium reserve of DKK 21,279 million, representing the excess of the amount of subscribed-for share capital over the nominal value of these shares in connection with capital injections.

## 6.3 Hybrid capital

### Hybrid bonds

Type	Due in 3013
Carrying amount	Subordinate to other creditors
Financial classification	DKK 5,148 million
Notional amount	Equity
Issued	EUR 700 million (DKK 5,224 million)
Maturing	June 2013
First redemption date at par	June 3013
Interest	26 June 2023
Deferral of interest payment	For the first ten years, the coupon is fixed at 6.25% p.a., after which it is adjusted every five years with the five-year euro swap + 4.75 percentage points from 2023-2043 and + 5.5 percentage points after 2043
	Optional

We have issued hybrid capital which is subordinate to our other creditors. The purpose of issuing hybrid capital is to strengthen our capital base and fund our investments. In the European capital markets, we have issued EUR hybrid bonds with a total nominal value of DKK 13,432 million (EUR 1,800 million).

On 8 July 2018, we redeemed the hybrid bond maturing in July 3013 at par at the first redemption date.

For hybrid bonds, we may defer coupon payments to bond holders and ultimately decide not to pay them. Deferred coupon payments become payable, however, if we decide to pay dividends to our shareholders or pay coupon payments on other hybrid bonds.

As a consequence of the special terms regarding the hybrid bonds, these are classified as equity, and coupon payments are therefore recognised in equity.

Type	Due in 3015
Carrying amount	Subordinate to other creditors
Financial classification	DKK 4,423 million
Notional amount	Equity
Issued	EUR 600 million (DKK 4,477 million)
Maturing	May 2015
First redemption date at par	November 3015
Interest	6 November 2020
Deferral of interest payment	Coupon for the first 5.5 years is fixed at 3.0% p.a., after which it is adjusted every five years with the five-year euro swap + 2.819 percentage points from 2020, + 3.069 percentage points from 2025, and + 3.819 percentage points from 2040
	Optional

### Accounting policies

Hybrid capital comprises issued bonds that qualify for treatment in accordance with the rules on compound financial instruments due to the special characteristics of the bonds. The notional amount, which constitutes a liability, is recognised at present value, and equity has been increased by the difference between the net proceeds received and the present value of the discounted liability. Accordingly, any coupon payments are accounted for as dividends, which are recognised directly in equity at the time the payment obligation arises. This is because the coupon is discretionary, and any deferred coupon therefore lapses upon maturity of the hybrid capital. Coupon payments consequently do not have any effect on profit (loss) for the year.

The part of the hybrid capital that is accounted for as a liability is measured at amortised cost. However, as the carrying amount of this component amounted to nil on initial recognition and due to the 1,000-year term of the hybrid capital, amortisation charges will only have an impact on profit (loss) for the year towards the end of the 1,000-year term of the hybrid

Type	Due in 3017
Carrying amount	Subordinate to other creditors
Financial classification	DKK 3,668 million
Notional amount	Equity
Issued	EUR 500 (DKK 3,731 million)
Maturing	November 2017
First redemption date at par	November 3017
Interest	24 November 2024
Deferral of interest payment	Coupon for the first seven years is fixed at 2.25% p.a., after which it is adjusted every five years with the five-year euro swap + 1.899 percentage points from 2024, + 2.149 percentage points from 2029 and + 2.899 percentage points from 2044
	Optional

capital. Coupon payments are recognised in the statement of cash flows in the same way as dividend payments within financing activities.

On redemption of the hybrid capital, the payment will be distributed between liability and equity, applying the same principles as used when the hybrid capital was issued. This means that the difference between the payment on redemption and the net proceeds received on issue is recognised directly in equity as the debt portion of the existing hybrid issues will be nil during the first part of the life of the hybrid capital.

On the date on which the Board of Directors decides to exercise an option to redeem the hybrid capital, the part of the hybrid capital that will be redeemed will be reclassified to loans and borrowings. The reclassification will be made at the market value of the hybrid capital at the date the decision is made. Coupon payments and exchange rate adjustments following the reclassification to loans and borrowings will be recognised in profit (loss) for the year as financial income or expenses.

## 6.4 Financial resources

Our liquidity and financing risks are managed centrally in accordance with the principles and delegated authorities laid down by the Board of Directors.

One of the most significant financial management tasks is to secure sufficient and flexible financial resources in relation to our day-to-day operations, investment programme and debt maturity profile.

We therefore define minimum financial resources for the coming calendar year.

### Cash, cash equivalents and securities

Securities are a key element in our financial resources, for which reason investments are primarily made in liquid AAA-rated Danish mortgage bonds and to a lesser extent in other bonds. Most of the securities qualify for repo transactions in the Danish central bank, 'Danmarks Nationalbank'.

Securities not available for use comprise securities pledged as collateral for:

- insurance-related provisions; DKK 399 million at 31 December 2018 (2017: DKK 397 million)
- trading in financial instruments; DKK 333 million at 31 December 2018 (2017: DKK 40 million).

At 31 December 2018, we had received collateral in the amount of DKK 852 million (2017: DKK 787 million) concerning the positive market value of derivatives.

Cash not available for use comprise:

- collateral for insurance-related provisions; DKK 264 million (2017: DKK 312 million)
- collateral for US power purchase agreements; DKK 246 million (2017: DKK 0 million)
- collateral for other transactions; DKK 342 million (2017: DKK 0 million).

### Financial resources, DKK million

- Cash, available
- Securities, available
- Undrawn, non-cancellable credit facilities



Cash and cash equivalents, securities, DKKm	2018	2017
Cash, available	2,663	3,891
<b>Total cash and cash equivalents at 31 December, cf. statement of cash flows</b>	<b>2,663</b>	<b>3,891</b>
<b>Cash can be specified as follows:</b>		
Cash, available	2,663	3,891
Cash, not available for use	852	312
<b>Total cash at 31 December, cf. balance sheet</b>	<b>3,515</b>	<b>4,203</b>
<b>Securities can be specified as follows:</b>		
Securities, available	24,769	24,843
Securities, not available for use	732	437
<b>Total securities at 31 December</b>	<b>25,501</b>	<b>25,280</b>



The table shows our cash and securities which are divided into available and not available for use.

### Overview of securities, DKKm

Maturities	2018		2017	
	Fixed rate	Floating rate	Fixed rate	Floating rate
0-2 years	3,178	1,086	2,091	1,971
2-5 years	15,073	3,460	17,712	3,506
After 5 years	2,671	33	-	-
<b>Total carrying amount</b>	<b>20,922</b>	<b>4,579</b>	<b>19,803</b>	<b>5,477</b>



The tabel shows our securities split into maturities and fixed or floating interest rate.

Maturity analysis of loans and borrowings 2018, DKKm	2019	2020	2021-2022	After 2022	2018
<b>Bank loans and issued bonds</b>					
Notional amount	2,213	235	6,917	18,179	27,544
Interest payments	1,003	873	1,654	8,074	11,604
Trade payables	13,093	-	-	-	13,093
Derivatives	6,066	1,626	133	414	8,239
Tax equity debt	66	59	143	334	602
Other payables	5,327	-	-	-	5,327
Liabilities relating to assets classified as held for sale	812	-	-	-	812
<b>Total payment obligations</b>	<b>28,580</b>	<b>2,793</b>	<b>8,847</b>	<b>27,001</b>	<b>67,221</b>

Maturity analysis of loans and borrowings 2017, DKKm	2018	2019	2020-2021	After 2021	2017
<b>Bank loans and issued bonds</b>					
Notional amount	3,828*	2,192	2,345	21,457	29,822
Interest payments	1,152	973	1,690	8,772	12,587
Trade payables	11,499	-	-	-	11,499
Other payables	5,644	216	-	-	5,860
Derivatives	2,912	736	471	6	4,125
Liabilities relating to assets classified as held for sale	119	-	-	-	119
<b>Total payment obligations</b>	<b>25,154</b>	<b>4,117</b>	<b>4,506</b>	<b>30,235</b>	<b>64,012</b>

\* The amount primarily relates to reclassified hybrid capital. See more in note 6.3 'Hybrid capital'.



#### Maturity analysis of loans and borrowings

The Group's cash needs in respect of its financial loans and borrowings are shown in the table on the left. The maturity analysis was determined on 31 December.

The maturity analysis is based on undiscounted cash flows, including estimated interest payments. Interest payments are based on market conditions and interest-rate hedging entered into on 31 December.

The maturity analysis does not include hybrid capital classified as equity. At 31 December 2018, we had issued hybrid capital with a notional amount totalling DKK 13,432 million due in 3013 (DKK 5,224 million), 3015 (DKK 4,477 million) and 3017 (DKK 3,731 million), respectively.

#### Accounting policies

Securities comprise bonds that are monitored, measured and reported at market value on an on-going basis in conformity with the Group's investment policy. Changes in market value are recognised in profit (loss) for the year as financial income and expenses. Purchase and sale of securities are recognised at the settlement date.

For listed securities, market value equals the market price, and for unlisted securities, market value is estimated based on generally accepted valuation methods and market data.

Divested securities where repurchase agreements (repo transactions) has been made at the time of sale are recognised in the balance sheet at the settlement date as if the securities were still held. The amount received is recognised as a liability, and the difference between the selling price and the purchase price is recognised in profit (loss) for the year over the term as interest. The return on the securities is recognised in profit (loss) for the year.

## 6.5 Financial income and expenses

### Net financial income and expenses, DKKm

	2018	2017
Interest expenses, net	(877)	(629)
Interest element of provisions, etc.	(408)	(451)
Tax equity partner's contractual return	(44)	-
Capital losses on early repayment of loans and interest rate swaps	-	(230)
Value adjustments of derivatives, net	(64)	(67)
Exchange rate adjustments, net	285	391
Value adjustments of securities, net	(176)	(150)
Other financial income and expenses	6	94
<b>Net financial income and expenses</b>	<b>(1,278)</b>	<b>(1,042)</b>



The table shows net financial income and expenses, corresponding to our internal control.

Exchange rate adjustments and hedging contracts entered into to hedge currency risks are presented net under the item 'Exchange rate adjustments, net'.

### Accounting policies

Market value adjustments of interest rate and currency derivatives that have not been entered into for hedging purposes are presented as financial income or expenses.

The accounting policy for the tax equity partner's contractual return is described in note 4.5 'Tax equity liabilities'.

### Financial income and expenses, DKKm

	2018	2017
Interest income from cash, etc.	62	71
Interest income from securities at market value	264	216
Capital gains on securities at market value	119	250
Foreign exchange gains	2,033	1,523
Value adjustments of derivatives	670	2,043
Other financial income	31	150
<b>Total financial income</b>	<b>3,179</b>	<b>4,253</b>
Interest expenses relating to loans and borrowings, etc.	(1,710)	(1,670)
Interest expenses transferred to assets	506	754
Interest element of provisions	(280)	(303)
Tax equity partner's contractual return	(44)	-
Capital losses on securities at market value	(304)	(419)
Foreign exchange losses	(1,978)	(1,568)
Value adjustments of derivatives	(466)	(1,887)
Other financial expenses	(181)	(202)
<b>Total financial expenses</b>	<b>(4,457)</b>	<b>(5,295)</b>
<b>Net financial income and expenses</b>	<b>(1,278)</b>	<b>(1,042)</b>



Exchange rate adjustments of currency hedging are recognised in revenue and cost of sales with a gain of DKK 268 million (2017: a gain of DKK 190 million).

Borrowing costs transferred to property, plant and equipment under construction are calculated at the weighted average effective interest rate for general borrowing. This amounted to 4.1% in 2018 (2017: 5.3%).

## 6.6 Funds from operations (FFO)/ adjusted interest-bearing net debt

Funds from operations (FFO), DKKm	2018	2017
<b>EBITDA – business performance</b>	<b>30,029</b>	<b>22,519</b>
Interest expenses, net	(877)	(629)
Reversal of interest expenses transferred to assets	(506)	(754)
Interest element of decommissioning obligations	(192)	(194)
50% of coupon payments on hybrid capital	(272)	(320)
Calculated interest paid on operating lease obligations	(196)	(234)
<b>Adjusted interest expenses, net</b>	<b>(2,043)</b>	<b>(2,131)</b>
Reversal of gain (loss) on divestment of assets	(14,995)	(10,835)
Reversal of recognised operating lease payment in profit (loss) for the year	778	885
Total current tax	(3,068)	(2,447)
<b>Funds from operations (FFO)</b>	<b>10,701</b>	<b>7,991</b>



The table shows which items are included in FFO. FFO is calculated for the continuing operations.

Adjusted interest-bearing net debt, DKKm	2018	2017
<b>Total interest-bearing net debt</b>	<b>(2,219)</b>	<b>(1,517)</b>
50% of hybrid capital	6,619	6,619
Cash and securities not available for distribution, excluding repo loans	1,583	749
Present value of operating lease payments	4,819	6,095
Decommissioning obligations	5,471	4,751
Deferred tax on decommissioning obligations	(757)	(797)
<b>Total adjusted interest-bearing net debt</b>	<b>15,516</b>	<b>15,900</b>



The table shows which items are included in the adjusted interest-bearing debt as well as FFO relative to adjusted interest-bearing debt.

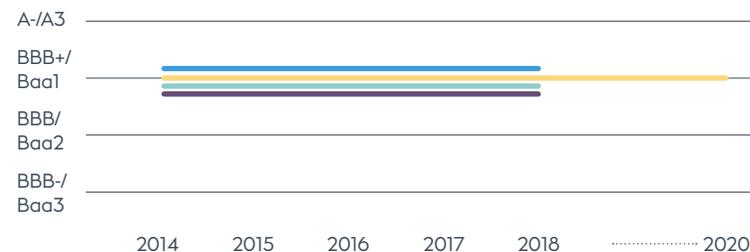
Funds from operations (FFO)/ adjusted interest-bearing net debt, %	2018	2017
<b>Funds from operations (FFO)/ adjusted interest-bearing net debt</b>	<b>69.0%</b>	<b>50.3%</b>

Our long-term target is for funds from operations (FFO) to be around 30% of adjusted interest-bearing net debt.

FFO/adjusted interest-bearing net debt was 69% in 2018, exceeding the target.

### Rating, category

● S&P ● Moody's ● Fitch ● Financial objective



The figure shows the development in our credit rating since 2014 compared to our objective.

# 7. Risk management

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# 7. Risk management

Market and credit risks are a natural part of our business activities and a precondition for being able to create value. Through risk management, risks are reduced to an acceptable level.

## Aquisitions in 2018

We have acquired Lincoln Clean Energy in October 2018 and Deepwater Wind in November 2018. The two acquisitions have increased our power and USD exposure.

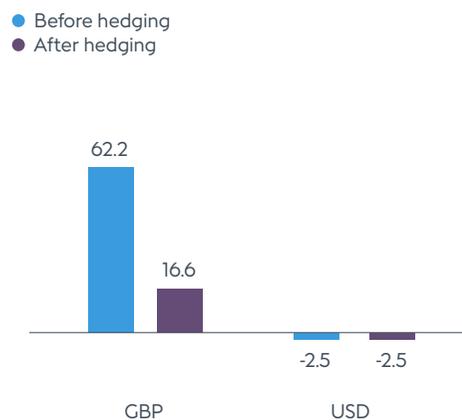
## Currency and energy exposures

At the end of 2018, our forward-looking energy and currency exposures from production, sales, investments and divestments for 2019-2023 had been reduced from DKK 24.0 billion and DKK 64.7 billion to DKK 9.1 billion and DKK 19.1 billion respectively via hedging.

## Trading portfolio

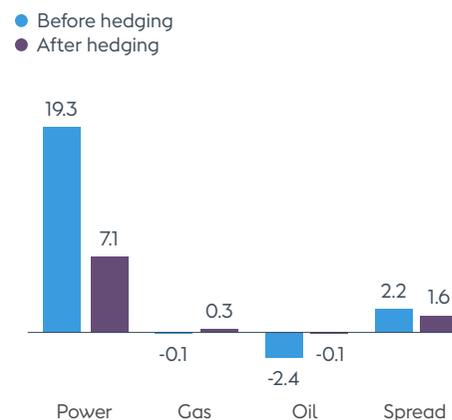
We have a limited trading portfolio, the main purpose of which is to optimise the execution of hedging contracts and gain from short-term energy price fluctuations. The trading activities comply with the mandates approved by the Board of Directors. Read more in note 7.3 'Energy Trading portfolio'.

Currency exposure 2019-2023, DKKbn



Our currency exposure for 2019-2023 totalled DKK 64.7 billion before hedging and DKK 19.1 billion after hedging at the end of 2018. We do not deem EUR to constitute a risk, as we expect that Denmark will maintain its fixed exchange-rate policy.

Energy exposure 2019-2023, DKKbn



Our energy exposures for 2019-2023 totalled DKK 24.0 billion before hedging and DKK 9.1 billion after hedging at the end of 2018.

# 5 years

We hedge prices for up to five years to reduce cash flow fluctuations.

# +0.4bn

In 2018, business performance EBITDA was positively impacted by DKK 368 million from hedging instruments against a positive impact by DKK 1,665 million in 2017.

# -3.0bn

The value of our energy and currency hedging instruments at 31 December 2018 was negative at DKK 3,032 million, which will reduce business performance EBITDA in a future period, against DKK -812 million at 31 December 2017.

# 7.1 Market risks

## Market risks and market risk management

Our most significant market risks relate to:

- energy prices
- foreign exchange rates
- inflation rates and
- interest rates.

We manage market risks to protect Ørsted against market price volatility and ensure stable and robust financial ratios that support our growth strategy.

In the first five years, we primarily hedge future prices using derivatives to reduce cash flow fluctuations. We are almost fully hedged in the first two years. At longer durations, we also manage our market risks; our power exposure is partly mitigated through long term power purchasing agreements (PPA), and debt is used to manage currency, interest rate and inflation risk. Our long-term risk picture is determined by our strategic asset portfolio.

Minimum hedging levels are determined by the Board of Directors. In the first two years, a high degree of hedging is wanted to ensure stable cash flows after tax. The degree of hedging is declining in subsequent years.

This is due to:

- reduced certainty about long-term production volumes and
- increasing hedging costs in the medium to long term; both spread costs and cost of collateral.

## Energy price risks

Our consolidated energy exposure after hedging for the years 2019-2023 can be summarised as shown in the table.

Risk after hedging DKKbn	Effect of price change	
	+10%	-10%
Power: 7.1 sales position	+0.7	-0.7
Gas: 0.1 sales position	+0.0	-0.0
Oil: 0.1 purchase position	-0.0	+0.0
Spread: 1.6 sales position	+0.2	-0.2

A 10% increase in the power price in 2019-2023 will therefore result in a gain of DKK 0.7 billion in the period, all else remaining unchanged.

## Currency risks

Our consolidated currency exposure after hedging for the years 2019-2023 can be summarised as shown in the table.

Risk after hedging DKKbn	Effect of price change	
	+10%	-10%
GBP: 16.6 sales position	+1.7	-1.7
USD: 2.5 purchase position	-0.3	+0.3

Our largest currency exposure relates to GBP due to our investments in offshore wind farms in the UK. During 2018, we have experienced a substantial increase in long-term USD exposure, due to acquisition of both onshore and offshore companies in the US. Our exposure towards New Taiwan Dollar will increase if we

take final investment decision for the awarded offshore capacity in Taiwan.

In general, highly certain cash flows in foreign currencies are hedged within the first five years.

This means that exchange rates related to energy prices in foreign currency are not hedged until the energy price is hedged. Hence, GBP exchange rates associated with power generation in the UK is not hedged until the GBP power price is hedged.

Cash flows that relate to fixed tariffs and guaranteed minimum prices from offshore wind farms in the UK deviate from the main principle. Hedging of these, less operating expenses, is based on a declining level of

hedging over the five-year risk management horizon. The target is to hedge 100% of the risk in year 1, declining by 20 percentage points each year, to 20% in year 5.

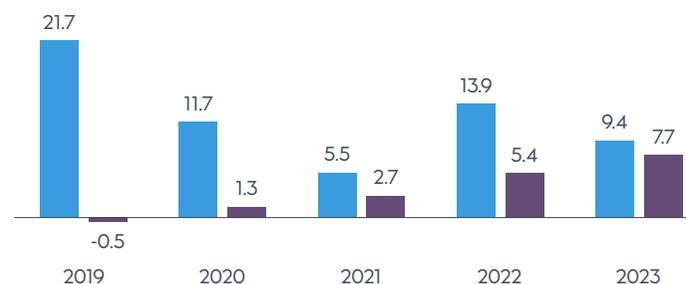
Our GBP exposure amounted to DKK 16.6 billion after hedging for the years 2019-2023. This unhedged GBP exposure stems from subsidised GBP income less operational expenditures.

The GBP exchange rate for hedges impacting EBITDA in 2019 and 2020 is hedged at an average exchange rate of DKK/GBP 8.4 and 8.4.

Our EUR risk is subject to continuous assessment, but is generally not hedged as we believe that Denmark will maintain its fixed exchange-rate policy.

## GBP exposures, DKKbn

- Before hedging
- After hedging



The graph shows our GBP exposure before and after hedges from:

- divestment and investment
- green certificates
- hedged energy.

### Interest rate and inflation risk

We manage interest rate and inflation risk by matching the sensitivity of our assets with the sensitivity of our debt.

The majority of our inflation risk relates to revenue from offshore wind farms. Subsidy regimes for offshore wind varies from country to country:

- In the UK, the fixed tariff is adjusted with inflation
- In Denmark, Germany and the Netherlands, the fixed tariff is not adjusted.

This results in an inflation risk for earnings from tariff-based wind farms in Denmark, Germany and the Netherlands. The share of our debt which is fixed in nominal terms partially offsets this inflation risk. We have fixed the inflation for part of the future revenue from our UK offshore wind farms at an average of 3.5% for the period 2024-2037 to create a better match with our fixed rate UK debt.

Fixed tariffs for future projects in the US and potentially Taiwan will also not be adjusted with inflation.

### Offshore

Earnings from offshore wind farms mainly comprise:

- fixed tariffs in Denmark, Germany, the Netherlands, UK (CfD farms) and in the future also US and Taiwan
- guaranteed minimum prices for green certificates in the UK (ROC farms)
- sale of power at market prices from our out-of-subsidy farms or ROC farms in the UK.

At the end of 2018, such fixed tariffs and guaranteed minimum prices cover 81% of the

expected income from offshore wind farms over the next five years. The remaining price exposure concerns sales of power at market price in the UK and Denmark.

### Onshore

Earnings from the generation of power from our onshore wind farms in the US comprise tax incentives, such as PTCs or ITCs and power. The tax incentives have a fixed value. But there is a price risk associated with the power which is reduced by entering into PPAs. The current PPAs cover approx. 78% of the expected generation, spanning 12-15 years from the commissioning of the wind farm. The PPAs are entered into with large corporates or financial institutions.

### Bioenergy

Our CHP plant portfolio consists of biomass- and coal-fired plants in Denmark and a Renaissance plant in the UK. The CHP plants generate both heat and power.

Concurrently with the biomass conversion of our CHP plants, a larger share of our earnings will be coming from our heat generation. Heat generation does not give rise to price risk as the associated costs are covered by the heat customers. However, heat generation often entails a price risk for power, as heat and power to a large extend are generated simultaneously.

The profitability of power generation is determined by the difference between the selling price of power and the purchase price of fuel and carbon emissions allowances. For our coal-based power generation, we secure profitability by selling power and buying fuel and carbon emissions allowances, while for biomass-based power generation, we secure profitability by

buying biomass at fixed prices and hedging the associated power generation. At the end of 2018, 52% of the power generation expected in 2019 from our power stations was hedged. The total net risk associated with the power stations' power generation for the 2019-2023 period is DKK 1.6 billion after hedging.

### Customer Solutions

Our price risk in Customer Solutions arises from the purchase and sale of power and gas. The price risks associated with the purchase and sale of gas result from differences in the indexing of sales and purchase prices. Our largest gas purchase contracts include the option of renegotiating the contract price if it no longer reflects market conditions. We have completed most of these renegotiations in recent years; as a result, the contract prices have largely been indexed to pure gas prices and not to oil prices, as was previously the case. We are therefore less sensitive to differences in the oil and gas price development than before. Going forward, our oil price risk may rise again, as we conclude new LNG purchase agreements, which are typically oil-indexed. The price risks associated with power purchases and sales are given by the difference between the purchase and sales prices. The price risk relates primarily to timing differences between purchases and sales and the related hedges and is therefore considered to be limited.

### Principles for estimating exposures

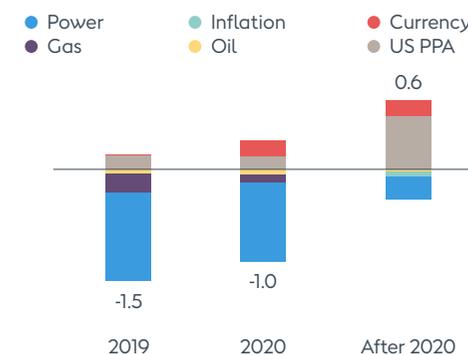
Exposure is calculated as the expected production (or net purchase/sale) times the forward price for the respective years. In addition, the exposure is determined on the basis of the expected exposure after renegotiations of oil-indexed gas purchase contracts.

### Offshore's power price exposure, DKKbn



The table shows the exposure from Offshore's generation of power before and after hedges.

### Expected value for recognition in business performance EBITDA, DKKbn



The table shows the time of the transfer of the value of hedging contracts in business performance EBITDA for both business performance and IFRS hedges together with deferred revenue from US power purchase agreements; see note 1.6 'Business performance'.

Note	Overview of the Group's derivative positions, DKKm	2018				2017			
		Energy hedging		Currency and interest rate hedging		Energy hedging		Currency and interest rate hedging	
		Contractual principal amount	Market value	Contractual principal amount	Market value	Contractual principal amount	Market value	Contractual principal amount	Market value
	<b>Recognised with EBITDA impact</b>								
1.6, 7.2	Economic hedging	27,927	(3,806)	29,684	712	21,396	(940)	25,303	592
7.2	Hedging of cash flows, currency	-	-	12,434	22	-	-	23,588	678
7.3	Trading portfolio	6,509	313	-	-	8,720	118	-	-
	<b>Total</b>	<b>34,436</b>	<b>(3,493)</b>	<b>42,118</b>	<b>734</b>	<b>30,116</b>	<b>(822)</b>	<b>48,891</b>	<b>1,270</b>
	<b>Recognised in financial income and expenses</b>								
7.2	Hedging of fair value, currency	-	-	10,388	(761)	-	-	18,178	(716)
7.2	Hedging of cash flows, inflation	-	-	15,547	(69)	-	-	-	-
7.2	Hedging of cash flows, interest	-	-	1,602	56	-	-	-	-
7.2	Hedging of cash flows, currency	-	-	2,721	(272)	-	-	2,739	(365)
	Other interest derivatives	-	-	6,588	(39)	-	-	550	-
	Other currency derivatives	-	-	3,798	436	-	-	3,923	605
	<b>Total</b>	<b>-</b>	<b>-</b>	<b>40,644</b>	<b>(649)</b>	<b>-</b>	<b>-</b>	<b>25,390</b>	<b>(476)</b>
	<b>Recognised in other comprehensive income</b>								
7.2	Hedging of net investments	-	-	27,839	888	-	-	29,686	476
	<b>Total</b>	<b>-</b>	<b>-</b>	<b>27,839</b>	<b>888</b>	<b>-</b>	<b>-</b>	<b>29,686</b>	<b>476</b>
	<b>Total continuing operations</b>	<b>34,436</b>	<b>(3,493)</b>	<b>110,601</b>	<b>973</b>	<b>30,116</b>	<b>(822)</b>	<b>103,967</b>	<b>1,270</b>
	<b>Recognised in discontinued operations</b>								
7.2	Hedging of fair value, currency	-	-	2,285	(106)	-	-	2,480	48
	<b>Total discontinued operations</b>	<b>-</b>	<b>-</b>	<b>2,285</b>	<b>(106)</b>	<b>-</b>	<b>-</b>	<b>2,480</b>	<b>48</b>
	<b>Total</b>	<b>34,436</b>	<b>(3,493)</b>	<b>112,886</b>	<b>867</b>	<b>30,116</b>	<b>(822)</b>	<b>106,447</b>	<b>1,318</b>



The table shows the Group's derivatives and commercial contracts according to the type of accounting treatment and the items affected. The accounting treatment and classification of hedging contracts depend on the purpose of the hedging:

- Economic hedging comprises hedging of energy-related risks and related currency risks. These hedging contracts are treated as hedge accounting in accordance with the business performance principle (see note 1.6 'Business performance' for a detailed description), whereby the value adjustment (loss/gain) is deferred and only recognised during the period in which the hedged transaction materialises. Under IFRS, the value adjustment of this type of hedging is recognised directly in the income statement.
- Hedging of cash flows concerning interest rates, inflation and currencies comprises hedging of future interest payments and currency risks on future income. When hedging cash flows, the effective portion of the market value is temporarily recognised in equity until the hedged transaction materialises.
- Hedging of the market value of securities or currencies comprises hedging of recognised assets or liabilities. By hedging the market value, the effective portion of the market value is recognised in profit (loss) for the year together with changes in the market value of the hedged asset or the hedged liability.
- Hedging of net investments comprises hedging of the currency risk associated with investments in assets located in foreign countries. By hedging net investments, the effective portion of the market value is recognised in equity until the hedged net investment is divested.
- The trading portfolio and other interest and currency derivatives are recognised at market value in the income statement.

Note 1.1 'Significant changes in the current reporting period' provides further details on economic hedging, including information about the underlying products traded.

## 7.2 Hedge accounting and economic hedging

Hedge accounting 2018, DKKm	Contractual principal amount	Maturity analysis			Market value		Recognised in compre- hensive income	Expected transfers to income statement		
		2019	2020	After 2020	Asset	Liability		2019	2020	After 2020
<b>Hedging of cash flows</b>										
Revenue (USD)	1,152	214	935	3	-	(55)	(55)	(11)	(42)	(2)
Divestments (GBP)	11,282	10,733	549	-	113	(36)	(51)	(49)	(2)	-
Interest payments (GBP)	2,721	543	543	1,635	-	(272)	(187)	(99)	(65)	(23)
Interest payments (fixed)	1,602	18	24	1,560	56	-	(193)	(41)	(38)	(114)
Revenue (UK inflation)	15,547	-	-	15,547	34	(103)	(69)	-	-	(69)
<b>Hedging of fair value</b>										
GBP (sell position)	5,911	(4,481)	-	10,392	60	(832)				
EUR (sell position)	4,477	-	-	4,477	11	-				
USD (buy position)	2,285	1,306	979	-	-	(106)				
<b>Hedging of net investment</b>										
GBP	23,281	2,879	428	19,974	1,075	(178)				
EUR	4,477	-	-	4,477	2	(13)				
USD	81	-	-	81	21	(19)				
<b>2017, DKKm</b>		2018	2019	After 2019				2018	2019	After 2019
<b>Hedging of cash flows</b>										
Revenue (USD)	1,316	136	132	1,048	27	(14)	13	1	1	11
Divestments (GBP)	22,272	10,143	11,575	554	819	(154)	385	344	41	-
Interest payments (fixed)	-	-	-	-	-	-	(234)	(41)	(41)	(152)
Interest payments (GBP)	2,739	548	548	1,643	-	(365)	(365)	(105)	(102)	(158)
<b>Hedging of fair value</b>										
EUR	9,391	4,924	-	4,467	3	(1)				
GBP	8,787	-	-	8,787	-	(718)				
USD	2,480	310	1,240	930	48	-				
<b>Hedging of net investment</b>										
GBP	23,868	10,563	2,602	10,703	1,381	(906)				
EUR	5,668	1,201	-	4,467	2	(2)				
USD	150	-	-	150	1	-				

### Accounting policies

We primarily use hedge accounting for currency and interest where it is possible to use hedging instruments which hedge the desired risk one-to-one. The GBP exposure, for example, is hedged using GBP forward exchange contracts, GBP swaps or GBP loans. There are thus no significant sources of ineffectiveness. For currency swaps, the basic spread is accounted for according to the cost of the hedging model.

To the extent that a risk needs to be hedged, and if there is no fully effective instrument available in the market, analyses are performed of the expected effectiveness of the hedging instrument before the hedging transaction is concluded. In this case, the ratio between the hedged risk and the hedging instrument may deviate from the one-to-one principle and will be determined as the ratio which most effectively hedges the desired risk.

We recognise changes to the market value of hedging instruments that qualify for recognition as a hedge of future cash flows in other comprehensive income in the hedging reserve. On realisation of the hedged cash flow, the resulting gains or losses are transferred from equity and recognised in the same item as the hedged item. However, on hedging of proceeds from future loans, the resulting gain or loss is transferred from equity over the term of the loan.

When we conclude a hedging transaction, and each time we present financial statements thereafter, we assess whether the hedged exposure and the hedging instrument are still financially correlated. If the hedged cash flows are no longer expected to be realised, the accumulated value change is transferred to profit (loss) for the year.

### Cash flow hedging

We have entered into forward exchange contracts for the purpose of hedging the currency risk associated with the construction of offshore wind farms which are expected to be divested.

Ineffectiveness of currency hedging totalled DKK 0 million (2017: DKK 0 million). Forward exchange contracts have also been concluded for the purpose of hedging the currency risk associated with interest payments on loans in GBP.

All hedges take place using an instrument with the same price risk as the exposure. The GBP exposure, for example, is hedged using GBP derivatives or GBP loans. Therefore, the hedging ratio for all IFRS hedges is one-to-one.

Changes in the market value of derivatives that are classified as hedges of the fair value of a recognised asset or liability are recognised in profit (loss) for the year together with changes in the value of the hedged asset or liability to the extent of the hedged risk.

### Economic hedging and commercial contracts

The purpose of economic hedging is to reduce our risk from generation and sale of energy. Fluctuations in value are expected to be offset by the underlying exposure.

When the market value of contracts classified as economic hedging, commercial contracts and partly cash flow hedging (currency) is recognised in the income statement, we present them in the hedging item which is included in EBITDA.

We have entered into a number of commercial contracts under which physical delivery is made, and which are managed together with the financial contracts, for which reason they are recognised at market value in accordance with IFRS.

Under the business performance principle, the market value adjustment of contracts concluded for the purpose of economic hedging and commercial contracts is deferred to the period during which the hedged transaction affects results. See note 1.6 'Business performance'.

Our hedging of energy prices and commercial contracts recognised at market value is specified in the table below.

### Hedging of net investments in foreign subsidiaries

Our foreign activities entail currency risk. We hedge this currency risk by raising loans in foreign currencies, entering into forward exchange contracts and investing in currency swaps and options.

	2018		2017	
	Contractual principal amount	Market value	Contractual principal amount	Market value
<b>Economic hedging and commercial contracts, DKKm</b>				
<b>Energy</b>				
Oil swaps	2,442	(182)	3,595	374
Gas swaps	5,717	(412)	6,939	(626)
Power swaps	16,543	(3,267)	7,745	(1,009)
Power options	2,900	48	2,941	280
Coal	325	7	176	41
<b>Currency</b>				
Forward exchange contracts	29,684	712	25,303	592
<b>Total</b>	<b>57,611</b>	<b>(3,094)</b>	<b>46,699</b>	<b>(348)</b>



Under the business performance principle, economic hedging is accounted for as effective hedging. The resulting market value adjustment is consequently deferred to the period in which the hedged transaction affects results.

The contractual principal amount has been determined as the net position per derivative type.

On 31 December 2018, the accumulated exchange rate adjustments totalled DKK -1,660 million divided between the exchange rate adjustment of the net investment of DKK -2,329 million and the hedging thereof of DKK 669 million.

### Accounting policies

#### Economic hedging and commercial contracts

Market value adjustments of financial contracts offered to customers with a view to price hedging and financial instruments that have been entered into to hedge the Group's principal operating activities are recognised as revenue or cost of sales.

Under the business performance principle, economic hedging is accounted for as effective hedging. The resulting market value adjustment is consequently deferred to the period in which the hedged

ineffectiveness relating to hedging of net investments in foreign subsidiaries totalled DKK 0 million (2017: DKK 0 million).

transaction affects results. See note 1.6 'Business performance' for further information.

The contractual principal amount has been determined as net position per derivative type.

#### Hedging of net investments in foreign subsidiaries

Changes in the market value of derivatives and loans that are used to hedge net investments in foreign subsidiaries or associates are recognised in the consolidated financial statements directly in equity within a separate foreign currency translation reserve.

### Hedging of net investments in foreign subsidiaries, DKKm

2018	Net investment <sup>1</sup>	Of which non-controlling interests	Hedged amount in currency	Net position	Accumulated exchange rate adjustment in equity
<b>Currency</b>					
GBP	46,468	(3,377)	(23,281)	19,810	(1,583)
EUR	23,871	-	(4,477)	19,394	14
USD	9,060	-	(81)	8,979	(48)
Other	237	-	-	237	(43)
<b>Total</b>	<b>79,636</b>	<b>(3,377)</b>	<b>(27,839)</b>	<b>48,420</b>	<b>(1,660)</b>
2017					
<b>Currency</b>					
GBP	35,991	(3,777)	(23,868)	8,346	(1,527)
EUR	13,784	-	(5,668)	8,116	(15)
USD	152	-	(150)	2	(18)
Other	134	-	-	134	(46)
<b>Total</b>	<b>50,061</b>	<b>(3,777)</b>	<b>(29,686)</b>	<b>16,598</b>	<b>(1,606)</b>



The table shows our hedging of investments in foreign subsidiaries. The table also shows the exchange rate adjustment of the investment as well as the associated hedging value.

The net position expresses the accounting exposure. If, for example, the GBP/DKK exchange rate increased with 10% on 31 December 2018, equity would have increased by DKK 1,981 million, corresponding to 10% of DKK 19,810 million.

# 7.3 Energy trading portfolio

## Trading portfolio

The purpose of our trading portfolio is to:

- optimise hedging contracts
- contribute to increased market insight and
- profit from short-term fluctuations in energy prices.

The trading portfolio consists primarily of positions in power and gas.

The trading portfolio constitutes a smaller part of our total portfolio of derivatives, and the associated risk is limited. Also, earnings from the trading portfolio constitute a limited share of our total earnings.

When an economic hedging instrument (business performance hedge) does not fully correspond to the hedged risk, any difference between the hedging contract entered into and the hedged exposure is recognised in the income statement as part of the gain (loss) from the trading portfolio.

Overview of the Group's trading portfolio, DKKm	2018		2017	
	Contractual principal amount	Market value	Contractual principal amount	Market value
Oil swaps	184	182	287	(361)
Gas swaps and options	1,126	308	2,772	170
Power swaps and options	5,142	(127)	5,566	363
Carbon emissions allowances	7	(43)	44	(14)
Coal	50	(7)	51	(40)
<b>Total</b>	<b>6,509</b>	<b>313</b>	<b>8,720</b>	<b>118</b>

The contractual principal amount has been determined as the net position per derivative type. The table shows the market value of our derivatives which are included in the trading portfolio at 31 December.

## Market trading mandates

VaR limit in 2018: DKK 70 million	Stress limit in 2018: DKK 400 million	Maximum open positions in trading portfolio
VaR indicates the largest loss in one trading day to a probability of 95%. VaR is based on data for the past 60 trading days with the heaviest weighting being assigned to the most recent trading days.	Stress indicates the largest daily loss we risk sustaining with the given portfolio. Stress is based on data from 1 January 2006 to the present day.	<ul style="list-style-type: none"> <li>– Max. 15TWh of, gas</li> <li>– Max. 4 million boe of oil</li> <li>– Max. 8TWh of power</li> <li>– Max. 3 million tonnes of CO<sub>2</sub></li> <li>– Max. 2 million tonnes of coal</li> </ul>

Trading activities are carried out within mandates approved by the Board of Directors. The mandates comprise a value-at-risk (VaR) mandate and a stress mandate as well as a limit for the maximum positions measured in energy units per product (oil, gas, etc.).

## Daily position in the trading portfolio, market trading mandates, DKKm



## Accounting policies

Market value adjustments of physical and financial contracts relating to energy that are entered into with the purpose of generating gains from short-term price changes are recognised as revenue.

The graph shows the daily value at risk position for the period 2017-2018. The mandates from the Board of Directors and Group Executive Management have not been breached during the period.

## 7.4 Sensitivity analysis of financial instruments

The sensitivity analysis in the table shows the effect of market value changes assuming a relative price change at 31 December 2018.

The effect on profit (loss) before tax comprises financial instruments that remained open at the balance sheet date, and which have an effect on profit (loss) in the current financial year. The effect is broken down by:

- trading portfolio; these contracts will affect profit
- other financial instruments, including economic hedging and commercial contracts; the market value changes of contracts allocated as economic hedges will be offset, in full or in part, by a change in the hedged risk.

Effect on equity before tax comprises financial instruments that remained open at the balance sheet date, and which are value-adjusted directly in equity.

Financial instruments include derivatives as well as receivables and payables in foreign currencies.

The illustrated sensitivities only comprise our financial instruments and therefore omit the effect from contracts concluded under which physical delivery of the underlying assets is made, as these are not recognised as financial instruments.

### Sensitivity analysis of financial instruments DKKm

Risk	Price change	31 December 2018			31 December 2017		
		Effect on profit (loss) before tax		Effect on equity before tax	Effect on profit (loss) before tax		Effect on equity before tax
		Trading portfolio	Other financial instruments <sup>1</sup>		Trading portfolio	Other financial instruments <sup>1</sup>	
Oil	10%	(220)	230	-	10	134	-
	-10%	220	(230)	-	(10)	(134)	-
Gas	10%	12	(511)	-	(81)	(607)	-
	-10%	(12)	511	-	75	607	-
Power	10%	73	(2,385)	-	86	(952)	-
	-10%	(53)	2,365	-	(81)	959	-
Coal	10%	(33)	(5)	-	(6)	(43)	-
	-10%	33	5	-	6	43	-
USD	10%	(16)	(301)	(115)	91	131	(132)
	-10%	16	301	115	(91)	(131)	132
GBP	10%	51	(2,905)	(856)	31	(2,312)	(1,534)
	-10%	(51)	2,905	856	(31)	2,312	1,942
EUR	10%	(228)	(1,353)	420	419	(1,304)	522
	-10%	228	1,353	(420)	(419)	1,304	(522)
Interest	100 basis points	(454)	-	161	(565)	-	-
Inflation	100 basis points	-	-	(1,770)	-	-	-



<sup>1</sup> Other financial instruments, including derivatives classified as economic hedging, comprise derivatives entered into to hedge future financial risks. The market value changes of these contracts will be offset, in full or in part, by a change in the hedged risk. Also included are commercial contracts recognised at market value.

If the hedged exposure had been included in the sensitivity analysis, the effect of a price change would have been reduced or offset entirely.

Net investments and associated hedging of net investments in foreign subsidiaries are

not included in the table, as the effect of the sum of the investment and the hedging are considered to be neutral to price changes.

A 10% increase in the currencies hedged in connection with net investments would reduce equity by DKK -2,784 million (2017: DKK -2,969

million), arising from the hedging instruments. All other conditions being equal, a decrease in the exchange rate would have had a corresponding opposite effect.

## 7.5 Credit risks

We are exposed to credit risks from our trading partners and customers. A large part of our counterparty risks concerns major international energy companies and banks. Such trading is regulated under standard agreements, such as EFET and ISDA agreements, which feature, for instance, credit rating and netting provisions. Our credit exposure is mainly concentrated on counterparties in Denmark, the UK, Germany and Sweden.

We limit our credit risks by:

- systematically rating significant counterparties
- granting credit limits or
- demanding that collateral be furnished or credit insurance put in place.

### Credit quality of the Group's counterparties, DKKm

	2018	2017
AAA/Aaa	20,949	23,329
AA/Aa	3,078	5,197
A/A	6,428	4,969
BBB/Baa	3,817	1,712
Non-rated	11,638	11,072
<b>Total credit exposure</b>	<b>45,910</b>	<b>46,279</b>



The table shows the credit quality of our counterparties, distributed by category. In addition, we have receivables and construction agreements related to the construction of offshore wind farms amounting to DKK 6,951 million (2017: DKK 13,349 million) where we have collateral in the offshore wind farm under construction.

<b>Offsetting of financial assets, DKKm</b>	Derivatives	Trade receivables	2018	Derivatives	Trade receivables	2017
Financial assets	12,173	23,173	35,346	9,743	33,270	43,013
Financial liabilities, offset	(7,435)	(20,060)	(27,495)	(5,000)	(29,480)	(34,480)
<b>Financial assets in the balance sheet</b>	<b>4,738</b>	<b>3,113</b>	<b>7,851</b>	<b>4,743</b>	<b>3,790</b>	<b>8,533</b>
Amounts not offset in the balance sheet:						
Liabilities with set-off rights	(1,485)	-	(1,485)	(1,611)	-	(1,611)
Collateral received in the form of bonds	(614)	-	(614)	(787)	-	(787)
<b>Net</b>	<b>2,639</b>	<b>3,113</b>	<b>5,752</b>	<b>2,345</b>	<b>3,790</b>	<b>6,135</b>



The table shows our financial assets and liabilities where a share is offset and is therefore presented net. Offsetting is typically limited within specific products.

<b>Offsetting of financial liabilities, DKKm</b>	Derivatives	Trade payables	2018	Derivatives	Trade payables	2017
Financial liabilities	13,410	23,085	36,495	8,700	32,327	41,027
Financial assets, offset	(7,435)	(20,060)	(27,495)	(5,000)	(29,480)	(34,480)
<b>Financial liabilities in the balance sheet</b>	<b>5,975</b>	<b>3,025</b>	<b>9,000</b>	<b>3,700</b>	<b>2,847</b>	<b>6,547</b>
Amounts not offset in the balance sheet:						
Assets with set-off rights	(1,485)	-	(1,485)	(1,611)	-	(1,611)
Collateral provided in the form of bonds	(713)	-	(713)	(40)	-	(40)
<b>Net</b>	<b>3,777</b>	<b>3,025</b>	<b>6,802</b>	<b>2,049</b>	<b>2,847</b>	<b>4,896</b>

The counterparties and credit limits granted are monitored on an ongoing basis. The monitoring is based on the framework established by our Board of Directors and Group Executive Management. For the most significant counterparties, an internal credit rating is required to determine the internal rating and the granting of credit limits. The rating is based on information from external credit rating agencies, publicly available information and own analyses.

We suffered no losses from any single major counterparty in 2018 or 2017.

The credit risk from our financial assets primarily concerns derivatives, cash and bond portfolios as well as receivables. The assessment is based on the individual counterparty's ratings with Standard & Poor's, Moody's and Fitch. The figures do not reflect our actual credit exposure as the positions are calculated before offsetting our debt to such counterparties.

The AAA/Aaa category covers our position in Danish AAA-rated government and mortgage bonds. The non-rated category primarily consists of trade receivables from customers, such as end-users.

### Accounting policies

We only offset positive and negative values if we are entitled to and intend to settle several financial instruments net.

## 7.6 Categories of financial instruments

Financial instruments are used for various purposes. The purpose determines the category, and whether the value adjustment of the instrument should be recognised in the profit (loss) for the year or as part of the hedging reserve in equity.

The fair value of financial instruments measured at amortised cost is identical to the carrying amount with the exception of bank loans and issued bonds where the market value is stated in note 6.1 'Interest-bearing debt'.

Categories of financial instruments, DKKm	2018	2017
Energy and currency derivatives	4,096	2,589
Securities	25,501	25,280
<b>Financial assets measured at fair value via the income statement</b>	<b>29,597</b>	<b>27,869</b>
Interest and inflation derivatives	90	-
Currency derivatives	1,282	2,281
<b>Derivatives (assets) used as hedging instruments</b>	<b>1,372</b>	<b>2,281</b>
Trade receivables	10,741	9,170
Other accounts receivable	8,896	8,812
<b>Financial assets measured at amortised cost</b>	<b>19,637</b>	<b>17,982</b>
Energy and currency derivatives	6,480	2,214
<b>Financial liabilities measured at fair value via the income statement</b>	<b>6,480</b>	<b>2,214</b>
Interest and inflation derivatives	103	-
Currency derivatives	1,511	2,160
<b>Derivatives (liabilities) used as hedging instruments</b>	<b>1,614</b>	<b>2,160</b>
Bank loans and issued bonds	27,296	29,636
Trade payables	13,082	11,499
Other accounts payable	3,207	2,767
<b>Financial liabilities measured at amortised cost</b>	<b>43,585</b>	<b>43,902</b>



The table shows our financial instruments divided into categories. The categories indicate how the financial instruments are recognised in the financial statement.

## 7.7 Fair value measurement

During 2018 we have entered into a number of power purchase agreements (PPAs) in the US accounted for at fair value. The duration of these PPAs are 13-15 year. Since power prices are only available in five to sixth years we have classified these agreements as based on non-observable input.

### Valuation principles and key assumptions

In order to minimise the use of subjective estimates or modifications of parameters and calculation models, it is our policy to determine fair values based on the external information that most accurately reflects the market values. We use pricing services and benchmark services to increase the data

quality. Market values are determined by the Treasury & Risk Management function, which reports to the CFO. The development in market values is monitored on a continuing basis and reported to the Group Executive Management.

### Deferred revenue from US power purchase agreements

The deferred revenue from US PPAs consist of losses not recognised at initial recognition since the market value is based on non-observable inputs. The US PPAs were taken over as part of the purchase of Lincoln Clean Energy in the US. The PPAs lock in the power price of the expected power generation over

a period of 13 to 15 years. These contracts are accounted for at fair value. Due to the long duration of these PPAs, power prices are not observable for a large part of the duration, whereby the estimated fair value is categorised as based on non-observable input.

The deferred revenue is recognised in profit or loss in the future period where the market value relate. In 2018, we have recognised an income of DKK 12 million related to the deferred fair value of PPAs not recognised in profit or loss at initial recognition. The total amount of deferred revenue as of 31 December 2018 amounts to DKK 1,183 million (2017: DKK 0 million).

### Significant non-observable inputs

Market values based on non-observable input comprise primarily long-term contracts on the purchase/sale of, in particular power and to a less extent gas, coal, USD, EUR. Since there are no active markets for the long-term prices of power and gas, the market values have been determined through an estimate of the future prices. Normally, the price can be observed for a maximum of four to sixth years in the power market, after which an active market no longer exists. When market prices are no longer available, the price is projected by extending the observable forward curve, only adjusted for the expected development in inflation.

Part of the purchase price of Deepwater Wind is a contingent consideration of DKK 657 million that we will pay upon Deepwater Wind successfully entering into two specific PPAs. The maximum payable consideration is DKK 657 million which we have also estimated to be the fair value, due to our strong expectation of successfully signing the agreements. In connection with the divestment of our Oil & Gas business, we will receive USD 100 million if the Rosebank field is developed. This payment is recognised at market value under other receivables.

Fair value hierarchy DKKm	Assets			Liabilities	
	Securities	Derivatives	Other receivables	Derivatives	Other payables
<b>2018</b>					
Quoted prices	-	3	-	9	-
Observable input	25,501	5,206	-	7,179	-
Non-observable input	-	259	109	906	657
<b>Total 2018</b>	<b>25,501</b>	<b>5,468</b>	<b>109</b>	<b>8,094</b>	<b>657</b>
<b>2017</b>					
Quoted prices	22,490	444	-	667	-
Observable input	2,790	3,478	-	2,602	-
Non-observable input	-	948	105	1,105	-
<b>Total 2017</b>	<b>25,280</b>	<b>4,870</b>	<b>105</b>	<b>4,374</b>	<b>-</b>

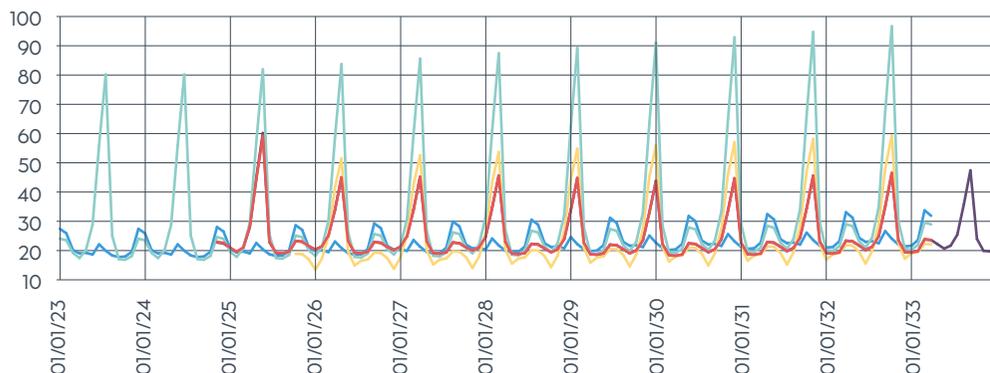
Derivatives valued on the basis of non-observable input, DKKm		2018
Market value at 1 January		(157)
Value adjustments through profit or loss		61
Sales/redemptions		580
Purchases/issues		(1,814)
Additions due to acquisitions of enterprises		(1,184)
Transferred from quoted prices and observable input		(344)
Transferred to quoted prices and observable input		400
<b>Market value at 31 December before deferred gain/loss</b>		<b>(2,458)</b>
Deferred loss at initial recognition		1,811
<b>Market value at 31 December</b>		<b>(647)</b>
		2017
Market value at 1 January		(157)
Net changes in market value		-
<b>Market value at 31 December</b>		<b>(157)</b>



The table shows the movements during the year in the total market value (assets and liabilities) of derivatives valued on the basis of non-observable inputs.

Non-observable inputs, US power prices

● SPP North RT ● Ercot North RT ● Ercot West DA ● Ercot West RT ● Ercot North DA



Non-observable inputs per commodity price input, DKKm		
	2018	2017
US power prices	(2,533)	-
Other power prices	(52)	(157)
Gas prices	127	-
<b>Total</b>	<b>(2,458)</b>	<b>(157)</b>



US power prices are the most significant non-observable input. The non-observable US power prices used as basis for the market values as of 31 December 2018 are illustrated in the graph below.

Sensitivity of non-observable inputs, DKKm

Non-observable inputs	Market value	Sensitivity	
		+10%	-10%
ERCOT North real time, 2024-2033	(194)	(105)	105
ERCOT North day ahead, 2024-2033	(388)	(275)	275
ERCOT West day ahead, 2023-2033	(90)	(33)	33
ERCOT West real time, 2025-2033	(132)	(34)	34
SPP North real time, 2023-2033	(288)	(68)	68
<b>Total</b>	<b>(1,092)</b>	<b>(515)</b>	<b>515</b>



The table shows the market value related to the non-observable input for the stated period and sensitivity per power price index. The sensitivity illustrates the impact on the market value as of 31 December 2018 if the non-observable price increases/decreases by 10%. The most critical non-observable input is US power prices in the period 2023-2033. If power prices as of 31 December 2018 increased/decreased by 10%, the market value would decrease/increase by DKK 515 million. The sensitivity analysis is presented on the different US power price areas in the table above.

Accounting policies

Market values based on quoted prices comprise quoted securities and derivatives that are traded in active markets. The market value of derivatives traded in an active market are often settled on a daily basis, thereby minimising the market value presented on the balance sheet.

Market values based on observable inputs comprise derivatives where valuation models with observable inputs are used to measure fair value.

All assets and liabilities measured at market value are measured on a recurring basis.

In business combinations, gain (loss) at initial recognition on derivatives whose values are based on non-observable inputs are deferred and recognised in the period to which the value relate.



The graph shows the US power prices in the period where prices are not observable, and which we have used as basis for calculating market value as of 31 December 2018.

# 8. Other notes

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# 8.1 Related-party transactions

Related parties that have control over the Group comprise the Danish State, represented by the Danish Ministry of Finance.

Related parties with a significant influence included Goldman Sachs until 2 March 2017, when Martin Hintze from Goldman Sachs stepped down from the Ørsted A/S Board of Directors.

Other related parties are the Group's associates and joint ventures, members of the Board of Directors and the Executive Board as well as other senior executives.

See note 8.5 'Company overview' for an overview of our joint ventures and associates.

Related-party transactions are made on arm's length terms. Intra-group transactions have been eliminated in the consolidated financial statements.

The remuneration and share programme for Group Executive Management and the Board of Directors are described in notes 2.6 'Employee costs' and 2.7 'Share-based payment'.

Through a directly owned company, Peter Korsholm, board member, has had ordinary transactions with Danish Oil Pipe A/S, a wholly owned subsidiary in the Ørsted Group.

We use the exemption set out in IAS 24.25 concerning entities in which the Danish State is a related party, and transactions with government-related companies are therefore not disclosed.

Transactions with owners consist solely of transactions with Goldman Sachs until 2 March 2017.

There were no other related-party transactions during the period.

<b>Joint ventures, DKKm</b>	2018	2017
Capital transactions, net	129	91
Sale of goods and services	16	-
Purchase of goods and services	(9)	(23)

<b>Associates, DKKm</b>	2018	2017
Dividends received and capital reductions	15	14
Capital transactions, net	(20)	-
Sale of goods and services	-	7
Purchase of goods and services	(169)	(20)
Interest, net	3	1
Receivables	60	48

<b>Owners, DKKm</b>	2018	2017
Sale of goods and services	-	58

<b>Board of Directors, DKKm</b>	2018	2017
Purchase of goods and services	(139)	(110)
Payables	-	11

## 8.2 Operating lease obligations

Our total operating lease obligations decreased by DKK 1,300 million relative to last year. The decrease in the obligations is primarily due to the farm-down of the Hornsea 1 and run-off of existing leases. The acquisition of Lincoln Clean Energy (Onshore) and Deepwater Wind (Offshore) added DKK 635 million to the obligations (per 31 December 2018), which partly off-sets the first mentioned effects on the operating lease obligations.

Offshore's assets held under operating leases mainly comprise seabeds relating to the offshore wind farms in the UK and service vessels.

Onshore's leases comprise plots of land relating to onshore wind farms.

Customer Solutions mainly lease gas storage facilities in Germany.

Leased assets recognised under 'Other activities' mainly comprise our two office premises in Gentofte and London. The premises are used by employees in most of our segments.

Seabed leases include variable lease payments which depend on the number of megawatt hours generated. However, we have typically agreed on minimum lease payments for the seabeds.

Lease payments recognised in profit (loss) for the year amounted to DKK 778 million (2017: DKK 885 million).

For the purpose of calculating the FFO/adjusted interest-bearing net debt credit metric, the present value and interest expenses of the lease obligations are calculated. The results and the discount rate are shown in the table with supplementary information for operating lease obligations.

We reduced the discount rate in 2017 due to the continued low interest rate environment.

### Accounting policies

We recognise operating lease payments in profit (loss) for the year over the term of the lease on a straight-line basis. When using assets held under operating leases in respect of construction of offshore wind farms or other assets, we recognise lease payments in the cost of the asset in step with the construction of the asset.

We will implement the new lease accounting rules in IFRS 16 'Leases' on 1 January 2019. See note 1.4 'Implementation of new or changed accounting standards and interpretations'.

Operating lease obligations by segment 2018, DKKm					Other activities	Total
	Offshore	Onshore	Bioenergy	Customer Solutions		
0-1 year	737	15	9	159	198	1,118
1-3 years	584	31	13	159	409	1,196
3-5 years	363	31	14	161	399	968
5-10 years	731	75	36	20	1,007	1,869
10-15 years	726	79	39	0	280	1,124
After 15 years	748	284	62	0	38	1,132
<b>Total</b>	<b>3,889</b>	<b>515</b>	<b>173</b>	<b>499</b>	<b>2,331</b>	<b>7,407</b>
<b>Present value</b>	<b>2,336</b>	<b>308</b>	<b>112</b>	<b>310</b>	<b>1,753</b>	<b>4,819</b>

Operating lease obligations by segment 2017, DKKm						
	Offshore	Onshore	Bioenergy	Customer Solutions	Other activities	Total
0-1 year	462	-	11	145	171	789
1-3 years	1,148	-	16	238	404	1,806
3-5 years	433	-	13	159	403	1,008
5-10 years	1,032	-	35	101	1,024	2,192
10-15 years	1,022	-	38	0	454	1,514
After 15 years	1,276	-	71	0	51	1,398
<b>Total</b>	<b>5,373</b>	<b>-</b>	<b>184</b>	<b>643</b>	<b>2,507</b>	<b>8,707</b>
<b>Present value</b>	<b>3,638</b>	<b>-</b>	<b>117</b>	<b>453</b>	<b>1,887</b>	<b>6,095</b>

### Supplementary information to operating lease obligations, continuing operations, DKKm

	2018	2017
Present value of lease payments	4,819	6,095
Lease payments recognised in profit (loss) for the year	778	885
Calculated interest expenses on lease obligations	196	234
Discount rate applied	3.5%	3.5%



The present value is calculated by discounting the individual obligations each year using our internal discount rate of 3.5% (2017: 3.5%).

## 8.3 Auditor's fees

PwC is Ørsted's auditor appointed by the annual general meeting. PwC audits the consolidated financial statements of Ørsted and our subsidiaries' financial statements in all the countries where we are represented.

It is our policy that the annual fee for non-audit services provided by our statutory auditor cannot exceed the annual fee for statutory audit services measured at Group level. The cap may be exceeded subject to approval by the Audit and Risk Committee.

Other assurance engagements primarily included reviews of ESG data and reviews of regulatory financial statements.

Tax and VAT advice primarily included advice in connection with the divestment of assets and enterprises and advice in connection with the preparation of tax returns and the calculation of the income subject to Danish joint taxation.

Other services include other consultancy services from PwC, including advice in connection with due diligence and the divestment of assets and enterprises.

Fees for services other than statutory audit supplied by PwC Denmark to Ørsted amounted to DKK 9 million (2017: DKK 8 million) and consisted of accounting and tax advice in connection with both acquisition and divestment of assets and enterprises, review of ESG data and other general accounting and tax advice.

Auditor's fees, DKKm	2018	2017
<b>Audit and audit-related fees</b>		
Statutory audit	11	11
Other assurance engagements	2	2
<b>Non-audit services</b>		
Tax and VAT advice	3	4
Other services	7	7
<b>Total fees to PwC</b>	<b>23</b>	<b>24</b>
<b>Fee for non-audit services in percent of statutory audit fee</b>	<b>94%</b>	<b>100%</b>



In 2017, PwC provided advisory services totalling DKK 1.8 million concerning acquisition and divestment activities, which are not included in our limit for the use of PwC for non-audit services.

## 8.4 Contractual obligations

At 31 December 2018, contractual obligations in Offshore mainly related to offshore wind turbines, foundations and cables, etc., for the construction of offshore wind farms. The obligations in Onshore mainly related to purchases of onshore wind

turbines. In Bioenergy, the obligations mainly related to the biomass conversion of Asnæs Power Station, while the obligations of Customer Solutions related to the roll-out of smart meters.

Contractual obligations by segment, DKKm					Total
	Offshore	Onshore	Bioenergy	Customer Solutions	
0-1 year	13,258	1,957	417	546	16,178
1-5 years	5,555	854	18	-	6,427
<b>2018</b>	<b>18,813</b>	<b>2,811</b>	<b>435</b>	<b>546</b>	<b>22,605</b>
<b>2017</b>	<b>31,485</b>	<b>-</b>	<b>890</b>	<b>1,121</b>	<b>33,496</b>



Overview of concluded contracts where delivery had not taken place at 31 December 2018.

## 8.5 Company overview

Segment/company/registered office	Type <sup>1</sup>	Ownership interest
<b>Parent company</b>		
Ørsted A/S, Fredericia, Denmark	-	-
<b>Offshore</b>		
Anholt Havvindmøllepark I/S <sup>2,3</sup> , Fredericia, Denmark	JO	50%
Barrow Offshore Wind Limited, London, UK	S	100%
Bay State HoldCo LLC., Delaware, USA	JO	50%
Bay State Wind LLC <sup>2</sup> , Delaware, USA	JO	50%
Boreas B.V., Gravenhage, Netherlands	S	100%
Borkum Riffgrund I Holding A/S, Fredericia, Denmark	S	100%
Borkum Riffgrund I Offshore Windpark A/S GmbH & Co. oHG, Norden, Germany	S	50%
Borkum Riffgrund 2 Holding GmbH, Hamburg, Germany	S	100%
Borkum Riffgrund 2 Offshore Wind Farm GmbH & Co. oHG, Norden, Germany	JO	50%
Borssele Wind Farm C.V., Gravenhage, Netherlands	S	100%
Breesea Limited, London, UK	S	100%
BSW Holdco LLC, Delaware, USA	JO	50%
BSW Projectco LLC <sup>2</sup> , Delaware, USA	JO	50%
Burbo Extension Holding Ltd, London, UK	JO	50%
Burbo Extension Ltd <sup>2</sup> , London, UK	S	50%
Celtic Array Limited, Berkshire, UK	JV	50%
Cerulea Limited, London, UK	S	100%
CT Offshore A/S under frivillig likvidation, Fredericia, Denmark	S	100%
Cygnus Wind Transmission Limited, London, UK	S	100%
CH-SP Series 7-05 (C), LLC, Delaware, USA	S	100%
CH-SP Series 13-05 (C), LLC, Delaware, USA	S	100%
CH-SP Series 15-01 (C), LLC, Delaware, USA	S	100%
CH-SP Series 17-01 (C), LLC, Delaware, USA	S	100%
Deepwater Wind, LLC, Delaware, USA	S	100%
Deepwater Wind Block Island Transmission, LLC, Delaware, USA	S	100%

Segment/company/registered office	Type <sup>1</sup>	Ownership interest
Deepwater Wind Block Island, LLC, Delaware, USA	S	100%
Deepwater Wind Block Island Holdings, LLC <sup>2</sup> , Delaware, USA	S	100%
Deepwater Wind Hudson Canyon, LLC, Delaware, USA	S	100%
Deepwater Wind New England, LLC, Delaware, USA	S	100%
Deepwater Wind New Jersey, LLC, Delaware, USA	S	100%
Deepwater Wind New York, LLC, Delaware, USA	S	100%
Deepwater Wind Operating, LLC, Delaware, USA	S	100%
Deepwater Wind Rhode Island, LLC (taxed as corporation), Delaware, USA	S	100%
Deepwater Wind South Fork, LLC, Delaware, USA	S	100%
DWBI Class B member, LLC, Delaware, USA	S	100%
DWW MARI Holdings, LLC, Delaware, USA	S	100%
DWW Rev 1, LLC, Delaware, USA	S	100%
Euros B.V., Gravenhage, Netherlands	S	100%
Formosa I International Investment Co., Limited, Taipei City, Taiwan	JV	35%
Formosa I Wind Power Co <sup>2</sup> , Ltd, Taipei City, Taiwan	JV	35%
Garden State Offshore Energy, LLC, Delaware, USA	JV	50%
Gode Wind 03 GmbH, Hamburg, Germany	S	100%
Gode Wind 04 GmbH, Hamburg, Germany	S	100%
Gode Wind 1 Offshore Wind Farm GmbH & Co. oHG, Norden, Germany	JO	50%
Gode Wind 2 Offshore Wind Farm P/S GmbH & Co. oHG, Norden, Germany	JO	50%
Gunfleet Sands Holding Ltd., London, UK	S	50%
Gunfleet Sands II Limited <sup>2</sup> , London, UK	S	50%
Gunfleet Sands Limited <sup>2</sup> , London, UK	S	50%
GSOE I, LLC, Delaware, USA	JV	50%
Horns Rev I Offshore Wind Farm, Fredericia, Denmark	JO	40%
Hornsea 1 Holdings Limited, London, UK	JO	50%
Hornsea 1 Limited <sup>2</sup> , London, UK	JO	50%
Lincs Renewable Energy Holdings Limited, London, UK	JO	50%

Segment/company/registered office	Type <sup>1</sup>	Ownership interest	Segment/company/registered office	Type <sup>1</sup>	Ownership interest
Lincs Wind Farm (Holding) Limited, London, UK	JO	25%	Orsted London Array II Limited, London, UK	S	100%
Lincs Wind Farm Limited <sup>2</sup> , Aberdeen, UK	JO	25%	Orsted London Array Limited, London, UK	S	100%
London Array Limited, Kent, UK	JO	25%	Orsted North America Inc., Delaware, USA	S	100%
Morecambe Wind Limited, London, UK	JO	50%	Orsted Power (Gunfleet Sands) Ltd, London, UK	S	100%
Njord Limited <sup>2</sup> , London, UK	S	50%	Orsted Power (Participation) Ltd, London, UK	S	100%
Northeast Wind Energy LLC, Delaware, USA	S	50%	Orsted Power (UK) Limited, London, UK	S	100%
Northern Energy OWP West GmbH, Hamburg, Germany	S	100%	Orsted Race Bank (Holding) Ltd., London, UK	S	100%
Notos B.V., Gravenhage, Netherlands	S	100%	Orsted Shell Flats (UK) Limited, London, UK	S	100%
Nysted Havmøllepark I, Fredericia, Denmark	JO	43%	Orsted Speicher R GmbH, Hamburg, Germany	S	100%
Nysted I A/S, Fredericia, Denmark	S	86%	Orsted Taiwan Ltd., Taipei City, Taiwan	S	100%
Nördlicher Grund GmbH, Hamburg, Germany	S	100%	Orsted UK III Limited, London, UK	S	100%
Ocean Wind LLC, Delaware, USA	S	100%	Orsted US East Coast Offshore Wind Holdco, LLC, Delaware, USA	S	100%
OFTRAC Limited, London, UK	S	100%	Orsted US East Coast Offshore Wind, LLC, Delaware, USA	S	100%
Optimus Wind Limited, London, UK	S	100%	Orsted Walney Extension Holdings Limited, London, UK	S	100%
Optimus Wind Transmission Limited, London, UK	S	100%	Orsted West of Duddon Sands (UK) Limited, London, UK	S	100%
Orsted Borkum Riffgrund I GmbH, Hamburg, Germany	S	100%	Orsted Westermost Rough Limited, London, UK	S	100%
Orsted Borkum Riffgrund I HoldCo GmbH, Hamburg, Germany	S	100%	Orsted Wind Power A/S (branch)	S	100%
Orsted Borkum Riffgrund West I GmbH, Hamburg, Germany	S	100%	Orsted Wind Power Germany GmbH, Hamburg, Germany	S	100%
Orsted Borkum Riffgrund West II GmbH, Hamburg, Germany	S	100%	Orsted Wind Power Netherlands B.V., 's-Gravenhage, Netherlands	S	100%
Orsted Borssele 1 B.V., 's-Gravenhage, Netherlands	S	100%	Orsted Wind Power Netherlands Holding B.V., 's-Gravenhage, Netherlands	S	100%
Orsted Borssele Holding B.V., 's-Gravenhage, Netherlands	S	100%	Orsted Wind Power North America LLC, USA, Delaware, USA	S	100%
Orsted Burbo (UK) Limited, London, UK	S	100%	Preparatory Office of Greater Changhua Offshore Wind Farm NE Ltd., Changhua County, Taiwan	S	100%
Orsted Burbo Extension Holding Ltd, London, UK	S	100%	Preparatory Office of Greater Changhua Offshore Wind Farm NW Ltd., Changhua County, Taiwan	S	100%
Orsted Gode Wind 1 Holding GmbH, Hamburg, Germany	S	100%	Preparatory Office of Greater Changhua Offshore Wind Farm SE Ltd., Changhua County, Taiwan	S	100%
Orsted Gode Wind 2 GmbH, Hamburg, Germany	S	100%	Preparatory Office of Greater Changhua Offshore Wind Farm SW Ltd., Changhua County, Taiwan	S	100%
Orsted Gunfleet Sands Demo Ltd, London, UK	S	100%	Race Bank Wind Farm (Holding) Limited, London, UK	JO	50%
Orsted Hornsea 1 Holdings Limited	S	100%	Race Bank Wind Farm Limited <sup>2</sup> , London, UK	JO	50%
Orsted Hornsea Project Four Limited, London, UK	S	100%	Rhiannon Wind Farm Limited <sup>2</sup> , Windsor, UK	JV	50%
Orsted Hornsea Project Three (UK) Limited, London, UK	S	100%	Scarweather Sands Limited, Coventry, UK	JV	50%
Orsted InvestCo Limited, Taipei City, Taiwan	S	100%			
Orsted Isle of Man (UK) Limited, Isle of Man	S	100%			
Orsted Lincs (UK) Ltd., London, UK	S	100%			

Segment/company/registered office	Type <sup>1</sup>	Ownership interest	Segment/company/registered office	Type <sup>1</sup>	Ownership interest
Skipjack Offshore Energy, LLC, Delaware, USA	S	100%	Dermott Wind, LLC <sup>2</sup> , Delaware, USA	S	100%
SMart Wind Limited, London, UK	S	100%	Emerick Wind, LLC, Delaware, USA	S	100%
SMRT Line, LLC, Delaware, USA	S	100%	Helena Wnd, LLC, Delaware, USA	S	100%
Sonningmay Wind Limited, London, UK	S	100%	LCE Asset Management Services, LLC, Delaware, USA	S	100%
Soundmark Wind Limited, London, UK	S	100%	LCE Dermott Holdings, Inc., Delaware, USA	S	100%
UMBO GmbH, Hamburg, Germany	JV	90%	LCE Services, LLC, Delaware, USA	S	100%
VI Aura Limited <sup>2</sup> , London, UK	JO	50%	LCE Turbine Holdings, Inc., Delaware, USA	S	100%
VI Aura Transmission Limited, London, UK	S	100%	LCE Wind Turbine Company, LLC, Delaware, USA	S	100%
Walney (UK) Offshore Windfarms Limited, London, UK	S	50%	LCE WS Holdings, Inc., Delaware, USA	S	100%
Walney Extension Holdings Limited, London, UK	JO	50%	Lincoln Clean Energy Development, LLC, Delaware, USA	S	100%
Walney Extension Limited <sup>2</sup> , London, UK	JO	50%	Lincoln Clean Energy, LLC, Delaware, USA	S	100%
West of Duddon Sands, London, UK	JO	50%	Lockett Windfarm Class B Member, LLC, Delaware, USA	S	100%
Westermost Rough (Holding) Limited, London, UK	JO	50%	Lockett Windfarm Project Holdings, LLC, Delaware, USA	S	100%
Westermost Rough Limited <sup>2</sup> , London, UK	JO	50%	Lockett Windfarm, LLC, Delaware, USA	S	100%
Zephyrus B.V. Gravenhage, Netherlands	S	100%	Napoleon Wind, LLC, Delaware, USA	S	100%
Ørsted - Anholt Offshore A/S, Fredericia, Denmark	S	100%	NJ Oak Solar Finco, LLC, Delaware, USA	S	100%
Ørsted Horns Rev 2 A/S, Fredericia, Denmark	S	100%	NJ Oak Solar Holdco, LLC, Delaware, USA	S	100%
Ørsted Horns Rev I A/S, Fredericia, Denmark	S	100%	NJ Oak Solar, LLC, Delaware, USA	S	100%
Ørsted Nearshore Wind ApS, Fredericia, Denmark	S	100%	Pactolus Solar, LLC, Delaware, USA	S	100%
Ørsted VE A/S, Fredericia, Denmark	S	100%	Orsted Renewables N.A. LLC, Delaware, USA	S	100%
Ørsted Vind A/S, Fredericia, Denmark	S	100%	Plum Creek Wind, LLC, Delaware, USA	S	100%
Ørsted Wind Power A/S, Fredericia, Denmark	S	100%	Rockwood Energy Center, LLC, Delaware, USA	S	100%
Ørsted Wind Power A/S, Taiwan Branch	S	100%	Sage Draw Wind, LLC, Delaware, USA	S	100%
Ørsted Wind Power Denmark A/S, Fredericia, Denmark	S	100%	Shawnee Energy Center, LLC, Delaware, USA	S	100%
Ørsted Wind Power Holding A/S, Fredericia, Denmark	S	100%	SP Energy 1, LLC, Delaware, USA	S	100%
Ørsted Wind Power TW Holding A/S, Fredericia, Denmark	S	100%	SP Energy DM, LLC, Delaware, USA	S	100%
<b>Onshore</b>			SP Energy ET, LLC, Delaware, USA	S	100%
2w Permian Solar, LLC, Delaware, USA	S	100%	SP Energy GL, LLC, Delaware, USA	S	100%
Antelope Flats Wind, LLC, Delaware, USA	S	100%	SP Energy PV, LLC, Delaware, USA	S	100%
Badger Wind, LLC, Delaware, USA	S	100%	SP Energy TL, LLC, Delaware, USA	S	100%
Dermott Wind Class B Holdco, LLC, Delaware, USA	S	100%	St Lawrence Solar, LLC, Delaware, USA	S	100%
Dermott Wind Class B Member, LLC, Delaware, USA	S	100%	Staked plains Energy, LLC, Delaware, USA	S	100%

Segment/company/registered office	Type <sup>1</sup>	Ownership interest	Segment/company/registered office	Type <sup>1</sup>	Ownership interest
Tahoka Wind Class B Holdco, LLC, Delaware, USA	S	100%	Stignsnaes Vandindvinding I/S, Slagelse, Denmark	NC	64%
Tahoka Wind Class B Member, LLC, Delaware, USA	S	100%	Vejen Kraftvarmeværk A/S in voluntary liquidation, Fredericia, Denmark	S	100%
Tahoka Wind Project Holdings, LLC <sup>5</sup> , Delaware, USA	S	100%	Wilson Battery Storage LLC, Delaware, USA	S	100%
Tahoka Wind, LLC, Delaware, USA	S	100%	Ørsted Bioenergy & Thermal Power A/S <sup>4</sup> , Fredericia, Denmark	S	100%
Western Trail Wind, LLC, Delaware, USA	S	100%	Ørsted Energy Storage Solution Holding A/S, Fredericia, Denmark	S	100%
Willow Springs Class B Holdco, LLC, Delaware, USA	S	100%	Ørsted GWS Avedøre Biogas A/S, Fredericia, Denmark	S	100%
Willow Springs Class B Member, LLC, Delaware, USA	S	100%	Ørsted New Bio Solutions China A/S, Fredericia, Denmark	S	100%
Willow Springs Project Holdings, LLC <sup>5</sup> , Delaware, USA	S	100%	Ørsted New Bio Solutions Holding A/S, Fredericia, Denmark	S	100%
Willow Springs Windfarm, LLC, Delaware, USA	S	100%			
<b>Bioenergy</b>			<b>Customer Solutions</b>		
Cure Rescience B.V., 's-Gravenhage, Netherlands	JV	50%	Danish Offshore Gas Systems A/S, Fredericia, Denmark	S	100%
DE Thermal Power Nr. 1 A/S in voluntary liquidation, Fredericia, Denmark	S	100%	Danish Oil Pipe A/S, Fredericia, Denmark	S	100%
DONG Energy New Bio Solutions Co. Ltd., China	S	100%	Etzel-Kavernenbetriebsgesellschaft mbH & Co. KG, Bremen, Germany	A	33%
Emineral A/S, Fredericia, Denmark	JO	50%	Etzel-Kavernenbetriebs-Verwaltungsgesellschaft mbH, Bremen, Germany	A	33%
Haderslev Kraftvarmeværk A/S in voluntary liquidation, Fredericia, Denmark	S	100%	Obviux A/S, Fredericia, Denmark	S	100%
Inbicon A/S, Fredericia, Denmark	S	100%	Orsted AB, Malmö, Sweden	S	100%
Kalundborg Bioenergi A/S, Skanderborg, Denmark	JV	40%	Orsted Energy Solutions (UK) Limited, London, UK	S	100%
Konsortiet for etablering af Maabjerg Energy Concept <sup>2</sup> , Holstebro, Denmark	NC	50%	Orsted Infrastructure GmbH <sup>3</sup> , Hamburg, Germany	S	100%
Maabjerg Energy Concept A/S, Fredericia, Denmark	S	70%	Orsted Leitung E GmbH, Hamburg, Germany	S	100%
Orsted Bioenergy & Thermal Power A/S (UK branch)	S	100%	Orsted Markets GmbH, Hamburg, Germany	S	100%
Orsted Energy Storage & Solar N.A. LLC, Delaware, USA	S	100%	Orsted Power Sales (UK) Limited, London, UK	S	100%
Orsted ESS Mersey Limited, London, UK	S	100%	Orsted S&D (UK) Limited, London, UK	S	100%
Orsted Holding Ludwigsau I GmbH, Hamburg, Germany	S	100%	Orsted Sales (UK) Limited, London, UK	S	100%
Orsted Kraftwerke Holding GmbH, Hamburg, Germany	S	100%	Orsted Sales GmbH, Hamburg, Germany	S	100%
Orsted Netherlands B.V., 's-Gravenhage, Netherlands	S	100%	Orsted Salg & Service A/S (UK branch)	S	100%
Orsted Rescience Northwich Limited, London, UK	S	100%	Orsted Services B.V.'s, Gravenhage, Netherlands	S	100%
Orsted Rescience Northwich O&M Limited, London, UK	S	100%	Orsted Speicher E GmbH, Hamburg, Germany	S	100%
Orsted SP (UK) Limited, London, UK	S	100%	Radius Elnet A/S, Fredericia, Denmark	S	100%
Orsted SP Holding (UK) Limited, London, UK	S	100%	Valified ApS, Copenhagen, Denmark	A	31%
Pyroneer A/S, Fredericia, Denmark	S	100%	Ørsted Pipelines A/S, Fredericia, Denmark	S	100%
Rescience A/S, Fredericia, Denmark	S	100%	Ørsted Real Estate A/S, Fredericia, Denmark	S	100%
Severn Power Funding Limited., London, UK	S	100%	Ørsted Sales & Distribution A/S, Fredericia, Denmark	S	100%
			Ørsted Salg & Service A/S, Fredericia, Denmark	S	100%

Segment/company/registered office	Type <sup>1</sup>	Ownership interest
<b>Other</b>		
EM EL Holding A/S, Fredericia, Denmark	S	100%
EnergiGruppen Jylland EL A/S, Fredericia, Denmark	S	100%
EnergiGruppen Jylland EL Holding A/S, Fredericia, Denmark	S	100%
Lithium Balance A/S, Egedal, Denmark	A	15%
Ørsted (UK) Limited., London, UK	S	100%
Ørsted Holdings N.A. Inc, Delaware, USA	S	100%
Ørsted Services Malaysia Sdn. Bhd., Kuala Lumpur, Malaysia	S	100%
Ørsted Venture N.A. LLC, Delaware, USA	S	100%
Ørsted Polska Sp. z o. o., Warszawa, Poland	S	100%
Ørsted EGJ A/S, Fredericia, Denmark	S	100%
Ørsted EL A/S <sup>2</sup> , Fredericia, Denmark	S	100%
Ørsted Insurance A/S <sup>2</sup> , Fredericia, Denmark	S	100%
Ørsted North America Holding A/S, Fredericia, Denmark	S	100%
Ørsted nr. 1 2008 A/S <sup>3 4</sup> , Fredericia, Denmark	S	100%
Ørsted Nr. 1 2014 A/S <sup>3 4</sup> , Fredericia, Denmark	S	100%
Ørsted Nr. 2 2014 A/S <sup>3 4</sup> , Fredericia, Denmark	S	100%
Ørsted Nr. 3 2014 A/S <sup>3 4</sup> , Fredericia, Denmark	S	100%
Ørsted Nr. 4 2014 A/S <sup>3 4</sup> , Fredericia, Denmark	S	100%
Ørsted Services A/S <sup>4</sup> , Fredericia, Denmark	S	100%



<sup>1</sup> S = subsidiary  
 A = associate  
 JO = joint operation  
 JV = joint venture  
 NC = non-consolidated entity

<sup>2</sup> The company is owned through a company which is not owned 100% by Ørsted. The disclosed ownership interest is Ørsted's ultimate ownership interest in the company.

<sup>3</sup> The company applies the provision in section 5 or section 6 of the Danish Financial Statements Act to omit presenting a separate annual report.

<sup>4</sup> Subsidiaries owned directly by Ørsted A/S.

<sup>5</sup> One or more tax equity partners own an insignificant share of the company. See note 4.5 'Tax equity liabilities'. The company is fully consolidated.



# Consolidated ESG statements (additional information)

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# Basis of reporting

## Consolidated environmental, social and governance (ESG) statements

In the consolidated ESG statements, we give an account of our results, objectives and accounting policies for the ESG data included in the management's review in this report.

Our full ESG data set can be seen in the independent publication '[ESG performance report 2018](#)'. The ESG performance report also includes additional information, such as selected ESG indicators by country and all ESG accounting policies, including a list of references for conversion factors used in calculations.

## Scope and consolidation

Unless otherwise stated, ESG data is reported on the basis of the same principles as the financial statements. Thus, the consolidated ESG statements include consolidated data from the parent company, Ørsted A/S, and subsidiaries controlled by Ørsted A/S. Data from associates and joint ventures are not included.

The consolidation of safety data deviates from the above described principles. Safety data is collected using an operational scope. This means that we, irrespective of our ownership share, include 100% of injuries and hours worked etc., from all operations where Ørsted is responsible for safety, including safety for external suppliers.

Data from acquisitions and divestments are included/excluded from the date of acquisition/divestment.

## Danish Financial Statements Act, sections 99a and 99b

Pursuant to section 99a of the Danish Financial Statements Act, Ørsted is obliged to account for the company's CSR activities and report on business strategies and activities with regard to human rights, labour rights, anti-corruption, the environment and the climate. By publishing our sustainability report ([orsted.com/sustainability2018](#)), Ørsted complies with section 99a of the Danish Financial Statements Act.

Ørsted's work for greater gender diversity at management level is reported in accordance with section 99b of the Danish Financial Statements Act. The reporting of gender diversity can be seen in our ESG performance report 2018.

## Business changes in 2018 affecting ESG data

Acquisition of:

- Lincoln Clean Energy (onshore wind power)
- Deepwater Wind (offshore wind power).

Divestment of:

- 50% of Hornsea 1 (offshore wind farm)
- Encogen (thermal power plant, fossil).

Commissioning of:

- Race Bank (offshore wind farm)
- Walney Extension (offshore wind farm)
- Borkum Riffgrund 2 (offshore wind farm)
- Tahoka (onshore wind farm).

## New ESG indicators in 2018

- Installed renewable capacity.
- Awarded and contracted capacity.
- Onshore wind generation indicators.
- Solar power generation.
- Avoided carbon emissions (was reported in the 2017 ESG performance report).
- Job creation from offshore wind.
- People powered from offshore wind.
- Additional Board of Directors and Group Executive Management information.

## Discontinued ESG indicators

- Wind energy content (replaced by wind speed).
- Employee loyalty (refer to the ESG performance report 2018).



Our full ESG data set can be seen in the ESG performance report 2018. ([orsted.com/ESGperformance2018](#))

# 8.3GW

Our installed renewable capacity increased by 44% from 2017 to 2018. We have a target of 30GW installed renewable capacity in 2030.

# 75%

The green share of our heat and power generation increased from 64% in 2017 to 75% in 2018. We have a target of 99% in 2025.

# 131g

Our greenhouse gas intensity was reduced by 13% to 131g CO<sub>2</sub>/kWh in 2018. Our target is to reach 10g CO<sub>2</sub>/kWh in 2025.

# 4.7

Total recordable injury rate (TRIR) has been reduced from 6.4 in 2017 to 4.7 in 2018. Our target is to reach 3.3 or below in 2025.

# Environment

Strategic target	Business driver	Indicator	Unit	Target	2018	2017
●		<b>Green share of heat and power generation</b>	%	<b>99 (2025)<sup>1</sup></b>	<b>75</b>	<b>64</b>
●		<b>Greenhouse gas intensity</b>	<b>g CO<sub>2</sub>e/kWh</b>	<b>≤ 10 (2025)<sup>2</sup></b>	<b>131</b>	<b>151</b>
●		<b>Installed renewable capacity</b>	<b>MW</b>	<b>30GW (2030)</b>	<b>8,303</b>	<b>5,763</b>
●		– Offshore wind	MW	15GW (2025)	5,602	3,875
	●	– Onshore wind	MW		803	-
	●	– Onshore, solar	MW		10	-
	●	– Thermal heat, biomass	MW		1,888	1,888
●		<b>Decided (FID) renewable capacity (not yet installed)</b>	<b>MW</b>		<b>3,665</b>	<b>5,178</b>
●		– Offshore wind	MW		3,356	5,053
●		– Onshore wind	MW		184	-
●		– Thermal heat, biomass	MW		125	125
●		<b>Awarded and contracted renewable capacity (no FID yet)</b>	<b>MW</b>		<b>4,796</b>	<b>590</b>
●		– Offshore wind	MW		3,916	590
●		– Onshore wind	MW		530	-
●		– Onshore, solar	MW		350	-
●		<b>Sum of installed and FID renewable capacity</b>	<b>MW</b>		<b>11,968</b>	<b>10,941</b>
●		<b>Sum of installed, FID, awarded and contracted renewable capacity</b>	<b>MW</b>		<b>16,764</b>	<b>11,531</b>

<sup>1</sup> additional target is >95% (2023)

<sup>2</sup> additional target is ≤ 100 (2020) and ≤ 20 (2023)

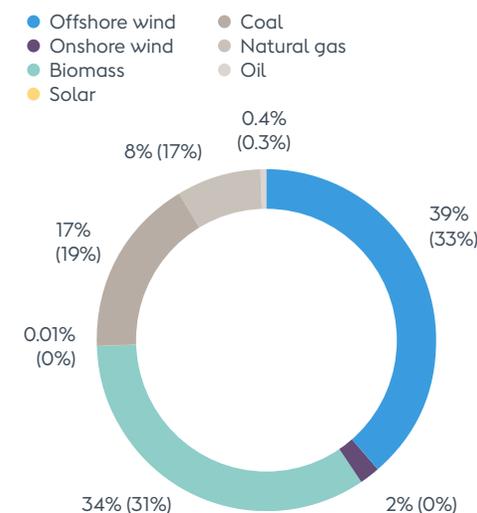
In 2018, we defined an ambition of installing more than 30GW of green capacity by 2030 across offshore wind, onshore wind, bioenergy and solar PV technologies. In addition, our ambition is to have installed 15GW of offshore wind capacity by 2025, up from our previous target of 11-12GW.

The installed renewable capacity increased by 44% in 2018 due to the new offshore wind farms Race Bank, Walney Extension and Borkum Riffgrund 2. In addition, we acquired a small offshore wind farm Block Island, two onshore wind farms Williw Springs and Amazon and commissioned Tahoka.



Our greenhouse gas intensity was reduced by 13% for the same reasons as for the renewable energy share (described to the right). We are well on track to meet our target of a greenhouse gas emission intensity of no more than 20g CO<sub>2</sub>e/ kWh in 2023 and 10g CO<sub>2</sub>e/ kWh in 2025.

**Total heat and power generation 2018 (2017) by energy source**



The green (renewable) share of our heat and power generation amounted to 75% in 2018, up 11 percentage points relative to 2017. The increase was due to higher generation from offshore wind farms, new onshore wind farms, a larger share of biomass-based generation as a result of the conversion of Skærbæk Power Station as well as lower use of gas following the divestment of the Enecogen power plant.

Our target is 99% green energy generation in 2025.

Strategic target	Business driver	Indicator	Unit	Target	2018	2017	
		<b>Generation, power and heat total</b>	<b>TWh</b>		<b>26.0</b>	<b>25.7</b>	
	●	Power generation	TWh		17.2	16.7	
	●	– Offshore wind	TWh		10.0	8.5	↶ Offshore generation capacity increased by 20% to 3.0GW in 2018 following commissioning of Race Bank, Walney Extension and Borkum Riffgrund 2 and acquisition of Deepwater Wind.
	●	– Onshore wind	TWh		0.5	-	The acquisition of Lincoln Clean Energy added 0.8GW onshore capacity in 2018.
	●	– Solar	TWh		0.003	-	
	●	– Thermal	TWh		6.7	8.2	The higher wind capacity contributed to a 24% increase in wind-based generation in 2018.
	●	Heat generation, thermal	TWh		8.8	9.0	
		<b>Offshore wind indicators</b>					
	●	Generation capacity	GW		3.0	2.5	Thermal power generation decreased by 18% in 2018, mainly due to the divestment of the Dutch power plant Enecogen. Power generation from Danish power plants increased by 4%, while thermal heat generation decreased by 2%.
	●	Wind speed	m/s		9.1	9.3	
	●	Load factor	%		42	44	
	●	Availability	%		93	93	The coal share of fuels increased in 2018 as we experienced a higher demand for power in periods where we were not generating heat. In these periods, fossil fuels are normally used. This was offset by a reduction in the use of natural gas and an increase in the use of biomass, resulting in an 11 percentage points higher biomass share of our thermal energy generation.
		<b>Onshore wind indicators</b>					
		Generation capacity	GW		0.8	-	
	●	Wind speed	m/s		7.3	-	
	●	Load factor	%		41	-	
	●	Availability	%		92	-	
		<b>Thermal heat and power generation indicators</b>					
		Power generation capacity	GW		2.8	3.4	The certified share of renewable woody biomass increased from 72% in 2017 to 83% in 2018. The suppliers are still in the process of introducing certifications in their production and supply chains, and only a few suppliers have certified their entire production. We expect the suppliers to continually increase their share of certification. Our target is to source all woody forest-based biomass as certified sustainable biomass by 2020.
		Heat generation capacity	GW		3.4	3.4	
	●	Degree days, Denmark	Number		2,526	2,705	
		Coal share of fuels	%	0 (2023)	38	30	
		Sourcing of certified biomass	%	100% (2020)	83	72	
		Biomass share of thermal heat and power generation	%		58	47	
		<b>Avoided carbon emissions</b>	<b>Million tonnes CO<sub>2</sub>e</b>		<b>8.1</b>	<b>6.7</b>	
		– Offshore wind	Million tonnes CO <sub>2</sub> e		6.3	5.3	Due to the increase in renewable energy generation, the amount of avoided carbon emissions increased by 21% from 2017 to 2018. In 2018, our renewable energy generation avoided 8.1 million tonnes carbon dioxide.
		– Onshore wind	Million tonnes CO <sub>2</sub> e		0.4	-	
		– Biomass-converted generation	Million tonnes CO <sub>2</sub> e		1.4	1.4	

# Social

Strategic target	Business driver	Indicator	Unit	Target	2018	2017
		<b>Employees</b>				
		Total number of employees at 31 December	Number of FTEs		6,080	5,638
		Average number of employees for the year	Number of FTEs		5,796	5,738
●		Employee satisfaction	Scale 0-100	≥ 77 (2020)	76	76
		<b>Safety</b>				
		Fatalities	Number	0	0	0
		LTIF (lost-time injury frequency)	Per million working hours		1.5	1.6
●		TRIR (total recordable injury rate)	Per million working hours	≤ 3.3 (2025)	4.7	6.4
		<b>Sales and distribution</b>				
	●	Gas sales	TWh		131.1	129.0
	●	Power sales	TWh		35.2	37.5
	●	Power distribution	TWh		8.4	8.4
		<b>Reliability of supply</b>				
		Reliability of supply (power cuts per customer, SAIFI)	Number		0.65	0.42
		<b>Customer satisfaction</b>				
●		Customer satisfaction, B2B	Scale 1-100	≥ 80 (2020)	75	77
●		Customer satisfaction, B2C in Denmark	Scale 1-100	≥ 80 (2020)	74	76
●		Customer satisfaction, distribution customers in Denmark	Scale 1-100	≥ 80 (2020)	81	82
		<b>Job year creation from offshore wind power value chain</b>				
		Total job years over asset lifespans (based on installed and FID capacity)	1,000 FTE years		179	179
		– Based on installed capacity	1,000 FTE years		112	78
		– Based on decided capacity (FID), not yet installed	1,000 FTE years		67	101
		<b>People powered from offshore wind farms</b>				
		Based on installed capacity	Million people		12.5	8.6



The number of employees increased by 8% from 2017 to 2018.

Employee satisfaction continued to be high. With an employee satisfaction score of 76 in this year's employee satisfaction survey, we are close to achieving our target of 77 in 2020.

Safety KPIs showed good progress again in 2018. Our total recordable injury rate (TRIR) declined from 6.4 in 2017 to 4.7 in 2018. We registered 98 total recordable injuries (TRIs), 61 of which involved employees working for our suppliers. LTIF decreased from 1.6 in 2017 to 1.5 in 2018. There were no fatal accidents in 2018. We have set a new ambitious target for TRIR of 3.3 or lower by 2025.

The increase in power cuts per customer (SAIFI) was a result of more interruptions from cable cuts from excavation activities and a higher fault rate on our high voltage grids.

In a lifecycle perspective, our and our partners' investments in deploying green offshore energy have created 179,000 job years.

Our 2025 target of 15GW offshore wind capacity corresponds to more than 30 million people powered. Our 2030 target of 30GW renewable energy corresponds to more than 50 million people powered.

# Governance

Strategic target	Business driver	Indicator	Unit	Target	2018	2017
		<b>Board of Directors, Ørsted A/S</b>				
		Independent board members	%		100	83
		<b>Gender diversity</b>				
		Members, female	Number		3	3
		Members, male	Number		5	3
		Gender with lowest representation	%		38	50
		<b>Nationality diversity</b>				
		Members, Danish	Number		5	5
		Members, non-Danish	Number		3	1
		<b>Group Executive Management</b>				
		<b>Gender diversity</b>				
		Members, female	Number		1	1
		Members, male	Number		6	4
		Gender with lowest representation	%		14	20
		<b>Nationality diversity</b>				
		Members, Danish	Number		4	3
		Members, non-Danish	Number		3	2
		<b>Good business conduct</b>				
		Substantiated whistleblower cases	Number		2	3
		– Cases transferred to the police	Number		1	0



The Board of Directors is responsible for the overall management of the company and appoints the Executive Board. The Board of Directors lays down the company's strategy and makes decisions concerning major investments and divestments, the capital base, key policies, controls and audit matters, risk management and significant operational issues.

Since climate change is fundamental to Ørsted's business strategy and all our investments, climate-related issues are directly or indirectly an agenda item at all board meetings. As such, climate-related issues are integrated in reviewing and guiding strategy, performance and in all aspects of decision-making.

The Board of Directors monitors progress against Ørsted's strategic goals and targets for addressing climate-related issues.

Our employees and other associates may report serious offences, such as cases of bribery, fraud and other criminal offences, through our whistleblower scheme or through our management system. In 2018, two substantiated cases of inappropriate or unlawful behavior were reported through our whistleblower scheme. One case concerned violation of procure-to-pay policies, and one case concerned misappropriation of assets. The cases had consequences for the individuals involved. None of the reported cases were critical to our business or impacted our financial results.

Whistleblower cases are taken very seriously, and we conducted an awareness campaign to avoid similar cases.

## Accounting policies – Environment

### Green share of heat and power generation

The green (renewable energy) share of our heat and power generation and the distribution of the generation on the individual energy sources and fuels are calculated on the basis of the energy sources used and the energy generated at the different energy plants.

Wind and solar-based generation is computed as the input from the individual plant (wind and solar), as there is only one source of power for each plant.

For CHP plants, the share of the specific fuel (e.g. biomass) is calculated relative to the total fuel consumption for a given plant/unit within a given time period. The specific fuel share is then multiplied with the total heat and power generation for the specific plant/unit in the specific period. The result is the fuel-based generation for the individual unit – for example the biomass-based generation of heat and power in the CHP plant unit within a given time period.

Energy generation based on fuel, wind and solar is added up to a total which tallies with total generation. The percentage share of the individual energy sources is calculated by dividing generation from individual energy source with the total generation.

The following energy sources and fuels are considered renewable energy: wind, solar and biomass. The following energy sources are considered fossil energy sources: coal, natural gas and oil.

### Greenhouse gas intensity

Greenhouse gas intensity is defined as the greenhouse gas emissions from the CHP plants divided by the total heat and power generation.

Greenhouse gases comprise greenhouse gas emissions in accordance with the GHG Protocol from the combustion of fuels in thermal heat and power generation. Greenhouse gases thus comprise carbon dioxide (CO<sub>2</sub>), nitrous oxide (N<sub>2</sub>O) and methane (CH<sub>4</sub>).

### Installed renewable energy capacity

The installed renewable energy capacity is calculated as the cumulative renewable gross capacity installed by Ørsted before divestments.

For installed renewable thermal capacity, we use the heat capacity, as heat is the primary thermal energy generation, and as bioconversions of the thermal power stations are driven by heat contracts.

### Decided (FID) capacity

Decided (FID) capacity is the renewable capacity for which a final investment decision (FID) has been made.

### Awarded and contracted renewable capacity

The awarded renewable capacity is based on the capacities which have been awarded to Ørsted in auctions and tenders. The contracted capacity is the capacity for which Ørsted has signed a contract or power purchase agreement (PPA) concerning a new renewable energy plant. Typically, offshore wind farms are awarded, whereas onshore wind farms are contracted. We include the full capacity if more than 50% of PPAs/offtake is secured.

### Generation

Power generation from wind is calculated as sold generation. The Gunfleet Sands and Walney 1 and 2 offshore wind farms have been consolidated according to ownership interest. The other wind farms are financially consolidated.

Thermal power generation is determined as net generation sold based on settlements from the official Danish production database. Data for generation from foreign facilities are provided by the operators.

Thermal heat (including steam) generation is measured as net output sold to heat customers.

### Heat and power generation capacity

Power generation capacity from wind farms is calculated and included from the time when the individual wind turbine has passed a 240-hour test.

The Gunfleet Sands and Walney 1 and 2 offshore wind farms have been consolidated according to ownership interest. Other wind farms and CHP plants are financially consolidated.

The thermal heat and power generation capacity is a measure of the maximum capability to generate heat and power. The capacity can change over time with plant modifications. For each power station, the

capacity is given for generation with the primary fuel mix. Overload is not included.

### Availability and load factor

The time-based availability factor (availability) is calculated as the ratio of the number of hours the wind farms are available for power generation to the total number of hours in a given period. Total availability is determined by weighting the individual wind farm's availability against the capacity of the offshore wind farm. Availability is commercially adjusted.

The load factor is calculated as the ratio between actual generation over a period relative to potential generation which is possible by continuously exploiting the maximum capacity over the same period. The load factor is commercially adjusted.

Commercially adjusted means that, for Danish and German offshore wind farms, availability and load factor, respectively, are adjusted if the offshore wind farm has been financially compensated by the transmission system operators in situations where the offshore wind farm is available for generation, but the output cannot be supplied to the grid due to maintenance or grid interruptions. Wind farms in other countries are not compensated for non-access to the grid. New wind turbines are included in the calculation of availability and load factor once they have passed a 240-hour test.

### Wind speed

Offshore wind speed shows the wind speeds of the areas for Ørsted's offshore wind farms. The wind speeds where the individual offshore wind farms are located are provided to Ørsted by an external supplier. Wind speeds are weighted on the basis of the capacity of the individual offshore wind farms and consolidated to an Ørsted total.

Onshore wind speed is based on wind speed measurements from anemometers on the wind turbines.

### Degree days

Degree days are a measure of how cold it has been and thus indicate the amount of energy needed to heat a building. The number of degree days helps to compare the heat demand for a given year with a

normal year. The number of degree days expresses the difference between an average indoor temperature of 17°C and the outside mean temperature for a given period. The need for heat increases with the number of degree days.

### Coal share of fuels used for thermal heat and power generation

The coal share is calculated as the coal consumption in GJ relative to the total fuel volume in GJ.

### Sourcing of certified biomass

Certified biomass is defined as forest-based woody biomass, i.e. wood pellets and wood chips. Biomass is measured as sourced woody biomass delivered to the individual combined heat and power plants within the reporting period.

Certified sustainable woody biomass sourced must be certified within at least one of the claim categories accepted by the Danish industry agreement on certified biomass. Accepted claim categories are: FSC 100%, FSC Mix, PEFC 100%, SBP compliant.

Certified biomass is calculated as the amount of sourced woody biomass compared to the total amount of sourced woody biomass delivered to individual power stations within the reporting period.

### Biomass share of thermal heat and power generation

This is calculated as the green share of heat and power generation, but is only shown for thermal generation, i.e. for the business unit Bioenergy.

### Avoided carbon emissions

The avoided carbon emissions due to generation from offshore and onshore wind farms are calculated assuming that the generation from wind farms replace an equal quantity of electricity generated using fossil fuels.

The avoided carbon emission due to conversion of combined heat and power plants and subsequent switch of fuel from fossil to biomass (i.e. biomass from dedicated plantations or biomass residues) is calculated from the energy content of the fuel used at power plants. It is assumed that the use of 1GJ of biomass fuel avoids the use of 1GJ of fossil fuels. The upstream emissions from biomass fuel production and transportation are included.

## Accounting policies – Social

### Employees

Our reporting covers contractually employed employees in all Ørsted companies in which Ørsted holds an ownership interest of more than 50%. Employees in associates are not included.

Employee data are recognised based on records from the Group's ordinary registration systems. The number of employees is determined as the number of employees at the end of each month converted to full-time equivalents (FTEs).

Employees who have been made redundant are recognised until the expiry of their notice period, regardless of whether they have been released from all or some of their duties during their notice period.

### Employee satisfaction

Ørsted conducts a comprehensive employee satisfaction survey once a year. All Ørsted employees with a few exceptions are invited to participate in the survey.

The following employees are not invited to participate: Employees who joined the company shortly before the employee satisfaction survey, employees who resigned shortly after the employee satisfaction survey, interns, consultants/advisers and external temporary workers who do not have an employment contract with Ørsted.

In the survey, a number of questions are asked. The answers are given on a scale from 1 to 10 and are subsequently converted to index figures on a scale from 0 to 100.

### Safety

Occupational injuries are calculated according to operational scope. Data from companies wholly or partly owned by Ørsted, and where Ørsted is responsible for safety, is included. Occupational injuries and lost-time injuries are calculated for both our own employees and suppliers. Data from all Ørsted locations is recognised.

The lost-time injury frequency (LTIF) is calculated as the number of lost-time injuries per one million hours worked. The number of hours worked is based on 1,667 working hours annually per full-time employee

and monthly records of the number of employees converted into full-time employees. For suppliers, the actual number of hours worked is recognised on the basis of data provided by the supplier, access control systems at locations or estimates.

LTIF includes lost-time injuries defined as injuries that result in incapacity to work for one or more calendar days in addition to the day of the incident.

In addition to lost-time injuries, TRIR also includes injuries where the injured person is able to perform restricted work the day after the accident as well as accidents where the injured person has received medical treatment.

Fatalities are the number of employees who lost their lives as a result of a work-related incident.

### Sales and distribution

Sales of power and natural gas are calculated as physical sales to retail and wholesale customers and exchanges. Sales of power and gas are based on readings from Ørsted's trading systems. Internal sales to Bioenergy are not included in the statement.

Power distribution is determined on the basis of data from the official system in Denmark, which measures and calculates total area consumption.

### Reliability of supply

System average interruption frequency index (SAIFI) covers the frequency of announced and unannounced power outages for the customer. SAIFI is calculated as the average number of power outages per customer per year. SAIFI is presented here without the transmission grids, as these grids are operated by Energinet and therefore do not lie within the responsibility of Radius.

### Customer satisfaction

Customer satisfaction for residential customers (B2C) in Denmark is measured according to interaction between the customer and Ørsted. The score is therefore not an expression of customers' overall satisfaction with Ørsted, but is rather related to a given situation. The score is calculated as a weighted score based on a number of different types of touch points. The current touch points are customer service for gas and power, outbound sales and web. An external supplier conducts interviews.

Customer satisfaction for business customers (B2B) is determined on the basis of customer satisfaction surveys among Ørsted's business customers in the countries where we have B2B customers. Customer satisfaction is determined on the basis of interviews about customers' satisfaction with Ørsted as a whole. The survey only comprises active customers with whom Ørsted has been in touch in connection with contracts for the supply of power or gas in the previous month. So-called sleeping customers are therefore not included in the statement. The method follows the ACSI model based on the European customer satisfaction index (EPSI) scale. External agencies conduct the interviews and report absolute and weighted results.

Customer satisfaction for distribution customers in Denmark is determined on the basis of different types of interactions with distribution customers: disruption of supply, replacement of meters as well as customer and market support. Customer satisfaction is measured as the customer's satisfaction in a specific context. Respondents are randomly selected, and the survey is carried out by an external supplier.

Customer satisfaction for residential and distribution customers thus relates to a specific situation, whereas customer satisfaction for business customers is an expression of the customer satisfaction with Ørsted as a whole. We have a number of very large business customers. In respect of these, it is important for us to assess the customer relationship in general and not just the experience of a specific situation.

### Job creation

The number of job years is calculated based on a factor for job years per MW installed from the International Renewable Energy Agency, IRENA. The job year creation factor is based on a 500MW offshore wind farm. The factor is not adjusted for other details, such as when the wind farm was constructed (wind turbine size and other parameters), wind farm size-specific parameters beyond a simple scaling of capacity size, geographical position (i.e. water depths and distance to shore).

The number of job years created relates only to the value chain from procurement and manufacturing, over installation, operation and maintenance, to decommissioning.

This means that job years related to for example mining and manufacturing of steel and concrete as well as local jobs, such as hotels and dining for people working on local sites, are not included. A lifetime of 25 years for all wind farms is used.

The number of job years relates to the installed capacity and not Ørsted's ownership share of the wind farm. The number of job years varies during the lifespan, and most of the jobs are created in the beginning during construction and installation.

### People powered

The number of people powered is calculated on the basis of capacity, a fixed industrial load factor for offshore wind farms and country-specific power consumption per person. The indicator is calculated based on the full capacities of the wind farms and not Ørsted's ownership share.

## Accounting policies – Governance

### Board of Directors of Ørsted A/S

The employee representatives on the Board of Directors are not included in the data for the Board of Directors.

### Substantiated whistleblower cases

Ørsted's whistleblower hotline is available for internal and external reporting of suspected cases of inappropriate or illegal behaviour. Whistleblower cases are received and handled by the Internal Audit function, which also receives similar reports through the management system and from compliance officers.

All reports are managed in accordance with the guidelines for the handling of whistleblower reports approved by the Audit and Risk Committee, which is ultimately responsible for the whistleblower scheme.

Only cases, which are closed during the financial year, and which have been reported to the Audit and Risk Committee as fully or partially substantiated, are reported in the ESG statement.

### Cases transferred to the police

Cases transferred to the police are defined as the number of cases reported in accordance with the above which are transferred to the police.

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# Income statement

1 January - 31 December

Note	Income statement, DKKm	2018	2017
	Revenue	198	232
2	Employee costs	(33)	(31)
	External expenses	(356)	(315)
	<b>Operating profit (loss) (EBIT)</b>	<b>(191)</b>	<b>(114)</b>
	Gain on divestment of enterprises	(10)	(4,210)
3	Financial income	10,014	13,667
3	Financial expenses	(6,732)	(10,486)
	<b>Profit (loss) before tax</b>	<b>3,081</b>	<b>(1,143)</b>
4	Tax on profit (loss) for the year	(69)	(76)
5	<b>Profit (loss) for the year</b>	<b>3,012</b>	<b>(1,219)</b>

# Balance sheet

31 December

Note	Assets, DKKm	2018	2017
6	Investments in subsidiaries	40,425	41,762
7	Receivables from subsidiaries	55,131	48,706
	Other receivables	1,082	1,325
	<b>Financial assets</b>	<b>96,638</b>	<b>91,793</b>
	<b>Non-current assets</b>	<b>96,638</b>	<b>91,793</b>
	Receivables from subsidiaries	32,933	15,664
8	Derivatives	3,102	3,596
	Other receivables	604	524
	<b>Receivables</b>	<b>36,639</b>	<b>19,784</b>
9	Securities	24,740	24,806
	Cash	1,105	862
	<b>Current assets</b>	<b>62,484</b>	<b>45,452</b>
	<b>Assets</b>	<b>159,122</b>	<b>137,245</b>

Note	Equity and liabilities, DKKm	2018	2017
	Share capital	4,204	4,204
	Reserves	(296)	(467)
	Retained earnings	25,968	27,522
	Proposed dividends	4,099	3,783
	<b>Equity attributable to shareholders in Ørsted A/S</b>	<b>33,975</b>	<b>35,042</b>
10	Hybrid capital	13,239	13,239
	<b>Equity</b>	<b>47,214</b>	<b>48,281</b>
4	Deferred tax	97	81
11	Other provisions	794	775
10	Bank loans and issued bonds	23,482	25,715
10	Other payables	0	27
	<b>Non-current liabilities</b>	<b>24,373</b>	<b>26,598</b>
	Bank loans and issued bonds	3,448	6,509
8	Derivatives	3,322	4,020
	Trade payables	34	159
	Payables to subsidiaries	79,364	48,638
	Other payables	1,242	2,433
	Income tax	125	607
	<b>Current liabilities</b>	<b>87,535</b>	<b>62,366</b>
	<b>Liabilities</b>	<b>111,908</b>	<b>88,964</b>
	<b>Equity and liabilities</b>	<b>159,122</b>	<b>137,245</b>

# Statement of changes in equity

1 January - 31 December

Statement of changes in equity, DKKm	Share capital	Hedging reserve	Share premium reserve	Retained earnings	Proposed dividends	Shareholders in Ørsted A/S	Hybrid capital	Total
Equity at 1 January 2018	4,204	(467)	-	27,522	3,783	35,042	13,239	48,281
Profit (loss) for the year	-	-	-	2,587	-	2,587	425	3,012
Dividends paid	-	-	-	2	(3,783)	(3,781)	-	(3,781)
Proposed dividends	-	-	-	(4,099)	4,099	-	-	-
Purchase of treasury shares	-	-	-	(48)	-	(48)	-	(48)
Value adjustments of hedging instruments	-	84	-	-	-	84	-	84
Value adjustments transferred to financial income and expenses	-	135	-	-	-	135	-	135
Tax on changes in equity	-	(48)	-	-	-	(48)	-	(48)
Coupon payments, hybrid capital	-	-	-	-	-	-	(545)	(545)
Tax on coupon payments	-	-	-	-	-	-	120	120
Share-based payment	-	-	-	4	-	4	-	4
<b>Changes in equity in 2018</b>	<b>-</b>	<b>171</b>	<b>-</b>	<b>(1,554)</b>	<b>316</b>	<b>(1,067)</b>	<b>-</b>	<b>(1,067)</b>
<b>Equity at 31 December 2018</b>	<b>4,204</b>	<b>(296)</b>	<b>-</b>	<b>25,968</b>	<b>4,099</b>	<b>33,975</b>	<b>13,239</b>	<b>47,214</b>
Equity at 1 January 2017	4,204	(497)	21,279	11,958	2,522	39,466	13,248	52,714
Transferred to retained earnings	-	-	(21,279)	21,279	-	-	-	-
Profit (loss) for the year	-	-	-	(1,935)	-	(1,935)	716	(1,219)
Dividends paid	-	-	-	1	(2,522)	(2,521)	-	(2,521)
Proposed dividends	-	-	-	(3,783)	3,783	-	-	-
Value adjustments of hedging instruments	-	254	-	-	-	254	-	254
Value adjustment transferred to gain on divestment of enterprises	-	(444)	-	-	-	(444)	-	(444)
Value adjustments transferred to financial income and expenses	-	229	-	-	-	229	-	229
Tax on changes in equity	-	(9)	-	-	-	(9)	-	(9)
Coupon payments, hybrid capital	-	-	-	-	-	-	(640)	(640)
Tax on coupon payments and costs, hybrid capital	-	-	-	-	-	-	141	141
Additions of issued hybrid capital	-	-	-	-	-	-	3,668	3,668
Hybrid capital transferred to payables	-	-	-	-	-	-	(3,894)	(3,894)
Share-based payment	-	-	-	2	-	2	-	2
<b>Changes in equity in 2017</b>	<b>-</b>	<b>30</b>	<b>(21,279)</b>	<b>15,564</b>	<b>1,261</b>	<b>(4,424)</b>	<b>(9)</b>	<b>(4,433)</b>
<b>Equity at 31 December 2017</b>	<b>4,204</b>	<b>(467)</b>	<b>-</b>	<b>27,522</b>	<b>3,783</b>	<b>35,042</b>	<b>13,239</b>	<b>48,281</b>



Share capital composition and dividends are disclosed in note 6.2 to the consolidated financial statements. You can also find information on treasury shares.

# 1. Basis of reporting

## Accounting policies

The parent company financial statements have been prepared in accordance with the provisions of the Danish Financial Statements Act (reporting class D).

The accounting policies remain unchanged from the previous year.

Unless otherwise stated, the financial statements are presented in Danish kroner (DKK) rounded to the nearest million.

The parent company accounting policies are consistent with the accounting policies described for the consolidated financial statements, with the following exceptions.

## Foreign currency translation

We recognise exchange rate adjustments of receivables from and payables to subsidiaries as financial income and expenses in the income statement when the balances are accounted for as part of the total net investment in foreign enterprises. Likewise, we recognise foreign exchange gains and losses on loans and derivatives in the income statement as financial income and expenses when they have been entered into to hedge the net investment in the foreign enterprises.

## Revenue

Rental income comprises income from commercial leases and is recognised over the term of the lease. Income from services is recognised when delivery has taken place.

## Dividends from investments

Dividends from subsidiaries and associates are recognised in the income statement for the financial year in which the dividends are approved at the annual general meeting. If the dividends exceed the total income after the time of takeover, the dividends are recognised as a reduction of the cost of the investment under assets.

## Investments

We measure our investments in subsidiaries and associates at cost. If there is any indication that the value of a company is lower than our future earnings in the company, impairment testing of the company is carried out as described in the consolidated financial statements. The carrying amount is written down to the recoverable amount whenever the carrying amount exceeds the future earnings in the company (recoverable amount).

If we have a legal or constructive obligation to cover a deficit in subsidiaries and associates, we recognise a provision for this.

## Tax

Ørsted A/S is taxed jointly with its Danish subsidiaries. The jointly taxed companies are part of joint taxation with the parent company as the management company.

Subsidiaries are included in the joint taxation from the date they are consolidated in the consolidated financial statements and up to the date on which they are no longer consolidated.

Current tax for 2018 is recognised by the individual jointly taxed companies.

## Statement of cash flows

We do not prepare a separate statement of cash flows for the parent company. Reference is made to the consolidated statement of cash flows on page 77.

## New legislation

The Danish Financial Statements Act has been changed, and it is now possible to use certain IFRS standards to interpret the act. For Ørsted A/S, it will be relevant to use IFRS 16 'Leases', and we expect to implement it from 1 January 2019.

## Key accounting estimates

In connection with the preparation of the financial statements, a number of accounting estimates have been made that affect the profit (loss) and balance sheet. Estimates are regularly reassessed by management on the basis of historical experience and other relevant factors.

## Impairment test

If there is any indication that the carrying amount is lower than our future earnings in a company, we test for impairment as described in the consolidated financial statements. The future earnings of the company (recoverable amount) are calculated based on assumptions concerning significant estimates.

## 2. Employee costs

Employee costs, DKKm	2018	2017
Wages and salaries	24	24
Share-based payment	4	2
Remuneration for the Board of Directors	5	5
<b>Total employee costs</b>	<b>33</b>	<b>31</b>

Remuneration for the Executive Board, DKK '000	Henrik Poulsen		Marianne Wiinholt		Executive Board, total	
	2018	2017	2018	2017	2018	2017
Fixed salary	10,500	9,700	5,900	5,061	16,400	14,761
Cash-based incentive schemes	2,993	2,656	1,637	1,348	4,630	4,004
Share-based incentive scheme	2,306	1,367	1,231	713	3,537	2,080
IPO Executive Retention Bonus	1,232	1,848	643	964	1,875	2,812
Pension, incl. social security and benefits	313	326	242	196	555	522
<b>Total</b>	<b>17,344</b>	<b>15,897</b>	<b>9,653</b>	<b>8,282</b>	<b>26,997</b>	<b>24,179</b>

The remuneration report in the management's review and notes 2.6 and 2.7 to the consolidated financial statements describe the remuneration of the Executive Board and the Board of Directors, share-based payment, termination and bonus scheme for the

Executive Board and details on the remuneration of the Board of Directors.

The parent company had an average of five employees in 2018 (2017: five employees).

## 3. Financial income and expenses

Financial income and expenses, DKKm	2018	2017
Interest income from cash, etc.	56	14
Interest income from subsidiaries	1,803	1,432
Interest income from securities at market value	258	211
Capital gains on securities at market value	119	55
Foreign exchange gains	1,243	664
Value adjustments of derivatives	2,511	8,751
Dividends received	4,024	2,513
Other financial income	-	27
<b>Total financial income</b>	<b>10,014</b>	<b>13,667</b>
Interest expenses relating to loans and borrowings	(1,502)	(1,584)
Interest expenses to subsidiaries	(9)	(9)
Impairment of investments in subsidiaries	(1,400)	-
Capital losses on securities at market value	(292)	(217)
Foreign exchange losses	(1,169)	(1,549)
Value adjustments of derivatives	(2,330)	(7,106)
Other financial expenses	(30)	(21)
<b>Total financial expenses</b>	<b>(6,732)</b>	<b>(10,486)</b>
<b>Net financial income and expenses</b>	<b>3,282</b>	<b>3,181</b>

## 4. Tax on profit (loss) for the year and deferred tax

Income tax, DKKm	2018	2017
Tax on profit (loss) for the year	(69)	(76)
Tax on changes in equity	(86)	132
<b>Total tax for the year</b>	<b>(155)</b>	<b>56</b>
<b>Tax on profit (loss) for the year can be broken down as follows:</b>		
Current tax	(88)	(1,379)
Adjustments to deferred tax	(18)	1,298
Adjustments to current tax in respect of prior years	35	(360)
Adjustments to deferred tax in respect of prior years	2	365
<b>Tax on profit (loss) for the year</b>	<b>(69)</b>	<b>(76)</b>

Development in deferred tax, DKKm	2018	2017
Deferred tax at 1 January	81	1,744
Adjustment for the year recognised in profit (loss) for the year	18	(1,298)
Adjustments to deferred tax in respect of prior years	(2)	(365)
<b>Deferred tax at 31 December</b>	<b>97</b>	<b>81</b>

Specification of deferred tax, DKKm	2018	2017
Non-current liabilities	97	81
<b>Deferred tax</b>	<b>97</b>	<b>81</b>

## 5. Distribution of net profit

Distribution of net profit, DKKm	2018	2017
<b>Profit (loss) for the year is attributable to:</b>		
Shareholders of Ørsted A/S, proposed dividends for the financial year	4,099	3,783
Shareholders of Ørsted A/S, retained earnings	(1,512)	(5,718)
Coupon and bond discount after tax, hybrid capital owners of Ørsted A/S	425	716
<b>Profit (loss) for the year</b>	<b>3,012</b>	<b>(1,219)</b>

## 6. Investments in subsidiaries

Investments in subsidiaries, DKKm	2018	2017
Cost at 1 January	41,762	70,436
Additions	63	2,333
Disposals	-	(31,007)
<b>Cost at 31 December</b>	<b>41,825</b>	<b>41,762</b>
Value adjustments at 1 January	-	(15,681)
Impairment losses	(1,400)	-
Disposals	-	15,681
<b>Value adjustments at 31 December</b>	<b>(1,400)</b>	<b>-</b>
<b>Carrying amount at 31 December</b>	<b>40,425</b>	<b>41,762</b>



Note 8.5 of the consolidated financial statements contains a complete overview of subsidiaries, etc.

We have tested investments in subsidiaries for impairment by comparing the expected future income from the individual subsidiaries with their carrying amounts.

The impairment test in 2018 gave rise to an impairment of DKK 1,400 million which is mainly attributable to the shortening of the green power subsidy time period in Denmark announced in 2018. Also, we no longer see a viable business case for a new CHP plant in the Esbjerg and Varde areas when the current district heating agreement ends in 2022. Both elements relate to our Bioenergy business.

The 2017 disposal for the year primarily concern the divestment of our Oil & Gas business, which was closed on 29 September 2017. The divestment resulted in a loss of DKK 4,179 million in the parent company financial statements. The sale resulted in a gain of DKK 2,179 million in the consolidated financial statements. The difference occurs due to different accounting policies.

## 7. Receivables from subsidiaries

Non-current receivables from subsidiaries, DKKm	2018	2017
Cost at 1 January	48,706	50,402
Additions	17,641	18,552
Disposals	(11,216)	(20,248)
<b>Cost at 31 December</b>	<b>55,131</b>	<b>48,706</b>

## 8. Derivatives

Ørsted A/S has assumed the subsidiaries' currency risks via forward exchange contracts, which have subsequently been hedged in the market. Furthermore, hedging contracts have been concluded to hedge the currency risk associated with investments in subsidiaries in foreign currencies.

We have also entered into a number of interest rate swaps to manage our interest rate risk.

The company has fair value hedged loans and receivables in GBP, USD and EUR. The value of the fair value hedge offset in the income statement amounted to DKK 263 million (2017: DKK 289 million).

Derivatives at the end of December 2018 mature as follows: 2019: DKK -99 million, 2020: DKK -268 million, after 2020: DKK 147 million (2017: 2018: DKK -24 million, 2019: DKK -76 million, after 2019: DKK -324 million).

Overview of derivative positions, DKKm	2018		2017	
	Contractual principal amount	Market value	Contractual principal amount	Market value
Interest derivatives	6,588	(39)	550	-
Currency derivatives	17,623	(181)	36,665	(424)
<b>Total</b>	<b>24,211</b>	<b>(220)</b>	<b>37,215</b>	<b>(424)</b>
<b>Assets</b>		<b>3,102</b>		<b>3,596</b>
<b>Equity and liabilities</b>		<b>(3,322)</b>		<b>(4,020)</b>



See note 7.1 to the consolidated financial statements and the management's review on pages 66-69 for more details on risk and risk management.

## 9. Securities

Securities are primarily liquid AAA-rated Danish mortgage bonds that qualify for repo transactions in the Danish central bank,

'Danmarks Nationalbank'. Repo transactions are transactions where securities are provided as collateral for a loan.

Securities, DKKm	2018	2017
Securities, available	24,407	24,766
Securities, not available for use	333	40
<b>Total securities</b>	<b>24,740</b>	<b>24,806</b>



Securities not available for use are used as collateral for repo loans and trading in financial instruments.

## 10. Loans and borrowings

At 31 December 2018, we had issued hybrid capital with a total notional amount of DKK 13,432 million (2017: DKK 17,125 million). The hybrid bonds have a 1,000-year term and expires as follows: DKK 5,224 million in 3013, DKK 4,477 million in 3015 and DKK 3,731 million in 3017, respectively.

The long-term portion of bank loans and issued bonds amounted to DKK 23,482 million at 31 December 2018 (2017: DKK 25,715 million), of which DKK 16,376 million (2017: DKK 16,528 million) fall due in more than five years.

The long-term portion of other payables amounted to DKK 0 million at 31 December 2018 (2017: DKK 27 million) falls due in 1-5 years.

# 11. Other provisions

We have made provisions for non-current liabilities totalling DKK 794 million (2017: DKK 775) which fall due in 1-5 years. The liabilities concern the divestment of our Oil & Gas business, which was closed in 2017.

# 12. Contingent liabilities

## Contingent liabilities

### Guarantees

Ørsted A/S has provided guarantees in connection with participation by subsidiaries and subsidiaries' joint operations and joint ventures in the construction and operation of offshore wind farms and natural gas installations as well as guarantees in respect of leases, decommissioning obligations and purchase, sale and supply agreements, etc.

Ørsted A/S also acts as guarantor with primary liability for bank balances in certain subsidiaries.

### Indemnities

Ørsted is a member of the reinsurance company Oil Insurance Ltd. In the event of an exit, an exit premium will be payable, which has been calculated at USD 10.3 million at 31 December 2018 (2017: USD 6.8 million).

Ørsted A/S is taxed jointly with other companies in the Ørsted Group. As management company, the company has unlimited as well as joint and several liability together with the other jointly taxed companies for Danish income taxes and withholding taxes on dividends, interest and royalties related to the jointly taxed companies.

### Litigation

Ørsted A/S is not a party to any litigation proceedings or legal disputes that could have an effect on the company's financial position, either individually or collectively.

## 13. Related-party transactions

Related parties are the Board of Directors, the Executive Board, Ørsted A/S's subsidiaries and the Danish State.

Remuneration of the Board of Directors and the Executive Board is disclosed in notes 2.6 'Employee costs' and 2.7 'Share-based

payment' and the remuneration report in the management's review in the consolidated financial statements.

Our related-party transactions are made on arm's length terms.

## 14. Operating lease obligations

We have entered into leases for office premises, primarily in Gentofte (expiring in 2028) and Virum (expiring in 2027). In 2018, an amount of DKK 148 million was recognised (2017: DKK 153 million) in profit (loss) for the year in respect of operating lease payments.

We have entered into leases with subsidiaries for subleasing of office premises.

In 2018, an amount of DKK 97 million was recognised (2017: DKK 123 million) in profit (loss) for the year in respect of rental income.

We have minimum payments of DKK 1,688 million (2017: DKK 1,816 million), most of which concerns subleasing via subleasing agreements.

## 15. Auditor's fees

Auditor's fees, DKKm	2018	2017
Statutory audit	2	2
Other assurance engagements	-	1
Tax and VAT advice	1	-
Other services	-	1
<b>Total fees to PwC</b>	<b>3</b>	<b>4</b>

## 16. Ownership information

Ownership information	Registered office	Ownership interests	Voting share
The Danish State represented by the Danish Ministry of Finance	Copenhagen K, Denmark	50.12%	50.12%
SEAS-NVE A.M.B.A.	Svinninge, Denmark	9.54%	9.54%
The Capital Group Companies, Inc.	Los Angeles, USA	<5%	5-10% <sup>1</sup>

<sup>1</sup> Interval shown as precise voting share is not publicly available.



The table shows the shareholders with ownership interests and voting shares of at least 5%. Difference between ownership interests and voting shares occurs when power of attorney is issued.

# Management statement, auditor's reports and glossary

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# Statement by the Executive Board and the Board of Directors

The Board of Directors and the Executive Board have today considered and approved the annual report of Ørsted A/S for the financial year 1 January - 31 December 2018.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements in the Danish Financial Statements Act. The financial statements of the parent company, Ørsted A/S, have been prepared in accordance with the provisions of the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements provide a fair presentation of the Group's and the parent company's assets, liabilities and financial position at 31 December 2018 and of the results of the Group's and the parent company's operations and the Group's cash flows for the financial year 1 January - 31 December 2018.

In our opinion, the management's review provides a fair presentation of the development in the Group's and the parent company's operations and financial circumstances, of the results for the year and of the overall financial position of the Group and the parent company as well as a description of the most significant

risks and elements of uncertainty facing the Group and the parent company.

In our opinion, the consolidated ESG statements ('Additional information') represent a reasonable, fair and balanced representation of the Group's social responsibility and sustainability performance and are presented in accordance with the stated accounting policies.

We recommend that the annual report be adopted at the annual general meeting.

Skærbæk, 31 January 2019

## Executive Board:

**Henrik Poulsen**  
President and CEO

**Marianne Wiinholt**  
CFO

## Board of Directors:

**Thomas Thune Andersen**  
Chairman

**Lene Skole**  
Deputy Chairman

**Lynda Armstrong**

**Pia Gjellerup**

**Jørgen Kildahl**

**Peter Korsholm**

**Benny D. Loft**

**Dieter Wemmer**

**Hanne Sten Andersen\***

**Poul Dreyer\***

**Benny Gøbel\***

\* Employee representative

# Independent auditors' report

## To the shareholders of Ørsted A/S

### Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the Group's financial position at 31 December 2018 and of the results of the Group's operations and cash flows for the financial year 1 January to 31 December 2018 in accordance with International Financial Reporting Standards as adopted by the EU ('IFRS') and further requirements in the Danish Financial Statements Act.

Moreover, in our opinion, the parent company financial statements give a true and fair view of the parent company's financial position at 31 December 2018 and of the results of the parent company's operations for the financial year 1 January to 31 December 2018 in accordance with the Danish Financial Statements Act.

Our opinion is consistent with our auditor's long-form report to the Audit and Risk Committee and the Board of Directors.

### What we have audited

The Consolidated Financial Statements of Ørsted A/S for the financial year 1 January to 31 December 2018, pp. 72-166 and 186, comprise the consolidated income statement, the consolidated statement of comprehensive

income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and the notes to the consolidated financial statements, including summary of significant accounting policies.

The parent company financial statements of Ørsted A/S for the financial year 1 January to 31 December 2018, pp. 175-184, comprise the income statement, the balance sheet, the statement of changes in equity and the notes to the parent financial statements, including summary of significant accounting policies.

Collectively referred to as the 'Financial Statements'.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark. We have also fulfilled our other ethical responsibilities in accordance with the IESBA Code.

To the best of our knowledge and belief, prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 were not provided.

### Appointment

We were first appointed auditors of Ørsted A/S on 19 April 2010 for the financial year 2010. We have been reappointed annually by shareholder resolution for a total period of uninterrupted engagement of 9 years, including the financial year 2018.

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for 2018. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Key audit matter

#### Divestments of partnership interests

In connection with divestments of partnership interests (often 50%) in offshore wind farms under construction, estimates and judgement are required in respect of the sales price for accounting purpose for the divestment and the subsequent construction agreement, respectively, and in calculating the divestment gain, including any provisions recognised to cover guarantees, indemnities, etc. Furthermore, judgement is required in respect of classifying the divested interest as either divestment of assets (gain recognised as part of Other income) or divestment of an enterprise (gain recognised as part of gain/loss from divestment of enterprises). Finally, judgement is required in respect of whether the Group's retained share in the partnership is a joint operation or a joint venture.

We focused on this area because the calculation of the divestment gain is dependent on complex and subjective judgements and estimates by management and because the presentation in the income statement is dependent on judgement about the partnership interest disposed, and whether the partnership interest retained is a joint operation or a joint venture.

Refer to note 2.5 in the consolidated financial statements.

### How our audit addressed the key audit matter

We evaluated whether management had appropriately determined the divestment gain, the presentation hereof and the subsequent treatment of the partnership interest by for example:

- Reading the share purchase agreements.
- Reading the shareholders agreements.
- Reading the construction and other related agreements.
- Consider the sales price for accounting purpose for the divestment and the construction agreement, respectively.
- Testing the gain statement on the divestment of the partnership interest, including the provisions recognised to cover guarantees, indemnities, etc., in the share purchase agreement.
- Consider whether the disclosures of the divestment gain and the subsequent recognition and presentation of the partnership were in compliance with IFRS.

### Key audit matter

#### Construction contracts

The Group has adopted the accounting standard IFRS 15 'Revenue from Contracts with Customers' from 1 January 2018, using the modified retrospective method. The adoption has affected the timing of when income and costs are recognised in respect of offshore transmission assets and the presentation of construction agreements in the balance sheet.

The accuracy of the revenue recognition related to work in progress of large construction agreements and its presentation in the consolidated income statement is dependent on complex estimation methodologies, including estimates, such as the forecasted costs related to the constructions and the degree of completion for construction agreements.

We focused on this area because the revenue recognised with reference to the degree of completion both requires complex and subjective judgements and estimates by management.

Refer to notes 1.4, 2.2 and 4.2 in the consolidated financial statements.

### How our audit addressed the key audit matter

On a sample basis, we tested whether revenue is accurately recorded and challenged the forecasted costs related to the constructions, including the assumptions used, and by evaluating the outcome of previous estimates by agreeing the actual costs incurred post-year end to the forecasted costs for the period.

We also assessed how the project managers determined that the degree of completion was correctly determined through obtaining their calculations and agreeing the inputs to documentary evidence or our independently formed expectation, as appropriate.

We evaluated management's assessment of the transition from IAS 11 and IAS 18 to IFRS 15 applying the modified retrospective method, including the impact on the on-going construction of the offshore transmission assets as well as the changed presentation made by management in respect of the transition.

## Key audit matter

### Business combinations

When acquiring businesses, the Group performed a purchase price allocation ('PPA') exercise for each acquisition separately, resulting in various assets and liabilities being separately valued. The Group used projected financial information in the PPA exercise.

Management uses their best knowledge to make estimates when utilising the Group's valuation methodologies. In order to determine the fair value of the separately identified assets and liabilities in a business combination, the valuation methodologies require input based on assumptions about the future and use discounted cash flow forecasts. The significant judgements and estimates involved in the PPA exercise mainly relate to assessing the fair value of production assets, assets under construction, tax equity partner balances and derivatives.

We focused on this area because the PPA exercises, which involves the identification of the acquired assets and liabilities and their respective fair values, require complex and subjective judgements and estimates by management.

Refer to note 3.3 in the consolidated financial statements.

## How our audit addressed the key audit matter

We assessed whether the acquisitions during the period met the criteria of a business combination.

We verified the assets and liabilities recorded in the opening balance, by performing procedures, including, amongst others, obtaining statements of cash and bank balances acquired, agreeing the opening balance to the trial balance and the tax equity liabilities to underlying contracts and specifications.

We involved our internal specialists in assessing the valuation methodologies used by management and the fair valuation of the acquired assets and liabilities. We challenged the key assumptions used to determine the fair value of production assets, assets under construction, tax equity partner balances, derivatives, etc.

Finally, we assessed the adequacy of disclosures relating to the business combinations.

## Statement on management's review

Management is responsible for the management's review, pp. 4-71.

Our opinion on the financial statements does not cover management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read management's review and, in doing so, consider whether management's review is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Moreover, we considered whether management's review includes the disclosures required by the Danish Financial Statements Act.

Based on the work we have performed, in our view, management's review is in accordance with the consolidated financial statements and the parent company financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement in management's review.

## Management's responsibilities for the financial statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act and for the preparation of parent company

financial statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or the parent company or to cease operations, or has no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs and additional requirements applicable in

Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of management's use of the going concern basis of

accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the parent company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the parent company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit

and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Hellerup, 31 January 2019

### **PricewaterhouseCoopers**

Statsautoriseret Revisionspartnerselskab  
CVR-nr. 33 77 12 31

### **Lars Baungaard**

State Authorised Public Accountant  
mne23331

### **Rasmus Friis Jørgensen**

State Authorised Public Accountant  
mne28705

# Limited assurance report of the independent auditor

## To the stakeholders of Ørsted A/S

Ørsted A/S engaged us to provide limited assurance on the data described below and set out in the consolidated environment, social and governance (ESG) statements of the Ørsted A/S annual report for the year ended 31 December 2018.

## Our conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us not to believe that data in the 2018 Consolidated ESG Statements on pages 167-174 of the Annual Report for the year ended 31 December 2018 are free of material misstatements and has been prepared, in all material respects, in accordance with the accounting policies as stated on pages 167-174 of the 2018 Ørsted A/S Annual Report.

This conclusion is to be read in the context of what we say in the remainder of our report.

## What we are assuring

The scope of our work was limited to assurance over data in the Consolidated ESG Statements on pages 167-174 of the Ørsted A/S Annual Report for the year ended 31 December 2018.

## Professional standards applied and level of assurance

We performed a limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) 'Assurance Engagements other than Audits and Reviews of Historical Financial Information'. A limited assurance engagement is substantially less in scope than a reasonable assurance

engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks; consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

## Our independence and quality control

We have complied with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which includes independence and other ethical requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. The firm applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. Our work was carried out by an independent multidisciplinary team with experience in sustainability reporting and assurance.

## Understanding reporting and measurement methodologies

Data and information need to be read and understood together with the accounting policies (pages 167-174 of the 2018 Ørsted A/S Annual Report), which management are solely responsible for selecting and applying. The absence of a significant body of established practice on which to draw to evaluate and measure

non-financial information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time.

## Work performed

We are required to plan and perform our work in order to consider the risk of material misstatement of the data. In doing so and based on our professional judgement, we:

- Conducted interviews with Group functions to assess consolidation processes, use of company-wide systems and controls performed at Group level;
- Performed an assessment of materiality and the selection of topics for the 2018 Ørsted A/S consolidated ESG statements;
- Conducted analytical review of the data and trend explanations submitted by all business units for consolidation at Group level;
- Evaluated internal and external documentation to determine whether information in the 2018 Ørsted A/S consolidated ESG statements is supported by sufficient evidence.

## Management's responsibilities

Management of Ørsted A/S is responsible for:

- Designing, implementing and maintaining internal control over information relevant to the preparation of data in the 2018 consolidated ESG statements on pages 167-174 in the annual report that are free from material misstatement, whether due to fraud or error;
- Establishing objective accounting policies for preparing data;
- Measuring and reporting data in the 2018 consolidated ESG statements based on the accounting policies; and

- The content of the 2018 consolidated ESG statements.

## Our responsibility

We are responsible for:

- Planning and performing the engagement to obtain limited assurance about whether data in the 2018 Ørsted A/S consolidated ESG statements on pages 167-174 of the 2018 Annual Report are free of material misstatements and has been prepared, in all material respects, in accordance with the accounting policies;
- Forming an independent conclusion, based on the procedures we have performed and the evidence we have obtained; and
- Reporting our conclusion to the stakeholders of Ørsted A/S.

Hellerup, 31 January 2018

## PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab  
CVR-no. 33 77 12 31

## Lars Baugaard

State Authorised Public Accountant  
mne23331

## Rasmus Friis Jørgensen

State Authorised Public Accountant  
mne28705

# Glossary

**Availability:** Time-based availability is the ratio of the number of hours in a given period the offshore wind farms are available for power generation to the total number of hours in the same period. Total availability is weighted on the basis of the size of the individual wind farms. Availability is adjusted for breakdowns if compensation is received from the transmission owner.

**Awarded capacity:** Offshore capacity that we have been awarded in auctions and tenders, but where we need to sign a PPA and take final investment decision.

**Biomass conversion:** When a CHP plant is converted from using fossil fuels to using biomass, such as wood pellets, wood chips and straw. After the conversion, the CHP plant will typically be able to use biomass along with the original fuel types.

**Carbon emissions allowances:** Carbon emissions allowances subject to the European Union Emissions Trading Scheme (EU ETS).

**CfD:** A contract for difference is a subsidy that guarantees the difference between the market reference price and the exercise price won.

**CHP plant:** A combined heat and power (CHP) plant generates both heat and power in the same process.

**Commissioning/COD:** When our assets are in operation, and the legal liability has been transferred from the supplier to us.

**Contracted capacity:** Onshore capacity where we have signed a PPA, but where we need to take final investment decision.

**Cost of electricity:** Average cost measured as present value per megawatt hour (MWh) generated from offshore wind power, covering costs for development and construction as well as subsequent operation and maintenance of the offshore wind farm.

**Decided (FID) and installed capacity:** Installed offshore wind capacity plus capacity for wind farms where a final investment decision has been made.

**Degree days:** Number of degrees in absolute figures in difference between the average temperature and the official Danish indoor temperature of 17 degrees Celsius.

**EEX:** European Energy Exchange, German power exchange.

**EPC:** Engineering, procurement and construction. The part of our business which handles the construction and installation of our offshore wind farms.

**FTE:** Employees (full-time equivalent). The number of full-time employees during a fixed time period.

**Generation capacity:** Ørsted's ownership of the wind turbines. The wind turbines are included when each wind turbine has passed the 240-hour test.

**Green certificates:** Certificate awarded to producers of environment-friendly power as a supplement to the market price of power in the given price area.

**Green dark spread (GDS):** Green dark spread represents the contribution margin per MWh of power generated at a coal-fired CHP plant of a given efficiency. It is determined as the difference between the market price of power and the cost of the coal (including associated freight costs) and carbon emissions allowances used to generate the power.

**Green spark spread (GSS):** Green spark spread represents the contribution margin per MWh generated at a gas-fired power station of a given efficiency. It is determined as the difference between the market price of power and the costs of the gas and carbon emissions allowances used to generate the power.

**Hedging instruments:** Financial and physical instruments that can be used to guarantee a specific price for the purchase or sale of, for example, commodities and currency.

**Installed capacity:** Installed capacity where the offshore wind farm has been completed and has passed the 200-hour test.

**Investment tax credits (ITCs):** Federal tax credit based on qualifying renewable investment costs.

**LNG:** Liquefied natural gas. Gas that has been liquefied by cooling to minus 161 degrees Celsius. LNG takes up 600 times less space than conventional gas.

**Load factor:** The ratio between the actual power generation in a given period relative to the potential generation which is possible by continuously exploiting the maximum capacity over the same period.

**NBP:** National Balancing Points, UK gas hub.

**Nord Pool:** The Norwegian-based Nordic power exchange, which facilitates power trading in Norway, Sweden, Finland and Denmark.

**Offshore transmission assets:** Offshore transmission assets connect offshore generation to the onshore grid and typically include the offshore power transmission infrastructure, an onshore substation and the electrical equipment relating to the operation of the substation.

**O&M:** Operation and maintenance. The part of our business that operates and maintains our offshore wind farms after installation.

**Partnership income:** Income originating from our partners' purchase of ownership interests in the offshore wind farms. Includes both the gain in connection with the farm-down and the subsequent construction of the wind farm.

**Production tax credit (PTC):** Federal tax credit based on eligible power generation in the US.

**PSO:** Indirect taxes regarding the public service obligation (PSO) which are used to finance research and green energy and are charged to power customers along with other tariff elements.

**Public obligation:** A company with a public obligation is bound by law to deliver power or natural gas to a certain geographic area at prices approved by the Danish Energy Regulatory Authority.

**QHSE:** Quality, health, safety and environment.

**Ramp-up:** Generation until an offshore wind farm has been completed and commissioned.

**ROCs:** Renewable obligation certificates issued by Ofgem in the UK to operators of accredited generating stations for the eligible renewable energy they generate. Operators can trade ROCs with other parties.

**Stress:** Method of measuring the market trading risk of loss on a portfolio from day to day, calculated on a fair-value basis.

**Tax equity:** An arrangement where an investor obtains rights to federal tax credits and other tax attributes in exchange for a cash contribution.

**Thermal generation:** Power and heat generated through the combustion of fossil fuels, biomass or waste.

**TRIR:** In addition to lost-time injuries, total recordable injury rate (TRIR) also includes injuries where the injured person is able to perform restricted work the day after the accident as well as accidents where the injured person has received medical treatment.

**TTF:** Title Transfer Facility, Dutch gas hub.

**TWh:** Terawatt hour. The amount of energy generated in one hour with the effect of ITWh. ITWh is equivalent to 1,000GWh or 1,000,000MWh.

**Value at risk (VaR):** A financial term used for measuring the loss that may occur in connection with a risk position, assuming a certain volatility, and that the position is held for a certain period of time.

**Wind speed:** Shows the wind speed for Ørsted's offshore wind farms. The wind measurements are weighted on the basis of our generation capacity and can be compared to a normal wind period, based on 20 years' historical wind observations.

**Ørsted A/S**

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Burbo Bank Offshore Wind Farm  
in the Irish Sea of the UK

**ATTACHMENT 7-4**

**Ørsted Annual Report 2019**

A high-angle, wide-view photograph of Earth from space, showing the curvature of the planet and a thick layer of white clouds over a blue ocean. The horizon line is visible in the upper third of the frame, with the blackness of space above it.

**Ørsted**  
Annual report  
2019

Our vision  
**Let's create a  
world that runs  
entirely on  
green energy**

We're ranked the most sustainable company in the world in the Corporate Knights 2020 [Global 100 index](#)

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# Overview

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Burbo Bank Extension is the first project in the world to use MHI-Vestas V164 8.0MW wind turbines. The number of wind turbines have been more than doubled compared to the original offshore wind farm Burbo Bank, but the power output has nearly quadrupled, now powering over 230,000 UK homes with sustainable energy each year.

# Chairman's statement

## Leading the green transformation

Climate change is the defining challenge of our century. By 2030, global greenhouse gas emissions need to be halved compared to current levels if we are to stay below a global temperature increase of 1.5°C above pre-industrial levels. This is the threshold set by science to limit the risk of irreversible tipping points in our global ecosystems. As energy accounts for 73% of global greenhouse gas emissions, we clearly need to change the way we power the world – and shift from fossil fuel-based to renewable energy.

At Ørsted, our vision is a world that runs entirely on green energy. Just a decade ago, our core business was based on fossil fuels, but we decided to change, and we have changed to green energy faster than any other energy company. In January 2020, we

were named the most sustainable company in the world. We are proud of this recognition, and it encourages us to further intensify our efforts to deploy green energy at scale and to contribute to the profound transformation of the energy system required to keep the planet habitable. In continuation of this, we have decided to become carbon neutral in our own operations by 2025 and in our total carbon footprint by 2040.

In 2019, we achieved a global breakthrough outside Europe by initiating construction of our first large-scale offshore wind project in Taiwan, by winning two large scale projects and expanding our portfolio in the US, and by taking the decision to fully integrate Lincoln Clean Energy into Ørsted. Our deployment of renewable energy now spans markets on three continents. We bring more than 25 years of experience in renewable energy and on-time and on-budget delivery of

large infrastructure projects as well as new approaches and innovative solutions that can help decarbonise societies. Recently, we have set up a hydrogen team to explore how to transform renewable power from offshore wind into hydrogen and other green fuels to be used in the chemicals industry and as green fuels in hard-to-abate sectors, such as heavy transport and logistics.

We also further strengthened our strategic profile as an upstream renewable energy company by signing an agreement to divest our power distribution, residential customer and city light businesses. Long-term, Ørsted is not the best owner of these businesses. The capital released from the divestment will be deployed in our global renewable energy build-out plan. Deep and heartfelt thanks go to all of our skilled colleagues in these businesses who have provided a good service to our customers over the years and ensured one of the highest levels of reliability of supply in the world.

Our talented people are the most important assets in Ørsted, and we will need a lot of talent world-wide, as we continue to grow our business in the years to come.

Safety is equally important for us, and we take every measure to ensure that Ørsted is a safe workplace. In May, an employee of one of our contractors died after a serious accident at the Avedøre Power Station. We have been – and still are – deeply affected by this accident.

EBITDA for the year amounted to DKK 17.5 billion and thereby exceeded our expectations and resulted in a ROCE of 10.6%. Profit for the year amounted to DKK 6.1 billion. The Board of Directors recommends paying a dividend of DKK 10.5 per share, corresponding to DKK 4.4 billion.

On behalf of the Board of Directors, I would like to thank the employees and management of Ørsted for leading the way towards a world that runs entirely on green energy. We are more committed than ever to demonstrating to all stakeholders that the urgently required energy transformation is in fact possible, and that we have the cost-effective solutions to power the world in a sustainable way.



**Thomas Thune Andersen**  
Chairman

//

**In January 2020, we were named the most sustainable company in the world. We are proud of this recognition, and it encourages us to further intensify our efforts to deploy green energy at scale.**

# CEO's review

Strong year with continued strategic progress, global expansion and very satisfactory financials.

## Highlights 2019

- Operating profit (EBITDA), excluding new partnerships, increased by 17% to DKK 17.5 billion.
- EBITDA from offshore and onshore wind farms in operation increased by 30% to DKK 14.8 billion.
- ROCE was 10.6% in line with our target.
- Green share of heat and power generation increased from 75% to 86%.
- Award of the 1.1GW Ocean Wind project in New Jersey.
- Award of the 880MW offshore Sunrise Wind (JV) project in New York.
- Decision to construct our first large-scale Taiwanese offshore wind project Greater Changhua 1 & 2a.
- Hornsea 1, the world's largest offshore wind farm, was commissioned.
- Signing of a non-binding term sheet with Polska Grupa Energetyczna (PGE) regarding two large-scale offshore projects in the Baltic Sea.
- Exclusive negotiations entered into with the Public Service Enterprise Group (PSEG) regarding a joint venture agreement to acquire 25% of Ocean Wind.
- Divestment of 50% of selected offshore activities in New England to our partner Eversource Energy.
- Decision to construct the onshore wind farms Sage Draw in Texas and Plum Creek in Nebraska as well as the combined solar and storage project Permian Energy Center in Texas and acquisition of the construction-ready wind project Willow Creek in South Dakota.
- Lockett Onshore Wind Farm commissioned, ahead of schedule.
- The newly bioconverted Asnæs Power Station reached 100% green heat and power generation in December 2019.
- Agreement signed to divest our power distribution, B2C and city light businesses to the Danish energy company SEAS-NVE.
- Agreement signed to divest our LNG activities.
- Elsam competition case against the competition authorities closed in favour of Ørsted.
- Record-high satisfaction and motivation score of 77 recorded in our employee satisfaction survey, People Matter.

## Financial results

In 2019, we achieved a strong operating profit (EBITDA) which exceeded our expectations at the beginning of the year.

EBITDA (excluding new partnerships) increased by 17% to DKK 17.5 billion.

Earnings from our offshore wind farms in operation increased by 22%, driven by ramp-up of green power generation from Borkum Riffgrund 2, Walney Extension and Hornsea 1. Curtailments and various operational issues had a larger than normal adverse impact on our offshore generation in 2019.

The inclusion of our onshore wind business and high earnings from our trading activities also contributed positively to our performance.

These positive effects were partly offset by higher project development costs in Offshore, an increase in provisions related to our LNG activities and a temporarily negative effect from gas at storage due to the substantial drop in gas prices during 2019. Further, in 2018, we had a positive outcome of a gas sourcing arbitration case, which was not repeated in 2019.

Return on capital employed (ROCE) was 10.6% for 2019.

## Offshore

In 2019, we commissioned Hornsea 1, with the last turbines being installed in early October. The entire wind farm is now operational. Hornsea 1 is the world's largest offshore wind farm with a capacity of 1,218MW and will supply more than 1.1 million British homes with green energy. In November, we passed another milestone when we inaugurated the second phase of Taiwan's first-ever offshore wind farm Formosa 1.

In April, we took final investment decision on our 900MW Taiwanese Greater Changhua 1 & 2a project after obtaining establishment permit, approval of the supply chain plan and signing of the power purchase agreement with Taipower.

Our three offshore wind farms under construction are all progressing according to plan. Borssele 1 & 2 (752MW) in the Netherlands is expected to be completed end Q4 2020. In 2022, we expect to complete Hornsea 2 (1,386MW) in the UK and Greater Changhua 1 & 2a in Taiwan. Furthermore, the Virginia Offshore Wind project, which we will construct for Dominion Energy as an EPC contractor, is proceeding as planned.

In February, we further strengthened our strategic partnership with Eversource Energy, the leading utility in New England, when they became a 50% partner in selected activities acquired through Deepwater Wind.

These included the Revolution Wind (704MW) and South Fork (130MW) development projects and two undeveloped lease areas off the coast of New England.

In June, the New Jersey Board of Public Utilities selected Ørsted's Ocean Wind project to negotiate a 20-year offshore wind renewable energy certificate (OREC) for an offshore wind farm with a capacity of 1.1GW. The contract was subsequently signed in December. The project was developed with support from the Public Service Enterprise Group (PSEG), which also has an option to become an equity investor in the project. In October, we entered into exclusive negotiations regarding a joint venture agreement with PSEG to acquire 25% of Ocean Wind. Subject to

our final investment decision, the wind farm is expected to be completed by 2024.

In July, the New York State Energy Research & Development Authority (NYSERDA) selected the Sunrise Wind project to negotiate a 25-year OREC for an offshore wind farm with a capacity of 880MW. The contract was subsequently signed in October. Sunrise Wind is a 50-50 partnership between Ørsted and Eversource, and subject to a final investment decision, the wind farm is expected to be completed by 2024.

With these awards, we have secured a US offshore wind portfolio with a total capacity of 2.9GW to be completed towards 2024. In addition, we have up to 5GW of lease

rights which can be developed for future offshore wind projects in the US.

We have signed contracts with Siemens Gamesa to supply wind turbines for our offshore wind projects in Taiwan (Greater Changhua 1 & 2a) and the North-East cluster in the US (Sunrise Wind, Revolution Wind and South Fork). In addition, we have selected GE as the preferred wind turbine supplier for our US Mid-Atlantic cluster (Ocean Wind and Skipjack). These projects will pioneer the deployment of GE's Haliade-X 12MW wind turbine, continuing our track record as a first mover on new technology.

In Poland, we signed a non-binding term sheet agreement with Polska Grupa Energetyczna

(PGE) regarding their sale of a 50% stake in two offshore wind projects in the Baltic Sea with a total capacity of up to 2.5GW. The projects are expected to commence construction by 2026 and 2030, respectively.

In December, we signed the world's largest offshore wind CPPA with Covestro. Earlier in the year, we signed an agreement with Northumbrian Water to procure power from Race Bank, the first of its kind in the UK. These long-term fixed price agreements represent an important step in building long-term green partnerships with corporate customers and at the same time help shape a solid risk-return profile for projects with merchant risk.

## Events in 2019

February	April	May	June	July	August	September	October	November	December
 <b>Offshore</b> 50% partnership with Eversource Energy in selected activities acquired through Deepwater Wind	 <b>Offshore</b> Greater Changhua 1 & 2a, Taiwan FID (900MW) Expected COD 2022   <b>Onshore</b> Sage Draw, Texas FID (338MW) Expected COD Q1 2020	 <b>Onshore</b> Acquisition of solar and storage development activities of Coronal Energy, US	 <b>Offshore</b> Ocean Wind project selected as preferred bidder in New Jersey (1.1GW) Expected COD 2024   <b>Onshore</b> Acquisition of Willow Creek, South Dakota (103MW) Expected COD Q4 2020	 <b>Offshore</b> Sunrise Wind project selected as preferred bidder in New York (880MW) Expected COD 2024   <b>Onshore</b> Lockett, Texas COD (184MW)	 <b>Onshore</b> Plum Creek, Nebraska FID (230MW) Expected COD Q4 2020	 <b>Markets &amp; Bioenergy</b> Agreement to divest Danish power distribution (Radius), residential customer and city light businesses to SEAS-NVE	 <b>Offshore</b> Hornsea 1 operational (1,218MW)	 <b>Offshore</b> Inauguration of Formosa 1, Taiwan (128MW)   <b>Onshore</b> Permian Energy Center, Texas FID (420/40MWac) Expected COD mid-2021	 <b>Markets &amp; Bioenergy</b> All heat and power generated from new unit at Asnæs, which runs up to 100% on sustainable biomass   <b>Markets &amp; Bioenergy</b> Agreement signed to divest our LNG activities

## Onshore

Our Onshore business had a strong year with high yields from our operating assets, high peak power prices during summer in Texas, and steady progress of our construction projects.

We commissioned the onshore wind farm Lockett in Texas well ahead of schedule. The 184MW wind farm has performed as expected since commissioning.

In April, we took final investment decision on the 338MW onshore wind farm Sage Draw in Texas which is expected to go into commercial operation in Q1 2020.

In June, we acquired the 103MW construction-ready wind project Willow Creek in South Dakota. The wind farm is expected to be commissioned by Q4 2020, and it will expand our operations into the Southwest Power Pool (SPP) market, covering the central US.

In August, we took final investment decision on the 230MW wind farm Plum Creek in Nebraska, and we expect the farm to be completed by Q4 2020. Once operational, Sage Draw, Willow Creek and Plum Creek will supply up to 180,000 American homes with green energy.

In November, we took final investment decision on the Permian Energy Center in Texas. The construction of our first combined solar (420MW) and storage (40MW) project has commenced and is expected to be commissioned by mid-2021.

In addition to the decided investments, we further strengthened our Onshore business in May through the acquisition of a subsidiary of US-based Coronal Energy. The subsidiary is a nationwide solar and storage developer with a significant pipeline of projects, expanding our capability platform and exposure to new, regional markets.

Our total installed and decided onshore capacity now stands at 2GW. Our ambition is to have installed 5GW of capacity by 2025.

Finally, we decided to fully integrate Lincoln Clean Energy into Ørsted and appoint Declan Flanagan new CEO of our Onshore business and member of Ørsted's Group Executive Management. The integration was marked with a full name change to Ørsted in December.

## Markets & Bioenergy

In June, we decided to consolidate our Customer Solutions and Bioenergy business units into one business unit, Markets & Bioenergy. The decision was taken as a natural consequence of the reduced size of the two former business units due to, among other things, the below-mentioned divestments.

In September, we signed an agreement to divest our Danish power distribution (Radius), residential customer and city light businesses to SEAS-NVE, Denmark's second largest cooperatively-owned energy company. With our global expansion in renewable energy, Ørsted is no longer the best owner of these businesses. We expect the transaction to be closed in the first half of 2020. We consider the transaction to be attractive to our share-

# // During summer, we won two auctions in the US. With these awards, we have secured a US offshore wind portfolio with a total capacity of 2.9GW to be completed towards 2024.

holders and to provide a good future home for the customers and our highly skilled employees. The proceeds from the divestment will be used to continue our global investments in green energy.

To further focus our activities, we entered into an agreement to divest our LNG activities to Glencore. Furthermore, we decided to initiate a process to divest our B2B sales businesses, except for gas sales to our larger B2B customers in Denmark and Sweden which serve as an outlet for our legacy gas position.

As we run our business based on an end-to-end value chain thinking, we have decided that all activities and earnings related to Offshore and Onshore, should be reported in these segments, even if the daily activities are performed on behalf of the Group in another business unit. Thus, earnings from trading related to hedging of our power exposures and power portfolio optimisation activities,

previously presented in Markets, are now included in Offshore and Onshore earnings.

From mid-December 2019, all heat and power from Asnæs Power Station have been generated from the new unit, which run up to 100% on sustainable biomass. We have now fully converted six of our seven CHP plants to run on sustainable biomass. For our last remaining coal-fired CHP plant, Esbjerg Power Station, we have not been able to find a joint solution with the heat customer for a bioconversion project. Consequently, we plan to close down operations of this plant by the end of Q1 2023.

Due to recent upgrades to our Renescence facility in Northwich in the UK, we were not able to commission the plant in 2019 as planned. However, it has been confirmed that the core enzymatic sorting process works as expected.

## // Our aim will be for Ørsted to reach carbon neutrality by 2025.

Radius finalised the installation of more than 1 million smart meters in 2019, an achievement completed in just three years. The smart meters allow remote reading of the power meters and give households in the area the opportunity to consume power in the most cost-efficient periods of the day.

In 2018, the Danish Western High Court acquitted Elsam (now Ørsted) from the competition authorities' claim that Elsam had abused a dominant position on the market for wholesale of physical electricity in Western Denmark from 1 January 2005 to 30 June 2006. In light of this judgement, the parties agreed in September on dismissing the competition authorities' similar claim for the period from the second half of 2003 and the whole of 2004. Consequently, the cases between Elsam and the competition authorities reached a final conclusion in favour of Ørsted. Despite this status, the

claimants maintain their claims for damages and continue their legal action.

### Fatal accident

In May, an employee of one of our contractors died after a serious accident at the Avedøre Power Station. We are very saddened by this. Safety is of utmost importance to us, and we have initiated several improvement tracks to ensure that an accident like this will never happen again.

### Employees

The well-being of our employees is of high importance to us. The 2019 employee satisfaction survey, People Matter, showed a record high satisfaction and motivation score of 77. This global 'best-in-class' score places Ørsted in the top 10% of external benchmarks.

Thanks to Ørsted's passionate and skilled employees, we once again managed to reach

many significant milestones during the year. They deserve tremendous credit for their tenacity and ability to get things done.

### Concluding remarks

We are very pleased with our strategic progress and results in 2019. Ørsted maintains a leading position in the global high growth market for green energy. We are well on track to deliver on our financial targets of 20% average growth in profits from operating renewable assets for the period 2017-2023 and an average Group ROCE of 10% for the period 2019-2025.

We remain as committed as ever before to our vision of a world running entirely on green energy. We will continue to work hard to help limit global warming and its impact on biodiversity and global living conditions for current and future generations. Our aim will be for Ørsted to reach carbon neutrality by 2025.



**Henrik Poulsen**  
CEO and President

# Performance highlights

## Profits and returns

### Operating profit (EBITDA) DKKbn



In 2019, we achieved a strong underlying EBITDA which exceeded our expectations at the beginning of the year. It was driven by an increase in generation from our off-shore and onshore wind farms and high earnings from our trading activities. The decline in total EBITDA was due to the profit from the 50% farm-down of Hornsea 1 in 2018.

### Net profit (continuing operations) DKKbn



Profit for the year stood strong at DKK 6.1 billion. Net profit in 2018 and 2017 was significantly impacted by farm-down gains from new partnerships.

### Return on capital employed (ROCE) %



ROCE was 10.6% for the year, which was around our target of an average ROCE of approx 10% for the Group in the period 2019-2025. In 2018 and 2017, ROCE was significantly impacted by farm-downs.

## Cash flow and balance sheet

### Gross investments DKKbn



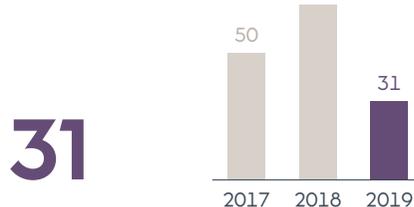
The gross investment level was high in 2019 due to a high construction activity in our project portfolio.

### Interest-bearing net debt DKKbn



We had a net debt of DKK 17.2 billion at the end of 2019. Our debt primarily increased due to the high investment level, the addition of lease debt and the payment of dividends.

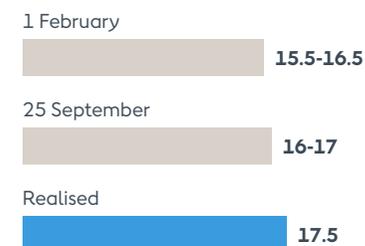
### Credit metric (FFO/adjusted net debt<sup>1</sup>) %



The credit metric 'funds from operations' (FFO) relative to adjusted net debt amounted to 31% in 2019, in line with our target of around 30%.

## Follow-up on outlook announced for 2019

### EBITDA, excl. new partnerships, realised vs guidance DKKbn



### Investments, realised vs guidance DKKbn



In the outlook announced in our annual report for 2018, we expected EBITDA without new partnerships of DKK 15.5-16.5 billion and gross investments of DKK 21-23 billion for 2019.

With EBITDA, excluding new partnerships, of DKK 17.5 billion, our expectations were exceeded.

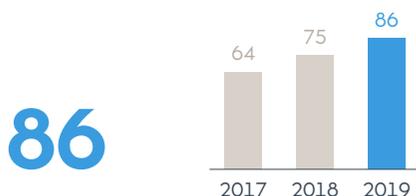
Gross investments amounted to DKK 23.3 billion.

<sup>1</sup> Interest-bearing net debt, including 50% of hybrid capital and securities not available for use (with the exception of repo transactions), present value of lease obligations (up until 2018), and decommissioning obligations less deferred tax.

# Performance highlights

## Environment

**Green share of generation**  
%



The green share of our heat and power generation continued to increase to a new high of 86%, following continued ramp-up of our offshore wind capacity, new onshore capacity and lower heat and power generation based on coal and gas.

**Installed renewable capacity**  
GW



Installed green capacity increased by 19% to 9.9GW in 2019 due to the commissioning of the offshore wind farm Hornsea 1 and the onshore wind farm Lockett as well as the bioconversion of Asnæs Power Station.

**Avoided emissions from green capacity**  
Million tonnes, CO<sub>2e</sub>



Avoided emissions from our green heat and power generation relative to fossil-fueled generation increased by 39%, mainly due to increased wind-based power generation.

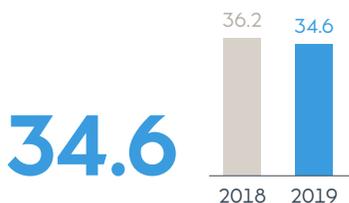
**Greenhouse gas emissions, scope 1 and 2**  
Million tonnes, CO<sub>2e</sub>



The scope 1 and 2 greenhouse gas emissions were reduced by 48% in 2019, mainly driven by a larger share of heat and power generation based on sustainable biomass instead of coal and gas.

## Social

**Greenhouse gas emissions, scope 3**  
Million tonnes, CO<sub>2e</sub>



Our scope 3 greenhouse gas emissions were reduced by 4%, mainly due to reduced sales of natural gas.

**Safety**  
Total recordable injury rate (TRIR)



We continue to have a strong focus on the safety and well-being of our employees. However, TRIR increased slightly, driven by an unsatisfactory high number of injuries in Markets & Bioenergy.

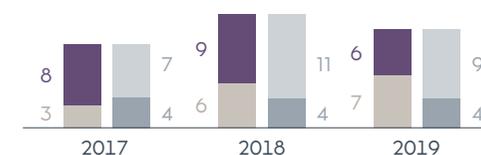
**Employee satisfaction**  
Scale 1-100



The 2019 employee satisfaction survey, People Matter, showed a record high satisfaction and motivation score of 77.

## Governance

**Board of Directors and Group Executive Management**  
Nationality and gender diversity



We have focus on increasing diversity at all management levels.

● Danish ● International ● Female ● Male

# Financial outlook

**13** Financial outlook 2020

**15** Financial estimates and policies



This is Jason Kao. Jason is currently managing the development of our Greater Changhua offshore wind farms in Taiwan. With over 10 years' experience in the industry, he has a deep knowledge of the region and an open dialogue with local authorities and fishermen. Jason plays a key role in developing the Greater Changhua portfolio which will soon deliver green power to over 2.8 million Taiwanese households.

# Financial outlook 2020

## Group EBITDA guidance

As in previous years, our guidance only includes existing Offshore partnership agreements. We had no new partnership agreements in 2019, but EBITDA from existing partnerships amounted to DKK 3.8 billion.

In 2020, EBITDA from existing partnerships is expected to be very limited.

In 2019, we signed an agreement to divest our Danish power distribution, residential customer and city light businesses. We expect the transaction to close in first half of 2020, and our EBITDA guidance includes operational earnings for the first half of 2020.

EBITDA (business performance), excluding earnings from new partnership agreements, is expected to be DKK 15-16 billion in 2020. The outlook is based on the expected development in the business units compared to 2019, as described below.

## Offshore (excluding new partnership agreements) – lower

— Earnings from offshore wind farms in operation are expected to increase from ramp-up of generation at Hornsea 1 and Borssele 1 & 2 and as another 400MW of Hornsea 1 will receive the CfD price from 31 March. Due to the extraordinarily high earnings in 2019, we expect lower earnings from trading related to hedging of our power exposure.

- As mentioned, earnings from existing partnerships is expected to go from DKK 3.8 in 2019 to a very limited amount in 2020.
- We expect lower expensed project development costs than in 2019.

## Onshore – higher

- Earnings from onshore wind farms in operation are expected to increase as a result of new wind farms coming online, including Sage Draw, Plum Creek and Willow Creek, and a full year of operation from Lockett.

## Markets & Bioenergy – lower

- Underlying earnings from our CHP plants (including ancillary services) are expected to be at level with 2019. The DKK 0.3 billion provision reversal from the Elsam competition case will not be repeated.
- Earnings in 'Gas Markets & Infrastructure' are expected to show a net decrease, due to a temporary shut-down from late 2019 until 2022 of the Tyra gas field owned by the Danish Underground Consortium (DUC), which will lower our earnings from both the gas portfolio and offshore gas pipelines. However, in contrast, we do not expect a repetition in 2020 of the negative effects from revaluating our gas at storage caused by the declining gas prices in 2019.
- Earnings in 'LNG' are expected to break-even in 2020. In 2019, we provided for the expected loss from the divestment to

## Outlook 2020, DKKbn

	2019 realised	2020 guidance
EBITDA (without new partnerships)	17.5	15-16
Offshore (without new partnerships)	15.2	Lower
Onshore	0.8	Higher
Markets & Bioenergy	1.5	Lower
Gross investments	23.3	30-32



Our EBITDA guidance for the Group is the prevailing guidance, whereas the directional earnings development per business unit serve as a means to support this. Higher/lower indicates the direction of the business unit's earnings relative to the results for 2019.

- be concluded in 2020 and the expected operating loss in the period until closing.
- Earnings from power distribution, residential customer and city light businesses are only included for half a year.

## Gross investments

Gross investments for 2020 are expected to amount to DKK 30-32 billion. The outlook reflects a high level of activity in Offshore (Borssele 1 & 2, Hornsea 2, Greater Changhua 1 & 2a and our US activities) and Onshore (Permian Energy Center, Plum Creek, Willow Creek and Sage Draw).

In addition to gross investments, significant funds are temporarily tied up in the construction of transmission assets for offshore wind farms in the UK and offshore wind

farms for our partners. These funds are a part of our operating cash flow.

At the end of 2019, funds tied up in work in progress totalled DKK 8.8 billion. During 2020, we expect to divest the Walney Extension offshore transmission asset, but we still expect to see a high level of funds tied up in work in progress in 2020 as a result of the continued construction of the transmission asset at Hornsea 2. We expect to divest the Hornsea 1 and Hornsea 2 offshore transmission assets around year-end 2020 and 2023, respectively.

## Uncertainties, prices and hedges

Our offshore wind farms are largely subject to regulated prices, implying a high degree of revenue certainty. This means that we know the price per generated MWh for most wind



Hornsea 1 is now commissioned and ramp-up generation will contribute to our earnings in 2020.



## // Our offshore wind farms are largely subject to regulated prices, implying a high degree of revenue certainty.

farms in Denmark and Germany as well as the CfD wind farms in the UK. For our British ROC wind farms, we also know the subsidy per generated MWh which we will receive in addition to the market price.

The part of our generation from offshore wind farms and power plants which is exposed to market prices has to a large extent been hedged for 2020. The same applies to our currency risks. The market value of financial hedging instruments relating to our operations and divestments of assets deferred for recognition in business performance EBITDA in 2020 amounted to DKK 0.7 billion at the end of 2019. This effect is included in the outlook for 2020 (see note 1.5).

The most significant uncertainty about the operating profit from existing activities in 2020 relates to the size of our power generation, which depends on the wind conditions, the ramp-up of new wind farms and asset availability.

### Forward-looking statements

The annual report contains forward-looking statements, which include projections of our short- and long-term financial performance and targets as well as our financial policies. These statements are by nature uncertain and associated with risk. Many factors may cause the actual development to differ materially from our expectations.

These factors include, but are not limited to, changes in temperature, wind conditions, wake and blockage effects, precipitation levels, the development in power, coal, carbon, gas, oil, currency and interest rate markets, changes in legislation, regulation or standards, the renegotiation of contracts, changes in the competitive environment in our markets and reliability of supply. Read more about the risks in the chapter 'Risk and risk management' and in note 7.

# Financial estimates and policies

## Financial estimates

In October, we presented an update of our long-term financial targets following a comprehensive project upgrading the models and processes we use to forecast the energy production from our offshore wind farms. The project leveraged our access to extensive production data from our asset portfolio. It led us to adjust two of our long-term financial targets: unlevered life cycle IRR and lifetime load factor, both for a specific group of projects. The long-term financial targets and estimates based on the entire portfolio, rather than a group of assets, remain unchanged, including ROCE and profit growth from operating assets. See further details in our company announcement: ['Ørsted presents update on its long-term financial targets'](#).

For the period 2019-2025, we expect total gross investments of approx DKK 200 billion, of which DKK 23.3 billion was spent in 2019. Investments in offshore wind farms are expected to constitute 75-85% of the investment programme. Onshore investments are expected to constitute 15-20%, while our investments in Markets & Bioenergy are expected to constitute 0-5% of the investment programme.

From 2017 to 2023, we expect an average increase in operating profit (EBITDA) from offshore and onshore wind and solar farms in operation (including O&M agreements and

power purchase agreements) of 20% annually, reaching a level of DKK 25-26 billion in 2023.

The largest share of Ørsted's operating profit (EBITDA) will still be generated by long-term contract-based or regulated activities. We expect an average of around 90% of EBITDA in the period 2019-2025 to stem from long-term contract-based or regulated activities.

Our target is an average return on capital employed (ROCE) of approx 10% for the Group in the 2019-2025 period.

## Financial policies

The Board of Directors recommends to the annual general meeting that a dividend of DKK 10.5 per share be paid for 2019, equating an increase of 8% and a total of DKK 4.4 billion.

Supported by the expected increase in cash flows from future offshore and onshore wind farms, we still intend to increase annual dividends by a high single-digit percentage compared to the previous years' dividends, covering the period up until 2025.

Our dividend policy and other expected capital allocations are subject to our commitment to our BBB+/Baa1 rating profile.

Financial estimates	Target	Year
Total CAPEX spend	DKK 200bn	2019-2025
Average return on capital employed (ROCE)	~10%	2019-2025
Average share of EBITDA from long-term regulated and contracted activities	~90%	2019-2025
Average yearly increase in EBITDA from offshore and onshore wind farms and solar farms in operation	~20%	2017-2023

## Financial policies

Rating	Min. Baa1/BBB+/BBB+ (Moody's/S&P/Fitch)
Capital structure	~30% (FFO/adjusted net debt)
Dividend policy	Ambition to increase the dividend paid by a high single-digit rate compared to the dividends for the previous year up until 2025



Read more about our key metrics, financial targets and policies in the presentation from our Capital Markets Day in November 2018 at [orsted.com/en/capital-markets-day](http://orsted.com/en/capital-markets-day) and our update in October 2019 on our long-term targets.



Our current rating is in accordance with the policy.



Formosa 1 is Taiwan's first commercial scale offshore wind project.



# Our business

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2019 saw us significantly expand our geographic footprint in the US. Amazon Onshore Wind Farm in Texas was the largest onshore wind farm in the portfolio when we acquired LCE in 2018 – a project supporting hundreds of jobs and adding more than 1,000,000MWh of clean energy to the grid each year.



# The green transformation

The world is facing a climate emergency. Climate change is happening fast and is threatening to destabilise our global ecosystems.

With the 17 UN Sustainable Development Goals (SDGs), the world's countries have agreed on the most pressing economic, social and environmental challenges that we face globally towards 2030. Climate action is a central goal, as it affects the realisation of many other SDGs where overall progress has proven to be slow or even reversed.

Science has clearly demonstrated the need to limit global warming to 1.5°C to avoid uncontrollable effects of climate change, including more floods, wildfires and droughts, decrease in biodiversity, and many other severe consequences. With the Paris Agreement, a vast majority of the world's countries agree to take global action to keep the increase in global average temperature well below 2°C and to pursue efforts to limit the increase to 1.5°C compared to pre-industrial levels. Meanwhile, the global average temperature has already increased by more than 1.1°C and is still on the rise. With current policies, temperatures are expected to reach a 1.5°C increase as soon as 2030 and 3-4°C by 2100. To turn the current development around and keep the world below a 1.5°C temperature increase, global

emissions need to be halved in just ten years and reach net-zero by 2050.

Modern society was built on fossil fuels. The burning of coal, oil and gas still account for more than 80% of global energy consumption. Decoupling economic growth and carbon emissions require expanding the green energy transformation significantly and at a global scale.

However, the share of renewables meeting global energy demand has only increased around 0.25 percentage points annually over the past decade and is expected to reach just 12% in 2023. This development falls substantially short of being in line with the 1.5°C trajectory which necessitates profound near-term decarbonisation of the energy supply. The world's countries must rapidly transform global energy systems away from fossil fuels to becoming entirely based on renewable energy. It is an enormous endeavour which is necessary and, fortunately, also possible.

Through industrialisation, economies of scale and innovation across the value chain, the cost of renewable energy has dropped significantly over the past decade. Thus, the cost of offshore wind has dropped by more than 60% since 2014, and it is now cheaper to build offshore wind farms than coal- or gas-fired power plants. The same applies to solar photovoltaic (PV) and onshore wind that have followed similar developments. Renewables becoming

the economic choice has been a breakthrough for the green transformation. It demonstrates that ambitious government targets to deploy green technologies help to effectively bring down the cost of green energy.

## Ørsted wants to contribute to a 1.5°C future

At Ørsted, our vision is a world that runs entirely on green energy. We have become the global leader in deploying offshore wind and have activities within onshore wind, solar, storage and bioenergy. Our solutions tackle the climate challenge and help speed up the global transition from fossil-based energy to renewables, which represents our largest societal impact and contribution to the SDGs.

Over the past decade, we have undergone a major transformation. From being a traditional fossil-based energy company ten years ago, we are today ranked #1 in Corporate Knights' 2020 Global 100 most sustainable corporations in the world. We have demonstrated that a rapid transformation from fossil to renewable energy is both possible and profitable. From a green energy share of 17% in 2006, we are today at 86% and will reach 99% by 2025. Through this transformation, we have reduced our carbon intensity by 86% compared to 2006. We will continue to drive out fossil-based energy generation by phasing out coal by 2023 and expanding our renewable energy capacity across the world. We have installed 7.8GW offshore and onshore wind – enough to power more than 15 million

## Our contribution to the SDGs



The 17 Sustainable Development Goals (SDGs) address the key economic, social and environmental challenges that the world faces towards 2030 as a global framework for how to achieve a more sustainable future. The goals are interconnected, and the climate challenge influences almost all the other goals.

The core business of Ørsted contributes most directly to SDG 7 on 'Clean and affordable energy' and SDG 13 on 'Climate action'. Besides these, we contribute indirectly to several other SDGs. We seek to strengthen the positive impacts and mitigate and avoid potential negative impacts that derive from our core business and a global green transition.



See the full overview of our SDG contributions and impacts in our sustainability report [orsted.com/sustainability2019](https://orsted.com/sustainability2019) and ESG performance report [orsted.com/ESGperformance2019](https://orsted.com/ESGperformance2019).

people – and our ambition is to install more than 30GW of renewable capacity by 2030, which will be enough to power more than 55 million people.

For our energy generation and operations (scope 1 and 2 emissions), our target is to become carbon neutral by 2025. To achieve this, we will reduce our carbon intensity to less than 10g CO<sub>2</sub>e/kWh, which represents at least a 98% reduction compared to 2006. This target includes both generating green energy and sourcing green energy for our own energy use. We continuously work to reduce the remaining 2% of our carbon emissions and will offset any residual emissions from 2025.

As we embark on the next phase in our decarbonisation journey, we have also set a target to reach net-zero emissions in our total carbon footprint (scope 1-3) by 2040, a decade faster than required by science. To help achieve this, we target a 50% reduction of the

emissions in our energy trading and supply chain (scope 3) by 2032, compared to 2018. We will reach this target by engaging with our suppliers to reduce emissions in our supply chain and by gradually phasing out gas sales.

We have defined our carbon-reduction targets to align our full carbon footprint with what science requires from the energy sector to limit global warming to 1.5°C. The non-profit Science Based Targets initiative (SBTi) has preliminarily concluded that our new targets align with what the 1.5°C pathway requires from energy companies. The SBTi organisation will officially announce this target classification during 2020, once it has released the 1.5°C reduction pathway for energy companies. A visual showing all greenhouse gas emissions

### Carbon neutral by 2025

Energy generation and operations (scope 1-2)

g CO<sub>2</sub>e/kWh



By 2025, we want to be carbon neutral. This target covers all direct emissions from our activities and indirect emissions from our energy consumption (scope 1-2).

● We will eliminate the remaining emissions beyond a 98% reduction (g CO<sub>2</sub>e/kWh) which could include offset by investing in certified carbon-removal projects.

— Ørsted scope 1 and 2 emissions

in our company and value chain, along with our complete action plan on how to address them, is available in our sustainability report at [orsted.com/sustainability2019](https://orsted.com/sustainability2019).

Ørsted has set the course for a carbon neutral future. Just like we have transformed, we want to help transform the world's energy systems away from fossil fuels towards green energy to limit average global temperature rise to 1.5°C. Reaching such a future requires a bold vision and decisive action by individuals, corporations and governments.

### Climate-related financial disclosures

Companies and investors also need to look at how the climate may impact their business. This includes physical factors, such as sea level rising or storms that can affect assets, and transitional factors, such as carbon prices or technology shifts that can affect business strategies. To address such risks and opportunities, it is key to adopt a science-based carbon reduction target and analyse the business' financial risks and opportunities related to climate change as recommended by the Task Force on Climate-related Financial Disclosures (TCFD).

At Ørsted, we are aware of the actual and potential impacts of climate change on the resilience of our business. By endorsing and aligning our practices and reporting with the TCFD recommendations over the past two years, we have further crystallised our understanding and disclosure of climate-related risks and opportunities. This includes improved reporting on the integration of climate-related issues into our governance mechanisms, such as the Board of Directors' competences and

executive remuneration. We also conducted a climate scenario analysis in 2019, and its overall results are disclosed in the risk section of this report.

### Our sustainability reporting

Read more about our decarbonisation strategy as well as our full range of sustainability programmes in our sustainability report [orsted.com/sustainability2019](https://orsted.com/sustainability2019). The report constitutes our annual Communication on Progress to the UN Global Compact and highlights our positive and negative impacts on the Sustainable Development Goals (SDGs).

A full ESG data overview with accounting policies is available in our ESG performance report [orsted.com/ESGperformance2019](https://orsted.com/ESGperformance2019).

With the Sustainability and the ESG reports, we comply with the requirements for corporate social responsibility reporting set out in section 99a of the Danish Financial Statements Act as well as section 99b on the gender distribution at management levels, respectively.

See and download the reports here: <https://orsted.com/en/Sustainability/Our-reporting#0>

### Greenhouse gas emissions

Greenhouse gas emissions related to a company is typically divided into three categories according to the Greenhouse Gas (GHG) Protocol:

- Direct emissions (scope 1), which cover all direct emissions from the company's operations, e.g. from the burning of coal and gas at heat and power plants.
- Indirect emissions (scope 2), which include the emissions from the generation of electricity, heat and steam purchased and consumed by a company, e.g. for heating of buildings.
- Indirect emissions (scope 3), which include the upstream emissions in the company's supply chain from production and transportation of the goods and services purchased as well as from downstream emissions in relation to the end-user's consumption of the company's products or services.

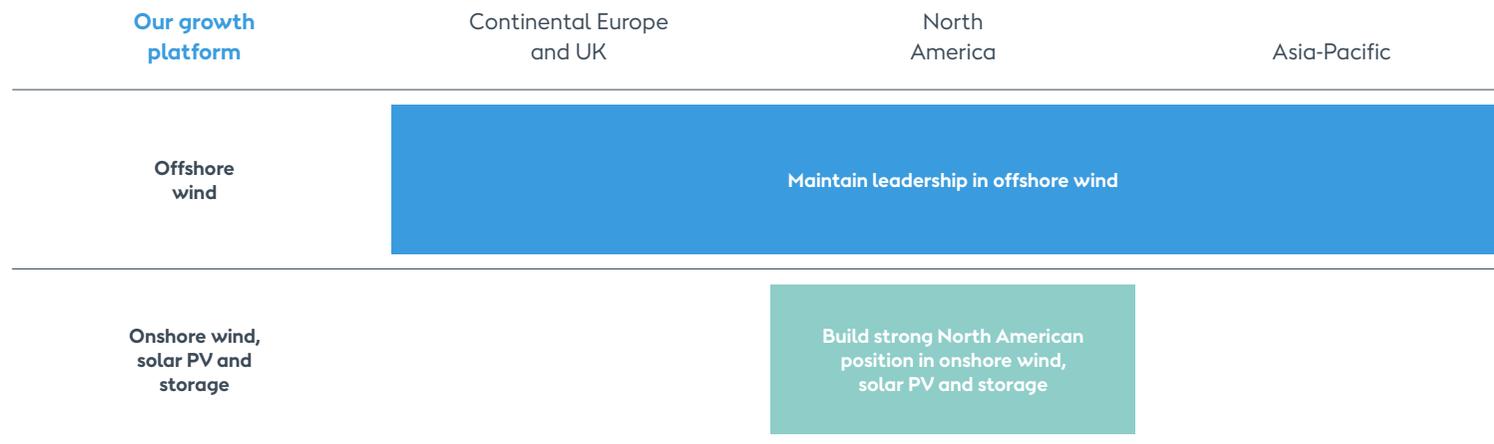
# Our strategic aspiration and growth platform

The need to transform the world's energy systems from fossil fuel-based to renewable energy and our leadership position in offshore wind give us a strong platform to realise our aspiration of becoming a global, green energy major in a rapidly expanding global renewable energy market.

By 2030, global installed renewable capacity is expected to be four times higher than it is today, fuelled by the cost competitiveness of green technologies and by increasingly ambitious government plans to decarbonise energy systems in the fight against climate change.

Ørsted's renewable energy portfolio includes offshore wind, onshore wind, solar PV and storage. In offshore wind, we are the market leader, both globally and across our four regional markets: UK, Continental Europe, North America and Asia-Pacific. In onshore renewables, i.e. onshore wind, solar PV and storage, a market we entered in 2018, we have a growing position in North America that will soon span seven US states.

Our global leadership position in offshore wind and growing regional position in onshore renewables create a strong foundation for reaching our strategic ambition of more than 30GW of installed renewable capacity by 2030.

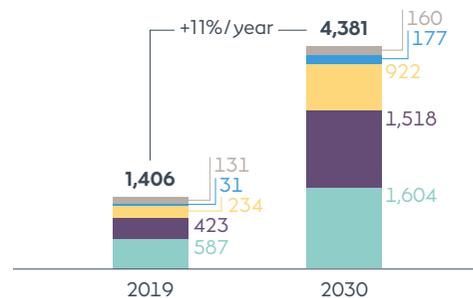


However, volume is not an objective in itself. We only invest in projects that provide returns above our cost of capital.

Markets & Bioenergy plays an important role in supporting our growth platform by providing services that help offtake the Group's energy generation and manage our risk exposure. The business unit is also responsible for our portfolio of combined heat and power (CHP) plants which provide green heat, power and ancillary services to Denmark's energy system, making a significant contribution to the decarbonisation agenda. To sharpen the focus of Markets & Bioenergy, we initiated several divestment processes for non-core activities over the past year, and we have already concluded some of these.

Global renewable energy capacity by technology<sup>1</sup> GW installed

- CAGR**
- 17% Offshore wind
  - 13% Small-scale PV
  - 12% Large-scale PV
  - 10% Onshore wind
  - 2% Biomass



<sup>1</sup> Excludes solar thermal, geothermal, marine, tidal and others, which combined account for less than 1% of capacity.

Source: Bloomberg New Energy Finance (BNEF) New Energy Outlook 2019 for all technologies except offshore wind. Offshore wind figures from BNEF H1 2019 Offshore Wind Market Outlook.

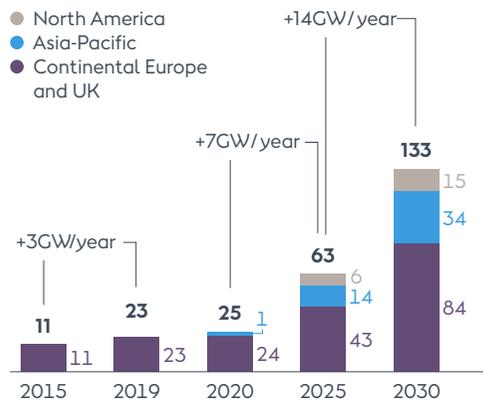
# Our markets and strategy

## Offshore wind

### The global offshore wind market

In 2019, global installed offshore wind capacity excluding mainland China totalled 23GW. Bloomberg New Energy Finance estimates that the global offshore wind market will see the installation of approx 7GW per year between 2020 and 2025, and that annual additions will double to an average of 14GW per year by the mid to late 2020s. This represents a significant increase in comparison to the 3GW annual build-out rate in recent years. In the long term, the International Energy Agency predicts that offshore wind will become a mainstay of the world's power supply, with the technical potential to cover 1.5

### Offshore wind capacity excl. mainland China GW installed



Source: BNEF H1 2019 Offshore Wind Market Outlook.

times the world's current electricity demand, according to a report published in 2019.

Europe including the UK is by far the largest and most mature market for offshore wind. We expect to see significant growth in this region in the years to come, not least due to the ambition of the European Union to reach net-zero carbon emissions by 2050. The UK is currently the world's largest market for offshore wind. In 2019, the conservative government pledged to build 40GW by 2030, and the Crown Estate launched its first major auction for new offshore lease areas with a combined potential of up to 7GW of capacity. In mainland Europe, there has also been an increase in government build-out targets driven by the falling cost of offshore wind, decreasing availability of sites for onshore projects and an increasing sense of urgency about the decarbonisation of Europe's energy system. In 2019, France, Belgium and Poland raised their targets, while Ireland introduced a target for offshore wind for the first time, promising a strong line-up of tenders over the coming years.

North America and Asia-Pacific are new and relatively immature offshore markets in comparison to Europe. However, strong government commitments are propelling growth in these regions. In North America, the driving force of offshore wind expansion is state-level policies, which have been effective in establishing a rapid and significant build-

### Selected offshore wind targets

Region	Target	Current capacity (GW)†
<b>Continental Europe and UK<sup>1</sup></b>		
The UK	40GW by 2030	20.2
Germany	20GW by 2030	10.8
The Netherlands	11.5GW by 2030	4.5
Poland	9.6GW by 2030	0.0
France	11GW by 2028	3.5
Denmark	5.3GW by 2030	2.7
Belgium	4GW by 2030	2.3
Ireland	3.5GW by 2030	<0.1
Italy	0.9GW by 2030	<0.1
<b>North America<sup>2</sup></b>		
New York	9GW by 2035	1.8
New Jersey <sup>3</sup>	7.5GW by 2035	1.1
Massachusetts	3.2GW by 2030	1.6
Virginia	2.5GW by 2026	0.0
Connecticut	2GW by 2030	1.1
Maryland	1.6GW by 2030	0.4
Rhode Island <sup>4</sup>	1GW by 2020 <sup>**</sup>	0.4
<b>Asia-Pacific</b>		
Taiwan <sup>5</sup>	15GW by 2035	5.7
South Korea <sup>1</sup>	12GW by 2030	0.1
Japan <sup>6</sup>	10GW by 2030 <sup>***</sup>	<0.1



#### Sources

- <sup>1</sup> IEA Offshore Wind Outlook 2019
- <sup>2</sup> AWEA Offshore Wind Fact Sheet October 2019
- <sup>3</sup> Greentech Media
- <sup>4</sup> State of Rhode Island Office of Energy Resources
- <sup>5</sup> Offshore WIND
- <sup>6</sup> Linklaters

#### Notes

- \* Target not legally binding.
- \*\* Clean energy target, technology not specified.
- \*\*\* Combined offshore and onshore target.

† Total capacity includes installed, under construction and awarded capacity end of 2019.

projects, and we now see Japan and South Korea following suit as next-in-line markets.

The growing volume of offshore wind projects and the expected long-term market growth have attracted new players and increased competition in the industry. Most notably, oil majors have entered the market with ambitious build-out targets, which has made auctions and tenders more competitive, putting pressure on margins.

### Our offshore ambition

Ørsted is the world leader in offshore wind, with approx 30% of the global offshore wind capacity installed and under construction outside mainland China. We have played a key role in maturing the industry, and we have built more offshore wind farms worldwide than any other company. By the end of 2019, we had 6.8GW of installed capacity,

out potential across the Eastern seaboard. In Asia-Pacific, Taiwan has been the first mover in encouraging the development of offshore wind

3.0GW under construction and a further 5.0GW awarded.

Ørsted's strategic ambition within offshore wind is to maintain our market leadership position and to reach 15GW of installed capacity by 2025. With our US East Coast awards of 2.9GW in 2019, we are already very close to reaching this goal, provided we take FID on all awarded projects.

Exponential growth and increasing competition in the underlying market in combination with our focus on financial discipline imply a lower win rate in competitive auctions and tenders going forward in comparison to our historical win rate of one third. Recent processes in the US (Massachusetts and Connecticut), the Netherlands and France illustrate this, where we were not awarded any capacity. However, given the rapidly expanding market, we expect to reach our build-out ambition with a lower win rate.

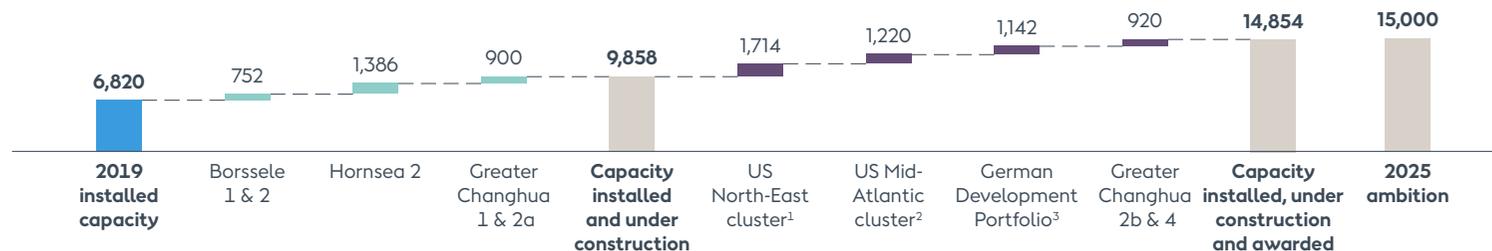
**Our offshore strategic priorities**

Several overall strategic priorities guide our offshore activities across regions. To deliver on our growth ambition, we will:

- drive operational excellence to secure best-in-class availability on operating assets, continue to deliver construction projects on time and on budget, and ensure value-creating FIDs on our awarded portfolio
- maintain leading market positions and expand our presence in the UK, Continental Europe, North America and Asia-Pacific
- continue to push for LCoE reductions through new technology adoption, supply chain development and systematic cost-out

**Offshore capacity build-out towards 2025**  
MW

- Awarded capacity
- Capacity under construction
- Capacity installed



<sup>1</sup> South Fork (130MW), Revolution Wind (704MW) and Sunrise Wind (880MW).  
<sup>2</sup> Skipjack (120MW) and Ocean Wind (1,100MW).  
<sup>3</sup> Gode Wind 3 (242MW) and Borkum Riffgrund 3 (900MW).

- closely monitor market for new complementary technologies and identify attractive opportunities for bundling offshore wind with storage and electro fuels
- maintain agility and reduce overhead through digitalisation and simplification of operations to free up funding for investment in market development initiatives.

**Our offshore regions**

Our offshore wind business is organised in four regions: the UK, Continental Europe, North America and Asia-Pacific. As our footprint expands, we recognise the need for a differentiated approach to our markets. Therefore, in addition to our overall strategic priorities, we have strategic focus areas in each region.

**UK**

We have been active in the UK since 2004, when we became a joint owner of the Barrow offshore wind farm. Today, the UK is our largest market, and we have 15 offshore wind farms in operation in British waters with a total capacity of 4.6GW, of which we own 2.3GW. In addition, we are constructing Hornsea 2, the world's largest wind farm at 1.4GW, and we have 4-5GW of seabed leases under development for the remaining part of the Hornsea zone (Hornsea projects 3 and 4).

We continue to see the UK as a key market for Ørsted, with opportunities to secure value-creating wins in auctions. Given the maturity of the market players and our operations in this region, our strategic focus is to continue to drive innovation and to leverage our market-leading EPC and O&M platforms.

**Continental Europe**

We have been present in Continental Europe since 1991, when we constructed the world's first offshore wind farm in Danish waters. Today, we have nine wind farms in operation and a total installed capacity of 2.4GW across Germany and Denmark. In addition, we have 0.8GW under construction in the Netherlands, and we have 1.1GW of awarded capacity in Germany.

Continental Europe is another very important market for Ørsted. We are focused on maturing our German development portfolio for FID, and we are exploring new markets, such as Poland, France and Belgium. We are also expanding our offtake platform through corporate power purchase agreements (CPPAs) to reduce merchant risk exposure and strengthen the risk-return profile of projects. Lastly, we are investigating

opportunities in adjacent technologies, such as renewable hydrogen, which have the potential to decarbonise hard-to-abate sectors, such as heavy industry and transportation.

### North America

We established a foothold in North America in 2016 when we secured the right to develop the Bay State Wind site off the coast of Massachusetts. In 2018, we acquired Deep-water Wind, creating the largest US offshore wind developer in terms of project pipeline. We currently operate the US' only offshore wind farm, the 30MW Block Island Wind Farm off the Rhode Island coast. We are also EPC responsible for the pilot Coastal Virginia Offshore Wind project, the first fully permitted offshore wind project in federal waters. In 2019, we won two major US auctions in New Jersey and New York. Our strong performance in recent US solicitations has resulted in a total awarded capacity of 2.9GW, and we have up to 4.5GW of seabed leases under development which we can utilise for auctions and tenders in 8 different states.

In the US, our success was enabled by an early and strong commitment to the market, a willingness to invest in local communities and the ability to deliver competitive projects in partnership with knowledgeable and experienced local players. Thus, our strategic focus is to continue building the market, while strengthening our local capabilities. We are developing our North-East and Mid-Atlantic projects with emphasis on harvesting cluster synergies, delivering projects on time and on budget, meeting local content commitments, and expanding local partnerships.

### Asia-Pacific

We entered the Taiwanese market in 2017, marking our first operations in Asia-Pacific. We are the co-owner of Taiwan's first commercial-scale offshore wind farm, Formosa 1, whose second phase was inaugurated in November 2019. We have obtained site exclusivity for four offshore wind sites off the coast of Changhua County. Of these four sites, 900MW is under construction, 920MW has been awarded, with approx 600MW remaining for possible future auction rounds.

We have a strong foothold in Asia-Pacific, and our strategic focus in this region is to continue to build our organisation and capabilities to ramp up project development and execution. We will continue to work on strengthening local partnerships and supporting the build-out of local supply chains in Taiwan. We are also expanding our footprint into new markets. In Japan, we are firming up our partnership with TEPCO with a focus on the Choshi zone off the coast of Tokyo, and, we are exploring the potential for value-creating projects in South Korea.

## Onshore renewables

### The onshore renewables market

The global renewable energy mix is dominated by onshore wind and large-scale solar PV, which accounted for over 72% of installed capacity worldwide in 2019. The same is true in North America, which is the third-largest market in the world for onshore wind with approx one fifth of global installed capacity in 2019. Installed large-scale solar PV capacity in North America reached 51GW in 2019 and is forecast to grow by 10% per year towards 2030. New build-out ahead of

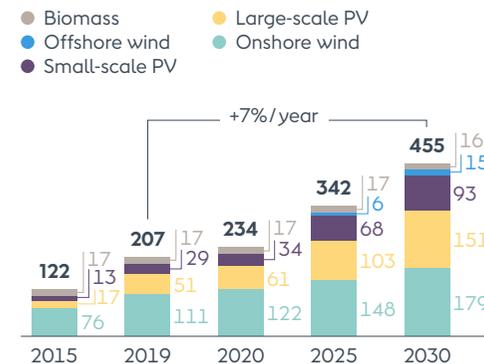
the upcoming phase-out of tax credits and an increase in state-level clean energy targets are the main causes of an increase in expected capacity towards 2025.

### Our onshore ambition

Through the acquisition of Lincoln Clean Energy (LCE) in 2018 and subsequent expansions, we have established a significant presence in North American onshore renewables, including onshore wind, large-scale solar PV and energy storage. In 2019, we completed the integration of LCE and changed the LCE name to Ørsted, thereby applying the Ørsted brand to the full spectrum of onshore and offshore renewable technologies. Our combined installed and under construction capacity makes us approx the 20th largest onshore wind and solar PV company in the US.

Our strategic ambition in North America is to build a leadership position in onshore

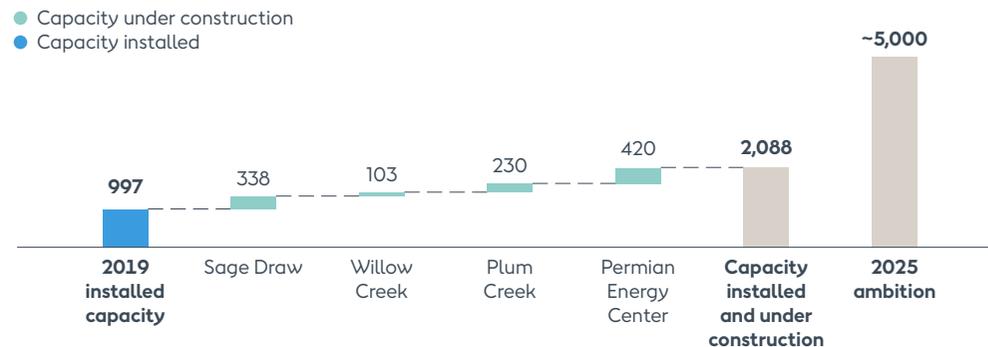
### North American renewable capacity by technology<sup>1</sup> GW installed



<sup>1</sup> Excludes solar thermal, geothermal, marine, tidal and others, which combined account for less than 1% of capacity.

Source: Bloomberg New Energy Finance (BNEF) New Energy Outlook 2019 for all technologies except offshore wind. Offshore wind figures from BNEF H1 2019 Offshore Wind Market Outlook.

### Onshore capacity build-out towards 2025 MW



renewables. In 2019, we had 2.1GW of onshore renewables installed and under construction in North America – 1.7GW of onshore wind, 430MW of solar PV and 40MWac of storage capacity. Since entering the US onshore market, we have doubled our operating portfolio, and it will more than double again by 2021. We have set a target of 5GW of installed capacity by 2025. While our portfolio will remain largely onshore wind dominated, we look to grow our solar PV operational capacity to approx 20-30%, enabling us to broaden our growth platform and capture the benefits of diversification.

**Our onshore strategic priorities**

The strategic priorities which guide our onshore activities are operational excellence, reducing LCoE and maintaining a pioneering spirit and growth mindset. We took FID on four projects in 2019 and currently have over 1GW under construction across the electricity markets ERCOT and SPP. We will continue to focus on securing attractive long-term PPAs that facilitate solid economics after the phase-out of the production tax credit and the investment tax credit for wind and solar PV projects, respectively.

**Markets & Bioenergy**

Our Markets & Bioenergy business has five core functions. Firstly, it provides an efficient route-to-market for Ørsted and third-parties by offering services such as power balancing and green certificates trading. Its second function is to manage market risk for our energy portfolio through commodity trading and other risk management activities. Markets & Bioenergy also manages the operations of our CHP plants. Fourthly, it is responsible for optimising

our natural gas portfolio. Finally, Markets & Bioenergy is responsible for our waste recycling technology, Renescience.

As the share of renewable energy in the grid increases, there is an increasing need to balance forecasted and actual generation. Markets & Bioenergy continues to provide an efficient route-to-market for Ørsted's and third-parties' power generation through power origination, physical balancing and portfolio optimisation services.

Intensifying competition and new regulatory models in some markets mean that a larger share of project revenues will be exposed to market risk going forward. Markets & Bioenergy will continue to manage our exposure to merchant power prices through market trading and risk management.

Our portfolio of bioconverted CHP plants remains a key component in the green transition of the heat and power sector in Denmark and supports the power grid during times of low renewable generation. We continue to optimise the performance of our CHP plants, and in 2019, we completed the last planned bioconversion of our CHP plants. From mid-December, all heat and power generated at Asnæs Power Station were produced from sustainable biomass, leaving Esbjerg Power Station our last coal-fired plant, which we plan to close in early 2023.

Gas is a fossil fuel that should eventually be phased out of the energy system. However, during the transition period leading up to a 100% green energy system, gas ensures reliability of supply. We focus on optimising



the value of our legacy natural gas portfolio through trading, portfolio optimisation and contract negotiations.



Our Amazon Wind Farm comprises 110 wind turbines, each over 90 meters tall, and has a capacity of 253MW.

# Our capital allocation and funding

To realise our strategic aspiration, substantial investments and funding are required.

We incurred capital expenditures of DKK 23.3 billion in 2019, primarily driven by construction activities in Offshore (DKK 15.1 billion). Our plan is to invest an estimated DKK 200 billion in the period from 2019 through 2025, with more than 95% earmarked for offshore wind and onshore renewables and 0-5% dedicated to reinvestment in our Markets & Bioenergy activities. Our capital will be allocated to projects with the best risk-return profile, and we will only invest in projects which generate returns above our cost of capital.

The strategic plan is subject to our four capital allocation priorities. Firstly, we maintain our strong commitment to our credit ratings (BBB+/Baa1). Secondly, we intend to increase our annual dividends by a high single-digit percentage. Thirdly, we will invest in value-creating growth. Finally, potential excess capital will be returned to our shareholders in the form of additional dividends and/or share buy-backs.

Going forward, our investments will be fully funded by green capital, either through operating cash flow from our renewable energy projects or through new debt issued in accordance with our green finance framework. This framework was developed in 2019 in alignment with ICMA's Green Bond Principles

2018 and LMA/APLMA/LSTA's Green Loan Principles 2018 and replaces our previous Green Bonds Framework from 2017. In the 2019 framework, we have broadened our green financing instruments to include green bonds, green loans and other debt instruments to finance eligible green projects.

2019 saw several funding highlights. In May, we issued GBP 900 million (DKK ~7.8 billion) of green senior bonds in one inflation-linked (CPI) tranche and two nominal tranches, making Ørsted the first corporate issuer of CPI-linked green bonds in the UK. In June, we established a five-year NTD 25 billion (DKK ~5.5 billion) green revolving credit facility in partnership with a group of 15 banks, the majority of which were local Taiwanese banks. In November, Ørsted was the first foreign corporate entity to issue NTD denominated green bonds in Taiwan, with the issuance of NTD 12 billion (DKK ~2.7 billion). In December, we issued green hybrid capital securities of EUR 600 million (DKK ~4.5 billion) and redeemed EUR 524 million (DKK ~3.9 billion) of existing hybrid capital securities callable in 2020.

With this year's transactions, our total outstanding debt, excluding hybrids, amounted to DKK 37.2 billion, with more than 50% of this issued in a green format.



Oak solar farm in New Jersey, US is comprised of 53,200 fixed solar panels and has a capacity of 10MW.

# Our strategic enablers

Achieving our ambition of becoming a global green energy major requires continuously strengthening our organisation across several dimensions. Therefore, we continue to evolve our global operating model and invest in digitalisation, talent and innovation.

## Global operating model

Effective from 2020, we introduced a new global operating model in Offshore to support our international growth ambitions. The aim of the new model is to balance global scale advantages and local market proximity as well as to create a more transparent and scalable platform for our global expansion plans.

## Digitalisation

Ørsted's digitalisation strategy is focused on the deployment of advanced analytics and artificial intelligence, as these capabilities represent the greatest value creation potential. We currently have six agile release trains (ART) running across the organisation.

The ART in Offshore Operations is our most advanced and is focused on maintenance optimisation and yield uplift of older wind turbines. The ART in Markets & Bioenergy and Risk facilitated the development and deployment of our US trading unit and focuses on developing automated and algorithmic trading capabilities. The ART in Offshore EPC was ramped up in late spring to help optimise

the CAPEX baseline in bid processes. The remaining three ARTs are running in Offshore EPC, Markets & Bioenergy and Ørsted Group Support and focus on the automation and optimisation of business processes.

## Talent

To reach our ambition of becoming a global green energy major, we have strengthened our talent strategy to address all stages of the employee life cycle and to meet the needs of our local markets. We are investing in our employer brand and are strengthening our talent acquisition efforts in all markets. Improved onboarding programmes aim at ensuring new colleagues develop faster and more effectively. We provide our employees with a healthy working environment to enhance well-being and performance and to differentiate us as an employer.

As our global footprint expands, our workforce also becomes more diverse. We are building an inclusive culture to leverage diversity and strengthen our company. We are also increasing our efforts to promote career development and internal mobility. A new simplified

career model will make career opportunities more visible and accessible to support the development and retention of talent at Ørsted.

## Innovation

A strong entrepreneurial drive and willingness to challenge industry notions of what is possible has been at the heart of Ørsted's successful transformation. Innovation is in our DNA, and we will continue to push frontiers to remain a leader in a dynamic and unpredictable market. This includes exploring new technologies and solutions. For example, we are investigating the potential of renewable hydrogen for direct application and conversion to renewable fuels. We have established a separate hydrogen team, anchored in our Offshore business unit, which has established a project pipeline and kicked off initial phases of several pilot projects.

We continue to be innovative in deploying our market trading capabilities to manage risk better and more economically. Furthermore, we continue to develop our corporate PPA (CPPA) business, which we expect will play a key role in addressing merchant risk.



As a frontrunner in the global green energy transition, we're investing heavily in digitalisation and innovation.

# Our business model

- Inhouse activities
- Partly outsourced activities

## Key Resources

### Financial capital

We finance our investments through cash flows from operations, debt and divestment of ownership interests.

### Energy assets

We invest in scalable, innovative green technologies and solutions.

### Natural resources

We rely on natural resources, such as construction materials, biomass, as well as locations with attractive wind speeds and seabed and land conditions.

### Human resources

We rely on a highly skilled workforce to operate our business.

### Innovative culture

We continuously innovate our energy solutions to drive competitiveness.

### Stakeholder engagement

We depend on constructive relations with our key stakeholders to ensure supportive framework conditions for our business.

Core activities	Develop	Build	Operate	Own	Market
 <b>Offshore</b> Capital employed 74%	Develop offshore wind farms	Construct offshore wind farms	Operate and maintain offshore wind farms	Raise capital through partnerships and farm-downs	Activities related to offtaking our power generation and hedging our risk exposure are performed by Markets & Bioenergy, but earnings from these activities are allocated to the business unit they impact  Examples include route-to-market services and trading activities
	Projects under development in the UK, US, Germany and Taiwan	3 offshore wind farms under construction	Operator of 24 offshore wind farms	Manage profitability over asset lifetime	
Exploring opportunities in Japan, Poland and South Korea			Full owner or partly owner of 29 offshore wind farms		
 <b>Onshore</b> Capital employed 11%	Develop onshore wind, solar PV and storage projects and ensure tax equity	Select best-in-class contractors to construct our onshore assets	Management of extended service agreements to operate and maintain our onshore assets	Raise capital through tax equity partnerships	↑
	Onshore wind, solar PV and storage projects under development in the ERCOT, MISO, PJM and SPP electricity markets	3 onshore wind farms, 1 solar PV farm and 1 storage facility under construction	Operator of 4 onshore wind farms, 1 solar PV farm and 1 storage facility	Manage profitability over asset lifetime	
Owner of 7 onshore wind farms, 2 solar PV farms and 2 storage facilities					
 <b>Markets &amp; Bioenergy</b> Capital employed 15%		Operate and maintain CHP plants	Manage profitability over asset lifetime	Provide route-to-market services for our own and third-parties' electricity, power certificates and gas	
		Operator of 6 bio-converted CHP plants, 3 heat and ancillary service plants and 1 coal-fired CHP plant	Owner of 6 bio-converted CHP plants, 3 heat and ancillary service plants and 1 coal-fired CHP plant	Manage Ørsted's energy portfolio risks	

## Value created

### Society

We address profound societal challenges by developing green, independent and economically viable energy systems that reduce greenhouse gas emissions and stimulate local growth and job creation.

### Customers

We fulfil our customers' energy needs through green, innovative and efficient energy solutions.

### Employees

We are committed to a sustainable working life and keep a constant focus on being a great and safe place to work with motivated and satisfied employees.

### Shareholder return

We create value for our shareholders in the form of competitive total returns.

# Our strategic targets

--- ● Target

## 1. EBITDA from operating offshore and onshore sites, %

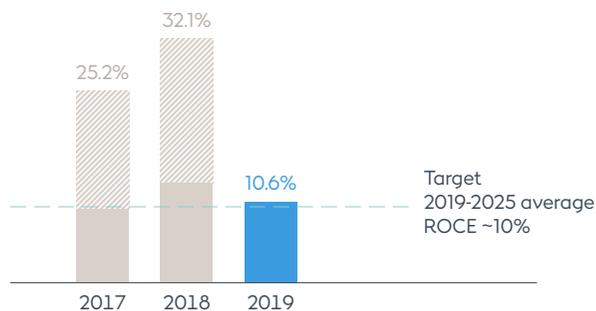
We have set a target to increase EBITDA from our wind and solar farms in operation by an average of 20% per year from 2017 to 2023. From 2017 to 2019, we averaged an annual growth rate of 32% in line with our objective.



## 2. ROCE, %

We target an average return on capital employed (ROCE) of approx 10% from 2019 to 2025. In 2017 and 2018, ROCE was positively impacted by substantial profits from new partnership agreements, particularly divestment gains.

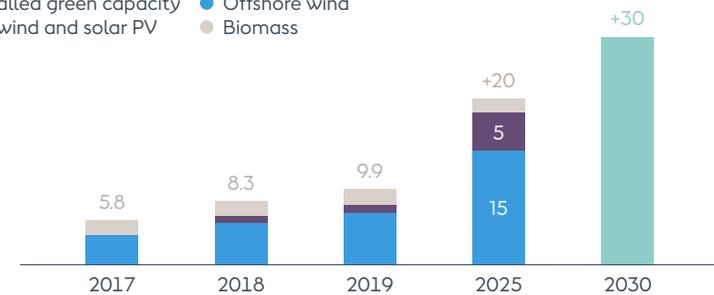
● Approximate ROCE excl. earnings from new partnership agreements



## 3. Installed green capacity, GW

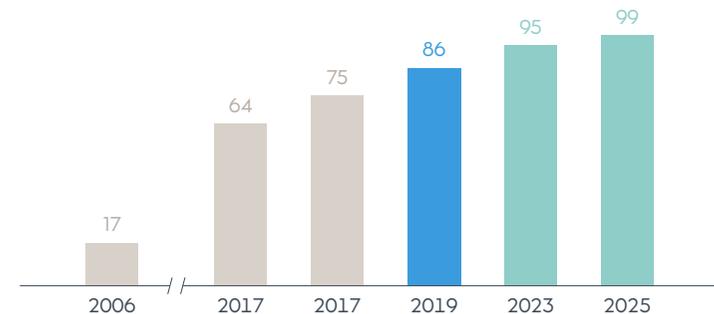
In 2018, we set an ambition to have installed more than 30GW of green capacity by 2030. In addition, our ambition is to have installed 15GW of offshore wind and 5GW of onshore wind and solar PV capacity by 2025. We are making good progress on our ambitions with 9.9GW of green capacity installed, 4.1GW under construction and 5.0GW awarded at the end of 2019.

● Total installed green capacity ● Offshore wind ● Onshore wind and solar PV ● Biomass



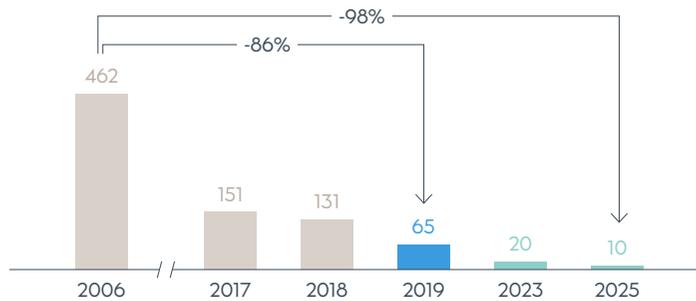
## 4. Green share of generation, %

In 2019, we increased the green share of generation to 86%, up 11 percentage points compared to last year. We are on track to meet our objective of exceeding 95% by 2023 and reaching 99% by 2025.



## 5. Greenhouse gas emission intensity (scope 1 and 2), g CO<sub>2</sub>e/kWh

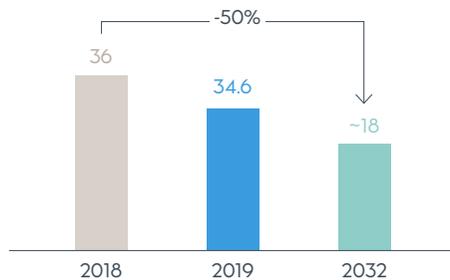
We are well on track to meet our scope 1 and 2 greenhouse gas (GHG) emission intensity target of less than 10g CO<sub>2</sub>e/kWh in 2025<sup>1</sup>. Scope 1 refers to the direct GHG emissions from our energy generation and operations, and scope 2 refers to the indirect GHG emissions from the energy we source for our operations. Lower generation based on coal and gas together with our continued build-out of renewables contributed to a reduction in our GHG intensity to 65g CO<sub>2</sub>e/kWh in 2019.



<sup>1</sup> In addition to the emission reduction targets, we have set a new target of being carbon neutral in 2025. We will neutralise the last 0-10 gCO<sub>2</sub>/kWh with carbon offsets.

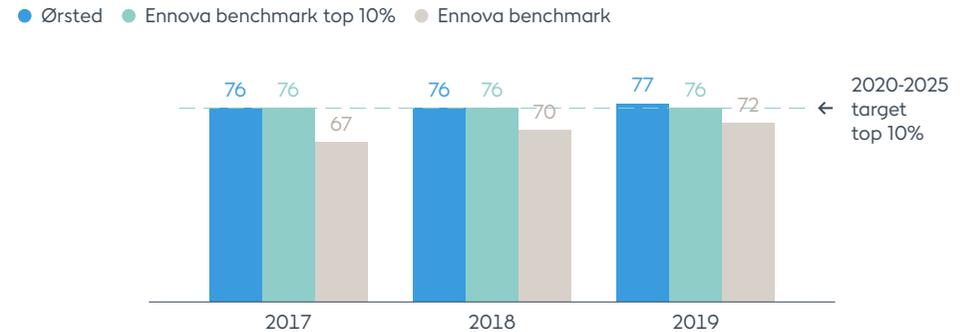
## 6. Greenhouse gas emissions (scope 3), million tonnes CO<sub>2</sub>e

In 2019, we introduced a target for our scope 3 GHG emissions. We aim to reduce our scope 3 emissions by 50% between 2018 and 2032. The primary sources of our scope 3 emissions are indirect emissions related to the trading of natural gas and fossil-based power in our Markets business as well as to the goods and services we source for the construction of our wind and solar farms.



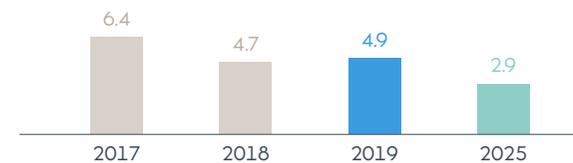
## 7. Employee satisfaction, scale 1-100

We believe that employee satisfaction and positive results go hand in hand. Therefore, we are continuously working to improve the well-being of our employees. In 2019, we reached a record high score and met our 2020 target for employee satisfaction. This score places Ørsted among the top 10% of our external benchmark group, similar to 2017 and 2018. We are proud of this and aim to stay in the top 10%.



## 8. Safety, TRIR

Safety is high on our agenda, and we do our utmost to prevent accidents and injuries. Our target is to reduce the total recordable injury rate (TRIR) to 2.9 by 2025, which is a sharpening of our previous target of 3.3. In 2020, we target a TRIR of 4.2 or lower.



# Our global footprint



## Activities

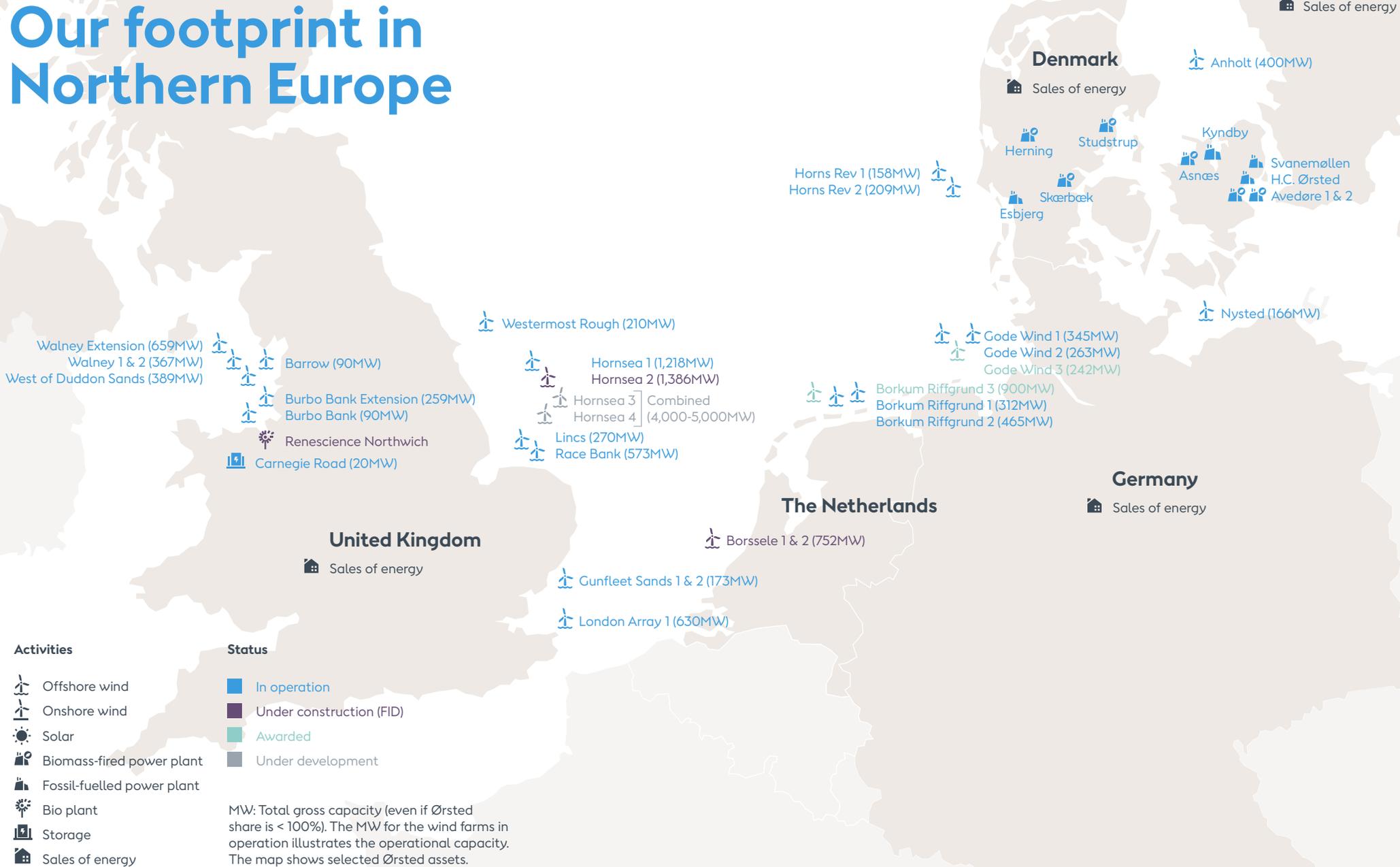
- Offshore wind
- Onshore wind
- Solar
- Biomass-fired power plant
- Fossil-fuelled power plant
- Bio plant
- Storage
- Sales of energy

## Status

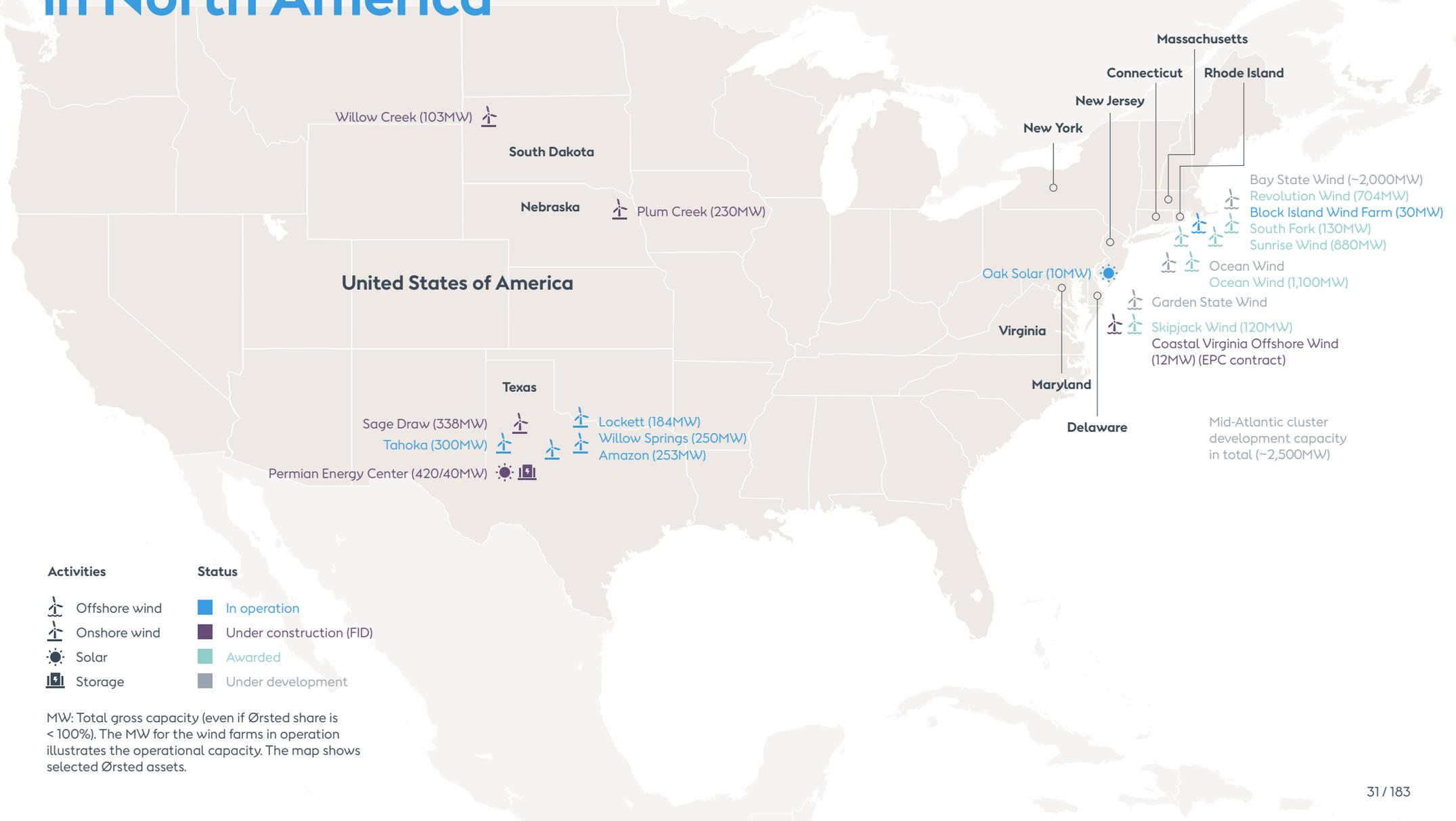
- In operation
- Under construction (FID)
- Awarded
- Under development

MW: Total gross capacity (even if Ørsted share is < 100%). The MW for the wind farms in operation illustrates the operational capacity. The map shows selected Ørsted assets.

# Our footprint in Northern Europe



# Our footprint in North America



**Activities**

- Offshore wind
- Onshore wind
- Solar
- Storage

**Status**

- In operation
- Under construction (FID)
- Awarded
- Under development

MW: Total gross capacity (even if Ørsted share is < 100%). The MW for the wind farms in operation illustrates the operational capacity. The map shows selected Ørsted assets.

# Results

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Julie's home is powered by green energy from one of Ørsted's five Danish offshore wind farms. In 2019, 47% of Danish power came from renewable energy solutions. She made the switch to green energy this year to help protect the future of our planet for her children and the generations to come.

# Results

## Reporting

In June, we decided to consolidate the business units Customer Solutions and Bioenergy into a new business unit, named Markets & Bioenergy. In addition, as we run the business on an end-to-end value chain thinking, we decided that all activities and earnings that relate to Offshore and Onshore, will be reported in these segments, even if the daily activities are performed on behalf of the group in Markets & Bioenergy. Therefore, earnings from trading related to hedging of our power exposures and power portfolio optimisation activities in relation to Offshore and Onshore are now presented in these business units. In 2019, EBITDA of DKK 725 million and DKK -18 million were transferred to Offshore and Onshore, respectively, and DKK 237 million was transferred to Offshore in 2018.

## Financial results

### Revenue

Power generation from offshore and onshore wind increased by 46% and totalled 15.5TWh in 2019, mainly due to the ramp-up of generation from Hornsea 1, Borkum Riffgrund 2 and Walney Extension and the addition of our Onshore business unit, which we acquired in Q4 2018. Curtailments and various operational issues had a larger than normal adverse impact on our offshore generation in 2019.

Thermal power generation amounted to 4.6TWh, and heat generation amounted to

8.3TWh, down 31% and 6%, respectively, compared to 2018. The decreases were mainly due to warmer weather than in 2018 and less favourable market conditions for power generation. We also generated heat without combined power generation at Asnæs Power Station most of the year. Offshore and onshore wind accounted for 77% of our total power generation, while the renewable energy share of our total heat and power generation accounted for 86% in 2019 compared to 75% in 2018.

Revenue amounted to DKK 67.8 billion. The decrease of 12% relative to 2018 was primarily due to significantly lower gas prices, lower revenue from construction of transmission assets, lower gas sales and lower thermal heat and power generation as mentioned above.

### EBITDA

Operating profit (EBITDA) totalled DKK 17.5 billion compared to DKK 30.0 billion in 2018. The decrease was mainly due to the 50% farm-down of Hornsea 1 in 2018 which contributed positively with DKK 15.1 billion. Adjusted for new partnerships, EBITDA increased by 17%. This was driven by a 30% increase in earnings from offshore and onshore wind farms in operation, which was due to a full year with Onshore and ramp-up at Hornsea 1, Borkum Riffgrund 2 and Walney Extension as well as good performance from trading related to hedging of our UK

## Business performance vs. IFRS

Ørsted uses business performance as an alternative to the results prepared in accordance with IFRS. Business performance represents the underlying financial performance of the Group in the reporting period, as results are adjusted for temporary fluctuations in the market value of contracts (including hedging transactions) relating to other periods. The difference between the two principles will be eliminated as the contracts expire. Apart from this, there is no difference between business performance and the IFRS results.

EBITDA calculated in accordance with IFRS amounted to DKK 19.0 billion in 2019 against DKK 28.5 billion in 2018. Calculated in accordance with the business performance principle, EBITDA was DKK 17.5 billion and DKK 30.0 billion, respectively. The difference between the two principles was DKK 1.5 billion both years, but with opposite signs.

In the presentation of the results according to IFRS, Ørsted does not apply the provisions on hedge accounting of commodities and related currency exposures. The market value adjustments of these are continuously recognised in the income statement, which means that the IFRS results for the individual years are not comparable. IFRS results do not reflect the commercial risk hedging, according to which the business units and the Group are managed and evaluated.

In the management's review, comments are based on the business performance principles only, unless otherwise specified. Reference is also made to note 1.5.

Business performance vs. IFRS, DKKm	2019	2018
<b>EBITDA – business performance</b>	<b>17,484</b>	<b>30,029</b>
Market value adjustments for the year of financial and physical hedging contracts relating to a future period	141	(1,734)
Reversal of deferred gains (losses) relating to hedging contracts from previous periods, where the hedged production or trade is recognised in business performance EBITDA in this period	1,395	196
<b>EBITDA – IFRS</b>	<b>19,020</b>	<b>28,491</b>

energy exposures. The reversal of a provision related to the Elsam competition case also contributed positively to the higher earnings.

Earnings from our gas activities were negatively affected by the steep decline in gas prices which had a temporary adverse effect on our earnings in 2019 due to a decrease in the accounting value of our gas inventories, whereas we saw an opposite effect in 2018 due to increasing gas prices. In addition, we had a positive outcome of an arbitration case in 2018 which was not repeated in 2019. Furthermore, the agreement to divest our LNG activities had a net negative impact of DKK 0.8 billion on earnings in 2019 as the agreement entails a larger payment to the buyer than what we had provided for.

Earnings from construction agreements for partners were at a level with 2018 (excluding new partnerships). The construction agreements in 2019 primarily concerned high construction activity at Hornsea 1, whereas 2018 had high construction activity at Walney Extension and Borkum Riffgrund 2.

EBITDA in 2019 was positively affected by DKK 0.6 billion from the implementation of the new IFRS 16 accounting standard regarding leasing, compared to a continued expensing of operational lease costs. Roughly half of the impact was in Offshore.

Please see note 1.3 for further information on the implementation of IFRS 16 'Leases' and the impact on our consolidated financial statements.

Financial results, DKKm	2019	2018	%
Revenue	67,842	76,946	(12%)
EBITDA	17,484	30,029	(42%)
Depreciation	(6,864)	(5,978)	15%
Impairment reversals (losses)	(568)	603	n.a.
Operating profit (loss) (EBIT)	10,052	24,654	(59%)
Gain (loss) on divestment of enterprises	(63)	127	n.a.
Profit (loss) from associates and JVs	2	1	100%
Net financial income and expenses	(1,135)	(1,278)	(11%)
Tax	(2,756)	(4,018)	(31%)
Tax rate	31%	17%	14%p
Profit for the year from continuing operations	6,100	19,486	(69%)
Profit for the year from discontinued operations	(56)	10	n.a.
Profit (loss) for the year	6,044	19,496	(69%)



In 2019, regulated and quasi-regulated activities and contracted activities accounted for 66% and 31% of our EBITDA, respectively, whereas market exposed activities accounted for 3%.

Read more about profit for the year from discontinued operations in note 3.7.

## EBIT

EBIT decreased by DKK 14.6 billion to DKK 10.1 billion in 2019, primarily as a result of the lower EBITDA and higher depreciation and impairment losses.

The increase in depreciation was driven by more wind farms in operation as well as the implementation of IFRS 16. In accordance with IFRS 16, our operating leases have been recognised in the balance sheet as of 1 January 2019 and are now depreciated instead of being expensed.

The increase in depreciation was partially offset by our Danish power distribution and residential customer businesses being classified as assets held for sale by the end of 2018 and thus not depreciated in 2019.

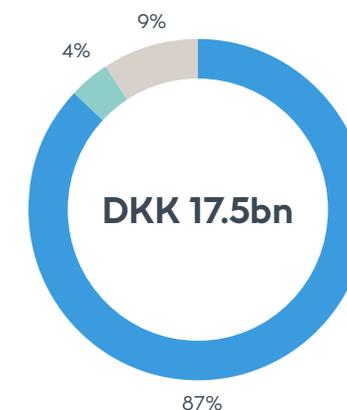
Impairment losses amounted to DKK 0.6 billion and related to a write-down of our 20MW battery storage Carnegie Road in the UK, mainly due to changed pricing and cost estimates, and of our Renaissance plant in the UK, mainly due to delayed commissioning, increased CAPEX and changed cost and price estimates. The reversal of an impairment in 2018 related to our power distribution activities.

## Financial income and expenses

Net financial income and expenses amounted to DKK 1.1 billion compared to DKK 1.3 billion in 2018. The decrease in net expenses was mainly due to positive effects from exchange rate adjustments. This was partly offset by interests related to tax and an increase in contractual returns to tax equity partners in

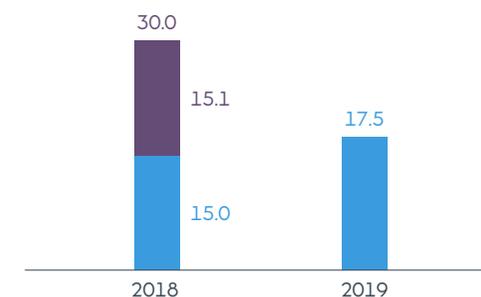
## EBITDA

- Offshore
- Onshore
- Markets & Bioenergy



## EBITDA, DKKbn

- EBITDA, excl. new partnerships
- EBITDA, new partnerships



EBITDA, excluding new partnerships increased by 17%.

Onshore, due to a full year of consolidation and new wind farms.

### Tax and tax rate

Tax on profit for the period amounted to DKK 2.8 billion, which was DKK 1.3 billion lower than in 2018. The effective tax rate was 31% and was among other things affected by the recognition of deferred taxes related to tax equity at Lockett and tax expenses related to the partial farm-down in Deepwater Wind.

### Profit for the year from continuing operations

Profit for the year from continuing operations totalled DKK 6.1 billion, DKK 13.4 billion lower than in 2018. The decrease was primarily due to the lower EBIT. Profit for the year increased by DKK 0.5 billion, adjusted for the divestment of Hornsea 1 in 2018.

## Cash flows and net debt

### Cash flows from operating activities

Cash flows from operating activities totalled DKK 13.1 billion in 2019 compared to DKK 10.3 billion in 2018. The increase of DKK 2.7 billion was mainly due to a higher release of funds tied up in work in progress on construction agreements and higher EBITDA (excluding gains from divestments which are not recognised in cash flows from operating activities).

This was partly offset by higher paid tax in 2019 and lower contribution from tax equity funding of our onshore wind farms than in 2018. In 2019, we had a net cash inflow from work in progress of DKK 1.4 billion, mainly due to the receipt of milestone payments related

to Hornsea 1 and the divestment of the Race Bank transmission assets. This was partly offset by funds tied up related to the construction of Hornsea 1 for partners and the offshore transmission assets at Hornsea 1 and 2.

### Investments and divestments

Gross investments amounted to DKK 23.3 billion against DKK 24.5 billion in 2018.

The main investments in 2019 were:

- offshore wind farms (DKK 15.1 billion), including Hornsea 1 and Hornsea 2 in the UK, Greater Changhua 1 & 2a in Taiwan and Borssele 1 & 2 in the Netherlands
- onshore wind and solar farms (DKK 6.2 billion), including Sage Draw, Plum Creek, Lockett, Willow Creek and Permian Energy Center in the US
- Markets & Bioenergy (DKK 1.9 billion), mainly the biomass conversion of Asnæs Power Station and the installation of smart meters in Radius.

Cash flow from divestments in 2019 primarily related to the receipt of deferred proceeds from the farm-down of 50% of Hornsea 1 in 2018 (DKK 1.7 billion) and to the strengthening of our strategic partnership with Eversource as they became a 50% partner in our activities in the New England area in the US in February (DKK 1.4 billion).

### Interest-bearing net debt

Interest-bearing net debt totalled DKK 17.2 billion at the end of 2019 against net cash of DKK 2.2 billion at the end of 2018. The DKK 19.4 billion increase was mainly due to negative free cash flow of DKK 6.9 billion, total dividend payments and interests on hybrid capital of DKK 5.0 billion, and inclusion of operational

Cash flows and net debt, DKKm	2019	2018	%
Cash flows from operating activities	13,079	10,343	26%
EBITDA	17,484	30,029	(42%)
Change in derivatives	(1,040)	369	n.a.
Change in provisions	727	(278)	n.a.
Reversal of gain (loss) on divestment of assets	101	(14,995)	n.a.
Other items	86	203	(58%)
Interest paid and similar items, net	(1,049)	(700)	50%
Paid tax	(4,800)	(3,367)	43%
Change in work in progress	1,417	(2,326)	n.a.
Change in tax equity liabilities	630	1,835	(66%)
Change in other working capital	(477)	(427)	12%
Gross investments	(23,305)	(24,481)	(5%)
Divestments	3,329	19,950	(83%)
Free cash flow	(6,897)	5,812	n.a.
Net debt at 1 January	(2,219)	(1,517)	46%
Free cash flow from continuing operations	6,897	(5,812)	n.a.
Free cash flow from discontinued operations	(174)	(209)	(17%)
Interest-bearing receivables re Oil & Gas divestment	340	292	16%
Dividends and hybrid coupons paid	5,016	4,700	7%
Addition of leasing obligations	5,873	-	n.a.
Exchange rate adjustments, etc.	1,497	327	358%
Net debt at 31 December	17,230	(2,219)	n.a.

Key ratios, DKKm, %	2019	2018	%
ROCE	10.6%	32.1%	(22%p)
Adjusted net debt	30,575	15,516	97%
FFO/adjusted net debt	31.0%	69.0%	(38%p)



Gain (loss) on sale of assets is part of EBITDA, but is presented as part of the 'divestment' cash flow. The EBITDA effect is thus reversed in the specification of cash flows from operating activities.



ROCE and FFO/adjusted net debt is specified in notes 2.1 and 6.1.

lease obligations of DKK 5.9 billion in accordance with IFRS 16.

## Equity and capital employed

### Equity

Equity was DKK 89.6 billion at the end of the year against DKK 85.1 billion at the end of 2018.

### Capital employed

Capital employed was DKK 106.8 billion at 31 December 2019 against DKK 82.9 billion at the end of 2018. The increase was mainly due to investments and the addition of operational lease assets. Approximately half of the capital employed in Markets & Bioenergy (DKK 8.2bn) relates to assets and liabilities to be divested.

## Financial ratios

### Return on capital employed (ROCE)

Return on capital employed was 10.6% in 2019. The decrease compared to 2018 was mainly attributable to the lower EBIT, which was significantly impacted by the farm-down of Hornsea 1 in 2018.

### Credit metric (FFO/adjusted net debt)

The funds from operations (FFO)/adjusted net debt credit metric was 31% at the end of 2019 against 69% in 2018.

## Non-financial results

### Green share of heat and power generation

The green share of heat and power generation amounted to 86% in 2019, up 11 percentage points year on year. The increase was due to the addition of generation from onshore wind farms, higher generation from offshore wind

farms and lower heat and power generation based on coal and gas. The latter was due to the warmer weather, generation of heat without combined power generation at Asnæs Power Station most of the year, and the divestment of the Dutch Enecogen power plant in 2018.

### Greenhouse gas emissions

Greenhouse gas emissions (primarily carbon emissions) from our heat and power generation and other operating activities covered by scope 1 and 2 emissions in the Greenhouse Gas Protocol, decreased to 65g CO<sub>2</sub>e/kWh in 2019 against 131g CO<sub>2</sub>e/kWh in 2018. The emissions per kWh decreased for the same reasons as mentioned above.

Greenhouse gas emissions from our supply chain (scope 3) decreased by 4% to 34.6 million tonnes in 2019, driven by a 5% reduction in gas sales.

### Safety

In 2019, we have had 106 total recordable injuries (TRIs), divided between 71 contractor injuries and 35 own employee injuries. This was an increase of 8 injuries in total compared to 2018 and led to an increase in the total recordable injury rate (TRIR) from 4.7 in 2018 to 4.9 in 2019.

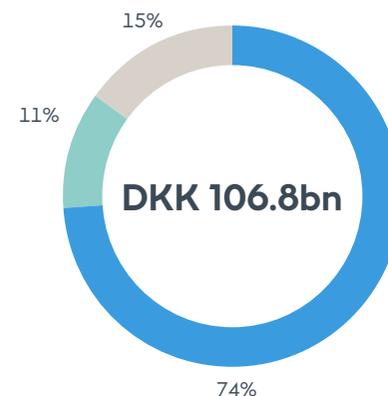
### Fatalities

An employee of one of our contractors tragically died after a serious accident at Avedøre Power Station in May.



Capital employed, %

- Offshore
- Onshore
- Markets & Bioenergy



Since mid-December 100% of Asnæs Power Station's heat and power has been generated from sustainable biomass.

# Five-year summary

Income statement (business performance), DKKm	2019	2018	2017	2016	2015
Revenue	67,842	76,946	59,504	61,201	65,444
EBITDA	17,484	30,029	22,519	19,109	8,730
Offshore	15,161	28,046	20,595	11,867	6,151
Sites, O&M and PPAs	13,750	11,279	8,529	5,869	5,965
Construction agreements and other	1,411	16,767	12,066	5,998	186
Onshore	786	44	-	-	-
Markets & Bioenergy	1,495	2,100	2,234	7,208	2,456
Other activities	42	(161)	(310)	34	123
Depreciation and amortisation	(6,864)	(5,978)	(5,739)	(5,232)	(5,673)
Impairment losses	(568)	603	(545)	-	(1,184)
Operating profit (loss) (EBIT)	10,052	24,654	16,235	13,877	1,873
Gain (loss) on divestment of enterprises	(63)	127	(139)	1,250	56
Net financial income and expenses	(1,135)	(1,278)	(1,042)	(767)	(1,409)
Profit (loss) before tax	8,856	23,504	15,044	14,352	512
Tax	(2,756)	(4,018)	(1,765)	(2,191)	455
Profit (loss) for the year from continuing operations	6,100	19,486	13,279	12,161	967
Profit (loss) for the year	6,044	19,496	20,199	13,213	(12,084)
<b>Balance sheet</b>					
Assets	192,860	174,575	146,521	136,489	147,457
Total equity	89,562	85,115	71,837	57,500	51,736
Shareholders in Ørsted A/S	73,082	68,488	54,791	39,106	32,090
Non-controlling interests	3,248	3,388	3,807	5,146	6,398
Hybrid capital	13,232	13,239	13,239	13,248	13,248
Interest-bearing net debt	17,230	(2,219)	(1,517)	3,461	9,193
Capital employed	106,792	82,896	70,320	60,961	60,930
Additions to property, plant and equipment	22,440	14,436	20,022	17,750	19,843
<b>Cash flows</b>					
Cash flows from operating activities	13,079	10,343	1,023	11,272	7,521
Gross investments	(23,305)	(24,481)	(17,744)	(14,960)	(12,709)
Divestments	3,329	19,950	16,982	9,055	1,982
Free cash flow	(6,897)	5,812	261	5,367	(3,206)
<b>Financial ratios</b>					
Return on capital employed (ROCE) <sup>1</sup> , %	10.6	32.1	25.2	24.4	3.6
FFO/adjusted net debt <sup>2</sup> , %	31.0	69.0	50.3	64.2	28.8
Number of outstanding shares, 31 December, '000	419,985	420,045	420,155	420,155	417,726
Share price, 31 December, DKK	689.0	435.7	338.7	267.6	-
Market capitalisation, 31 December, DKKbn	289.6	183.0	142.3	112.5	-
Earnings per share (EPS) (BP), DKK	12.7	45.3	46.4	30.6	(30.7)
Dividend yield, %	1.5	2.2	2.7	2.2	-
<b>Income statement (IFRS)</b>					
Revenue	70,398	75,520	59,709	57,393	66,708
EBITDA	19,020	28,491	22,574	16,939	9,888
Profit (loss) for the year from continuing operations	7,291	18,266	13,321	10,467	1,854

Business drivers	2019	2018	2017	2016	2015
<b>Offshore</b>					
Decided (FID) and installed capacity <sup>3</sup> , offshore wind, GW	9.9	9.0	8.9	7.4	5.1
Installed capacity, offshore wind <sup>3</sup> , GW	6.8	5.6	3.9	3.6	3.0
Generation capacity, offshore wind <sup>3</sup> , GW	3.6	3.0	2.5	2.0	1.7
Wind speed <sup>3</sup> , m/s	9.2	9.1	9.3	8.9	9.7
Load factor <sup>3</sup> , %	42	42	44	41	45
Availability <sup>3</sup> , %	93	93	93	92	93
Power generation, TWh	12.0	10.0	8.5	6.0	5.8
Power sales, TWh	27.6	27.4	-	-	-
<b>Onshore</b>					
Decided (FID) and installed capacity <sup>3</sup> , onshore, GW	2.1	1.0	-	-	-
Installed capacity, GW	1.0	0.8	-	-	-
Wind speed, m/s	7.3	7.3	-	-	-
Load factor, %	45	41	-	-	-
Availability <sup>3</sup> , %	98	98	-	-	-
Power generation, TWh	3.5	0.6	-	-	-
<b>Markets &amp; Bioenergy</b>					
Degree days <sup>3</sup> , number	2,399	2,526	2,705	2,715	2,621
Heat generation, TWh	8.3	8.8	9.0	9.2	9.3
Power generation, TWh	4.6	6.7	8.2	8.4	7.1
Power sales, TWh	14.7	15.3	31.7	32.9	31.9
Gas sales, TWh	127.1	134.1	136.1	150.4	159.1
<b>People and environment</b>					
Employees (FTE), end of year, number	6,526	6,080	5,638	5,775	5,947
Total recordable injury rate (TRIR)	4.9	4.7	6.4	6.8	9.7
Fatalities, number	1	0	0	0	0
Green share of heat and power generation, %	86	75	64	50	49
Carbon emissions, g CO <sub>2</sub> e/kWh	65	131	151	224	220



## Business performance vs. IFRS

Business performance represents the underlying financial performance of the Group in the reporting period, as results are adjusted for temporary fluctuations in the market value of contracts (including hedging transactions) relating to other periods. Apart from this, there is no difference between business performance and IFRS results. Read more in note 1.5.

The EBITDA split between business units in the comparative years 2015-2017 has not been updated to reflect that earnings from trading related to hedging of our power exposures and power portfolio optimisation activities in relation to Offshore are presented in this business unit from 2018 (previously Markets & Bioenergy).

However, the power sales volumes presented under Markets & Bioenergy have been restated to exclude internally sourced volumes from Offshore.

- <sup>1</sup> EBIT/average capital employed.
- <sup>2</sup> Net debt, including 50% of hybrid capital, cash and securities not available for use (with the exception of repo transactions), present value of lease obligations (2015-2018), and decommissioning obligations less deferred tax.
- <sup>3</sup> See definition on page 182 and in the ESG statements.
- <sup>4</sup> The figures indicate values from the latest regulatory financial statements (updated in June).

# Fourth quarter

## Financial performance – Group

### Revenue

Revenue in Q4 2019 decreased by 21% relative to Q4 2018 and amounted to DKK 18.7 billion. The lower revenue was mainly driven by construction agreements, which decreased by DKK 3.1 billion due to the partial divestment of the Hornsea 1 transmission assets as part of the 50% farm-down of Hornsea 1 in Q4 2018. In addition, revenue decreased due to lower gas and power prices. This was only partly offset by higher generation from offshore wind farms.

### EBITDA

Operating profit (EBITDA) totalled DKK 4.6 billion compared to DKK 19.2 billion in Q4 2018. The decrease was driven by the 50% farm-down of Hornsea 1 in Q4 2018, which contributed DKK 15.1 billion to EBITDA. Adjusted for earnings from the new Hornsea 1 partnership in 2018, EBITDA was DKK 0.5 billion higher than in Q4 2018. The increase was driven by the above-mentioned higher generation from offshore wind farms and a positive effect from the accounting value of our gas at storages opposite to the effect for the full year, due to increasing prices in Q4 2019, whereas we saw a decrease in the accounting value of our storages due to declining prices in Q4 2018.

This was partly offset by a net negative impact of DKK 0.8 billion related to the agreement to divest our LNG activities.

### Profit from continuing operations

Profit from continuing operations decreased by DKK 14.2 billion to DKK 0.9 billion. The decrease was mainly due to the lower EBITDA. Adjusted for the new partnership earnings in 2018 related to Hornsea 1, net profit was DKK 0.4 billion lower than in Q4 2018.

### Cash flows from operating activities

Cash flows from operating activities totalled DKK 4.8 billion in Q4 2019 compared to DKK 7.6 billion in Q4 2018. The decrease of DKK 2.8 billion was mainly due to receipt of tax equity contributions related to Tahoka in Q4 2018 and more funds tied up in other working capital due to higher receivables at the end of 2019 as compared to 2018.

### Gross investments

Gross investments amounted to DKK 8.8 billion in Q4 2019, of which 94% related to investments in Offshore and Onshore. The main investments related to Hornsea 2, Greater Changhua 1 & 2a, Borssele 1 & 2, Sage Draw, Plum Creek and Permian Energy Center.

Financial performance, DKKm	Q4 2019	Q4 2018	%
Revenue	18,679	23,527	(21%)
EBITDA	4,613	19,206	(76%)
EBIT	2,169	18,112	(88%)
Profit (loss) before tax	1,515	18,038	(92%)
Tax	(590)	(2,878)	(79%)
Profit (loss) for the period from continuing operations	925	15,160	(94%)
Profit (loss) for the period from discontinued operations	(29)	34	n.a.
Profit (loss) for the period	896	15,194	(94%)
Cash flows and net debt, DKKm	Q4 2019	Q4 2018	%
Cash flows from operating activities	4,816	7,565	(36%)
EBITDA	4,613	19,206	(76%)
Change in derivatives	(352)	(658)	(47%)
Change in provisions	934	(122)	n.a.
Reversal of gain (loss) on divestment of assets	416	(15,085)	n.a.
Other items	(10)	209	n.a.
Interest expenses, net	(262)	244	n.a.
Paid tax	57	(264)	n.a.
Change in work in progress	236	723	(67%)
Change in tax equity liabilities	(197)	1,835	n.a.
Change in other working capital	(619)	1,477	n.a.
Gross investments	(8,816)	(14,916)	(41%)
Divestments	402	18,749	(98%)
Free cash flow	(3,598)	11,398	n.a.
Net debt, beginning of period	12,082	8,957	35%
Free cash flow from continuing operations	3,598	(11,398)	n.a.
Free cash flow from discontinued operations	28	(337)	n.a.
Interest-bearing receivables re Oil & Gas divestment	13	316	(96%)
Dividends and hybrid coupon paid	283	238	19%
Addition to lease obligations	145	-	n.a.
Exchange rate adjustments, etc.	1,081	5	n.a.
Net debt, end of period	17,230	(2,219)	n.a.

## Financial performance – business units

### Offshore

Power generation increased by 21% relative to Q4 2018. The increase was primarily due to ramp-up of generation from Hornsea 1 and Borkum Riffgrund 2 (in total 0.6TWh).

Revenue from offshore wind farms in operation increased by 23% due to the above-mentioned ramp-up from new offshore wind farms. Revenue from power sales decreased by 23% due to lower power prices.

Revenue from construction agreements decreased by DKK 4.3 billion, mainly due to the partial divestment of the Hornsea 1 transmission assets as part of the 50% farm-down of Hornsea 1 in Q4 2018. In Q4 2019, revenue from construction agreements primarily related to the divestment of the transmission assets at Race Bank.

EBITDA decreased by DKK 14.8 billion to DKK 4.0 billion in Q4 2019, mainly due to the 50% farm-down of Hornsea 1 in Q4 2018.

EBITDA from sites, O&M and PPAs amounted to DKK 4.6 billion, up DKK 0.5 billion compared to Q4 2018. Higher generation and good performance from trading related to hedging of our UK energy exposures contributed positively to the higher earnings.

### Onshore

Power generation increased by 81% relative to Q4 2018. The increase was primarily due to new wind farms (Tahoka and Lockett) in operation.

Revenue from wind farms in operation increased by 54% due to the above-mentioned factors.

EBITDA increased by DKK 0.1 billion and amounted to DKK 0.2 billion. The increase was primarily due to more wind farms in operation.

### Markets & Bioenergy

Revenue was down 6% and amounted to DKK 9.6 billion in Q4 2019. The decrease was driven by a decrease in gas prices relative to Q4 2018, partly offset by higher sold gas volumes.

EBITDA totalled DKK 0.5 billion in Q4 2019, which was DKK 0.2 billion higher than in Q4 2018.

EBITDA from CHP plants was in line with last year and amounted to DKK 0.4 billion.

EBITDA from Gas Markets & Infrastructure increased by DKK 0.7 billion and amounted to DKK 0.6 billion. The higher earnings were related to an increase in the accounting value of our gas storages in Q4 2019 (increasing gas prices in Q4 2019), whereas there was a decrease in the accounting value of our gas storages in Q4 2018 (decreasing gas prices in Q4 2018). In addition, good performance from trading of our financial gas exposures contributed positively to the result.

EBITDA from LNG was lower due to the before-mentioned impact of DKK -0.8 billion related to the divestment of our LNG activities. This was partly offset by good performance related to optimisation of LNG deliveries and reversal of negative timing effects from previous periods.

EBITDA from our distribution, B2C and city light businesses was at the same level as Q4 2018.



For more details on quarterly figures for our business units, please go to [orsted.com/financial-reports](https://orsted.com/financial-reports)

Offshore's results, DKKm	Q4 2019	Q4 2018	%
Revenue	10,913	15,134	(28%)
Sites, O&M and PPAs	5,437	4,415	23%
Power sales	3,397	4,417	(23%)
Construction agreements	2,012	6,271	(68%)
Other	67	31	116%
EBITDA	4,048	18,847	(79%)
Sites, O&M and PPAs	4,626	4,109	13%
Construction agreements and divestment gains	51	15,413	(100%)
Other, incl. project development	(629)	(675)	(7%)
Cash flows from operating activities	3,545	4,830	(27%)
Free cash flow	(1,697)	16,511	n.a.
Onshore's results, DKKm	Q4 2019	Q4 2018	%
Revenue	123	80	54%
EBITDA	165	44	275%
Sites	73	40	83%
Production tax credits and tax attributes	201	85	136%
Other, incl. project development	(109)	(81)	35%
Cash flows from operating activities	(160)	1,868	n.a.
Free cash flow	(2,822)	(4,910)	(43%)
Markets & Bioenergy's results, DKKm	Q4 2019	Q4 2018	%
Revenue	9,569	10,199	(6%)
EBITDA	490	303	62%
CHP plants	354	365	(3%)
Gas Markets & Infrastructure	620	(36)	n.a.
LNG	(691)	(139)	397%
Distribution, B2C and city light	257	250	3%
Other, incl. project development	(50)	(137)	(64%)
Cash flows from operating activities	(280)	469	n.a.
Free cash flow	(739)	(533)	39%

# Quarterly summary, 2018-2019

## Income statement

(business performance), DKKm	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Revenue	18,679	15,481	16,443	17,239	23,527	15,018	18,593	19,808
EBITDA	4,613	4,116	3,625	5,130	19,206	2,225	3,079	5,519
Offshore	4,048	3,223	3,572	4,318	18,847	1,987	3,159	4,053
Sites, O&M and PPAs	4,626	2,612	2,871	3,641	4,109	2,008	1,933	3,233
Construction agreements and other	(578)	611	701	677	14,738	(21)	1,226	820
Onshore	165	308	162	151	44	-	-	-
Markets & Bioenergy	490	436	(115)	684	303	259	(18)	1,556
Other activities	(90)	149	6	(23)	12	(21)	(62)	(90)
Depreciation and amortisation	(1,876)	(1,681)	(1,689)	(1,618)	(1,697)	(1,437)	(1,462)	(1,382)
Impairment losses	(568)	-	-	-	603	-	-	-
Operating profit (loss) (EBIT)	2,169	2,435	1,936	3,512	18,112	788	1,617	4,137
Gain (loss) on divestment of enterprises	(13)	(15)	(18)	(17)	(28)	181	(16)	(10)
Net financial income and expenses	(644)	(47)	(545)	101	(43)	(436)	(504)	(295)
Profit (loss) before tax	1,515	2,368	1,376	3,597	18,038	535	1,101	3,830
Tax	(590)	(925)	(283)	(958)	(2,878)	(117)	(225)	(798)
Profit (loss) for the period from continuing operations	925	1,443	1,093	2,639	15,160	418	876	3,032
Profit (loss) for the period	896	1,477	1,075	2,596	15,194	405	857	3,040
<b>Balance sheet</b>								
Assets	192,860	194,521	185,949	182,783	174,575	150,909	149,149	147,739
Total equity	89,562	87,369	86,446	85,843	85,115	68,701	69,744	70,823
Shareholders in Ørsted A/S	73,082	70,977	69,960	69,193	68,488	52,029	52,884	53,861
Non-controlling interests	3,248	3,153	3,247	3,411	3,388	3,433	3,621	3,723
Hybrid capital	13,232	13,239	13,239	13,239	13,239	13,239	13,239	13,239
Interest-bearing net debt	17,230	12,082	4,980	9,111	(2,219)	8,957	4,603	4,331
Capital employed	106,792	99,451	91,426	94,954	82,896	77,658	74,347	75,154
Additions to property, plant and equipment	6,560	8,449	3,755	3,676	4,575	2,942	3,137	3,782
<b>Cash flows</b>								
Cash flows from operating activities	4,816	871	7,510	(118)	7,565	(117)	3,293	(398)
Gross investments	(8,816)	(7,222)	(3,368)	(3,899)	(14,916)	(4,385)	(3,109)	(2,071)
Divestments	402	260	(11)	2,678	18,749	380	(14)	835
Free cash flow	(3,598)	(6,091)	4,131	(1,339)	11,398	(4,122)	170	(1,634)
<b>Financial ratios</b>								
Return on capital employed (ROCE) <sup>1,5</sup> , %	10.6	29.3	29.3	28.2	32.1	23.0	23.5	26.7
FFO/Adjusted net debt <sup>2,5</sup> , %	31.0	47.4	57.5	46.2	69.0	41.7	44.3	45.6
Number of outstanding shares, end of period, '000	419,985	419,985	419,985	420,045	420,045	420,155	420,155	420,155
Share price, end of period, DKK	689.0	636.6	532.8	504.4	435.7	436.3	386.0	392.0
Market capitalisation, end of period, DKKbn	289.6	267.4	223.8	211.7	183.0	183.3	162.3	164.7
Earnings per share (EPS) (BP), DKK	1.1	3.5	1.9	6.2	35.6	1.1	1.4	7.2
<b>Income statement (IFRS)</b>								
Revenue	19,815	14,543	17,277	18,763	26,165	12,798	16,859	19,698
EBITDA	5,260	3,328	4,425	6,007	20,914	567	1,725	5,285
Profit (loss) for the period from continuing operations	1,429	822	1,718	3,322	16,472	(875)	(180)	2,849

## Business drivers

	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
<b>Offshore</b>								
Decided (FID) and installed capacity <sup>3</sup> , GW	9.9	9.9	9.9	9.0	9.0	8.9	8.9	8.9
Installed capacity <sup>3</sup> , GW	6.8	5.6	5.6	5.6	5.6	5.1	5.1	4.4
Generation capacity <sup>3</sup> , GW	3.6	3.6	3.3	3.0	3.0	2.9	2.8	2.7
Wind speed <sup>3</sup> , m/s	10.0	8.5	8.0	10.4	10.3	7.7	7.9	10.3
Load factor <sup>3</sup> , %	50	37	31	51	53	32	31	55
Availability <sup>3</sup> , %	93	93	87	96	93	92	93	94
Power generation, TWh	3.9	2.8	2.2	3.1	3.3	1.9	1.8	3.0
Power sales, TWh	7.7	7.0	5.7	7.2	7.7	5.0	5.4	9.2
<b>Onshore</b>								
Decided (FID) and installed capacity <sup>3</sup> , GW	2.1	1.7	1.4	1.0	1.0	-	-	-
Installed capacity, onshore wind, GW	1.0	1.0	0.8	0.8	0.8	-	-	-
Wind speed <sup>3</sup> , m/s	7.3	6.6	7.7	7.8	7.3	-	-	-
Load factor <sup>3</sup> , %	46	39	47	47	41	-	-	-
Availability <sup>3</sup> , %	98	98	97	97	98	-	-	-
Power generation, TWh	1.0	0.9	0.8	0.8	0.6	-	-	-
<b>Markets &amp; Bioenergy</b>								
Degree days <sup>3</sup> , number	882	108	269	1,140	884	76	149	1,417
Heat generation, TWh	3.0	0.5	1.1	3.7	2.8	0.3	0.9	4.8
Power generation, TWh	1.6	0.4	0.7	1.9	1.8	0.7	0.9	3.3
Power sales, TWh	4.1	3.3	3.3	4.0	4.2	3.5	3.5	4.1
Gas sales, TWh	37.0	31.5	32.1	26.5	26.0	31.5	34.1	42.5
<b>People and environment</b>								
Employees, end of period, number	6,526	6,454	6,312	6,176	6,080	5,882	5,741	5,662
Total recordable injury rate (TRIR) <sup>5</sup>	4.9	4.5	4.1	4.3	4.7	5.0	6.2	6.7
Fatalities, number	0	0	1	0	0	0	0	0
Green share of heat and power generation, %	90	87	85	80	83	71	80	68
Carbon emissions, g CO <sub>2</sub> e/kWh	44	62	71	85	87	212	123	147



## Business performance vs. IFRS

Business performance represents the underlying financial performance of the Group in the reporting period, as results are adjusted for temporary fluctuations in the market value of contracts (including hedging transactions) relating to other periods. Apart from this, there is no difference between business performance and IFRS results. Read more in note 1.5.

ROCE is calculated for continuing operations.

<sup>1</sup> EBIT/average capital employed.

<sup>2</sup> Net debt, including 50% of hybrid capital, cash and securities not available for use (with the exception of repo transactions), present value of lease obligations (2018), and decommissioning obligations less deferred tax.

<sup>3</sup> See definition on page 182 and in the ESG statements.

<sup>4</sup> The figures indicate values from the latest regulatory financial statements (updated in June).

<sup>5</sup> Last 12 months.

# Business units

- 42 Our business units
- 43 Offshore
- 47 Onshore
- 49 Markets & Bioenergy

As part of our green transformation, we have committed to the Sustainable Biomass Programme. 96% of the wooden biomass came from certified sustainable sources in 2019. By 2020, it will be 100%.

# Our business units

**Ørsted**

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**EBITDA 2018-2019<sup>1</sup>**

2018  DKK 30.0bn

2019  DKK 17.5bn

 New partnerships

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**Key figures 2019**

Revenue	DKK 67.8bn
Gross investments	DKK 23.3bn
Capital employed	DKK 106.8bn
TRIR	4.9
Number of employees	6,526
ROCE	10.6%

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**Financial target**

ROCE	10% (avg. 2019-2025)
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 **Offshore**

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**EBITDA 2018-2019<sup>1</sup>**

2018  DKK 28.0bn

2019  DKK 15.2bn

 New partnerships

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**Key figures 2019**

Revenue	DKK 40.2bn
Gross investments	DKK 15.1bn
Capital employed	DKK 79.4bn
TRIR	2.7
Number of employees	2,777

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 **Onshore**

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**EBITDA 2018-2019<sup>1</sup>**

2018  DKK 0.0bn

2019  DKK 0.8bn

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**Key figures 2019**

Revenue	DKK 0.7bn
Gross investments	DKK 6.2bn
Capital employed	DKK 11.7bn
TRIR	5.9
Number of employees	95

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 **Markets & Bioenergy**

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**EBITDA 2018-2019<sup>1</sup>**

2018  DKK 2.1bn

2019  DKK 1.5bn

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**Key figures 2019**

Revenue	DKK 32.8bn
Gross investments	DKK 1.9bn
Capital employed	DKK 15.8bn
TRIR	10.4
Number of employees	1,828

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<sup>1</sup> The sum of the business units' key figures for 2019 does not equal the consolidated key figures due to other activities and eliminations. Read more in note 21.

# Offshore

## Highlights 2019

- We took FID on the offshore wind farm Greater Changhua 1 & 2a in Taiwan – our first large-scale offshore wind investment outside Europe.
- We were awarded the 1,100MW Ocean Wind project in New Jersey.
- We were awarded the 880MW Sunrise Wind project in New York together with our partner Eversource Energy.
- We divested 50% of the South Fork and Revolution Wind projects and two New England offshore wind lease areas to our partner Eversource Energy.
- We signed a non-binding term sheet with Polska Grupa Energetyczna (PGE) regarding two large-scale projects.
- Exclusive negotiations entered into with the Public Service Enterprise Group (PSEG) regarding a joint venture agreement to acquire 25% of Ocean Wind.
- We commissioned Hornsea 1.
- We commissioned phase 2 of Formosa 1.
- We divested the transmission assets of our offshore wind farm Race Bank.
- We selected GE Renewable Energy as the preferred wind turbine supplier for our Mid-Atlantic cluster in the US and secured a wind turbine volume of 1.7GW from Siemens Gamesa for our North-East cluster.
- We entered into one long-term CPPA in the UK and one CPPA in Germany.
- We introduced a new operating model to support our international growth ambitions.

## Financial performance

Power generation increased by 20% relative to 2018, primarily due to ramp-up of generation from Hornsea 1, Borkum Riffgrund 2 and Walney Extension (in total 1.8TWh). Curtailments and various operational issues had a larger adverse impact on generation than in a normal year.

Wind speeds were slightly above last year and amounted to a portfolio average of 9.2m/s, which was in line with a normal wind year. Availability ended at 93%, which was in line with 2018.

Revenue decreased by 7% to DKK 40.2 billion. Revenue from offshore wind farms in operation increased by 19% to DKK 16.6 billion due to the above-mentioned ramp-up of Hornsea 1, Borkum Riffgrund 2 and Walney Extension. Revenue from power sales decreased by DKK 1.5 billion, primarily due to lower power prices.

Revenue from construction agreements decreased by DKK 4.2 billion, primarily due to the partial divestment of the Hornsea 1 transmission assets and the Burbo Bank Extension transmission assets in 2018. In 2019, revenue from construction agreements primarily related to Hornsea 1 and the divestment of the Race Bank transmission assets.

EBITDA decreased by 46% relative to 2018 and amounted to DKK 15.2 billion. Adjusted for



Adjusted for partnerships, EBITDA increased by 17%.

Performance highlights		2019	2018	%
<b>Business drivers</b>				
Decided (FID) and installed capacity	GW	9.9	9.0	10%
Installed capacity	GW	6.8	5.6	21%
Generation capacity	GW	3.6	3.0	20%
Wind speed	m/s	9.2	9.1	1%
Load factor	%	42	42	0%p
Availability	%	93	93	0%p
Power generation	TWh	12.0	10.0	20%
Denmark		2.2	2.2	1%
United Kingdom		7.4	6.1	21%
Germany		2.2	1.7	30%
Other		0.2	0.0	n.a.
Power sales	TWh	27.6	27.4	1%
Power price, LEBA UK	GBP/MWh	43.6	57.9	(25%)
British pounds	DKK/GBP	8.5	8.4	1%
<b>Financial performance</b>				
Revenue	DKKm	40,216	43,110	(7%)
Sites, O&M and PPAs		16,602	13,918	19%
Power sales		11,037	12,544	(12%)
Construction agreements		12,386	16,560	(25%)
Other		191	88	118%
EBITDA	DKKm	15,161	28,046	(46%)
Sites, O&M and PPA		13,750	11,279	22%
Construction agreements and divestment gains		3,765	18,765	(80%)
Other, incl. project development		(2,354)	(1,998)	18%
Depreciation	DKKm	(5,494)	(4,456)	23%
EBIT	DKKm	9,667	23,590	(59%)
Cash flows from operating activities	DKKm	9,283	6,710	38%
Gross investments	DKKm	(15,121)	(15,081)	0%
Divestments	DKKm	3,052	19,676	(84%)
Free cash flow	DKKm	(2,786)	11,305	n.a.
Capital employed	DKKm	79,447	65,474	21%

new partnerships in 2018 (Hornsea 1), EBITDA increased by 17% compared to last year.

EBITDA from Sites, O&M and PPAs amounted to DKK 13.8 billion in 2019, of which approx DKK 0.3 billion was due to the implementation of IFRS 16. The 22% increase was primarily due to the factors mentioned above. In addition, good performance from trading related to hedging of our UK energy exposures contributed positively to the increase. Excluding earnings previously reported as part of Markets & Bioenergy, EBITDA from Sites, O&M and PPAs increased by 18%.

EBITDA from partnerships decreased by DKK 15.0 billion and amounted to DKK 3.8 billion. The decrease was mainly due to the gain and subsequent construction work related to the farm-down of Hornsea 1 in 2018 (DKK 15.1 billion). In 2019, construction

agreements primarily concerned Hornsea 1 and positive effects from the ongoing divestments of offshore transmission assets at Walney Extension and Race Bank.

EBITDA from other activities, including project development, amounted to DKK -2.4 billion. The increased spend relative to 2018 was mainly due to higher project development activities in the US.

Depreciation increased 23% and amounted to DKK 5.5 billion. The increase was mainly due to commissioning of new offshore wind farms in the UK and Germany as well as the implementation of IFRS 16.

Cash flow from operating activities amounted to DKK 9.3 billion, which was DKK 2.6 billion higher than in 2018. The increase was primarily due to higher EBITDA (excluding gains from

divestments which are not recognised in cash flows from operating activities), less capital being tied up in work in progress due to received partner milestone payments and lower receivables. This was partly offset by higher tax payments in 2019.

Gross investments amounted to DKK 15.1 billion and mainly related to the construction of Hornsea 1 and 2, Greater Changhua 1 & 2a and Borssele 1 & 2.

Cash flow from divestments in 2019 related to the receipt of deferred proceeds from the 50% farm-down of Hornsea 1 in 2018 (DKK 1.7 billion) and to the strengthening of our strategic partnership with Eversource as they became a 50% partner in our activities in the New England area in February (DKK 1.4 billion).



↑ Borkum Riffgrund 2, the North Sea, Germany, during construction in 2018.

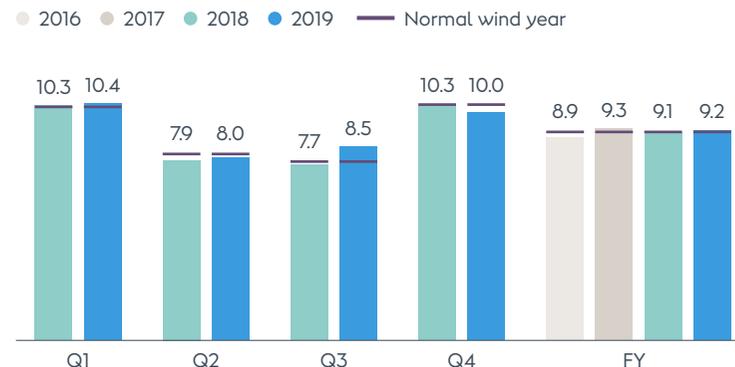
### Introduction to Offshore

- We are active in all parts of the value chain and develop, construct, own and operate offshore wind farms in the UK, Germany, Denmark, the Netherlands, the US and Taiwan.
- We have been pioneers in the industry since we built the world's first offshore wind farm in 1991, and we are the market leader within global offshore wind power generation with 25+ years of experience and 24 offshore wind farms in operation.
- Worldwide, we have constructed more offshore wind farms than any other company, with a capacity of 6.8GW. They supply carbon-free power to more than 14 million people annually.
- Our integrated EPC organisation has a strong track record of delivering projects on time and on budget and manages multiple large-scale offshore construction projects in parallel across the globe.



### Quarterly and annual wind speed for our offshore wind farms, m/s

The wind speed indicates how many metres per second the wind has blown in the areas where we have offshore wind farms. The weighting is based on our generation capacity.



## Strategic and operational performance

2019 was an eventful year with two major awards in the US, FID on Greater Changhua 1 & 2a in Taiwan and commissioning of Hornsea 1 in the UK.

### UK

In 2019, we commissioned the offshore wind farm Hornsea 1 in the UK on time and within budget. Hornsea 1 is currently the world's largest offshore wind farm and contributes 1.2GW to our installed capacity.

In addition to our operational offshore wind farms, construction of the offshore wind farm Hornsea 2 is progressing according to plan. We are currently installing export cables along the onshore route, and we expect commissioning in the first half of 2022.

The application for Hornsea 3 is currently being processed, with a consent decision expected in the first half of 2020.

In February, we entered into a long-term CPPA with Northumbrian Water for our offshore wind farm Race Bank which was the first of its kind in the UK.

In October, we completed the divestment of the Race Bank transmission assets to Diamond Transmission Partners. The transmission assets were sold for GBP 472.5 million (DKK 4.2 billion) on a 100% basis and include the onshore substation, the export cables and the offshore substation. In 2020, we expect to divest the transmission assets related to Walney Extension and potentially Hornsea 1.

### Continental Europe

In Continental Europe, we are currently constructing the wind farm Borssele 1 & 2 in the Netherlands, which is moving forward as planned. We are currently installing foundations and array cables, and we expect commissioning end Q4 2020.

In October, we announced that we had commenced discussions with Polska Grupa Energetyczna S.A. regarding the purchase of a 50% ownership share in two projects in the Baltic Sea with a total capacity of up to 2.5GW. The projects are expected to commence construction by 2026 and 2030, respectively.

In early December 2019, we signed a 10-year fixed price CPPA with Covestro to offtake output from 100MW of our offshore wind farm Borkum Riffgrund 3 in Germany – the largest offshore CPPA in the world to date. This agreement, in combination with the deal signed with Northumbrian Water in the UK, represents an important step in building long-term green partnerships with corporate customers that can support the risk-return profile of merchant offshore wind projects.

### North America

The post-merger integration of Deepwater Wind was successfully completed in the second half of 2019. Deepwater Wind has added an attractive and geographically diverse set of projects to our portfolio.

In February, we divested 50% of the South Fork and Revolution Wind projects as well as two New England offshore wind lease areas to Eversource Energy. The divestment extended our strategic partnership with Eversource

in the north-east and will enable the joint venture to harvest synergies across the different New England projects.

In February, we received approval from Rhode Island's regulators for the 400MW long-term PPA for Revolution Wind.

In June, the results of the first offshore wind auction in New Jersey were announced, and we were awarded the right to build the 1,100MW Ocean Wind offshore wind project at a price of USD 86.4 per MWh (2017 levelised) for a 20-year period. Following the award, we have entered into exclusive negotiations with Public Service Enterprise Group (PSEG) to potentially become an equity investor in the project and acquire 25% of Ocean Wind. Subject to FID, the Ocean Wind project is expected to be commissioned in 2024.

In July, the results of the first offshore wind auction in New York were announced, and together with our joint venture partner Eversource Energy, we were awarded the right to build the 880MW Sunrise Wind project. In October, Sunrise Wind signed a 25-year PPA with the New York State Energy Research & Development Authority at a price of USD 79.6 per MWh (2017 levelised). Subject to FID, the Sunrise Wind project is expected to be commissioned in 2024.

We have secured a wind turbine volume of 1.7GW from Siemens Gamesa for Sunrise Wind, Revolution Wind and South Fork, which constitute our north-east cluster. The agreement is the largest US offshore wind turbine contract to date and will allow the projects to realise economies of scale.

In September, we selected GE Renewable Energy as the preferred wind turbine supplier for our Skipjack and Ocean Wind offshore wind farms, which constitute our Mid-Atlantic cluster, marking the world's first commercial deployment of GE's Haliade-X 12MW offshore wind turbine.

In December, we entered into an export cable framework agreement with Nexans to procure up to 1,000km for our US portfolio.

In the US, we are constructing the 12MW Coastal Virginia demonstration project on behalf of our partner Dominion Energy. All components are being fabricated, and the project remains on track to begin construction in Q2 2020.

### Asia-Pacific

In January 2019, our Greater Changhua 1 & 2a project obtained its establishment permit, and we signed a power purchase agreement with Taipower for a tiered feed-in tariff of NTD 6,279.5 (approx EUR 187) per MWh for the first 10 years and TWD 4,142.2 (approx EUR 123) per MWh for the subsequent 10 years. In April, Taiwan's Ministry of Economic Affairs approved our local supply chain plan, and we took FID soon after. All key supply and installation contracts have been signed, and we are on track to deliver a 2022 COD. We also initiated a structured farm-down process for 50% of the Greater Changhua 1 site, which is progressing according to plan.

In November, we commissioned phase 2 of the Formosa 1 project in Taiwan according to plan and within budget. Formosa 1 has a capacity of 128MW, of which we own 35%, and is the

first commercial-scale offshore wind farm in Taiwan.

**Cross-regional events**

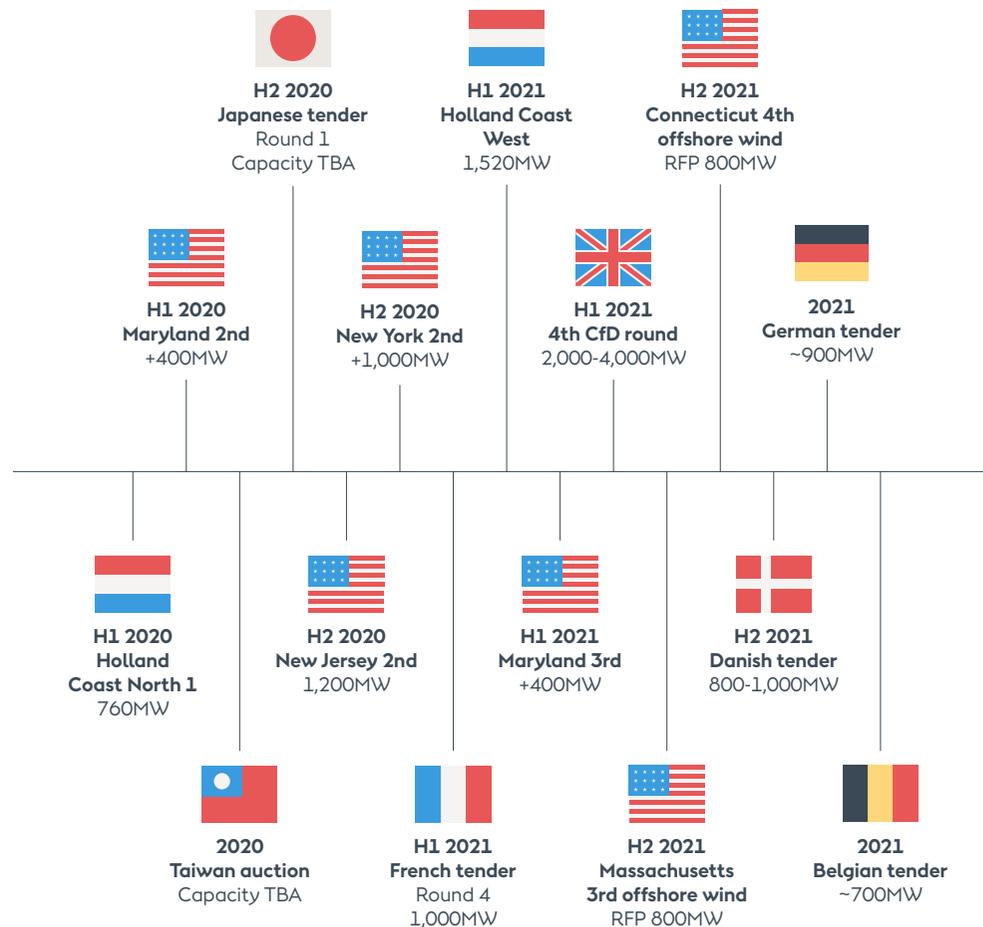
In October, we reduced production forecasts across our offshore wind portfolio as a result of new findings demonstrating the negative impact of blockage and wake effects on power generation at our offshore wind farms. New wind simulation models suggest that we have historically underestimated the impact of blockage effects. Furthermore, a newly-developed tool that benchmarks production models against actual wind turbine operating data shows that previous assumptions underestimate wake effect losses. As global offshore wind build-out accelerates, the whole industry will see higher wake effects between neighbouring wind farms.

Effective from 2020, we launched a new global operating model to support our international growth ambitions in Offshore. The new model organises our business into four regions: UK, Continental Europe, North America and Asia-Pacific. The aim of the new model is to optimise the balance between global scale advantages and local market proximity as well as to create a more transparent and scalable platform for our global expansion.

We have a strong focus on safety and are continuously working on lowering our total recordable injury rate. An example of our

approach to improve safety during offshore wind operations and maintenance is the innovative 'Get Up Safe' system. This is a motion-compensated hoist solution that enables technicians to move safely between moving vessels and offshore wind turbines. Technicians will no longer have to step from a moving boat onto a ladder and then climb to reach the base of the wind turbine.

**Expected offshore wind auctions and tenders in 2020 and 2021<sup>1</sup>**



<sup>1</sup> Excludes offshore lease auctions. There are two confirmed lease auctions in 2020, ScotWind and UK Lease Round 4. The Bureau of Ocean Energy Management (BOEM) New York lease auction, originally scheduled for 2020, has been delayed with no new timeframe set.

# Onshore

## Highlights 2019

- We commissioned the onshore wind farm Lockett (184MW) within budget and ahead of schedule.
- We took FID on the Sage Draw (338MW), Willow Creek (103MW) and Plum Creek (230MW) wind farms as well as on the Permian Energy Center (420/40MW) combined solar and storage project.
- We secured tax equity funding for Lockett and tax equity commitments for Sage Draw, Plum Creek and Willow Creek.
- We acquired Coronal Energy's solar and storage development platform.
- In December, Lincoln Clean energy was rebranded as Ørsted.

## Financial performance

As we acquired Lincoln Clean Energy and established the Onshore business unit on 1 October 2018, comparison figures for 2018 only include Q4.

Power generation amounted to 3.5TWh in 2019. Approximately half of the 2.9TWh increase was due to consolidation of a full year of generation from Amazon and Willow Springs. The other half was ramp-up of generation from Tahoka and Lockett that came online in December 2018 and August 2019, respectively.

Revenue amounted to DKK 0.7 billion and related to the generation from our operating wind farms.



As we established the Onshore business unit on 1 October 2018, comparison figures for 2018 only include Q4.

Performance highlights		2019	2018	%
<b>Business drivers</b>				
Decided (FID) and installed capacity, onshore wind and solar	MW	2,088	997	109%
Installed capacity, onshore wind and solar	MW	997	813	23%
Wind speed	m/s	7.3	7.3	0%
Load factor, onshore wind	%	45	41	4%p
Availability, onshore wind	%	98	98	0%p
Power generation	TWh	3.5	0.6	483%
Net realised price	USD/MWh	17.3	17.4	(1%)
US dollars	DKK/USD	6.7	6.5	3%
<b>Financial performance</b>				
Revenue	DKKm	670	80	n.a.
EBITDA	DKKm	786	44	n.a.
Sites		466	40	n.a.
Production tax credits and tax attributes		628	85	n.a.
Other, including project development		(308)	(81)	n.a.
Depreciation	DKKm	(351)	(51)	n.a.
Impairment losses	DKKm	(68)	-	n.a.
EBIT	DKKm	367	(7)	n.a.
Cash flows from operating activities	DKKm	1,007	1,868	(46%)
Gross investments	DKKm	(6,158)	(6,779)	9%
Divestments	DKKm	255	1	n.a.
Free cash flow	DKKm	(4,896)	(4,910)	0%
Capital employed	DKKm	11,734	4,779	146%

## Introduction to Onshore

- We entered into the North American onshore renewables market in 2018 with the acquisition of Lincoln Clean Energy (LCE) and currently own and operate four wind farms in Texas with a capacity of 1.0GW as well as a small solar farm in New Jersey.
- We develop onshore wind, solar PV and storage projects, through an established execution model, managing key interfaces with top tier suppliers and contractors.
- We develop projects across four North American electricity markets, ERCOT, MISO, SPP and PJM, and deliver wind, solar PV and storage solutions, which ensures flexibility, to meet the dynamic needs of the diverse North American customer base.

EBITDA amounted to DKK 0.8 billion in total. EBITDA from sites were DKK 0.5 billion, and production tax credits (PTCs) contributed with an additional DKK 0.6 billion. Project development and other costs amounted to DKK -0.3 billion.

Impairment losses amounted to DKK 0.1 billion and related to a write-down of our 20MW battery storage project Carnegie Road in the UK, mainly due to changed price and OPEX estimates.

Cash flows from operating activities amounted to DKK 1.0 billion, which primarily comprised tax equity contribution from our partner at Lockett less funds tied up in net working capital. In 2018, it primarily comprised a tax equity contribution related to Tahoka.

Gross investments amounted to DKK 6.2 billion in 2019 and related to the construction of Sage Draw, Plum Creek, Lockett, Willow Creek, Permian Energy Center and minor acquisitions. The majority of investments in 2018 was the purchase price for the acquisition of Lincoln Clean Energy.

Divestments primarily comprised a sale and lease-back arrangement for land related to Permian Energy Center.

### Strategic and operational performance

We have made significant progress over the past year, building our position as a multi-state developer with a strong portfolio of projects in operation, under construction and under

development. The commissioning of the Lockett onshore wind farm in July brought our operating portfolio to a total of 1GW. Furthermore, we took FID on four projects during the year, resulting in 1.1GW of wind and solar capacity currently under construction.

Over the past year, areas of the business have been systematically integrated into Ørsted to ensure an effective operating model, capitalising on the capabilities of both companies. We rebranded LCE as Ørsted in December, further strengthening our platform in North America.

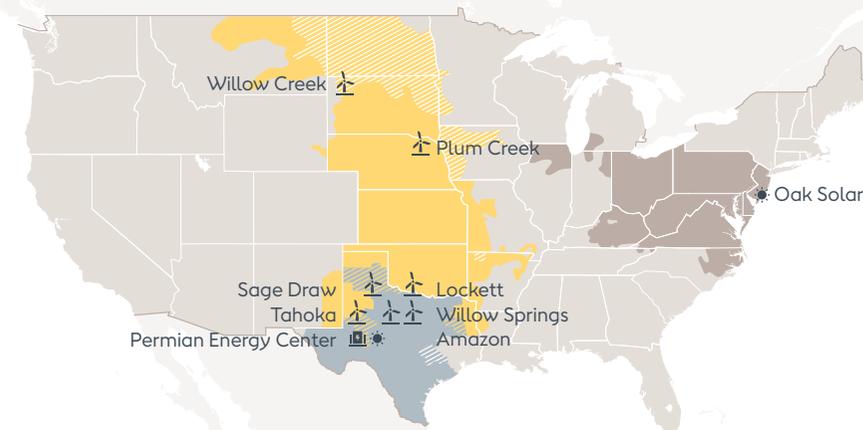
In onshore wind, we increased our presence in the ERCOT electricity market in April by taking FID on the Sage Draw wind farm. We also expanded into the SPP electricity market through the acquisition and FID of the construction-ready wind farm Willow Creek in South Dakota in June and the FID on the wind farm Plum Creek in Nebraska in August. All three wind farms are expected to be commissioned in 2020 and are thus expected to be eligible for the full value of the production tax credits (PTCs).

In addition, we secured tax equity financing commitments for Sage Draw, Plum Creek and Willow Creek from leading tax equity investors.

During 2019, we made a strategic investment in solar PV through the acquisition of Coronal Energy's solar and storage development platform and pipeline, thereby deepening our presence in the solar market and expanding our solar and storage asset portfolio.

In November, we took FID on our inaugural large-scale solar PV and storage project,

### Selected US power markets



- Southwest Power Pool (SPP)
- Electric Reliability Council of Texas (ERCOT)
- PJM Interconnection

Permian Energy Center in West Texas, which we expect to commission in 2021. This adds 420MW of solar PV and 40MWac storage capacity to our portfolio and supports Ørsted's strategy of delivering clean and competitive energy solutions to the dynamic US energy market.

We currently have a strong pipeline of over 1.1GW of onshore wind and solar projects in development, which we are maturing in 2020. We have a target of 5GW of installed capacity by 2025.

The overall US power market is complex and fragmented. Approximately two thirds of the nation's load is supplied by one of seven wholesale power markets, managed by either independent system operators (ISOs) or a regional transmission organisations (RTOs). The remaining load is supplied via traditional vertically integrated utility systems. These are mainly located in the south-east and west (excluding California) of the country.

# Markets & Bioenergy

## Highlights 2019

- We reached 100% green heat and power generation at the newly bio-converted Asnæs Power Station in mid-December 2019.
- We signed an agreement to divest our Danish power distribution (Radius), residential customer and city light businesses to SEAS-NVE.
- We generated 68% of our total heat and power from sustainable biomass. 96% of the wooden biomass we sourced was certified sustainable. By 2020, it will be 100%.
- We established a commodity trading unit in the US.
- We concluded a 15-year agreement with the Dutch power grid company Alliander to purchase green certificates from the offshore wind farm Borssele 1.
- We commissioned the new flue gas condensation unit at Herning Power Station. The unit uses the residual heat in the flue, reducing the fuel consumption by 20%.
- We sold our stakes in the Kalundborg Bioenergi plant and two upgrading plants in Fredericia and Horsens.
- Radius finalised the installation of more than 1 million smart meters in 2019.
- We signed an agreement to divest the Stignæs Transit Harbour.
- We entered into an agreement to divest our liquified natural gas (LNG) activities.
- We reached a settlement in the Elsam competition case.

## Financial performance

Revenue decreased by 18% compared to 2018 and amounted to DKK 32.8 billion. The decrease was mainly driven by an average decrease of 41% in gas prices relative to 2018. In addition, lower gas and power sales, heat and power generation and power prices contributed to the lower revenue.

Power generation was 31% lower than in 2018, driven by warmer weather and less favourable market conditions for power generation, and generation of heat without combined power generation at Asnæs Power Station most of the year. Heat generation decreased by 6% in 2019 due to warmer weather.

EBITDA amounted to DKK 1.5 billion compared to DKK 2.1 billion in 2018.

EBITDA from CHP plants increased by DKK 0.4 billion and totalled DKK 1.2 billion in 2019. The increase was primarily due to a reversal of a provision of DKK 0.3 billion following the acquittal in the Elsam competition case.

EBITDA from Gas Markets & Infrastructure decreased by 45% and amounted to DKK 0.4 billion. The decrease mainly related to our gas contracts where we received a one-off compensation following the completion of an arbitration case relating to a gas purchase contract in Q1 2018. In addition, earnings were negatively affected by the substantial drop

Performance highlights		2019	2018	%
<b>Business drivers</b>				
Degree days	number	2,399	2,526	(5%)
Heat generation	TWh	8.3	8.8	(6%)
Power generation	TWh	4.6	6.7	(31%)
Gas sales	TWh	127.1	134.1	(5%)
Power sales	TWh	14.7	15.3	(4%)
Gas price, TTF	EUR/MWh	13.5	22.8	(41%)
Power price, DK	EUR/MWh	39.2	45.1	(13%)
Power price, LEBA UK	GBP/MWh	43.6	57.9	(25%)
Green dark spread, DK	EUR/MWh	(2.6)	2.5	n.a.
Green spark spread, DK	EUR/MWh	2.0	(6.3)	n.a.
<b>Financial results</b>				
Revenue	DKKm	32,816	39,836	(18%)
EBITDA	DKKm	1,495	2,100	(29%)
CHP plants		1,152	715	61%
Gas Markets & Infrastructure		390	705	(45%)
LNG		(957)	(43)	n.a.
Distribution, B2C and city light		1,280	1,135	13%
Other, incl. project development		(370)	(412)	(10%)
Depreciation	DKKm	(798)	(1,430)	(44%)
Impairment losses	DKKm	(500)	603	n.a.
EBIT	DKKm	197	1,273	(85%)
Cash flows from operating activities	DKKm	1,218	2,874	(58%)
Gross investments	DKKm	(1,898)	(2,522)	(25%)
Divestments	DKKm	25	320	(92%)
Free cash flow	DKKm	(655)	672	n.a.
Capital employed	DKKm	15,789	13,014	21%

in gas prices during the year, which led to a decrease in the accounting value of our gas inventories, whereas increasing gas prices led to a temporary positive effect in 2018. The negative effect in 2019 will be partly offset if the gas prices increase again, or when we sell the gas, expectedly in 2020.

EBITDA from LNG decreased by DKK 0.9 billion to DKK -1.0 billion in 2019. The agreement to divest our LNG activities had a net negative impact of DKK 0.8 billion on EBITDA in 2019, as the agreement entails a larger payment than what we had provided for. In addition, earnings in 2019 were adversely impacted by time-lag on oil-indexed LNG purchase agreements.

EBITDA from Distribution, B2C and city light increased by DKK 0.1 billion to DKK 1.3 billion. The increase was mainly due to lower costs.

Depreciation decreased by 44% and amounted to DKK 0.8 billion. The decrease was mainly due to the distribution, B2C and city light businesses not being depreciated in 2019, as they are classified as assets held for sale.

Impairment losses amounted to DKK 0.5 billion in 2019 and related to a write-down of our Renaissance plant in the UK, mainly due to delayed commissioning, increased CAPEX and changed cost and price estimates. In 2018, previous impairment losses of DKK 0.6 billion

regarding the power distribution grid were reversed in connection with the classification as assets held for sale at the end of the year. Cash flow from operating activities amounted to DKK 1.2 billion in 2019. The decrease of DKK 1.7 billion was mainly due to higher paid tax and higher receivables at the end of 2019 compared to 2018.

Gross investments amounted to DKK 1.9 billion in 2019 and mainly related to the instalment of new smart meters, the bioconversion of Asnæs Power Station and maintenance of the power distribution grid.

## Strategic and operational performance

2019 was a year of change where we initiated and concluded a number of divestments and merged two business units. However, we also made good progress within our core activities.

### Provide route-to-market for our energy generation

During 2019, our power portfolio under management grew by 1.2GW to more than 5.5GW, as we added a long-term contract for the Hornsea 1 Offshore Wind Farm.

We also concluded a 15-year agreement with the Dutch power grid company, Alliander, who will purchase green certificates from the Borssele 1 Offshore Wind Farm in order to reduce its carbon emissions.

Furthermore, we started optimising the dispatch of Ørsted's first stand-alone, large-scale battery (20MW) in the UK ancillary services

market, further diversifying and adding flexibility to our power portfolio.

### Manage market risks

Within our market trading activities, we benefitted from trading of our energy exposures. In particular, we benefitted from hedging a part of our North-Western European longer-dated power exposure by rolling shorter-dated power-hedges (time spread), as well as by hedging part of our UK power exposure in the long end of the curve with gas hedges instead of power hedges (spark spread). Both of these trading strategies are commonly used to hedge our exposures due to higher liquidity and lower costs. However, in 2019, we experienced an unusual long period where the price development in the short and long end of the power curve and between the gas and power curves developed in our favour.

In October, we established a commodity trading unit in the US to reduce risk and improve the prices we receive for our power generation as well as to gain deeper insights into the market, which can be used when developing new wind and solar projects.

### Operate and optimise our CHP plants

The focus of our CHP business is to operate and optimise our heat and power stations in a way that is green, safe and efficient.

In 2019, all of our biomass came from sustainable sources, mostly in the form of residues from timber production, such as sawdust, branches and thinnings, with 96% certified by third parties. We expect that 100% of our wooden biomass will be third-party certified in 2020.

## Introduction to Markets & Bioenergy

- We serve as an efficient route-to-market for both Ørsted and external partners, by providing balancing services for renewable generation portfolios and by selling green certificates to the market. In doing so, we manage large volumes of power contracts that we optimise by leveraging the size of our combined portfolio and our origination and trading capabilities.
- We actively manage merchant risk arising from our generation assets and contracts by trading commodities.
- We provide around one quarter of Denmark's district heating and around one third of Denmark's thermal power through our CHP plants, making our CHP business a leading provider of heat, power and ancillary services in Denmark.
- We ensure efficient operations and maximise the commercial value of our legacy gas portfolio.
- We are developing proof-of-concept for innovative waste recycling solutions through Renaissance, our patented enzyme technology.
- Until completion of the signed and planned divestments, we operate Denmark's largest power distribution grid and power and gas customer business.

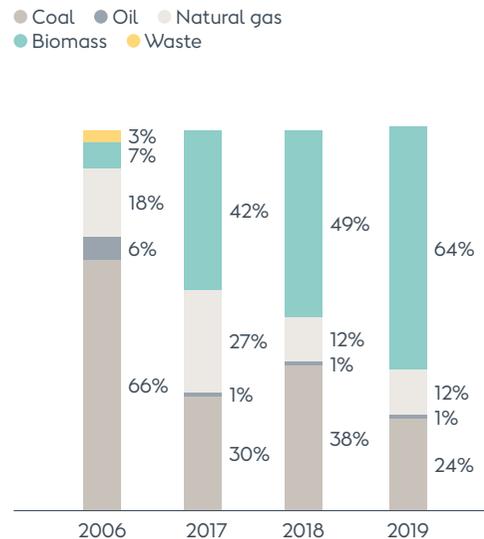
We have converted six of our seven core CHP plants, and we continue to reduce the carbon emissions from these. From 2018 to 2019, we increased the share of biomass from 49% to 64% and reduced our carbon emissions by 47%. Since mid-December, 100% of Asnæs Power Station's heat and power have been generated from sustainable biomass, completing our CHP bioconversion project. Asnæs will provide green process steam to Novo Nordisk's and Novozymes' production facilities as well as green heat to the city of Kalundborg and green power to the electricity grid.

For our last remaining coal-fired plant, Esbjerg Power Station, we have not been able to agree on a joint solution for a bioconversion project with our heat customers. Thus, we plan to close down operations of this plant in early 2023, to completely phase out coal by 2023.

To operate our green CHP plants even more efficiently, we are rolling out a comprehensive digitalisation programme at our power stations, allowing us to further optimise generation and reduce costs.

In May 2019, an employee of one of our contractors died after a serious accident at Avedøre Power Station. We are deeply affected by this incident and have been in close contact with the contractor, our employees and the relatives of the deceased to offer support and assistance. Several improvement tracks have been initiated to ensure that an accident like this will never happen again. For example, we have strengthened the permit-to-work system and tools for conducting risk assessments. Furthermore, we have expanded the dialogue between contractors and Ørsted

**Share of fuels in the thermal heat and power generation, %**



The biomass conversion of Asnæs Power Station will support a continued reduction in the usage of coal in 2020.

staff to ensure alignment on procedures and improve safety measures.

**Optimise our gas portfolio**

In 2019, we benefitted from larger wholesale activity in the Danish and Swedish markets, successful management of flexible gas contracts and increased origination activity.

In September, the production facility on the Tyra platforms in the North Sea owned by the Danish Underground Consortium (DUC) was closed as part of a redevelopment project of

Tyra. For Ørsted, this entailed a shutdown and depressurisation of our Tyra-Nybro gas pipeline. The platform and pipeline are expected to be recommissioned in July 2022. In the meantime, the Danish and Swedish gas markets will rely on imports from Germany.

The past year saw increased utilisation of our capacity at the Dutch LNG Gate terminal on the back of larger LNG volumes arriving in Europe. This was the result of active management and trading of LNG cargoes globally. Furthermore, we concluded a long-term sourcing contract, thereby securing future supply for the LNG terminal capacity. In December, we entered into an agreement to divest our LNG activities.

**Commercialise Renaissance**

Due to recent upgrades to our Renaissance facility in Northwich in the UK, we were not able to commission the plant in 2019 as planned. However, it has been confirmed that the core enzymatic sorting process works as expected. In addition, the mechanical sorting components have been improved and redundancy added to resolve the challenges arising from the sorting of non-organic solid fractions.

**Divest non-core assets and activities**

To sharpen our focus on our renewable growth platform, we initiated and concluded agreements on several divestments in 2019. In May, we entered into an agreement to divest the Stignæs Transit Harbour. Since the power station was closed in 2012, the site has primarily been used as a coal terminal. In June, we sold our stakes in the Kalundborg Bioenergi plant and two upgrading plants in Fredericia and Horsens. In September, we entered into an

agreement to divest Radius, our Danish power distribution business, and our residential customer and city light businesses to SEAS-NVE. Finally, we entered into an agreement in December to divest our LNG activities to Glencore as a step to reduce our long-term engagement within the gas supply chain, and because further financial improvements would require additional contractual commitments.

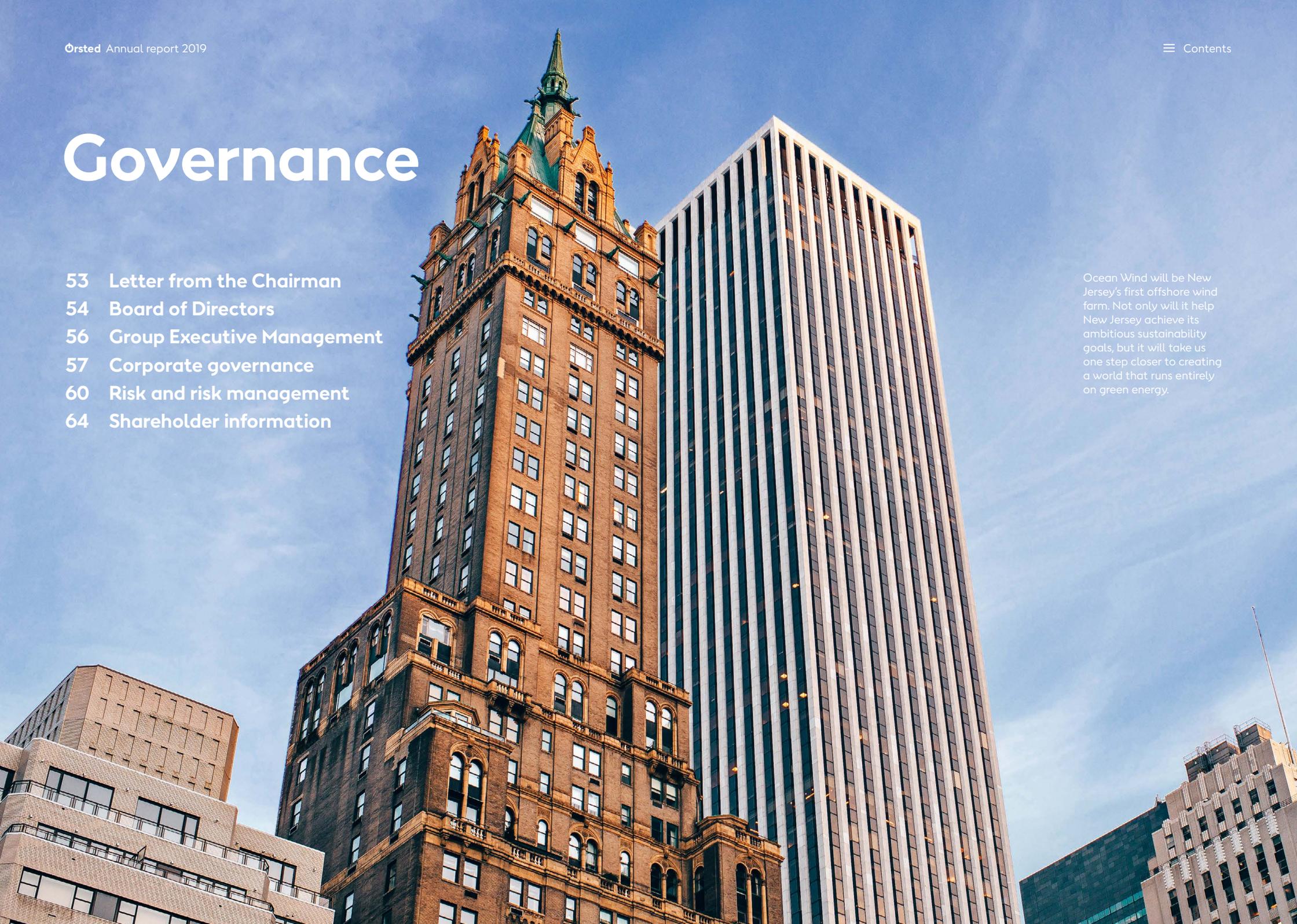
In addition to the concluded agreements, we initiated a divestment process for our energy consulting business, our small and medium-sized enterprise (SME) business, and part of our enterprise customer portfolio. We will continue offering gas commodity contracts for our larger customers in Denmark and Sweden as an outlet for our legacy gas position, as well as external portfolio management (EPM) services for selected customers in the UK, Denmark, Sweden and Germany.

We are proud to hand over a portfolio of healthy businesses to the new Radius owners at SEAS-NVE. Together with Kamstrup, Radius finalised the installation of more than one million smart meters in 2019. The smart meters give the households in our distribution areas an overview of their power consumption and allow them to plan their electricity usage around the most cost-efficient periods of the day. Furthermore, we are pleased that the customers had a good reliability of supply with only 0.42 power outages on average in 2019.

# Governance

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Ocean Wind will be New Jersey's first offshore wind farm. Not only will it help New Jersey achieve its ambitious sustainability goals, but it will take us one step closer to creating a world that runs entirely on green energy.



# Letter from the Chairman

The Board believes that good corporate governance is fundamental in meeting Ørsted's strategic objectives and maintaining the highest standards of integrity.

Our corporate governance model has its offspring in our Danish roots, which builds on a strong tradition for integrity and transparency. As a consequence, we have incorporated and follow all the recommendations prepared by the Danish Committee on Corporate Governance. You can find our statutory corporate governance report on [orsted.com/statutory-reports](https://orsted.com/statutory-reports).

Climate change is fundamental to our business strategy, and climate-related issues are an integral part of our board agendas. In the Board, we monitor and oversee progress related to Ørsted's strategic ambitions, including our ambitious targets for addressing climate-related issues. We seek to integrate considerations for climate protection when setting our strategic direction, reviewing sustainability risks, setting performance objectives, deciding on our capital allocation, and when approving and overseeing major investments, acquisitions and divestments.

In 2019, the Board of Directors discussed and took a number of key business decisions to take further action against climate change

and to strengthen our ambition of becoming a global green energy major. The decisions covered, among other things, investments in new offshore and onshore wind and solar projects and an agreement to divest our Danish power distribution, residential customer and city light businesses as well as our LNG business.

The Board decided to update our targets for greenhouse gas emission reductions from our energy generation and other in-house operational activities (scope 1 and 2 emissions) and decided to set an ambitious target for reducing the emissions related to our value chain (scope 3 emissions). Both of these decisions will help us in becoming carbon neutral.

Furthermore, we decided to merge two of our business units, made an adjustment to our long-term financial targets and have prepared an updated remuneration policy and report according to the Shareholder Rights Directive II, which we will present at the annual general meeting in March this year. Finally, we conducted an audit tender, leading to a proposal at the general meeting to re-elect PwC as auditor from 2020.

To facilitate a more dynamic and focused dialogue at our board meetings, we have reduced the number of members from twelve to nine over the past couple of years. In 2019, we updated the split of responsibilities between the Board of Directors and the Executive Board to reflect the company's transformation in recent years and ensure that we spend our time on the right things in the Board. This included, among other things, an increase in the monetary thresholds, stating when to seek Board approval of, for example, investments and M&A projects.

In the Board, we appreciate the opportunity to meet the company's employees and key stakeholders. During the year, we visited Siemens Gamesa Renewable Energy's Danish blade and nacelle factories and the Østerild test centre for large wind turbines. We held board meetings at our offices in Gentofte, Skærbæk and Boston and also met with some of our key stakeholders during the trip to the US.

I look forward to continuing serving the Board in the coming year.



A handwritten signature in black ink, appearing to read 'T. Thune Andersen'.

**Thomas Thune Andersen**  
Chairman

# Board of Directors



## Thomas Thune Andersen

Chairman since 2014.  
Born 1955.  
Independent.  
Joined/re-elected: 2014/2019.  
Term of office expires: 2020.

Extensive global managerial experience from leading positions in A.P. Møller-Mærsk and non-executive directorships in listed and privately held companies within the energy and other sectors.

### Other positions<sup>1</sup>

Chairman: Lloyds Register Group and Foundation  
Deputy chairman: VKR Holding A/S  
Member: Arcon-Sunmark A/S, BW Group Ltd, IMI plc., the Danish Committee on Corporate Governance.



## Lene Skole

Deputy Chairman since 2015.  
Born 1959.  
Independent.  
Joined/re-elected: 2015/2019.  
Term of office expires: 2020.

Highly experienced in managing listed companies from her previous position as CFO of Coloplast and current position as CEO of Lundbeckfonden where she serves as a non-executive director of the portfolio companies of Lundbeckfonden.

### Other positions<sup>2</sup>

CEO: Lundbeckfonden, Lundbeckfond Invest A/S  
Chairman: LFI Equity A/S  
Deputy chairman: ALK-Abelló A/S, H. Lundbeck A/S, Falck A/S.  
Member: Tryg A/S, Tryg Forsikring A/S.



## Hanne Sten Andersen

Employee representative.  
Born 1960.  
Not independent.  
Joined/re-elected: 2007/2018.  
Term of office expires: 2022.

Hanne Sten Andersen has worked in Ørsted as an HR partner in Markets & Bioenergy since 2003.

### Position

Lead HR Business Partner, Markets & Bioenergy.



## Lynda Armstrong

Born 1950.  
Independent.  
Joined/re-elected: 2015/2019.  
Term of office expires: 2020.

Strong global managerial experience from more than 30 years in leading positions in Shell, including as Vice President in Shell International, and from non-executive directorships in international companies and large organisations.

### Other positions<sup>3</sup>

Chairman: The Engineering Construction Industry Training Board (ECITB)  
Non-Executive Director: KAZ Minerals plc.



## Poul Dreyer

Employee representative.  
Born 1964.  
Not independent.  
Joined/re-elected: 2014/2018.  
Term of office expires: 2022.

Poul Dreyer has worked in Ørsted as a technician in Markets & Bioenergy since 1987.

### Position

Technician, Markets & Bioenergy.

<sup>1</sup> Board committees: Remuneration Committee of Lloyds Register Group, Nomination Committee of Lloyds Register Foundation, Nomination Committee and Remuneration Committee of IMI plc, Nomination Committee of VKR Holding A/S.

<sup>2</sup> Member of the Audit, Nomination & Scientific Committee of ALK-Abelló A/S, member of the Remuneration & Scientific Committee of H. Lundbeck A/S, member of the Audit & Risk Committee of Tryg A/S, member of the Remuneration Committee of Falck A/S.

<sup>3</sup> Chairman of the Remuneration Committee, member of the HSE Committee and member of the Project Assurance Committee of KAZ Minerals plc.

# Board of Directors



## Benny Gøbel

Employee representative.  
Born 1967.  
Not independent.  
Joined/re-elected: 2011/2018.  
Term of office expires: 2022.

Benny Gøbel has worked in Ørsted as an engineer in Markets & Bioenergy since 2005.

**Position**  
Engineer, Markets & Bioenergy.



## Jørgen Kildahl

Born 1963.  
Independent.  
Joined/re-elected: 2018/2019.  
Term of office expires: 2020.

Strong international background in renewable energy and a profound knowledge of how the energy ecosystems work from positions as Executive Vice President of Statkraft and member of the board of management of E.ON.

**Other positions<sup>1</sup>**  
Chairman: Nysäter Wind AB.  
Deputy chairman: Telenor ASA.  
Member: Høegh LNG Holdings Ltd and Alpiq AG.  
Other: Senior Advisor, Credit Suisse Energy Infrastructure Partners.



## Peter Korsholm

Born 1971.  
Independent.  
Joined/re-elected: 2017/2019.  
Term of office expires: 2020.

Extensive M&A experience from his time as Partner and Head of EQT Partners Denmark and from private investments. Also experience with financial reporting, risk management and capital markets from CFO position at AAK AB.

**Other positions<sup>2</sup>**  
CEO: DSVM Invest A/S, DSV Miljø Group A/S, Day et Invest ApS, Togu ApS, Totalleveranser Sverige AB and Ejendomsselskabet Nordre Fasanvej ApS.  
Chairman: Nymølle Stenindustrier A/S, GDL Transport Holding AB, Lion Danmark I ApS and Totalleveranser Sverige AB.  
Member: DSVM Invest A/S, A/S United Shipping and Trading Company, DANX Holding I ApS.



## Dieter Wemmer

Born 1957.  
Independent.  
Joined/re-elected: 2018/2019.  
Term of office expires: 2020.

Highly experienced in capital markets, investments and risk management from leading positions within the finance sector. Before focusing solely on non-executive directorships, he was the CFO of Allianz.

**Other positions<sup>3</sup>**  
Member: UBS Group AG, UBS AG.

<sup>1</sup> Member of the Audit & Risk Committee, and the Sustainability & Compliance Committee of Telenor ASA and member of the Audit Committee of Høegh LNG Holdings Ltd.  
<sup>2</sup> Chairman of the Investment Committee of Zoscales Partners and Chairman of the Board of Directors of four wholly-owned subsidiaries of Lion Danmark I ApS (Lomax Group). He is also a member of the Board of Directors of three wholly-owned subsidiaries of A/S United Shipping and Trading Company, three wholly-owned subsidiaries of DANX Holding I ApS, and four wholly-owned subsidiaries of DSVM Invest A/S.  
<sup>3</sup> Member of the Audit Committee and the Compensation Committee of UBS Group AG.

# Group Executive Management

## Henrik Poulsen

Registered as CEO.  
Chief Executive Officer (CEO) and President since August 2012.  
Education: MSc in Finance and Accounting, Aarhus School of Business 1994.

Born 1967.

### Career

2012-2008-2012 Ørsted A/S, CEO and President.  
TDC A/S, CEO and President.  
2006-2008 Capstone/KKR, Operating Executive.  
1999-2006 LEGO, EVP, Markets & Products (2005-2006), Regional Managing Director Europe and Asia (2004-2005), SVP, Global Innovation and Marketing (2002-2003), SVP, Global Segment 8+ (2000-2002) and VP, Business Development (1999-2000).  
1996-1999 McKinsey & Co., Senior Engagement Manager.  
1995-1996 Aarsø Nielsen & Partners, Senior Consultant.  
1994-1995 Novo Nordisk A/S, Controller.

### Other positions:

Kinnevik AB: Deputy Chairman and member of the Audit Committee.  
ISS A/S: Member of the Board of Directors and Chairman of the Audit Committee.  
EQT Partners: Senior Advisor.

## Marianne Wiinholt

Registered as CFO.  
Chief Financial Officer (CFO) since October 2013  
Education: MSc in Business Administration & Auditing, Copenhagen Business School 1990, State-Authorised Public Accountant 1992.

Born 1965.

### Career

2004-Ørsted A/S, EVP, Chief Financial Officer (CFO) 2013-, SVP, CFO Customers & Markets (2013), SVP, Group Finance (2005-2013), and VP, Group Finance and Accounting & Tax (2004-2005).  
1997-2003 Borealis A/S, Head of Group Finance & Auditing (2001-2003), Head of Group Accounting & Tax (1997-2001).  
1987-1997 Arthur Andersen, Auditor.

### Other positions:

Hempel A/S: Member of the Board of Directors and Chairman of the Audit Committee.  
Norsk Hydro ASA: Member of the Board of Directors and Audit Committee.



Group Executive Management consists of seven members.

Anders Lindberg (Offshore), Marianne Wiinholt (CFO), Henrik Poulsen (CEO and President), Morten Hultberg Buchgreitz (Markets & Bioenergy), Martin Neubert (Offshore), Henriette Fenger Ellekrog (CHRO) and Declan Flanagan (Onshore).

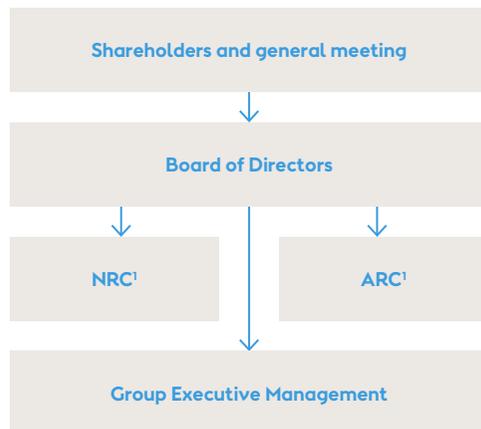
# Corporate governance

Our overall and strategic management of the company is anchored in a board of non-executive directors appointed by the shareholders.

The Board of Directors has appointed an Executive Board to handle the day-to-day management. None of our executives are members of the Board of Directors.

Our governance model is illustrated in the figure and explained below.

## Our governance model



<sup>1</sup> NRC stands for Nomintion & Remuneration Committee and ARC stands for Audit & Risk Committee.

## Shareholders and general meeting

Our shareholders exercise their rights at the general meeting. The general meeting adopts decisions, such as the appointment of the Board of Directors and the auditor, in accordance with the standard Danish rules. Due to our majority ownership by the Danish state, we have a bespoke quorum requirement, as proposals to amend the Articles of Association or dissolve the company require that the Danish state participates in the general meeting and supports the proposals.

## Board of Directors

Each year at the annual general meeting, the shareholders elect six to eight board members. In addition, our employees may elect members corresponding to half of the board members elected by the general meeting pursuant to Danish mandatory rules. Employee elections are held every four years.

For the time being, our Board of Directors comprises nine members, six members elected by the general meeting and three members elected by the employees.

The Board of Directors conducted its annual board evaluation in November 2019. The basis for the evaluation was a questionnaire that the individual members of the Board of Directors and Group Executive Management had been asked to complete. The evaluation

## Important tasks managed by the Board of Directors in 2019

### Investments, acquisitions and divestments

- Build out our offshore wind project portfolio after 2020, including taking final investment decision on the Greater Changhua 1 & 2a offshore wind project in Taiwan, bids into auctions and tenders and entry into revenue contracts related to the awarded Ocean Wind and Sunrise Wind offshore projects in the US.
- Select GE as new wind turbine supplier for certain offshore wind projects.
- Divest 50% of certain US offshore wind projects to Eversource and take first steps to potentially divest 25% of Ocean Wind to PSEG.
- Build out our onshore wind portfolio, including final investment decisions on the Sage Draw, Willow Creek and Plum Creek projects.
- Take final investment decision on Permian Energy Center, our inaugural large-scale solar and storage project in the US, and acquire the solar and storage developer unit of Coronal Energy.
- Enter into agreement to divest our Danish power distribution, residential customer and city light businesses to SEAS-NVE.
- Enter into agreement to divest our LNG activities.
- Divest our biogas activities and enter into agreement to divest Stignsnes Power Station and Harbour.
- Decide to divest majority of B2B activities.

### Other tasks

- Update our long-term financial targets based on a downwards adjustment of our offshore wind production forecasts and certain key positive and negative developments since the Capital Markets Day in 2018.
- Update our decarbonisation strategy, including a revised target for scope 1 and 2 carbon emissions, setting a new target for reducing our supply chain emissions (scope 3) and to become carbon neutral.
- Issue green senior bonds in Europe and Taiwan to finance our green growth ambition towards 2025 and refinance hybrid capital securities.
- Start up trading activities in the US.
- Merge Bioenergy and Customer Solutions following downscaling of activities in each of the business units.
- Oversee investigation and actions taken following the fatal accident at Avedøre Power Station and in general enforce focus on HSE activities.
- Update our internal authorisation rules to reflect the company's transformation in recent years.
- Prepare the remuneration policy and report according to the Shareholder Rights Directive II.
- Oversee the court case concerning the usage of the Ørsted name.
- Perform an audit tender and re-elect PwC as auditor from 2020.

## Competences

Member of the board	Energy sector	General management	Safety management	Financial management	Risk management	Project management	Stakeholder management	Human resources management	IT, technology and digitalisation	Investor and capital markets relationships	ESG
Thomas Thune Andersen	✓	✓	✓		✓	✓	✓				✓
Lene Skole		✓		✓	✓		✓	✓		✓	✓
Lynda Armstrong	✓	✓	✓		✓	✓	✓	✓			✓
Pia Gjellerup <sup>2</sup>											
Jørgen Kildahl	✓	✓	✓		✓	✓	✓		✓	✓	✓
Peter Korsholm		✓		✓	✓		✓			✓	✓
Benny D. Loft <sup>2</sup>											
Dieter Wemmer		✓		✓	✓		✓		✓	✓	✓
Hanne Sten Andersen <sup>1</sup>	✓	✓						✓			
Poul Dreyer <sup>1</sup>	✓										
Benny Gøbel <sup>1</sup>	✓										

<sup>1</sup> Employee representative

<sup>2</sup> Resigned in March 2019. Competences not included in above overview.

was a follow-up on the assessment carried out in 2018 with external assistance which focused on board structure, board governance and team and people dynamics in the board. The evaluation showed a high degree of satisfaction among the members of the Board of Directors and Group Executive Management. During 2020, the Board of Directors will, among other things, continue its focus on organisational development, succession and diversity.

The Board of Directors has prepared an overview of the competences required on the board. In 2019, we added environmental, social and governance (ESG), to

the list of required competences. The list of required competences can be found at [orsted.com/competences-overview](https://orsted.com/competences-overview).

A description of the individual board members, including their other executive positions and independence, can be found on page 54-55. Above, you can see how the individual board members contribute to the required competences and their meeting attendance during 2019.

The Board of Directors is responsible for the overall management of the company. The Board of Directors lays down the company's strategy and makes decisions concerning

major investments and divestments, the capital base, key policies, control and audit matters, risk management and significant operational issues. You can see the most important tasks in 2019 on the previous page.

The Board of Directors has appointed two committees from among its members: an Audit & Risk Committee and a Nomination & Remuneration Committee, which assist the Board of Directors within selected areas.

Each year, the general meeting approves the remuneration for the members of the Board of Directors for the coming year. In the separate remuneration report available on

## Meeting attendance

Board of Directors	Audit & Risk Committee	Nomination & Remuneration Committee
● ○		
7/0	6/0	3/0
7/0	5/1	3/0
7/0	6/0	1/0
1/0	2/0	2/0
7/0	6/0	5/0
7/0	5/1	6/0
1/0	2/0	1/0
7/0	6/0	6/0
7/0	6/0	
7/0	5/1	
7/0	5/1	

⬆ ● Ordinary ● Extraordinary

The numbers indicate how many meetings in 2019 the members have attended or not attended, respectively, during the year.

[orsted.com/remuneration2019](https://orsted.com/remuneration2019), you can read more about the remuneration of the Board of Directors.

## Audit & Risk Committee

Dieter Wemmer (Chairman), Jørgen Kildahl and Peter Korsholm are the members of the Audit & Risk Committee.

The committee assists the Board of Directors in overseeing the financial and ESG reporting process (including key accounting estimates and judgements), the liquidity and capital structure development, financial and business-related risks, compliance with statutory and other requirements from public authorities,

internal controls as well as IT security in operational and administrative areas as well as cybersecurity.

Moreover, the committee approves the framework for the work of the company's external and internal auditors (including voluntary limits for non-audit services), evaluates the external auditors' independence and qualifications as well as monitors the company's whistleblower scheme.

In 2019, the committee performed an audit tender and presented its proposal to re-elect PwC as auditor from 2020 to the Board, which approved it and will present it at the general meeting in March. It also reviewed the implementation of IFRS 16 'Leases', the new reporting on scope 3 greenhouse gas emissions, changes to the reportable segments and discussed the risk framework and the implementation of a US trading floor. Furthermore, it reviewed the progress within IT security and met with the Danish Business Authority in connection with the ordinary supervision of compliance in Danish audit committees.

Our Internal Audit function reports to the Audit & Risk Committee and is independent of our administrative management structures. Internal Audit enhances and protects the organisational value by providing risk-based and objective assurance, advice and insight. The main focus for Internal Audit is auditing and advising on our core processes, governance, risk management, control processes and IT security.

The Chairman of the Audit & Risk Committee is responsible for managing our whistleblower

scheme. Internal Audit receives and handles reports submitted. Our employees and other associates may report serious offences, such as cases of bribery, fraud and other inappropriate or illegal conduct, to our whistleblower scheme or through our management system. In 2019, three substantiated cases of inappropriate or unlawful behaviour were reported through our whistleblower scheme. Two cases concerned violation of good business conduct policies, and one case concerned conflict of interest between a third-party representative and Ørsted. The cases had consequences for the individuals involved. None of the reported cases were critical to our business or impacted our financial results. Whistleblower cases are taken very seriously, and we continuously enhance the awareness of good business conduct, e.g. through education as well as awareness campaigns, to minimise future similar cases.

You can read more about the Audit & Risk Committee and the terms of reference for the committee at [orsted.com/audit-risk-committee](https://orsted.com/audit-risk-committee).

### Nomination & Remuneration Committee

Thomas Thune Andersen (Chairman), Lene Skole and Lynda Armstrong are the members of the Nomination & Remuneration Committee.

The committee assists the Board of Directors in matters regarding the composition, remuneration and performance of the Board of Directors and Group Executive Management.

In 2019, the committee discussed, among other matters, the implementation of the EU Shareholder Rights Directive II into Danish

legislation. In this context, the remuneration policy for the Board of Directors and the Executive Board was reviewed together with the remuneration report and the terms of reference for the committee. The committee decided to pre-implement the requirement to publish the remuneration report separately from the annual report already for the 2019 report.

Additionally, the committee discussed gender pay gap reporting which is disclosed in the ESG performance report based on countries with more than 250 employees.

Finally, the committee discussed the appointment of Declan Flanagan as Executive Vice President (EVP) for Onshore (previously CEO of the subsidiary Lincoln Clean Energy) and the appointment of Morten H. Buchgreitz as EVP for the merged business unit, Markets & Bioenergy (previously EVP for Customer Solutions).

You can read more about the Nomination & Remuneration Committee and the terms of reference for the committee at [orsted.com/nomination-remuneration-committee](https://orsted.com/nomination-remuneration-committee).

### Executive Board and Group Executive Management

Henrik Poulsen (CEO) and Marianne Wiinholt (CFO) are members of the Executive Board of Ørsted A/S.

The Executive Board undertakes the day-to-day management through the Group Executive Management, which consists of seven members. In addition to Henrik Poulsen and Marianne Wiinholt, Group Executive Management comprises the EVPs of our three business units:

Martin Neubert (Offshore), Declan Flanagan (Onshore), Morten H. Buchgreitz (Markets & Bioenergy) together with the EVPs Henriette Fenger Ellekrog (Chief Human Resources Officer (CHRO)) and Anders Lindberg (Offshore EPC and QHSE).

The Board of Directors has laid down guidelines for the work of the Executive Board, including the division of work between the Board of Directors and the Executive Board and the Executive Board's powers to enter into agreements on behalf of the company.

The Board of Directors regularly discusses the CEO's performance, for example by following up on developments seen in relation to our strategy and objectives.

The Chairman of the Board of Directors and the CEO also regularly discuss the cooperation between the Board of Directors and the Executive Board.

We describe the remuneration of the Executive Board in the separate remuneration report available at [orsted.com/remuneration2019](https://orsted.com/remuneration2019). You can also find information about the members of the Executive Board on page 56.

# Risk and risk management

Risks are a natural and integral part of our business activities, and risk diversification is an important part of Ørsted's strategy. Our risk profile changes continuously. Our aim is to mitigate our risks and reduce them to an acceptable level through risk management.

We are exposed to several risks in connection with our business activities. In addition to operational, business and environmental risks, we are exposed to fluctuations in exchange rates, interest rates, inflation and commodity prices, as well as credit and insurance risks. The purpose of our risk management is to identify and quantify our risks and decide how best to manage and mitigate them. We assess the extent to which individual risks are acceptable or perhaps even desirable, as well as the extent to which these risks can be reduced to ensure an optimum balance between risk and return.

A large part of our earnings is generated from offshore wind, with Denmark and the UK being the key contributors. However, our future earnings will be spread across more geographical regions and technologies. Therefore, political and other macroeconomic factors play an important role in our risk management. When we invest in new assets and activities or divest assets, the consolidated risks associated with our portfolio changes.

Therefore, we assess the impact of a given decision on the portfolio upfront.

We work systematically with risks. All business units and selected staff functions identify and prioritise business risks. An assessment is made of the potential financial impact of individual risks, and whether they are of a short-term (0-2 years), medium-term (2-5 years), long-term (5+ years) or of recurring nature. All our risks are then consolidated and evaluated at Group level. The ultimate responsibility for all the individual risks rests with a member of the Group Executive Management. As for business risks, similar processes are in place for identifying and prioritising risks related to sustainability, cybersecurity and legal compliance.

The top five business risks identified during 2019 are shown to the right where they are illustrated based on their potential impact (post-risk mitigation) on our value and credit metrics over the next years. You can read more about these risks on the following pages.

Brexit is not in itself part of our top five business risks, but is embedded in several of our risks. We do not believe the decision in the UK to leave the EU on 31 January will result in fundamental changes to the UK's energy policy. Announcements by the UK government show that the UK is committed to a clean, green energy future, and offshore wind is the backbone of this green vision. Trade and customs facilities will still function during the transition period

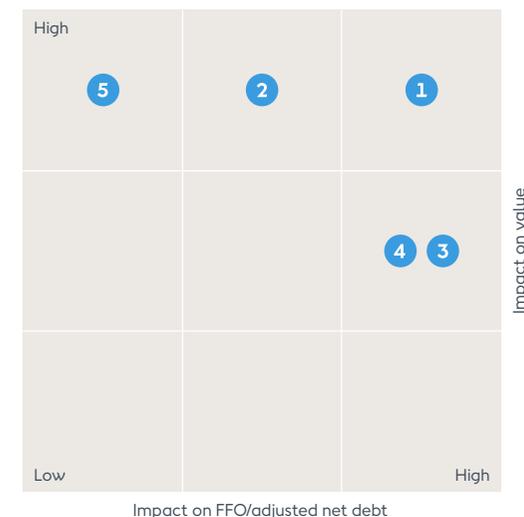
which runs until the end of 2020, so our most significant risk regarding Brexit is a situation where no agreements are made, and the transition period is not extended. Such a scenario could result in a depreciation of the GBP on a short- to medium-term horizon and potentially long-term. This is part of the first risk in our top 5 business risks. Furthermore, such a scenario could result in lower UK power prices than currently observed, but the government-introduced carbon price floor (CPF) will prevent a dramatic decline. This is addressed in our second risk in the top 5 business risks.

The risks related to sustainability, cybersecurity and legal compliance are assessed using different parameters. Hence, we do not show a consolidated picture of our combined risks.

A description of the most significant sustainability risks can be found in our sustainability report. This year, we also concluded a climate scenario analysis where we assessed the resilience of our offshore business in two potential scenarios of climate change. Read more about this in the info box on page 63. Risks related to cybersecurity and legal compliance can be found on the same page.

We are also exposed to risks which have a very small probability of occurring, but which could potentially impact our finances and/or reputation substantially. These risks include, but are not limited to:

**Top 5 business risks**  
Effect on our value and credit metric



Quantification of risks is based on a scenario where the risk occurs with 10% probability (P90). Our Internal Audit function has examined the process for identifying and measuring the accompanying portfolio risks.

- 1 (#1 2018) Currencies, inflation and interest rates
- 2 (#2 2018) Commodity prices
- 3 (part of #3 in 2018) US Offshore portfolio
- 4 (part of #3 in 2018) Construction risks
- 5 (New in top 5) Future competitiveness in Offshore

- 1,000-year storms, hurricanes, typhoons or earthquakes in especially Taiwan, which may lead to the loss of offshore and onshore wind farms
- broken pipes at the Nybro Gas Treatment Plant in Denmark, which may lead to personal injury and damage to the environment
- breakdowns at power stations that may lead to personal injury and loss of assets.

After risk-reducing measures are implemented, Group Executive Management assess whether the level of each risk is appropriate or slightly or significantly higher than the desired level. If the risk level is still too high, further risk-reducing measures are initiated to the extent possible.

**Climate-related risks**

We address climate-related risks and opportunities as an integral part of our daily business, and we report as recommended by the Task Force on Climate-related Financial Disclosures (TCFD). These risks and opportunities are directly linked to our green vision and strategy. We seek to exploit climate-related opportunities through our development and construction of renewable generation capacity and adjacent sustainable activities. At the same time, we seek to reduce both our transitional and physical climate-related risks in the short, medium and long term. We do that by, among other things:

- influencing regulators and other public authorities towards ambitious targets for the build-out of renewable capacity and regulatory frameworks which support this
- continuously working to improve the future competitiveness of green technologies,

- i.e. lowering the levelised cost of electricity (LCoE)
- assessing acute and chronic weather development; especially wind speeds and patterns, but also the temperature and precipitation levels in general
- taking extreme weather conditions and other relevant factors into account when we design and construct our assets.

In that way, we seek to avoid ending up with stranded assets or assets and activities with a significantly lower value than originally expected.

When we prepare business cases for investments in new assets or activities, we take climate-related risks and opportunities into account by assessing the expected changes in the green technology mix. On this basis, we assess the expected derived impact on input and output prices of energy, including the price development of components and services to be used for the construction of these assets as part of our LCoE analysis.

At this year's UN Climate Action Summit, Ørsted and 86 other major global companies (incl. Iberdrola, Acciona, Enel, IKEA, HPE and Novo Nordisk) committed to setting ambitious carbon emission reduction targets to limit global warming to 1.5°C.

**Development in risks in 2019**

Our increased activities in North America, including our success in two key US offshore wind auctions in 2019, significantly increase our exposure to the US market. Similarly, the final investment decision to construct the Changhua 1 & 2a Offshore Wind Farm has



Safety is an integral part of our daily operations, including daily briefings at each site.



increased our exposure to the Taiwanese market. These developments, together with an observed fierce competition in several auctions and tenders during the year, have had an impact on the ranking of our top five business risks.

Our exposure to exchange rate fluctuations, primarily GBP, USD and New Taiwan dollar (NTD), has increased in 2019 due to significant investments in offshore and onshore wind in these areas. Currency and interest rate risks are deemed to be our most significant business risk, whereas commodity prices are rated our second-largest risk.

Due to our increasing pipeline of US projects, we have carved out the development and construction of our US portfolio as a new risk in 2019 – our third-largest risk. The immature

market leads to higher development risks, such as regulatory risks and increased construction risks due to supply chain immaturity and local content requirements.

The risk associated with construction of our offshore (excl. US) and onshore wind farms is our fourth-largest risk.

The risk associated with the future competitiveness in Offshore has increased during the year and is now our fifth-largest risk.

A significant part of 'Regulatory risks within offshore wind' has been absorbed in our third-largest risk and has no longer a separate risk ranking. Risks associated with the operation of offshore wind farms remain a key focus area, but has moved out of our top five risks.

## 1 Currencies, inflation and interest rates

### Description

Our main currency exposure relates to GBP due to our substantial investments in offshore wind farms in the UK. However, our recent international expansion has increased our USD and NTD exposure.

To a large extent, our medium- to long-term earnings can be expected to follow the development in consumer and market prices, thereby protecting the real value of our assets and equity. However, fixed nominal subsidies from wind assets in Denmark, Germany and the Netherlands and fixed-price power purchase agreements (PPAs) from assets in the US and Taiwan are exceptions to this, as is fixed nominal cash flows related to debt. We are exposed to inflation risk in these markets where an increase in inflation will adversely impact the expected real value of the revenue.

### Potential impact

Fluctuations in exchange rates, interest rates and inflation may adversely impact our earnings.

### Mitigating actions

Our general strategy is to hedge more of the risk in the first years and less in the latter years. In the medium- to long-term horizon, the risk is managed by matching income and liabilities in the same currencies. For our USD and NTD exposures from new markets, we do not have an existing portfolio to net construction payments against. Therefore, we seek to hedge the price risk in the near term, while simultaneously hedging a similar, but opposite, exposure in the longer term.

Our inflation and interest rate exposures are managed by matching assets and liabilities in the same currency and with similar payment structures. Hence, our European fixed nominal subsidies are offset by EUR-denominated fixed-rate debt. The risks that arise from Taiwan and US onshore and offshore projects can be reduced by obtaining matching-duration fixed-rate debt denominated in the same currency as the revenue.

## 2 Commodity prices

### Description

We are primarily exposed to power price risks from the sale of our wind-based power generation in the US, the UK and Denmark. In addition, we are exposed to risks caused by differences in local node prices and market hub prices in our onshore business, which impact the realised revenue generation.

To a lesser extent, we are exposed to oil and gas price risks related to sourcing contracts for gas on oil-indexed prices as well as the sale of gas at fixed prices. Finally, power generation from our CHP plants entails an exposure to power prices and fuel prices. As the green transformation in Ørsted advances, the main fuel we use at the CHP plants is biomass. The market for biomass has less liquidity than e.g. gas and coal, adding a risk to which we are exposed.

### Potential impact

Fluctuations in commodity prices may adversely impact our earnings.

### Mitigating actions

We hedge commodity prices for up to five years, and in some cases longer, to reduce cash flow fluctuations. The general strategy is to hedge more of the commodity price risk in the first years and less in the later years. This is due to decreasing market liquidity and increasing uncertainty about generated volumes.

As an alternative to hedging, we seek to enter into long-term corporate power purchase agreements (CPPAs), under which we sell power from our renewable assets. CPPAs or hedges with a duration of 12-15 years are often a prerequisite for obtaining tax equity partnerships in the US. In addition, CPPAs will be a means to mitigate merchant risk for offshore wind farms to be built without subsidies. Our offshore wind farms situated off the US East Coast are guaranteed a fixed price for a period of approx 20 years and thus do not introduce any additional merchant risk.

## 3 US offshore portfolio

### Description

Our expanding pipeline of US offshore projects entails risks in the development and construction phases caused by the relatively immature US offshore wind market, including the federal permitting framework. In the US, contrary to the EU markets, it is possible to participate in auctions and be awarded projects where consent and/or grid connections are not yet secured. Thus, following an award, project development entails regulatory risks in obtaining key consents as well as securing grid connection(s).

In addition, the US tax incentive schemes imply that we must take on major financial commitments early on to qualify for tax credits. On the other hand, this also de-risks the projects. Furthermore, local content requirements and the immature US offshore wind market also lead to increased construction risks in the US, such as the availability of locally manufactured components and harbour facilities.

### Potential impact

To maintain project schedules, permits, consents and approvals from federal, state-level and local authorities must be obtained in due time. Securing sufficient grid connection capacity on time is also key. Delays within these areas can lead to project delays and/or cost overruns which may erode the value of the projects.

### Mitigating actions

We mitigate the risks by having sufficient float in our project timelines and by proactively engaging with all stakeholders. Furthermore, we secure grid connection capacity through a strategy of having multiple points of interconnections available to us in due time relative to wind turbine commissioning. We fulfil part of the local content obligations by investing in harbour infrastructure, thereby also securing critical harbour capacity for staging and load-out of wind turbines.

## 4 Construction risks

### Description

Our main investments include several major offshore and onshore construction projects. Value creation from new projects heavily depends on choosing the right technical and commercial solutions, on the construction phase progressing as planned, on our suppliers living up to their obligations, on maturing the value chain in new markets, on avoiding investment budget overruns and on timely start-up of generation. A large part of our new investments are made in offshore assets, which naturally increases the risks in the construction phase. Some of these relate to site and seabed conditions, weather conditions and dependence on installation and transit vessels. Projects won in competitive auctions and tenders often include less contingency in order to stay competitive. This increases the risk in a scenario where the deadlines are not met.

### Potential impact

If we fail to take any of the conditions mentioned above into account, we may experience delays and budget overruns. Delays can lead to failure to meet deadlines and possibly partial loss of subsidies, grid connection and/or project rights.

### Mitigating actions

We are continuously working on standardising processes based on our vast experience from previous complex investment projects. This has led to, and will continue to lead to, industrialisation of the installation activities. In recent years, this has led to successful completion of several large investment projects, many of which have been completed ahead of schedule and below budget.

## 5 Future competitiveness in Offshore

### Description

As the offshore industry has become a more mature and established industry, competition has increased with new market players entering. The industry is becoming more global, and diversification of developers is increasing. We expect a diversified competitive landscape going forward, including oil majors, utilities, institutional investors and regional developers. Governments soliciting offshore wind have introduced auction/tender mechanisms designed to increase competition and thereby lowering costs for consumers. In some markets, we now see zero-bid tenders with projects being awarded on qualitative assessment criteria, such as procurement and supply chain capabilities. In new markets, such as the US and Taiwan, local content requirements are important assessment criteria. Further, we expect innovation and system integration (e.g. storage and renewable hydrogen) to play an increasingly important role in auctions and tenders.

### Potential impact

There is a risk that we do not win capacity in the auctions and tenders we participate in, or that our value creation from the projects we win ends up being below our cost of capital.

### Mitigating actions

We will remain disciplined in our bidding approach and focus on opportunities where we can create meaningful value. With this year's US awards, we have seen that strong local knowledge and deep market insights, provided partly through our acquisition of Deepwater Wind and partly through our various US partners, can give us a deeper understanding of what the 'customers' require, enabling us to optimise our bid proposition. Furthermore, we utilise portfolio scale advantages and knowhow gained from previously executed projects to develop supply chain solutions and reduce costs and risks in order to win future projects.

## Legal compliance

### Description

Risks associated with legal compliance are assessed based on financial and reputational significance and probability. Our most significant risks are tax law, financial regulation and the EU General Data Protection Regulation (GDPR). We operate in tax regimes with different tax rules and rates, and our tax affairs span over corporate tax compliance, transfer pricing and indirect taxes. We are subject to several financial regulations, such as REMIT, MAR, EMIR, Dodd Frank, MiFID, SFTR and AML1. The financial regulations are relevant for a large part of our activities. In relation to GDPR, we are primarily processing personal data about our Danish residential customers and our employees.

### Potential impact

Failure to comply with the above-mentioned rules and regulations may result in severe legal sanctions, such as imprisonment, fines and damage claims.

### Mitigating initiatives

A comprehensive tax control framework is being designed, and mandatory compliance, including transfer pricing documentation in line with OECD recommendations and local requirements, is being prepared to mitigate our tax risks. We have implemented comprehensive policies, procedures, training and controls for relevant parts of our business to ensure compliance with financial regulations. To ensure that we process personal data in compliance with GDPR, we have mapped and analysed our personal data processing and developed a Group-wide compliance programme. The compliance programme includes various organisational and technical measures as well as mandatory training of employees in risk-exposed positions.

## Cybersecurity

### Description

In recent years, several major cyberattacks have been launched against companies around the world, and according to the Danish Centre for Cybersecurity, the risk of cyberattacks aimed at the energy sector is high. Thus, we have a strong focus on IT security. We are responsible for critical infrastructure, and we own various types of intellectual property rights. This means that we are a potential target for cyberattacks or industrial espionage.

### Potential impact

Minor digital risk events, such as viruses and attempted break-ins, are everyday risks without significant impact. However, major cyberattacks or events may impact all or part of our shared infrastructure for administrative systems or industrial control systems. For the latter, the impact could range from a single asset to potentially all assets and activities in the company. Cyberattacks of a certain size can be costly if it forces us to shut down operations for a period of time.

### Mitigating initiatives

We have launched a significantly resourced programme with the aim to improve resilience against cyberattacks and other threats across Ørsted. Workshops have been held across business units to assess the cyber risks. In addition, we are running cyber risk awareness campaigns throughout the organisation in order to decrease threats from phishing campaigns, etc. Furthermore, we are participating in relevant forums across the energy sector to harvest and contribute with information and experience.

## Climate scenario analysis

In 2019, we assessed the resilience of our Offshore business to climate change in two scenarios: a 1.5-2°C and 3-4°C temperature rise by 2100, respectively.

Through research, interviews and a workshop, we analysed potential climate change impacts on direct operations in Offshore, which accounted for 87% of our EBITDA in 2019. Impacts were qualitatively assessed, and supply chain and other business units were not included in the assessment.

Focus was on the degree to which climate change can potentially add to existing climate-related risks summarised on page 61. Please refer to our CDP Climate Change disclosure for detailed descriptions [here](#).

We concluded that our offshore business is well positioned to manage potential climate-related transitional and physical impacts in both scenarios.

Transitional impacts related to climate change in terms of markets, regulation, technology and reputation are primarily linked to opportunities in both scenarios, especially in scenario 1. A growing share of offshore wind is projected in both scenarios, and Offshore has strong assets, processes and stakeholder engagement in place to identify and meet growing market demand.

Physical impacts from climate change presented no material risk to Offshore. Scenario projections for wind patterns were inconclusive, as the best available science shows no clear positive or negative trend and lacks locational precision. Due to engineering safety factors integrated into wind farm design, the assets are resilient to physical climate change impacts, such as sea level rise and more extreme weather. Finally, considering the lifetime of a wind farm and the pace of technological development, any gradual climate change will be factored into the design and each business case in a timely manner.

# Shareholder information

The Ørsted share yielded a total return of 61% in 2019, an increase in the share price of 58%, and dividends of DKK 9.75 per share.

## Price development for the Ørsted share

The Ørsted share started the year at a price of DKK 436 and closed the year at DKK 689. Prices of comparable European utility companies increased by 32%, and the OMX C25 cap increased by 26% in 2019. The market value of Ørsted was DKK 290 billion at the end of the year. Since the IPO in June 2016, the Ørsted share has generated an aggregate return from share price appreciation and dividends of 204%.

## Share price development in 2019

Ørsted share price compared to peers



The year's highest traded price of DKK 691 was on 27 December. The year's lowest traded price of DKK 428 was on 2 January.

The average daily turnover on Nasdaq Copenhagen was 447,657 shares. The trading volume increased by 0.1% compared to 2018.

In connection with SEAS-NVE's acquisition of our Danish power distribution, residential customer and city light businesses, SEAS-NVE stated an intention to reduce its shareholding from 9.54% to a shareholding of approx 5% over the coming 12 months. In both November 2019 and January 2020, SEAS-NVE sold shares equivalent to 2.27% of the shares in Ørsted, bringing their shareholding to 5.01%.

## Share capital

Ørsted's share capital is divided into 420 million shares, enjoying the same voting and dividend rights. The company's share capital remained unchanged in 2019. At the end of 2019, the company held a total of 396 thousand treasury shares, which will be used to cover incentive schemes.

## Composition of shareholders

At the end of the year, the number of shareholders had increased by 45% to 42,911 and the majority (65%) lies with Danish owners. The figure on the next page shows the composition of our shareholders by country, specifying the three shareholders each holding more than 5% of the share capital. Approximately 2% of the share capital is owned by retail investors.

## Annual general meeting and dividends

The annual general meeting will be held on 2 March 2020 in Copenhagen. Dividends for the year are expected to amount to DKK 10.5 per share, corresponding to DKK 4.4 billion and a yield of 1.5% compared to the share price of DKK 689 at the end of 2019.

In 2019, dividends of DKK 9.75 per share were paid for the 2018 financial year, corresponding to a dividend yield of 2.2%.

## Selected company announcements in 2019

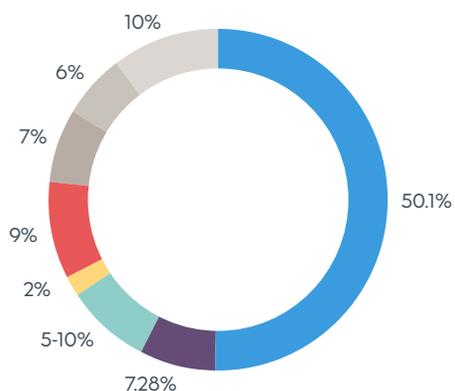
- 30 Jan. Taiwan announces 2019 feed-in tariff.
- 8 Feb. Ørsted divests 50% of South Fork, Revolution Wind and two New England offshore wind lease areas to Eversource.
- 30 Apr. Ørsted takes final investment decision on Changhua 1 & 2a Offshore Wind Farm.
- 9 May Ørsted successfully issues green bonds in UK.
- 21 June Ørsted selected as preferred bidder for New Jersey's first offshore wind farm.
- 18 July Ørsted selected as preferred bidder for New York offshore wind farm.
- 18 Sep. Ørsted enters into an agreement to divest its Danish power distribution, residential customer and city light businesses to SEAS-NVE.
- 25 Sep. Elsam is again acquitted of the competition authorities' claim of abuse. The provision is reversed.
- 29 Oct. Ørsted to negotiate divestment of 25% of Ocean Wind to Public Service Enterprise Group (PSEG).
- 29 Oct. Ørsted presents update on its long-term financial targets.
- 5 Nov. Ørsted issues green bonds in Taiwan.
- 18 Dec. Ørsted enters into an agreement to divest its LNG business.

## Financial calendar 2020

- 30 Jan. Annual report 2019
- 2 Mar. Annual general meeting
- 29 Apr. Interim report for the first quarter of 2020
- 12 Aug. Interim report for the first half-year of 2020
- 28 Oct. Interim report for the first nine months of 2020

**Shareholders at 31 December 2019,**  
share capital and/or voting share %\*

- Danish state (majority shareholder)
- SEAS-NVE, Denmark
- The Capital Group, the US
- Retail investors, Denmark
- Rest of Denmark
- United Kingdom
- Rest of the US
- Others



\* See note 16 in the parent company financial statements.

**Investor relations**

In order to achieve a fair pricing of our shares and corporate bonds, we seek to ensure a high level of openness and stability in our financial communication. In addition, our management and our Investor Relations function engage in regular dialogues with investors and analysts. The dialogues take the form of quarterly conference calls, roadshows, conferences, capital markets days and regular meetings with individual or groups of investors and analysts. The dialogues are subject to certain restrictions prior to the publication of our financial reporting.

The Group is covered by 23 equity analysts and 12 bond analysts. Their recommendations and consensus estimates for Ørsted's future financial performance are available at [orsted.com/en/investors](https://orsted.com/en/investors). On this site, you can also download our financial reports, our remuneration report, our ESG and our sustainability reports as well as investor presentations and a wide range of other data.



We constantly work to achieve a fair pricing of our shares and corporate bonds.

**Share information**

ISIN	DK 0060094928220
Share classes	1
Nominal value	DKK 10 per share
Average daily volume	447,657
Exchange	Nasdaq OMX Copenhagen
Ticker	ORSTED
Year high	DKK 691 (27 Dec.)
Year low	DKK 428 (2 Jan.)
Registered share	99,6%
Number of shares	420,381,080 shares
Number of treasury shares	395,619 shares

# Consolidated financial statements 2019

1 January – 31 December

# Income statement

1 January - 31 December

Note	DKKm	2019			2018		
		Business performance	Adjustments	IFRS	Business performance	Adjustments	IFRS
2.2, 2.4	Revenue	67,842	2,556	70,398	76,946	(1,426)	75,520
2.3	Cost of sales	(41,816)	(1,020)	(42,836)	(53,906)	(112)	(54,018)
	Other external expenses	(6,091)	-	(6,091)	(5,865)	-	(5,865)
2.6, 2.7	Employee costs	(3,952)	-	(3,952)	(3,126)	-	(3,126)
	Share of profit (loss) in associates and joint ventures	(20)	-	(20)	(6)	-	(6)
2.5	Other operating income	1,781	-	1,781	16,275	-	16,275
2.5	Other operating expenses	(260)	-	(260)	(289)	-	(289)
	<b>Operating profit (loss) before depreciation, amortisation and impairment losses (EBITDA)</b>	<b>17,484</b>	<b>1,536</b>	<b>19,020</b>	<b>30,029</b>	<b>(1,538)</b>	<b>28,491</b>
3.1	Amortisation, depreciation and impairment losses on intangible assets and property, plant and equipment	(7,432)	-	(7,432)	(5,375)	-	(5,375)
	<b>Operating profit (loss) (EBIT)</b>	<b>10,052</b>	<b>1,536</b>	<b>11,588</b>	<b>24,654</b>	<b>(1,538)</b>	<b>23,116</b>
3.4	Gain (loss) on divestment of enterprises	(63)	-	(63)	127	-	127
	Share of profit (loss) in associates and joint ventures	2	-	2	1	-	1
6.5	Financial income	7,718	-	7,718	3,179	-	3,179
6.5	Financial expenses	(8,853)	-	(8,853)	(4,457)	-	(4,457)
	<b>Profit (loss) before tax</b>	<b>8,856</b>	<b>1,536</b>	<b>10,392</b>	<b>23,504</b>	<b>(1,538)</b>	<b>21,966</b>
5.2	Tax on profit (loss) for the year	(2,756)	(345)	(3,101)	(4,018)	318	(3,700)
	<b>Profit (loss) for the year from continuing operations</b>	<b>6,100</b>	<b>1,191</b>	<b>7,291</b>	<b>19,486</b>	<b>(1,220)</b>	<b>18,266</b>
3.7	<b>Profit (loss) for the year from discontinued operations</b>	<b>(56)</b>	<b>-</b>	<b>(56)</b>	<b>10</b>	<b>-</b>	<b>10</b>
	<b>Profit (loss) for the year</b>	<b>6,044</b>	<b>1,191</b>	<b>7,235</b>	<b>19,496</b>	<b>(1,220)</b>	<b>18,276</b>
	<b>Profit (loss) for the year is attributable to:</b>						
	Shareholders in Ørsted A/S	5,315	1,191	6,506	19,046	(1,220)	17,826
	Interests and costs, hybrid capital owners of Ørsted A/S	675	-	675	425	-	425
	Non-controlling interests	54	-	54	25	-	25
6.2	<b>Profit (loss) per share, DKK:</b>						
	From continuing operations	12.8	-	15.6	45.3	-	42.4
	From discontinued operations	(0.1)	-	(0.1)	0.0	-	0.0
	<b>Total profit (loss) per share</b>	<b>12.7</b>	<b>-</b>	<b>15.5</b>	<b>45.3</b>	<b>-</b>	<b>42.4</b>



## Profit (loss) per share

Diluted profit (loss) per share corresponds to profit (loss) per share, as the dilutive effect of the share incentive programme is less than 0.1% of the share capital.

## Accounting policies

### Business performance

The business performance principle is our alternative performance measure. Under business performance, the market value adjustment of our energy hedges, where we do not apply IFRS hedge accounting, are deferred and recognised in the profit (loss) in the year in which the hedged exposure materialises. Energy hedges comprise hedging of energy and associated currency risks as well as fixed-price physical gas and power contracts. According to IFRS, the market value of energy hedges, where we do not apply IFRS hedge accounting, are recognised on an ongoing basis in the profit (loss) for the year. The difference between IFRS and business performance is specified in the 'Adjustments' column. Read more about the business performance principle in note 1.5 'Business performance'.

# Statement of comprehensive income

1 January - 31 December

Note	DKKm	2019			2018		
		Business performance	Adjustments	IFRS	Business performance	Adjustments	IFRS
		<b>6,044</b>	<b>1,191</b>	<b>7,235</b>	<b>19,496</b>	<b>(1,220)</b>	<b>18,276</b>
		<b>Profit (loss) for the year</b>					
		<b>Other comprehensive income:</b>					
		<b>Cash flow hedging:</b>					
1.5, 7.2	Value adjustments for the year	1,598	(141)	1,457	(2,841)	1,734	(1,107)
6.2	Value adjustments transferred to income statement	1,751	(1,395)	356	961	(196)	765
		<b>Exchange rate adjustments:</b>					
	Exchange rate adjustments relating to net investment in foreign enterprises	2,722	-	2,722	(417)	-	(417)
7.2	Value adjustment of net investment hedges	(1,907)	-	(1,907)	401	-	401
6.2	Value adjustments and hedges transferred to income statement	-	-	-	(67)	-	(67)
		<b>Tax:</b>					
	Tax on hedging instruments	(504)	345	(159)	380	(318)	62
	Tax on exchange rate adjustments	(35)	-	(35)	31	-	31
		<b>Other:</b>					
	Share of other comprehensive income of associated companies, after tax	(17)	-	(17)	(28)	-	(28)
	<b>Other comprehensive income</b>	<b>3,608</b>	<b>(1,191)</b>	<b>2,417</b>	<b>(1,580)</b>	<b>1,220</b>	<b>(360)</b>
	<b>Total comprehensive income</b>	<b>9,652</b>	<b>-</b>	<b>9,652</b>	<b>17,916</b>	<b>-</b>	<b>17,916</b>
		<b>Comprehensive income for the year is attributable to:</b>					
	Shareholders in Ørsted A/S			8,729			17,495
	Interest payments and costs, hybrid capital owners of Ørsted A/S			675			425
	Non-controlling interests			248			(4)
	<b>Total comprehensive income</b>			<b>9,652</b>			<b>17,916</b>



## Statement of comprehensive income

All items in 'Other comprehensive income' may be recycled to the income statement.

### Cash flow hedging:

Value adjustments for the year for cash flow hedging according to IFRS of DKK 1,457 million mainly consist of gains related to hedging of US power and UK inflation. The loss of DKK 356 million transferred to the income statement mainly consist of foreign exchange losses related to the construction of Hornsea 1.

Value adjustments transferred to the income statement according to the adjustment column of DKK -1,395 million, mainly consist of gains on power hedges that are recognised in the income statement under business performance, but where the gains under IFRS was recognised in previous periods, as the gains/losses under business performance are deferred to the period to which the hedged exposure relates.

### Exchange rate adjustments:

Foreign exchange gains relating to net investments in foreign enterprises of DKK 2,722 million were in 2019 primarily attributable to an increase of 6% in the GBP exchange rate. A large part of the net investments were hedged.

# Balance sheet

31 December

Note	Assets, DKKm	2019	2018	Note	Equity and liabilities, DKKm	2019	2018
3.1	<b>Intangible assets</b>	<b>672</b>	<b>777</b>	6.2	Share capital	4,204	4,204
3.1	Land and buildings	5,177	969	6.2	Reserves	413	(1,827)
3.1	Production assets	76,682	66,310		Retained earnings	68,465	66,111
3.1	Fixtures and fittings, tools and equipment	652	342		<b>Equity attributable to shareholders in Ørsted A/S</b>	<b>73,082</b>	<b>68,488</b>
3.1	Property, plant and equipment under construction	23,502	16,434	6.3	Hybrid capital	13,232	13,239
	<b>Property, plant and equipment</b>	<b>106,013</b>	<b>84,055</b>	3.8	Non-controlling interests	3,248	3,388
	Investments in associates and joint ventures	497	457		<b>Equity</b>	<b>89,562</b>	<b>85,115</b>
	Receivables from associates and joint ventures	-	60	5.4	Deferred tax	3,371	4,025
	Other securities and equity investments	217	211	3.2	Provisions	12,063	12,774
5.4	Deferred tax	6,847	4,588	8.2	Lease liabilities	4,728	-
4.4	Other receivables	1,713	2,670	6.1	Bond and bank debt	36,039	25,095
	<b>Other non-current assets</b>	<b>9,274</b>	<b>7,986</b>	4.2	Contract liabilities	3,762	3,642
	<b>Non-current assets</b>	<b>115,959</b>	<b>92,818</b>	4.5	Tax equity liabilities	4,563	3,728
4.1	Inventories	14,031	13,943	4.6	Other payables	469	409
7	Derivatives	7,740	5,468		<b>Non-current liabilities</b>	<b>64,995</b>	<b>49,673</b>
4.2	Contract assets	739	1,451	3.2	Provisions	538	680
4.3	Trade receivables	8,140	10,741	8.2	Lease liabilities	604	-
4.4	Other receivables	5,253	4,390	6.1	Bond and bank debt	801	2,201
	Income tax	346	1,525	7	Derivatives	6,958	8,094
6.4	Securities	16,552	25,501	4.2	Contract liabilities	784	924
6.4	Cash	7,148	3,515		Trade payables	10,832	13,082
	<b>Current assets</b>	<b>59,949</b>	<b>66,534</b>	4.5	Tax equity liabilities	632	445
3.6	<b>Assets classified as held for sale</b>	<b>16,952</b>	<b>15,223</b>	4.6	Other payables	4,247	4,793
	<b>Assets</b>	<b>192,860</b>	<b>174,575</b>		Income tax	4,075	4,717
					<b>Current liabilities</b>	<b>29,471</b>	<b>34,936</b>
					<b>Liabilities</b>	<b>94,466</b>	<b>84,609</b>
				3.6	<b>Liabilities relating to assets classified as held for sale</b>	<b>8,832</b>	<b>4,851</b>
					<b>Equity and liabilities</b>	<b>192,860</b>	<b>174,575</b>



## Leases

On 1 January 2019, we implemented IFRS 16 'Leases'. We have not restated comparative figures for the 2018 financial year, as we have implemented IFRS 16 with the modified retrospective method.

In accordance with IFRS 16, we recognise our leases, except for short-term leases, in the balance sheet. Lease obligations are recognised as 'Lease liabilities',

and lease assets are recognised alongside our owned assets of similar type under 'Property, plant and equipment'.

Read more about the impact in note 1.3 'Implementation of new or changed accounting standards and interpretations'.

# Statement of changes in equity

1 January - 31 December

DKKm	2019								2018							
	Share capital	Reserves*	Retained earnings	Proposed dividends	Shareholders in Ørsted A/S	Hybrid capital	Non-controlling interests	Total Group	Share capital	Reserves*	Retained earnings	Proposed dividends	Shareholders in Ørsted A/S	Hybrid capital	Non-controlling interests	Total Group
Equity at 1 January	4,204	(1,827)	62,012	4,099	68,488	13,239	3,388	85,115	4,204	(1,524)	48,328	3,783	54,791	13,239	3,807	71,837
<b>Comprehensive income for the year:</b>																
Profit (loss) for the year	-	-	6,506	-	6,506	675	54	7,235	-	-	17,826	-	17,826	425	25	18,276
<b>Other comprehensive income:</b>																
Cash flow hedging	-	1,813	-	-	1,813	-	-	1,813	-	(342)	-	-	(342)	-	-	(342)
Exchange rate adjustments	-	621	-	-	621	-	194	815	-	(54)	-	-	(54)	-	(29)	(83)
Tax on other comprehensive income	-	(194)	-	-	(194)	-	-	(194)	-	93	-	-	93	-	-	93
Share of other comprehensive income of associated companies, after tax	-	-	(17)	-	(17)	-	-	(17)	-	-	(28)	-	(28)	-	-	(28)
<b>Total comprehensive income</b>	-	<b>2,240</b>	<b>6,489</b>	-	<b>8,729</b>	<b>675</b>	<b>248</b>	<b>9,652</b>	-	<b>(303)</b>	<b>17,798</b>	-	<b>17,495</b>	<b>425</b>	<b>(4)</b>	<b>17,916</b>
<b>Transactions with owners:</b>																
Coupon payments, hybrid capital	-	-	-	-	-	(556)	-	(556)	-	-	-	-	-	(545)	-	(545)
Tax, hybrid capital	-	-	-	-	-	34	-	34	-	-	-	-	-	120	-	120
Additions, hybrid capital	-	-	-	-	-	4,416	-	4,416	-	-	-	-	-	-	-	-
Disposals, hybrid capital	-	-	-	-	-	(4,576)	-	(4,576)	-	-	-	-	-	-	-	-
Proposed dividends	-	-	(4,414)	4,414	-	-	-	-	-	-	(4,099)	4,099	-	-	-	-
Dividends paid	-	-	3	(4,099)	(4,096)	-	(388)	(4,484)	-	-	2	(3,783)	(3,781)	-	(400)	(4,181)
Purchase of treasury shares	-	-	(99)	-	(99)	-	-	(99)	-	-	(48)	-	(48)	-	-	(48)
Other changes	-	-	60	-	60	-	-	60	-	-	31	-	31	-	(15)	16
<b>Total transactions with owners</b>	-	-	<b>(4,450)</b>	<b>315</b>	<b>(4,135)</b>	<b>(682)</b>	<b>(388)</b>	<b>(5,205)</b>	-	-	<b>(4,114)</b>	<b>316</b>	<b>(3,798)</b>	<b>(425)</b>	<b>(415)</b>	<b>(4,638)</b>
<b>Equity at 31 December</b>	<b>4,204</b>	<b>413</b>	<b>64,051</b>	<b>4,414</b>	<b>73,082</b>	<b>13,232</b>	<b>3,248</b>	<b>89,562</b>	<b>4,204</b>	<b>(1,827)</b>	<b>62,012</b>	<b>4,099</b>	<b>68,488</b>	<b>13,239</b>	<b>3,388</b>	<b>85,115</b>

\* See note 6.2 'Equity' for more information about reserves.



# Notes

## Consolidated financial statements

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# 1. Basis of reporting

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# 1.1 Basis of preparation

This section provides an overall description of the accounting policies applied in our consolidated financial statements. We provide a more detailed description of the accounting policies applied in the specific notes. Key estimates and judgements and new and amended IFRS standards and interpretations are discussed in detail in notes 1.2 'Key accounting estimates and judgements' and 1.3 'Implementation of new or changed accounting standards and interpretations', respectively.

## Basis of preparation

The financial statements for the period 1 January - 31 December 2019 comprise the consolidated financial statements of Ørsted A/S and its subsidiaries (the Group) as well as separate financial statements for the parent company, Ørsted A/S. See page 166 for the parent company's accounting policies.

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and further requirements in the Danish Financial Statements Act (Årsregnskabsloven).

The financial statements are presented in million Danish kroner (DKK), unless otherwise stated.

## Measurement basis

The consolidated financial statements have been prepared on the historical cost basis, except for derivatives, financial instruments in the trading portfolio, and carbon emission allowances in the trading portfolio, which are measured at market value.

The accounting policies have been applied consistently in the financial year and for the comparative figures except for the adoption of IFRS 16 'Leases'.

We have also changed our reportable segments and have therefore restated comparative figures. See note 2.1 'Segment information'.

## Principles for consolidation

The consolidated financial statements comprise the financial statements of Ørsted A/S (the parent company) and subsidiaries controlled by Ørsted A/S. See more in note 8.5 'Company overview'.

The consolidated financial statements have been prepared as a consolidation of the parent company's and the individual subsidiaries' financial statements which have been prepared in accordance with the Group's accounting policies. Intra-group income and expenses, shareholdings, balances and dividends as well as realised and unrealised gains

and losses arising from intra-group transactions are eliminated on consolidation.

Unrealised gains resulting from transactions with associates and joint ventures are eliminated to the extent of our ownership interest. Unrealised losses are eliminated in the same way as unrealised gains to the extent that there has been no impairment.

Enterprises are accounted for as associates if we hold or have the ability to exercise, directly or indirectly, 20%-50% of the voting rights and do not exercise control. However, we carry out a specific assessment of our ability to exercise influence, including our ability to influence financial and operational decisions and thus our return. Enterprises that satisfy the criteria for joint control are accounted for as investments in joint ventures, unless the nature of the joint arrangement is considered a joint operation, see 'Consolidation method for partnerships' in the next column.

Our shares in joint operations are recognised in the consolidated balance sheet through recognition of the Group's own assets, liabilities, income and expenses. The proportionate share of realised and unrealised gains and losses arising from intra-group transactions between fully consolidated enterprises and joint operations is eliminated.

## Key accounting judgements

### Consolidation method for partnerships

On establishment of partnerships and in connection with any restructuring of existing partnerships, we assess whether the structure is a joint arrangement under shared control. For joint arrangements, we subsequently assess whether they are joint ventures or joint operations.

In assessing joint operations, we look at:

- the corporate form of the operation
- whether we are only entitled to the net profit (loss) or income and expenses resulting from the operation.

In addition, the fact that the parties buy or are assigned all output, for example the power generated, will lead to the structure being considered a joint operation if we have joint control.

### Foreign currency translation

For each reporting enterprise in the Group, items are determined in the currency of the primary economic environment in which the individual reporting enterprise operates (functional currency). Transactions in currencies other than the functional currency of each enterprise are accounted for as transactions in foreign currencies and translated on initial recognition at the exchange rate on the transaction date. Exchange differences arising between the exchange rate on the transaction date and on the date of payment are recognised in profit (loss) for the year as financial income or expenses.

Receivables, payables and other monetary items in foreign currencies are translated at the exchange rates on the balance sheet date. The difference between the exchange rate on the balance sheet date and on the date at which the receivable or payable arose, is recognised in profit (loss) for the year as financial income or expenses.

For foreign subsidiaries, joint operations, associates and joint ventures, the statements of comprehensive income are translated at monthly average exchange rates in so far as these do not deviate materially from the actual exchange rates at the transaction dates. Balance sheet items are translated at the exchange rates on the balance sheet date.

All exchange differences are recognised in profit (loss) for the year, except for exchange differences arising on:

- translation of the opening equity of these entities at the exchange rates on the balance sheet date
- translation of the statements of comprehensive income of these enterprises from the average for the month exchange rates to the exchange rates on the balance sheet date
- translation of balances accounted for as part of the total net investment
- translation of the portion of loans and derivatives that has been entered into to hedge the net investment in these enterprises, and that provides an effective hedge against corresponding foreign exchange gains (losses) on the net investment in the enterprise.

The above types of exchange differences are recognised in other comprehensive income. Such exchange rate adjustments are divided between the equity of the parent company and the equity of the non-controlling interests. On full or partial divestment of the net investment, the accumulated exchange rate adjustments are recognised as follows:

- Disposal resulting in loss of control:
  - The accumulated exchange rate adjustments, including any associated hedges, are recognised in the profit (loss) for the year if a foreign exchange gain (loss) is realised by the selling enterprise. Any foreign exchange gain (loss) is transferred to the item in which the gain (loss) from the disposal is recognised. The part of the foreign currency translation reserve that relates to non-controlling interests is not transferred to profit (loss) for the year.

- Disposal not resulting in loss of control:
  - A proportionate share of the foreign currency translation reserve is transferred from the parent company shareholders' share of equity to the minority shareholders' share of equity.

Repayment of balances that are considered part of the net investment does not constitute a partial disposal of the subsidiary.



Block Island wind farm, Rhode Island, US.

## 1.2 Key accounting estimates and judgements

The use of reasonable estimates and judgements is an essential part of the preparation of the consolidated financial statements.

Given the uncertainties inherent in our business activities, we make a number of estimates and judgements. The estimates and judgements are based on assumptions concerning future developments which affect our application of accounting policies and the reported

amounts of our assets, liabilities, sales, costs, cash flows and related disclosures. Actual amounts may differ from the amounts estimated and judgements made, as more detailed information becomes available.

We regularly reassess these estimates and judgements, based among other things on historical experience, the current situation in the financial markets and a number of

other relevant factors, ie. the update in the annual estimated production.

Accounting estimates, judgements and assumptions which may entail a risk of material adjustments in subsequent years are listed in the table below.

In addition, we make judgements when we apply the accounting policies.

Reference is made to the specific notes for further information on the key accounting estimates and judgements as well as the assumptions applied.

Note		Key accounting estimates and judgements	Estimate/ judgement	Impact of accounting estimates and judgements
1.1	Basis of preparation	Consolidation method for partnerships	Judgement	● ● ● ○
2.2	Revenue	Assessment of assumptions for recognition of revenue from the construction of offshore wind farms over time Assumptions for the determination of the expected selling price and expected costs	Judgement Estimate	● ● ○ ○ ● ● ● ○
2.5	Other operating income	Assessment of classification of divestment Assumptions for the accounting treatment of divestment gains related to the share purchase agreements and construction agreements <sup>1</sup>	Judgement Estimate	● ● ○ ○ ● ● ● ○
3.1	Intangible assets and property, plant and equipment	Assumptions used for value-in-use calculations when impairment testing	Estimate	● ● ● ○
3.2	Provisions and contingent assets and liabilities	Assumptions for provisions	Estimate	● ● ● ○
3.3	Acquisition of enterprises	Purchase price allocation in business combinations <sup>1</sup>	Estimate	● ● ● ○
4.5	Tax equity liabilities	Assesment of recognition of tax equity partners	Judgement	● ● ● ○
5.2	Tax on profit (loss) for the year	Estimates regarding recognition of income taxes	Estimate	● ● ○ ○

<sup>1</sup> Relevant for prior year.



Impact of accounting estimates and judgements relates to objectivity and business practice.

- ○ ○ ○ Very objective/market-conforming
- ● ○ ○ Objective/partially conforming
- ● ● ○ Partially subjective/partially distinctive
- ● ● ● Subjective/distinctive for Ørsted

# 1.3 Implementation of new or changed accounting standards and interpretations

We regularly assess the impact of new IFRS standards and interpretations. We implement new IFRS standards and interpretations from their mandatory effective dates at the latest.

Effective from 1 January 2019, we have implemented the following new or changed standards (IAS and IFRS) and interpretations:

- IFRS 16 'Leases'. See separate section below.
- Annual improvements to IFRSs 2015-2017.

Besides the impact from IFRS 16, the adoption of the new and amended standards has not impacted our consolidated financial statements for 2019.

In the following section, you can read more about the impact on recognition, measurement and presentation from IFRS 16 'Leases'. The standard has a significant impact on our EBITDA, but an insignificant impact on profit (loss) for the year, profit (loss) per share and diluted profit (loss) per share. Besides classification, equity and the consolidated statement of cash flows are not affected.

## Implementation of IFRS 16

On 1 January 2019, we implemented IFRS 16, 'Leases', which replaced IAS 17 and IFRIC 4.

We have implemented IFRS 16 with retrospective effect. However, we have used the relief

from restating comparative figures (modified retrospective method). Therefore, the comparative figures are prepared and presented in accordance with IAS 17 and IFRIC 4.

The most important changes resulting from IFRS 16 compared to IAS 17 can be summarised as follows:

- The dual model in IAS 17 with operating and finance leases has been ceased. Under IFRS 16, all leases, except for short-term leases and 'low-value' leases, shall be recognised in the balance sheet.
- Fixed lease payments are recognised as lease liabilities and lease assets. Lease assets are depreciated and interests on lease liabilities are recognised as financial expenses (both below EBITDA). Under IAS 17, fixed lease expenses were recognised as other external expenses (above EBITDA).
- Lease debt repayments are classified as cash flows from financing activities, and payments of interest are classified as cash flows from operating activities in the statement of cash flows. Under IAS 17, all lease payments were classified as cash flows from operating activities.

As permitted when applying IFRS 16 for the first time, we have used the following practical expedients and:

- elected not to reassess whether a contract is, or contains, a lease on 1 January 2019
- applied a single discount rate to a portfolio of leases with reasonable similar characteristics (asset type, currency, and remaining lease term)
- relied on previous assessments concluding whether leases are onerous and offset a provision for an onerous lease in the lease asset
- elected to account for leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases.

We do not apply the recognition exemption regarding low value leases.

Our new accounting policies for leases are described in note 8.2 'Leases'.

## Impact on our consolidated financial statements

On 1 January 2019, we recognised lease assets amounting to DKK 5,065 million and lease obligations amounting to DKK 5,224 million.

The value of the lease assets was lower due to accrued lease payments and a provision for an onerous contract totalling DKK 159 million at 1 January 2019, which was offset against the value of the lease assets.

The most affected class of property, plant and equipment is land and buildings. This category mainly comprises our office premises in Gentofte and London as well as seabeds and plots of land relating to offshore and onshore wind farms, respectively. Lease assets classified as fixtures and fittings, tools and equipment primarily include vessels used for operations in Offshore.

Under IAS 17, our operating lease obligations at 31 December 2018 amounted to DKK 4,819 million (net present value). Compared to our recognised lease obligations at 1 January 2019 under IFRS 16, the operating lease obligations were DKK 405 million lower. The main difference is related to the average weighted incremental borrowing rate. Under IFRS 16, our average weighted rate applied is 3.0%, which is 0.5% lower than the rate applied for calculating the net present value of our operating lease obligations at 31 December 2018 in accordance with our accounting policy for key credit metrics.

Upon transition to IFRS 16, we did not have any material finance leases.

In summary, the adjustments made to the amounts recognised in the balance sheet at 1 January 2019 are illustrated in the table.

Our EBITDA for 2019 increased by DKK 634 million due to the implementation of IFRS 16, compared to a continued expensing of operational lease costs under the previous accounting policy. Depreciation of lease assets amounted to DKK 599 million, and interests on lease debt amounted to DKK 171 million for 2019 under IFRS 16. Our total cash flows for the year were not impacted

by IFRS 16, but repayments of lease liabilities (DKK 664 million) are classified as cash flows from financing activities under IFRS 16 where all lease related cash flows under the previous accounting policy were classified as cash flows from operating activities.

### New standards and interpretations

IASB has issued a number of amended standards which have not yet entered into force, and which have consequently not been incorporated into the consolidated financial statements for 2019.



Amazon wind farm, Texas, US.

Extract Impact of adoption, DKKm	1 January 2019		
	Previous accounting policy	Effect of change in accounting policy	New accounting policy
<b>Assets</b>			
<b>Property, plant and equipment</b>			
Land and buildings	969	4,165	5,134
Production assets	66,310	440	66,750
Fixtures and fittings, tools and equipment	342	460	802
Property, plant and equipment under construction	16,434	-	16,434
<b>Property, plant and equipment</b>	<b>84,055</b>	<b>5,065</b>	<b>89,120</b>
<b>Assets</b>	<b>174,575</b>	<b>5,065</b>	<b>179,640</b>
<b>Equity and liabilities</b>			
Share capital	4,204	-	4,204
Reserves	(1,827)	-	(1,827)
Retained earnings	66,111	-	66,111
<b>Equity attributable to shareholders in Ørsted A/S</b>	<b>68,488</b>	<b>-</b>	<b>68,488</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Provisions	12,774	(25)	12,749
Lease liabilities	-	4,650	4,650
Other payables	409	(134)	275
<b>Current liabilities</b>			
Provisions	680	-	680
Lease liabilities	-	574	574
<b>Equity and liabilities</b>	<b>174,575</b>	<b>5,065</b>	<b>179,640</b>



Comparatives for the 2018 financial year are not restated, as we have applied the modified retrospective method. The effects of change in accounting policy are identical for IFRS and business performance profit (loss).

# 1.4 Alternative performance measures

Performance measures are calculated in accordance with the business performance principle.

<b>Business performance</b>	Business performance is a supplement to our financial statements prepared in accordance with IFRS. Under the business performance principle, the value of the hedging transaction is deferred and recognised for the period in which the hedged risk materialises. Reference is made to note 1.5 'Business performance'.
<b>Gross investments</b>	Gross investments reflect our total investments in assets and enterprises. It comprises cash flows from investing activities, excluding dividends received from associates, joint ventures and equity investments, purchase and sale of securities, loans to joint ventures and joint operations, and divestments of assets and enterprises. To this is added acquired debt and restricted cash in connection with acquisitions.
<b>Net investments</b>	Net investments are gross investments less divestments of assets and enterprises, the selling price for non-controlling interests and subsequent capital injections from non-controlling interests. Furthermore, interest-bearing debt transferred in connection with a divestment is deducted.
<b>Funds from operations (FFO)</b>	Funds from operations are a supplementary statement for cash flows from operating activities determined as business performance EBITDA less the effect of gains on the divestments of ownership interests in offshore wind farms, interest expenses (net) on interest-bearing net debt and hybrid capital (50%) as well as interest elements of decommissioning obligations and current tax.
<b>Adjusted interest-bearing net debt<sup>1</sup></b>	Adjusted interest-bearing net debt is interest-bearing net debt plus 50% of the hybrid capital, cash and securities not available for use (except for repo transactions), and the present value of decommissioning obligations less deferred tax.
<b>FFO to adjusted interest-bearing net debt</b>	$\frac{\text{FFO}}{\text{Adjusted interest-bearing net debt}}$
<b>Free cash flow (FCF)</b>	Free cash flows are cash flows from operating activities less gross investments and plus divestments.
<b>Capital employed</b>	Capital employed are all assets and liabilities except for equity and interest-bearing net debt.

<sup>1</sup> In 2018, lease obligations were not recognised in the balance sheet and therefore not included in interest-bearing debt. The present value of lease payments (operating lease obligations calculated as if they were finance lease obligations) were, however, included in the alternative performance measure as specified in note 6.1. The change is due to implementation of IFRS 16 'Leases'. See also note 1.3.

<b>Average capital employed</b>	$\frac{\text{Capital employed beginning of year} + \text{capital employed year-end}}{2}$
<b>Return on capital employed (ROCE)</b>	$\frac{\text{EBIT}}{\text{Average capital employed}}$
<b>Proposed dividend per share (DPS)</b>	$\frac{\text{Total proposed dividend}}{\text{Number of shares year-end}}$
<b>Dividend yield</b>	$\frac{\text{Dividend per share (proposed)}}{\text{Share price on the last trading day of the year}}$
<b>Average number of shares</b>	$\frac{1}{\text{Number of days}} \times \sum_{i=1}^{\text{Number of days}} \text{days} = X_1$
<b>Net working capital</b>	Net working capital is inventories, contract assets (net), trade receivables and other current operating assets less trade payables, other current operating liabilities and working capital elements of tax equity balances.
<b>Net working capital, excluding trade payables relating to capital expenditure</b>	Net working capital, excluding trade payables relating to purchases of intangible assets and property, plant and equipment.
<b>Other definitions</b>	
<b>Profit (loss) per share</b>	$\frac{\text{Shareholders' share of the profit (loss) for the period}}{\text{Average number of shares}}$
<b>Diluted profit (loss) per share</b>	$\frac{\text{Shareholders' share of the profit (loss) for the period}}{\text{Average number of shares, including dilutive effect of free shares}}$

# 1.5 Business performance

## Description of business performance

In 2011, we introduced an alternative performance measure, business performance, as a supplement to the financial statements prepared in accordance with IFRS. The business performance results reflect our internal risk management and show the results for the period under review. Under the business performance principle, the value of the hedging transaction is deferred and recognised for the period in which the hedged risk materialises. This is illustrated in the example overleaf.

Our reason for introducing the business performance principle was that:

- we could not achieve the same timing of recognition of our commercial exposure and hedging contracts in accordance with the IFRS rules, for example with respect to option premiums and certain commercial fixed-price contracts, and
- there was a high risk that the hedging contracts were not consistent with the IFRS hedge accounting rules, requiring us to recognise the hedging contracts at market value with value adjustments via the income statement, whereas our commercial exposure is accrued.

Our risk management is described in note 7.1 'Market risks'.

## Business performance – background

We mainly hedge market risks for up to five years (some for a longer period) with the

aim of stabilising our cash flows and create certainty about our finances. With a view to ensuring transparency, we want the financial impact of the hedging transactions to be reflected in the financial reporting simultaneously with the hedged exposure (for example sales of power). We can normally achieve this by applying the IFRS rules on hedge accounting. For energy companies, it is, however, sometimes difficult to ensure simultaneity. The reason for this is that hedging instruments are not always available which precisely match the exposure which must be hedged, or that there is no sufficiently liquid market available. Consequently, some hedging takes place in alternative markets or subject to alternative time horizons. For example, power generation in Denmark is to some extent hedged by financial contracts for nearby trading areas, such as the European Energy Exchange (EEX) in Germany and Nord Pool in Scandinavia. These areas normally develop relatively uniformly over time compared to Denmark.

This hedging method means that only some of the financial hedging transactions comply with the IFRS rules on hedge accounting even though the financial risk has been reduced. In case of non-compliance, the hedging transactions must be recognised in the income statement on a regular basis under IFRS. This may give rise to considerable fluctuations in the income statement, as the effects of the hedging and, for example, the sale of power are not recognised in the same period.

Consequently, we have decided not to apply the IFRS rules on hedge accounting to transactions hedging energy prices and associated currency risks. Therefore, value adjustments of these hedges are recognised in the income statement in accordance with IFRS.

## Recognition

In the income statement, the business performance results are shown alongside the IFRS results. The difference between the two

performance measures is shown in a separate column, 'Adjustments'. Two types of contracts are included in the business performance principle:

- Hedging contracts concerning energy and related currencies.
- Commercial contracts concerning energy recognised at market value (typically fixed-price physical gas and power contracts).

When we use hedging instruments which do not fully correspond to the underlying risk, any difference between the hedging instruments and the underlying risk is recognised immediately in the income statement. See note 7.3 'Energy trading portfolio'. The accounting treatment under business performance is otherwise identical to the accounting treatment under IFRS. Our assets, liabilities, cash flows and equity are consequently not affected. The accounting treatment of our hedging contracts according to IFRS and business performance is summarised in the table below.

Type of hedging	IFRS	Business performance
Hedging of energy and associated currency risks as well as fixed-price physical gas and power contracts	Market value adjustments of power hedges related to Onshore are recognised in other comprehensive income. Other market value adjustment are recognised in the income statement	Market value adjustments are deferred and recognised in the period in which the exposure materialises
Hedging of: – proceeds from the divestment of newly constructed offshore wind farms – interest and inflation risk	Market value adjustments are deferred and recognised in the period in which the exposure materialises	Recognition is the same as under IFRS
Hedging of currency risks associated with investments in foreign entities	Market value adjustments are recognised in other comprehensive income	Recognition is the same as under IFRS
Trading portfolio	Market value adjustments are recognised in the income statement	Recognition is the same as under IFRS



Only the recognition of the hedging of energy and associated currency risks as well as fixed-price physical gas and power contracts differs under IFRS and the business performance principle.

### Expected impact on business performance EBITDA from energy and currency hedging

At 31 December 2019, a gain of DKK 1,434 million has been deferred (2018: loss of DKK 1,849 million), which will affect business performance EBITDA in subsequent years. Of the total deferred gain, a gain of DKK 687 million is expected in business performance EBITDA in 2020 (2018: DKK 1,470 million loss in 2019).

Power prices decreased in 2019, which means that the market value of the hedges has increased as we are selling power. The decrease in the deferred gain on currency hedging is primarily attributable to an increase in the GBP/DKK rate causing a loss as we are selling GBP.

### Expected impact on business performance EBITDA from energy and currency hedging, DKKm

	Deferred for subsequent recognition at 31 December 2019				Deferred for subsequent recognition at 31 December 2018			
	2020	2021	After 2021	Total	2019	2020	After 2020	Total
Power	16	(336)	879	559	(1,324)	(1,190)	(353)	(2,867)
Gas	702	53	15	770	(294)	(118)	-	(412)
Oil	48	9	(1)	56	(65)	(81)	(36)	(182)
Coal	(33)	(3)	-	(36)	6	1	-	7
Currency	(233)	(374)	(886)	(1,493)	(2)	254	239	491
Inflation	-	-	585	585	-	-	(69)	(69)
<b>Total hedges</b>	<b>500</b>	<b>(651)</b>	<b>592</b>	<b>441</b>	<b>(1,679)</b>	<b>(1,134)</b>	<b>(219)</b>	<b>(3,032)</b>
Deferred revenue from US power purchase agreements	187	157	649	993	209	183	791	1,183
<b>Total</b>	<b>687</b>	<b>(494)</b>	<b>1,241</b>	<b>1,434</b>	<b>(1,470)</b>	<b>(951)</b>	<b>572</b>	<b>(1,849)</b>



The table shows when the deferred value adjustments are expected to be recognised in the business performance EBITDA. The table covers both hedging classified as business performance and IFRS. Gains are shown as '+' and losses are shown as '-'. Deferred revenue from US power purchase agreements is explained in more detail in note 7.7 'Fair value measurement'.

### Explanation of the business performance principle

In year 1, we enter into a contract hedging the price risk associated with Offshore's generation of 1,000GWh in year 5 at GBP 52,000 per GWh. This ensures a total revenue of GBP 52 million. In year 5, the cost of power has decreased to GBP 45,000 per GWh, which means that the hedging contract has a positive market value of GBP 7 million (a hedged price of GBP 52,000 per GWh minus the spot price of GBP 45,000 per GWh). This means that we ensure that the total income, including the hedging transaction, is still GBP 52 million. The income of GBP 52 million consists of a gain from the hedging contract of GBP 7 million and GBP 45 million from the sale of 1,000GWh at a spot price of

GBP 45,000 per GWh. The financial impact of the hedging transaction in years 1-5 is shown in the table. Under the business performance principle, the hedging transaction is recognised in the income statement in year 5, i.e. at the same time as the hedged contract with a positive market value of GBP 7 million. The value development is, however, recognised continuously in the income statement according to IFRS. Upon the expiry of the contract in year 5, the total effect on results over the period is the same under the IFRS and the business performance principle. Only the timing differs. The business performance principle ensures simultaneity of recognition of the underlying exposure and the hedging contract.

	Power price and sale of power, GBP million		Recognised in the income statement as follows			Total financial impact	
	Power price (GBP '000 per GWh)	Sale of power, GBP million	Market value	Business performance	IFRS	Business performance	IFRS
Year 1	52	-	-	-	-	-	-
Year 2	50	-	2	-	2	-	2
Year 3	55	-	(3)	-	(5)	-	(5)
Year 4	46	-	6	-	9	-	9
Year 5	45	45	7	7	1	52	46
<b>Total</b>		<b>45</b>		<b>7</b>	<b>7</b>	<b>52</b>	<b>52</b>



Example of recognition of the market value of a hedging contract according to the business performance and IFRS principles in the income statement.

#### Specification of the difference between EBITDA according to business performance and according to IFRS, DKKm

	2019	2018
EBITDA – business performance	17,484	30,029
Business performance adjustments in respect of revenue for the year	2,556	(1,426)
Business performance adjustments in respect of cost of sales for the year	(1,020)	(112)
<b>EBITDA – IFRS</b>	<b>19,020</b>	<b>28,491</b>
<b>Total business performance adjustments for the year comprise:</b>		
Market value adjustments for the year of financial and physical hedging contracts relating to a future period	141	(1,734)
Reversal of deferred gains (losses) relating to hedging contracts from previous periods, where the hedged production or trade is recognised in business performance EBITDA in this period	1,395	196
<b>Total adjustments</b>	<b>1,536</b>	<b>(1,538)</b>

#### Market value adjustments for the year of financial and physical hedging contracts relating to a future period, DKKm

	2019	2018
Currency	(1,916)	313
Power (commercial and hedge)	1,144	(1,617)
Gas (commercial and hedge)	857	(48)
Oil	94	(382)
Coal	(38)	-
<b>Total value adjustments</b>	<b>141</b>	<b>(1,734)</b>

#### Reversal of deferred gains (losses) relating to hedging contracts from previous periods, where the hedged production or trade is recognised in business performance EBITDA in this period, DKKm

	2019	2018
Currency	(320)	(165)
Power (commercial and hedge)	1,249	307
Gas (commercial and hedge)	327	262
Oil	144	(174)
Coal	(5)	(34)
<b>Total deferred gains (losses) from previous periods</b>	<b>1,395</b>	<b>196</b>

#### Difference between IFRS and business performance for the year

The value adjustment in respect of future periods totalled a gain of DKK 141 million (2018: DKK -1,734 million), and reversal of deferred gains (losses) recognised according to business performance in 2019 totalled DKK 1,395 million (2018: DKK 196 million).

#### Market value adjustments for the year related to hedging contracts

2019 was mainly affected by gains on the hedging of power and gas as a result of a

drop in prices combined with a selling position. This was partly countered by losses on currency hedges, mainly related to an increase in the GBP/DKK rate as a result of a selling position.

#### Deferred gains (losses) from previous periods

In 2019, a loss of DKK 1,395 million was recognised in business performance EBITDA, but as the loss was recognised in IFRS EBITDA in a previous period, the loss was reversed in the 'Adjustments' column in the income statement. The loss was primarily attributable to the hedging of power.



The table shows value adjustments by product. The value adjustments are recognised in IFRS EBITDA, but not in business performance EBITDA, as the value relates to future periods.



Asnæs power plant, Kalundborg, Denmark.



The table shows reversal of value adjustments by product. These gains (losses) are recognised in business performance EBITDA. The reversal of value adjustment was recognised in IFRS EBITDA in a previous period.

# 2.

## Return on capital employed

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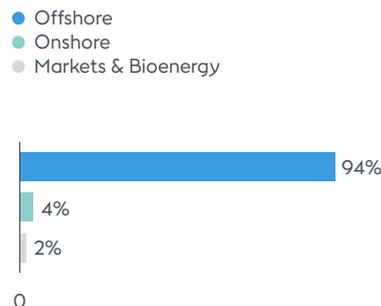
# 2. Return on capital employed

Return on capital employed (ROCE) is a key ratio showing how profitable our business activities are. Our target is an average ROCE of around 10% for the Group for the 2019-2025 period.

### Return on capital employed

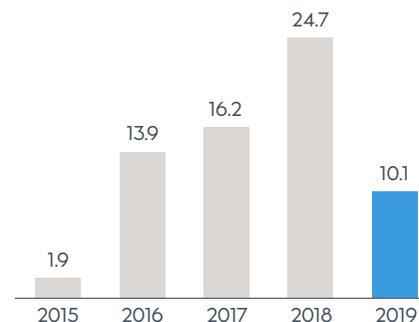
Return on capital employed was 10.6% in 2019 compared to 32.1% in 2018. The decrease was mainly due to lower EBIT in 2019 compared to 2018. EBIT in 2018 was significantly positively affected by the Hornsea 1 farm-down gain. Reference is made to note 2.1 'Segment information'.

EBIT by segment, percentage of DKK 10,231 million in 2019

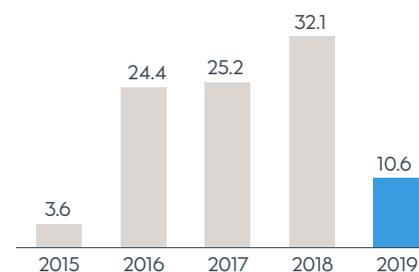


EBIT is stated according to the business performance principle. EBIT of DKK 10,231 million is calculated as EBIT for reportable segments.

EBIT, business performance DKKbn



Return on capital employed (ROCE) %



# 17.5bn

EBITDA totalled DKK 17,484 million in 2019 against DKK 30,029 million in 2018.

# 10.1bn

Operating profit (EBIT) totalled DKK 10,052 million in 2019 against DKK 24,654 million in 2018.

# 10.6%

Return on capital employed totalled 10.6% in 2019 against 32.1% in 2018.

# 2.1 Segment information

## Offshore, DKKm

Revenue	40,216
EBITDA	15,161
Gross investments	15,121
Number of employees	2,777

### Primary activity

Development, construction, ownership and operation of offshore wind farms in the UK, Germany, Denmark, the Netherlands, the US and Taiwan.

## Onshore, DKKm

Revenue	670
EBITDA	786
Gross investments	6,158
Number of employees	95

### Primary activity

Development, ownership and operation of onshore wind and solar farms in the US and a minor storage solution in the UK.

## Markets & Bioenergy, DKKm

Revenue	32,816
EBITDA	1,495
Gross investments	1,898
Number of employees	1,828

### Primary activity

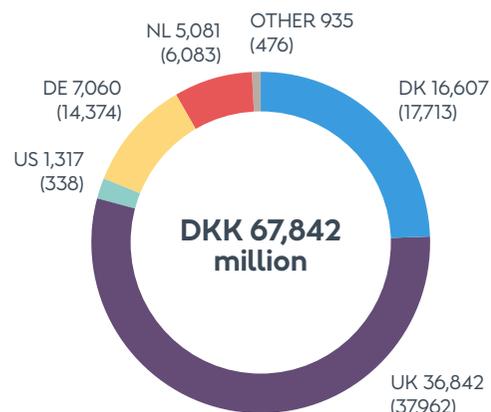
Generation of heat and power at CHP plants in Denmark, sale of power and gas in wholesale and retail markets, distribution of power in Denmark, as well as optimisation and hedging of Ørsted's entire energy portfolio.

### New segment structure

In June, we decided to consolidate the business units Customer Solutions and Bioenergy into a new business unit, named Markets & Bioenergy. In addition, as we run the business on an end-to-end value chain thinking, we decided that all activities and earnings that relate to Offshore and Onshore will be reported in these segments, even if the daily activities are performed on behalf of the Group in Markets & Bioenergy. Therefore, earnings from trading related to hedging of our power exposures and power portfolio optimisation activities in relation to Offshore and Onshore are now presented in these business units. In 2019, EBITDA of DKK 725 million (2018: DKK 237 million) and DKK -18 million

### Revenue DKKm 2019<sup>1</sup> (2018)

- Denmark (DK)
- Germany (DE)
- The UK
- The Netherlands (NL)
- The US
- Other



(2018: DKK 0 million) were transferred to Offshore and Onshore, respectively. We have restated comparative figures for 2018.

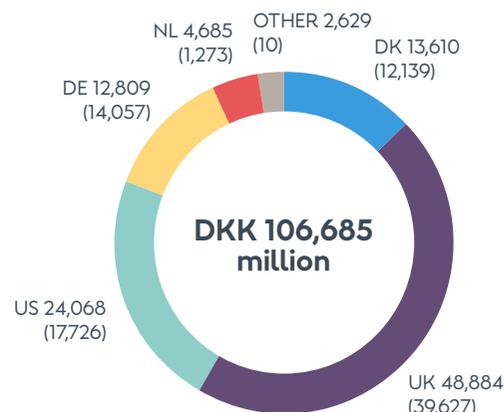
### Geographical distribution of revenue as well as intangible assets and property, plant and equipment

Geographical revenue is broken down, as far as possible, by the customer's geographical location based on supply point.

A significant part of our sales takes place via power exchanges and gas hubs in Europe, whose physical locations do not reflect the geographical locations of our customers. When breaking down these sales by geographical

### Intangible assets and property, plant and equipment, DKKm 2019 (2018)

- Denmark (DK)
- Germany (DE)
- The UK
- The Netherlands (NL)
- The US
- Other



location, we use the physical locations of the exchange or hub since we do not know the physical location of our customers in all cases.

In 2019, one customer in Offshore had a revenue of DKK 10,339 million, accounting for more than 10% of our consolidated revenue. No single customer accounted for more than 10% of our consolidated revenue in 2018.

Non-current assets are broken down geographically based on the physical locations of the assets.

### Accounting policies

Our operating segments are consistent with our internal reporting to our chief operating decision maker, Group Executive Management.

We apply the business performance principle, as described in note 1.5 'Business performance', in connection with our internal management.

The operating segments are managed primarily on the basis of EBITDA and investments. Financial income, expenses, depreciation and amortisations as well as tax are allocated to the operating segments, while we manage them at Group level.

Segment income and segment expenses are those items that, in our internal management reporting, are directly attributable to individual segments or can be indirectly allocated to individual segments on a reliable basis.



Revenue, intangible assets as well as property, plant and equipment are presented based on the locations of our customers and assets.

<sup>1</sup> Revenue determined according to the business performance principle.

								
2019	Offshore	Onshore	Markets & Bioenergy	Reportable segments	Other activities/ eliminations	Business performance	Adjustments	IFRS
<b>Income statement, DKKm</b>								
External revenue	33,801	670	33,357	67,828	14	67,842	2,556	70,398
Intra-group revenue	6,415	-	(541)	5,874	(5,874) <sup>1</sup>	-	-	-
<b>Revenue</b>	<b>40,216</b>	<b>670</b>	<b>32,816</b>	<b>73,702</b>	<b>(5,860)</b>	<b>67,842</b>	<b>2,556</b>	<b>70,398</b>
Cost of sales	(18,981)	(6)	(28,493)	(47,480)	5,664	(41,816)	(1,020)	(42,836)
Employee costs and other external expenses	(6,440)	(528)	(3,326)	(10,294)	251	(10,043)	-	(10,043)
Gain (loss) on disposal of non-current assets	(106)	21	(11)	(96)	(5)	(101)	-	(101)
Additional other operating income and expenses	490	629	511	1,630	(8)	1,622	-	1,622
Share of profit (loss) in associates and joint ventures	(18)	-	(2)	(20)	-	(20)	-	(20)
<b>EBITDA</b>	<b>15,161</b>	<b>786</b>	<b>1,495</b>	<b>17,442</b>	<b>42</b>	<b>17,484</b>	<b>1,536</b>	<b>19,020</b>
Depreciation and amortisation	(5,494)	(351)	(798)	(6,643)	(221)	(6,864)	-	(6,864)
Impairment losses	-	(68)	(500)	(568)	-	(568)	-	(568)
Impairment losses, reversed	-	-	-	-	-	-	-	-
<b>Operating profit (loss) (EBIT)</b>	<b>9,667</b>	<b>367</b>	<b>197</b>	<b>10,231</b>	<b>(179)</b>	<b>10,052</b>	<b>1,536</b>	<b>11,588</b>
<b>Key ratios</b>								
Intangible assets and property, plant and equipment	78,483	17,616	8,743	104,842	1,843	106,685	-	106,685
Equity investments and non-current receivables	650	-	263	913	131	1,044	-	1,044
Net working capital, work in progress	8,756	-	-	8,756	-	8,756	-	8,756
Net working capital, tax equity	-	(4,587)	-	(4,587)	-	(4,587)	-	(4,587)
Net working capital, capital expenditures	(3,123)	(67)	(114)	(3,304)	-	(3,304)	-	(3,304)
Net working capital, other items	3,441	9	(1,277)	2,173	367	2,540	-	2,540
Derivatives, net	(961)	545	2,058	1,642	(860)	782	-	782
Assets classified as held for sale, net	-	-	8,211	8,211	-	8,211	-	8,211
Decommissioning obligations	(4,562)	(306)	(1,290)	(6,158)	-	(6,158)	-	(6,158)
Other provisions	(3,878)	-	(1,836)	(5,714)	(729)	(6,443)	-	(6,443)
Tax, net	1,065	(1,409)	951	607	(860)	(253)	-	(253)
Other receivables and other payables, net	(424)	(67)	80	(411)	(70)	(481)	-	(481)
<b>Capital employed at 31 December</b>	<b>79,447</b>	<b>11,734</b>	<b>15,789</b>	<b>106,970</b>	<b>(178)</b>	<b>106,792</b>	-	<b>106,792</b>
Of which, capital employed from discontinued operations						(41)	-	(41)
Of which, capital employed from continuing operations						106,833	-	106,833
<b>Return on capital employed (ROCE) %</b>						<b>10.6</b>		
Cash flows from operating activities	9,283	1,007	1,218	11,508	1,571	13,079	-	13,079
Gross investments	(15,121)	(6,158)	(1,898)	(23,177)	(128)	(23,305)	-	(23,305)
Divestments	3,052	255	25	3,332	(3)	3,329	-	3,329
<b>Free cash flow (FCF)</b>	<b>(2,786)</b>	<b>(4,896)</b>	<b>(655)</b>	<b>(8,337)</b>	<b>1,440</b>	<b>(6,897)</b>	-	<b>(6,897)</b>



In 2019, we consolidated the business units Customer Solutions and Bioenergy into a new business unit, named Markets & Bioenergy.

Profit (loss) and cash flows are shown only for continuing operations.

The column 'Other activities/eliminations' primarily covers the elimination of inter-segment transactions. It also includes income and costs, assets and liabilities, investment activity, taxes, etc., handled at Group level.

<sup>1</sup> Including the elimination of other activities, the total elimination of intra-group revenue amounts to DKK -8,425 million, which primarily relates to our Shared functions services, and B2B, B2C and power distribution businesses.

								
2018	Offshore	Onshore	Markets & Bioenergy	Reportable segments	Other activities/ eliminations	Business performance	Adjustments	IFRS
<b>Income statement, DKKm</b>								
External revenue	37,434	80	39,566	77,080	(134)	76,946	(1,426)	75,520
Intra-group revenue	5,676	-	270	5,946	(5,946) <sup>1</sup>	-	-	-
<b>Revenue</b>	<b>43,110</b>	<b>80</b>	<b>39,836</b>	<b>83,026</b>	<b>(6,080)</b>	<b>76,946</b>	<b>(1,426)</b>	<b>75,520</b>
Cost of sales	(25,551)	-	(34,241)	(59,792)	5,886	(53,906)	(112)	(54,018)
Employee costs and other external expenses	(5,435)	(121)	(3,467)	(9,023)	32	(8,991)	-	(8,991)
Gain (loss) on disposal of non-current assets	15,076	-	(81)	14,995	-	14,995	-	14,995
Additional other operating income and expenses	851	85	54	990	1	991	-	991
Share of profit (loss) in associates and joint ventures	(5)	-	(1)	(6)	-	(6)	-	(6)
<b>EBITDA</b>	<b>28,046</b>	<b>44</b>	<b>2,100</b>	<b>30,190</b>	<b>(161)</b>	<b>30,029</b>	<b>(1,538)</b>	<b>28,491</b>
Depreciation and amortisation	(4,456)	(51)	(1,430)	(5,937)	(41)	(5,978)	-	(5,978)
Impairment losses	-	-	-	-	-	-	-	-
Impairment losses, reversed	-	-	603	603	-	603	-	603
<b>Operating profit (loss) (EBIT)</b>	<b>23,590</b>	<b>(7)</b>	<b>1,273</b>	<b>24,856</b>	<b>(202)</b>	<b>24,654</b>	<b>(1,538)</b>	<b>23,116</b>
<b>Key ratios</b>								
Intangible assets and property, plant and equipment	64,444	10,913	9,170	84,527	305	84,832	-	84,832
Equity investments and non-current receivables	269	5	336	610	835	1,445	-	1,445
Net working capital, work in progress	9,654	-	-	9,654	-	9,654	-	9,654
Net working capital, tax equity	-	(3,719)	-	(3,719)	-	(3,719)	-	(3,719)
Net working capital, capital expenditures	(2,612)	(167)	(199)	(2,978)	-	(2,978)	-	(2,978)
Net working capital, other items	3,567	(125)	(2,322)	1,120	369	1,489	-	1,489
Derivatives, net	(1,888)	(722)	203	(2,407)	(219)	(2,626)	-	(2,626)
Assets classified as held for sale, net	-	-	10,372	10,372	-	10,372	-	10,372
Decommissioning obligations	(4,010)	(217)	(1,245)	(5,472)	-	(5,472)	-	(5,472)
Other provisions	(3,116)	(130)	(3,878)	(7,124)	(858)	(7,982)	-	(7,982)
Tax, net	(1,944)	(1,059)	576	(2,427)	(202)	(2,629)	-	(2,629)
Other receivables and other payables, net	1,110	-	1	1,111	(601)	510	-	510
<b>Capital employed at 31 December</b>	<b>65,474</b>	<b>4,779</b>	<b>13,014</b>	<b>83,267</b>	<b>(371)</b>	<b>82,896</b>	-	<b>82,896</b>
Of which, capital employed from discontinued operations						(143)		(143)
Of which, capital employed from continuing operations						83,039		83,039
<b>Return on capital employed (ROCE) %</b>						<b>32.1</b>		
Cash flows from operating activities	6,710	1,868	2,874	11,452	(1,109)	10,343	-	10,343
Gross investments	(15,081)	(6,779)	(2,522)	(24,382)	(99)	(24,481)	-	(24,481)
Divestments	19,676	1	320	19,997	(47)	19,950	-	19,950
<b>Free cash flow (FCF)</b>	<b>11,305</b>	<b>(4,910)</b>	<b>672</b>	<b>7,067</b>	<b>(1,255)</b>	<b>5,812</b>	-	<b>5,812</b>



We have changed our reportable segments and have therefore restated comparative figures.

<sup>1</sup> Including the elimination of other activities, the total elimination of intra-group revenue amounts to DKK -8,281 million, which primarily relates to our Shared Functions services, and B2B, B2C and power distribution businesses.

## 2.2 Revenue

				Other activities/ eliminations	2019 Total				Other activities/ eliminations	2018 Total
Revenue 2019, DKKm	Offshore	Onshore	Markets & Bioenergy			Offshore	Onshore	Markets & Bioenergy		
Sale of gas	-	-	15,341	(27)	15,314	-	-	22,795	(351)	22,444
Generation of power	4,870	427	2,377	-	7,674	4,969	64	3,114	-	8,147
Sale of power	10,372	-	7,593	(5,825)	12,140	12,468	-	7,006	(5,742)	13,732
Revenue from construction of offshore wind farms and transmission assets	12,385	-	-	-	12,385	16,560	-	-	-	16,560
Generation and sale of heat and steam	-	-	2,887	-	2,887	-	-	2,903	-	2,903
Distribution and transmission	-	-	2,555	(3)	2,552	-	-	2,749	(4)	2,745
Other revenue	1,868	-	669	(35)	2,502	1,531	-	789	68	2,388
<b>Total revenue from customers, IFRS</b>	<b>29,495</b>	<b>427</b>	<b>31,422</b>	<b>(5,890)</b>	<b>55,454</b>	<b>35,528</b>	<b>64</b>	<b>39,356</b>	<b>(6,029)</b>	<b>68,919</b>
Government grants	9,934	29	505	-	10,468	7,917	5	560	(21)	8,461
Economic hedging	(492)	231	1,383	(530)	592	(2,213)	465	39	122	(1,587)
Other revenue	621	(3)	3,189	77	3,884	137	11	(673)	252	(273)
<b>Total revenue, IFRS</b>	<b>39,558</b>	<b>684</b>	<b>36,499</b>	<b>(6,343)</b>	<b>70,398</b>	<b>41,369</b>	<b>545</b>	<b>39,282</b>	<b>(5,676)</b>	<b>75,520</b>
Adjustments	658	(14)	(3,683)	483	(2,556)	1,741	(465)	554	(404)	1,426
<b>Total revenue, business performance</b>	<b>40,216</b>	<b>670</b>	<b>32,816</b>	<b>(5,860)</b>	<b>67,842</b>	<b>43,110</b>	<b>80</b>	<b>39,836</b>	<b>(6,080)</b>	<b>76,946</b>
<b>Timing of revenue recognition from customers, IFRS</b>										
At a point in time	11,842	427	18,945	(899)	30,315	17,278	64	22,397	(428)	39,311
Over time	17,653	-	12,477	(4,991)	25,139	18,250	-	16,959	(5,601)	29,608
<b>Total revenue from customers, IFRS</b>	<b>29,495</b>	<b>427</b>	<b>31,422</b>	<b>(5,890)</b>	<b>55,454</b>	<b>35,528</b>	<b>64</b>	<b>39,356</b>	<b>(6,029)</b>	<b>68,919</b>



We have changed our reportable segments and have therefore restated comparative figures. See note 2.1.

The timing of transfer of goods or services to customers is categorised as follows:

'At a point in time' mainly comprises:

- sale of gas or power in the market, e.g. North Pool, TTF, NBP
- transmission assets for offshore wind farms.

'Over time' mainly comprises:

- construction agreements for offshore wind farms and transmission assets
- long-term contracts with customers to deliver gas, power or heat.

Revenue for the year (business performance) decreased by 12% to DKK 67,842 million in 2019. The decrease was mainly due to the significant drop in gas prices during the year, lower revenue from construction of offshore wind farms for partners, lower gas volumes, lower revenue from power sales as well as lower thermal heat and power generation. This was partly offset by higher revenue from wind farms in operation.

Revenue for the year from construction of offshore wind farms mainly related to the construction of the offshore wind farm Hornsea 1 and the divestment of the Race Bank transmission asset.

Other revenue in Offshore primarily related to operation and maintenance agreements, which increased due to ramp-ups of offshore wind farms in 2019.

In 2019, revenue was DKK 70,398 million (2018: DKK 75,520 million) according to IFRS, of which DKK 65,914 million (2018: DKK 70,736 million) was revenue from the sale of goods, and DKK 4,484 million (2018: DKK 4,784 million) was revenue from the sale of services.

Unsatisfied long-term contracts with customers, DKKm	Expected to be recognised		
	31 December	within one year	in more than one year
2019	1,345	100%	0%
2018	11,473	91%	9%

### Unsatisfied long-term contracts

Our remaining performance obligations expected to be recognised in more than one year relate to the construction of wind farms and offshore transmission assets.



The transaction price allocated to the remaining performance obligation (unsatisfied or partially satisfied).

In accordance with IFRS 15, the overview does not include revenue from contracts with customers to deliver power, gas and heat or our operation and maintenance agreements. For these types of goods and services, we recognise the revenue that corresponds directly to the value transferred to the customer.

### Key accounting estimates

#### Assumptions for the determination of the expected selling price and expected costs

We make estimates when determining the expected selling price of individual construction agreements. These estimates are influenced by our assessment of:

- the degree of completion of the individual offshore wind farms and offshore transmission assets
- total expected costs for the individual contract
- the value of incentive agreements under which we may be paid a bonus for early delivery or have to pay compensation for late delivery
- the guarantee commitments undertaken
- the share of total costs associated with transmission assets which are expected to be covered upon handover, etc.

Therefore, our determination of profit and the recognition of revenue and related contract assets are subject to significant uncertainty. We believe that our estimates are the most likely outcomes of future events.

### Key accounting judgements

#### Assumptions for the recognition of revenue from the construction of offshore wind farms over time

We construct offshore wind farms with partners, where we construct our partner's share of the wind farm. We assess each construction agreement at the time of conclusion of the agreement. In our view, our partner assumes control of the offshore wind farm in step with the construction. This is supported by:

- the regular approval of part deliveries
- the approval or rejection of significant variations to the construction
- the partner's take-over of work from subcontractors, both concerning risk and legal title to the wind farm on an on-going basis
- the milestone payments from the partner.

Therefore, revenue is recognised over time during the construction of the offshore wind farms.

### Accounting policies

Revenue is measured based on the consideration specified in a contract with a customer (transaction price) and excludes amounts collected on behalf of third parties, i.e. VAT. We recognise revenue when we transfer control over a product or service to a customer.

If a part of the transaction price is variable, i.e. bonus payments, incentive payments for unmissed deadlines, etc., the variable consideration is recognised in revenue when it is highly probable that the revenue will not be reversed in subsequent periods.

We adjust the transaction price for the time value of money if the payments exceed twelve months.

Sales agreements are divided into individually identifiable performance obligations. If a sales agreement includes several performance obligations, the sales agreement's transaction price is allocated to each performance obligation's stand-alone selling price.

#### Sale of gas

##### Timing of satisfaction of delivery obligations and significant estimates

Revenue is recognised when control of the gas is transferred to the buyer. Transfer of control occurs either when the gas is injected into the distribution system or physically delivered to the customer.

##### Significant terms of payment and associated estimates and judgements

Sales contracts for a fixed amount of gas at a variable price, or where we are exclusive suppliers to the customer at a variable price, are considered one performance obligation with multiple deliveries to be satisfied over time. For such contracts, we recognise revenue in the amount up to which we have a right to invoice.

Some long-term gas sales contracts include clauses which give the right to renegotiate the fixed sales prices. Expectations for the outcomes of renegotiations are not included in revenue before we know the outcome of the individual renegotiations.

In most cases, the consideration for the gas is due when the gas is injected into the distribution system

or delivered to the customer. The delivery of gas is invoiced on a monthly basis, and the payment is due within 10-30 days.

#### Sale of power

##### Types of goods and services

Revenue from the sale of power includes the sale of power sourced from other producers.

##### Timing of satisfaction of delivery obligations and significant estimates

Revenue is recognised when control of the goods is transferred to the buyer. Transfer of control occurs when the actual power is delivered to the customer.

##### Significant terms of payment and associated estimates and assessments

Sales contracts for a fixed amount of power at a variable price, or where we are exclusive suppliers to the customer at a variable price, are considered one performance obligation with multiple deliveries to be satisfied over time. For such contracts and for long-term agreements on selling power at a fixed price, we recognise revenue in the amount up to which we have a right to invoice.

In most cases, the consideration for the power is due when the actual power is delivered to the customer. The delivery of power is invoiced on a monthly basis, and the payment is due within 10-30 days.

#### Generation of power

##### Types of goods and services

Revenue from generation of power is our sale of power produced at our own wind farms and power stations, and the sale of ancillary services.

##### Timing of satisfaction of delivery obligations, and significant estimates

Revenue is recognised when control of the goods is transferred to the buyer. Transfer of control occurs when the actual power is delivered to the customer, which for power generated by us occurs when it is produced.

##### Significant terms of payment and associated estimates and assessments

Revenue from ancillary services consists of fees for having power stations on standby in periods with a demand for power generation. Ancillary services

are considered one performance obligation which is fulfilled over time when the power stations are on standby.

Sales contracts for a fixed amount of power at a variable price, or where we are exclusive suppliers to the customer at a variable price, are considered one performance obligation with multiple deliveries to be satisfied over time. For such contracts and for long-term agreements on selling power at a fixed price, we recognise revenue in the amount up to which we have a right to invoice.

In most cases, the consideration for the power is due when the actual power is delivered to the customer.

Ancillary services are invoiced on a monthly basis, and consideration is payable when invoiced.

#### Revenue from construction of offshore wind farms Types of goods and services

Revenue from construction of offshore wind farms includes development and construction.

The construction agreements cover the construction phase from design to delivery of an operational asset. The agreement consists of two performance obligations:

- Offshore wind farms.
- Offshore transmission assets, if applicable.

The construction agreements cover our partners' shares of the construction of the wind farm and offshore transmission asset, if applicable.

If the contracts include multiple performance obligations, the transaction price will be allocated to each performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on the expected cost-plus margin.

#### Timing of satisfaction of delivery obligations, and significant estimates

We recognise revenue from the construction agreements over time, using an input method to measure progress towards complete satisfaction of the performance obligation because the customer gains control of the offshore wind farm during the construction process. The input method reflects our ongoing transfer of control to the customer.

When the outcome of the performance obligation in the contract can be measured reasonably, the construction agreement is measured at the transaction price of the work performed less progress billings, based on the percentage of completion of the contract at balance sheet date and the total expected revenues from the individual contracts.

We estimate the degree of completion on the basis of an assessment of the work performed, normally calculated as the ratio between the costs incurred and the total costs expected related to the contract in question.

The transaction price is based on the total expected income from individual contracts. Estimates of revenues are based on the transaction price and the completion degree of the offshore wind farm or offshore transmission asset at the balance sheet date.

Estimates of revenues, costs and percentage of completion are revised if circumstances change. Any resulting increases or decreases in estimated revenue or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision come to our knowledge.

An expected loss is recognised when it is deemed probable that the total construction costs will exceed the total revenue from the individual contracts.

#### Significant terms of payment and associated estimates and assessments

The consideration for the construction of an offshore wind farm consists of a fixed fee and a relatively minor variable fee, depending on when the wind farm can be put into operation.

The consideration for an offshore transmission asset is a fixed fee.

After signing the construction agreement, we carry out an assessment determining when the wind farm is expected to be completed, and calculate the size of the variable payment on this basis. We only recognise the variable fee when it is highly probable that a subsequent reversal will not take place.

At each balance sheet date, an assessment is made of the size of the variable payment which can be included in the transaction price. Revenue is adjusted accordingly.

The customer pays the fixed consideration based on a payment schedule. The payment schedule is determined and based on the expected progress of the construction and transfer of control to the customer.

If the work we have performed exceeds invoicing on account, a contract asset is recognised. If the payments exceed the work we have performed, a contract liability is recognised.

#### Generation and sale of heat Timing of satisfaction of delivery obligations and significant estimates

Heat is sold under long-term heat contracts.

Revenue is recognised when control is transferred to the customer. Transfer of control occurs when the heat is physically delivered to the customer.

In connection with a biomass conversion of a CHP plant, the heat customer makes a prepayment to finance the majority of our CAPEX associated with the conversion. The prepayment is recognised as a contract liability. The contract liability is recognised as revenue in step with the transfer of heat to the customer.

#### Significant terms of payment and associated estimates and assessments

Payment for the sale of heat consists of fixed costs associated with operation and maintenance of a CHP plant plus fuel costs for the generation of heat and a financial return.

The delivery of heat is invoiced on a monthly basis, and the payment is due within 10-30 days.

#### Distribution and transmission Timing of satisfaction of delivery obligations, and significant estimates

Revenue from the distribution and transmission of gas and power is recognised when the gas or power is delivered to the buyer, or when the capacity is made available.

#### Significant terms of payment and associated estimates and assessments

Revenue is calculated as the amount to which we are entitled when the service is delivered to the customer and invoiced on a monthly basis, and consideration is payable when invoiced.

#### Other revenue

##### Types of goods and services

Other revenue primarily includes operations and maintenance agreements and other services.

##### Timing of satisfaction of delivery obligations and significant estimates

Revenue from providing services is recognised in the accounting period in which the services are rendered.

For fixed-priced contracts, revenue is recognised based on the actual service rendered at the end of the reporting period as a proportion of the total services to be rendered because the customer receives and uses the benefits simultaneously. This is determined based on the actual labour hours spent relative to the total labour hours expected.

##### Significant terms of payment and associated estimates and assessments

The consideration for operations and maintenance agreements consists of a fixed fee and a minor variable fee, e.g. bonuses or compensation for wind farm availability.

Availability bonuses will be recognised on an ongoing basis when it is highly probable that a subsequent reversal will not take place.

Fixed-price contracts are invoiced on a monthly basis, and consideration is payable when invoiced. Variable fee services are generally due after the services are rendered.

##### Warranty obligations

We typically have a five-year responsibility to remedy defects that exists at the relevant taking-over date when we construct offshore wind farms. These types of warranties are accounted for under IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'. Reference is made to the accounting policy on warranty provisions in note 3.2 'Provisions and contingent assets and liabilities'.

## 2.3 Cost of sales

Cost of sales, DKKm				Other activities/ eliminations	2019 total				Other activities/ eliminations	2018 total
	Offshore	Onshore	Markets & Bioenergy			Offshore	Onshore	Markets & Bioenergy		
Gas	-	-	15,342	-	15,342	-	-	20,399	-	20,399
Power	10,086	-	5,760	(5,828)	10,018	12,096	-	6,296	(5,868)	12,524
Biomass	-	-	2,519	-	2,519	-	-	2,468	-	2,468
Coal	-	-	520	-	520	-	-	941	-	941
Distribution and transmission costs	921	-	3,956	(24)	4,853	871	-	2,710	(13)	3,568
Costs for construction of offshore wind farms and transmission assets	7,957	-	-	-	7,957	12,590	-	-	-	12,590
Other cost of sales	17	6	2,024	(420)	1,627	(6)	-	1,371	163	1,528
<b>Total, IFRS</b>	<b>18,981</b>	<b>6</b>	<b>30,121</b>	<b>(6,272)</b>	<b>42,836</b>	<b>25,551</b>	<b>-</b>	<b>34,185</b>	<b>(5,718)</b>	<b>54,018</b>
Adjustments	-	-	(1,628)	608	(1,020)	-	-	56	(168)	(112)
<b>Total, business performance</b>	<b>18,981</b>	<b>6</b>	<b>28,493</b>	<b>(5,664)</b>	<b>41,816</b>	<b>25,551</b>	<b>-</b>	<b>34,241</b>	<b>(5,886)</b>	<b>53,906</b>



We have changed our reportable segments and have therefore restated comparative figures. See note 2.1 'Segment information'.

Cost of sales according to business performance decreased from DKK 53,906 million in 2018 to DKK 41,816 million in 2019.

The decrease was mainly due to lower gas and power prices. Also, costs from the construction of offshore wind farms and transmission assets were lower, primarily due to high activity in 2018 related to the construction of the Borkum Riffgrund 2 and Walney Extension

offshore wind farms for partners as well as divestment of the Burbo Bank Extension transmission assets and the partial divestment of the Hornsea 1 transmission assets as part of the 50% farm-down of Hornsea 1.

In 2019, costs from construction of offshore wind farms and transmission assets primarily related to Hornsea 1 and Race Bank.



Hornsea 1, Yorkshire coast, UK.

## 2.4 Government grants

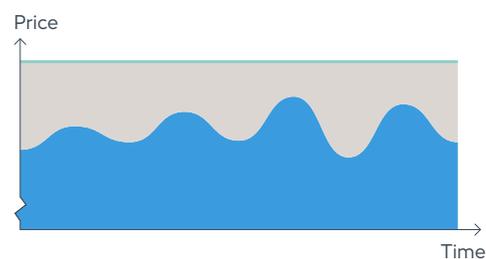
Energinet, the transmission system operator in Denmark, administers subsidies for environmentally sustainable power generation, including biomass and offshore wind farms. We regard the grant for environmentally sustainable power generation as a government grant, as it is paid by the Danish state.

In the UK, we receive subsidies under the schemes: contracts for difference (CfD) and the Renewable Obligations scheme (ROCs) for renewable energy projects. The Burbo Bank Extension, Walney Extension and Hornsea 1 offshore wind farms are under the CfD regime, while our other UK offshore wind farms are under the ROC regime. We treat the payments from the ROC and CfD scheme as government grants.

Feed-in tariffs in Germany under the German Renewable Energy Sources Act (EEG2014) are also recognised as government grants.

### Illustrative example of CfD

- Market price of power
- Government grants (difference between the market price of power and the power price fixed in the CfD contracts)
- Power price fixed in the CfD contract



When participating in a CfD, we receive a feed-in premium in connection with the generation of power from an offshore wind turbine. The feed-in premium is the difference between the market price of power and the price fixed in the CfD (strike price).

### Accounting policies

Government grants comprise grants for environmentally sustainable power generation, grants for the funding of development projects as well as investment grants, etc.

Government grants are recognised when there is reasonable assurance that the grants will be received.

Grants for the purchase of assets which we recognise in the balance sheet are recognised under deferred revenue and are transferred to other operating income in step with the depreciation of the assets to which the grants relate.

As grants for power generation are intended as a compensation for the price of power, we systematically recognise the grants under revenue in step with the power generation and thus the related revenue.

Government grants, DKKm	2019	2018
Government grants recognised in profit (loss) for the year under revenue	10,468	8,461
Government grants recognised in profit (loss) for the year under other operating income	4	4
Government grants recognised in the balance sheet	(4)	(4)
<b>Government grants recognised for the year</b>	<b>10,468</b>	<b>8,461</b>

## 2.5 Other operating income and expenses

Other operating income, DKKm	2019	2018
Gain on divestment of assets	-	15,086
Other compensation	478	594
US tax credits and tax equity income	629	85
Miscellaneous operating income	674	510
<b>Total other operating income</b>	<b>1,781</b>	<b>16,275</b>

Other operating expenses, DKKm	2019	2018
Loss on divestment of assets	101	91
Miscellaneous operating expenses	159	198
<b>Total other operating expenses</b>	<b>260</b>	<b>289</b>

### Other operating income

In 2019, other operating income was DKK 1,781 million, which was 89% lower than in 2018. In 2019, we had no gains on divestment of assets, whereas we had gains related to the divestment of 50% of the Hornsea 1 offshore wind farm in 2018.

US tax credits and tax equity income originate from our acquisition of Lincoln Clean Energy in October 2018 and correspond to the tax credits and other tax attributes provided to tax equity partners as well as our own share. The increase was mainly due to a full year of operation in 2019, whereas we only had three months of operation in 2018.



Burbo Bank Extension,  
Bay of Liverpool, UK.

### Accounting policies

In connection with the divestment of ownership interests in offshore wind farms before or during the construction phase, the gain is recognised on the divestment date under other operating income/ expenses in the income statement.

The gain for the future construction of the partner's share of the offshore wind farm is recognised over time in the income statement in step with the construction. See notes 2.2 'Revenue' and 4.2 'Contract assets and liabilities'.

The accounting policies for US tax credits and tax equity income is described in note 4.5 'Tax equity liabilities'.

### Divestment of ownership interests in our offshore wind farms

When we divest an ownership interest in an offshore wind farm to a partner, we typically also enter into agreements on the future construction and operation of the offshore wind farm.

Contracts in connection with a divestment are typically:

- Agreements on the sale of shares (divestment of assets) (SPA).
- Agreements on the future construction of the offshore wind farm (construction agreements).
- Agreements on the future operation of the offshore wind farm (O&M agreements).

### Key accounting judgements

#### Assessment of classification of divestment

When we divest ownership interests in an offshore wind farm under development, we carry out an individual assessment determining whether the divestment qualifies as a divestment of an enterprise or a divestment of assets. We have typically assessed that the offshore wind farms do not constitute an enterprise, as no employees are transferred, and processes are transferred to a limited extent only.

### Key accounting estimates

#### Assumptions about the accounting treatment of divestment gains related to share purchase agreements and construction agreements

Our accounting recognition of the gains related to the divestment contracts is based on the individual accounting transaction prices of the relevant contracts.

Therefore, our accounting treatment of the gains related to the contracts is not necessarily identical with the prices negotiated in the individual contracts.

## 2.6 Employee costs

Employee costs, DKKm	2019	2018
Wages, salaries and remuneration	4,376	3,768
Share-based payment	57	24
Pensions	362	317
Other social security costs	146	124
Other employee costs	103	24
<b>Employee costs before transfer to assets</b>	<b>5,044</b>	<b>4,257</b>
Transfer to assets	(1,092)	(1,131)
<b>Total employee costs</b>	<b>3,952</b>	<b>3,126</b>

### Employee costs

Employee costs before transfer to assets were 18% higher in 2019 compared to 2018, mainly reflecting a higher average number of employees. Employee costs transferred to assets relate to investment projects, which are capitalised in the balance sheet.

### Pension plans and number of employees

Pension plans are defined-contribution plans that do not commit Ørsted beyond the amounts contributed.

In 2019, our average number of employees was 6,329 (2018: 5,796).

### Remuneration of Group Executive Management

The remuneration of the Executive Board is based on a fixed salary, including personal benefits, such as a company car, free telephone, etc., a variable salary, a retention bonus in connection with the IPO (ceased in 2018), and share-based payment. The other members of Group Executive Management<sup>1</sup> also receive a pension.

The members of the Board of Directors are paid fixed remuneration only for their work in Ørsted. In addition, Ørsted reimburses any travel expenses.

Salaries and remuneration for Group Executive Management and the Board of Directors, DKK '000	Executive Board		Other members of Group Executive Management <sup>1</sup>		Board of Directors		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Fixed salary	16,810	16,400	20,933	19,611	4,779	5,133	42,522	41,144
Cash-based incentive scheme	4,561	4,630	5,419	5,329	-	-	9,980	9,959
Retention bonus, etc.	-	1,875	180	2,860	-	-	180	4,735
Share-based payment	4,046	3,537	2,626	3,142	-	-	6,672	6,679
Pension, incl. social security and benefits	564	555	5,333	5,060	-	-	5,897	5,615
Retention-dependent purchase price related to the acquisition of Lincoln Clean Energy	-	-	840	-	-	-	840	-
Salary in notice period	-	-	11,560 <sup>2</sup>	-	-	-	11,560	-
Termination payment	-	-	4,489 <sup>2</sup>	-	-	-	4,489	-
<b>Total</b>	<b>25,981</b>	<b>26,997</b>	<b>51,380</b>	<b>36,002</b>	<b>4,779</b>	<b>5,133</b>	<b>82,140</b>	<b>68,132</b>



<sup>1</sup> Other members of Group Executive Management in 2019 are: Morten Hultberg Buchgreitz, Thomas Dalsgaard (resigned 1 July 2019), Henriette Fenger Ellekrog (joined 1 June 2019), Declan Flanagan (joined 1 December 2019), Anders Lindberg, Martin Neubert and Ole Kjems Sørensen (resigned 1 December 2019).

<sup>2</sup> Relates to Thomas Dalsgaard and Ole Kjems Sørensen

## 2.7 Share-based payment

### Required number of locked-up shares relative to fixed salary

CEO	75% of fixed salary
CFO and other members of Group Executive Management	50% of fixed salary
Senior vice presidents	25% of fixed salary
Vice presidents and senior directors	15% of fixed salary



The figure shows the value of Ørsted shares in percent of the participants' fixed salary which, at the time of granting, must be locked up for the duration of the executive share programme.

Fair value of PSUs and key assumptions for valuation in executive share programme	Time of granting 2019	Time of granting 2018	Time of granting 2017
Fair value of 1 PSU	598	461	320
Key assumptions:			
Share price	504	392	269
Average volatility, peers	22.3%	24.5%	24.9%
Volatility, Ørsted	20.9%	19.7%	20.3%
Risk-free interest rate	-0.4%	-0.3%	-0.3%
Expected term at time of granting	3 years	3 years	3 years

### Executive share programme

Group Executive Management and a number of other senior executives participate in the share programme (99 in total). As a condition for the granting of performance share units (PSUs), the participant must own a number of shares in Ørsted corresponding to a portion of the individual participant's annual fixed salary. The portion depends on the employee category and, for our CEO, makes up 75% of the fixed salary; see the figure above for more information. The participants in the programme must invest in Ørsted shares prior to the first granting.

If the participants fulfil the shareholding requirement at the time of granting, they will be granted a number of PSUs each year, representing a value of 15%-20% of the annual fixed salary on the date of granting.

The granted PSUs have a vesting period of approximately three years, after which each PSU entitles the holder, without payment, to receive a number of shares corresponding to 0-200% of the number of PSUs granted. Assuming no share price development since the grant, this would correspond to 0-30%

or 0-40% of the fixed salary on the date of grant. The final number of shares for each participant will be determined on the basis of the total shareholder return delivered by Ørsted, benchmarked against ten comparable European energy companies.

The highest rate (200%) will be triggered if Ørsted's results, measured as the total return to shareholders, outperform those of the comparable companies. For each lower ranking, the number of shares granted will fall by 20 percentage points. If, for example, Ørsted ranks third, the participants will be entitled to 160% of the target.

If Ørsted ranks 11 in the comparison, no shares will be granted to the participants. The right to shares is conditional upon continued employment.

### Retention share programme

In 2018, we introduced a share-based retention agreements as a replacement for cash-based settlement by using restricted share units (RSUs) when granting new retention agreements.

The target group for the share-based retention agreements will typically be employees responsible for vital, long-term projects. The use of these share-based retention agreements will be limited to 25 concurrent agreements with an individual time frame of up to five years. Members of the Executive Board (CEO and CFO) cannot be granted such retention agreements.

The number of RSUs to be granted will be determined on the basis of the price of Ørsted's shares at the time of the grant and will be limited to an amount corresponding to a maximum of six months' base pay for the employee in question. At vesting, each RSU will entitle the employee to one Ørsted share free of charge. However, the total value of the shares to be received at vesting will be capped at a maximum of twelve months' base pay for the employee in question.

### Accounting policies

The share programme is classified as an equity-based programme as the programme is settled in shares. The market value of the PSUs/RSUs and the estimated number of PSUs granted are measured at the time of granting and recognised:

- in the income statement under employee costs over the vesting period
- as an offset in the balance sheet under equity over the vesting period.

The valuation of the PSUs/RSUs and the estimate of the number of PSUs/RSUs expected to be granted are carried out as a probability simulation based on Ørsted's expected total shareholder return relative to ten comparable European energy companies. The expectations are factored into the market value and are not adjusted subsequently. The participants are compensated for any dividend payments by receiving additional PSUs/RSUs.

## Maximum number of outstanding shares at the time of granting, '000

Time of granting	Executive Board	Other members of Group Executive Management	Senior executives	Other employees	Total	% of share capital	Market value (at time of granting) DKK million	Years until expiry
1 April 2017	24	16	129		169	0.04%	27	0.3
1 April 2018	19	17	81		117	0.03%	27	1.3
1 April 2019	14	16	71		101	0.02%	30	2.3
Share retention programme	-	-	-	21	21	0.00%	5	-
<b>Maximum number of outstanding shares at 31 December 2019</b>	<b>57</b>	<b>49</b>	<b>281</b>	<b>21</b>	<b>408</b>	<b>0.09%</b>	<b>89</b>	

Development in maximum number of outstanding shares, '000	Executive Board	Other members of Group Executive Management	Senior executives	Other employees	2019	2018	2019 in % of share capital
Maximum number of outstanding shares at 1 January	64	57	327	18	466	327	0.11%
Compensation for dividends paid (2017 and 2018 programme)	1	1	7	0	9	7	0.00%
Exercised (2016 programme)	(22)	(15) <sup>1</sup>	(115)	-	(152)	-	(0.04)%
Granted (2019 programme)	14	16	75	-	105	-	0.03%
Granted (2018 programme)	-	-	-	-	-	124	-
Cancelled (2019 programme)	-	(4)	-	-	(4)	-	0.00%
Cancelled (2018 programme)	-	(4)	(7)	-	(11)	(6)	0.00%
Cancelled (2017 programme)	-	(2)	(6)	-	(8)	(4)	0.00%
Share retention program	-	-	-	3	3	18	0.00%
<b>Maximum number of outstanding shares at 31 December</b>	<b>57</b>	<b>49</b>	<b>281</b>	<b>21</b>	<b>408</b>	<b>466</b>	<b>0.10%</b>
(DKKm)							
Market value of share programme at the time of granting	12	11	61	5	89	85	
Maximum market value of share programme on 31 December	39	34	193	14	280	203	



The maximum market value of the share programme at 31 December is based on the assumption that the participants receive the maximum number of shares (i.e. 200% of the granted PSUs/RSUs). This requires that Ørsted delivers the highest shareholder return benchmarked against the ten comparable companies.

<sup>1</sup> Of which DKK 2.6 million was paid out in cash.

# 3. Capital employed

98	Capital employed
99	Intangible assets and property, plant and equipment
102	Provisions and contingent assets and liabilities
104	Acquisition of enterprises
105	Divestment of enterprises
105	Gross and net investments
106	Assets classified as held for sale
107	Discontinued operations
108	Non-controlling interests

# 3. Capital employed

Our capital employed primarily relates to production assets, including assets under construction. We monitor investment projects closely, as a large part of our value is created in the development and construction phases.

## Investments and divestments in 2019

Our gross investments amounted to DKK 23.3 billion in 2019, of which Offshore accounted for 65%.

Investments were primarily related to:

- offshore wind farms (DKK 15.1 billion), mainly Hornsea 1 and 2 in the UK, Borssele 1 & 2 in the Netherlands and Greater Changhua 1 & 2a in Taiwan
- onshore wind and solar farms (DKK 6.2 billion), including Sage Draw, Plum Creek, Lockett, Willow Creek and Permian Energy Center in the US
- Markets & Bioenergy (DKK 1.9 billion), mainly the biomass conversion of Asnæs Power Station and the replacement of smart meters at our residential power customers in Radius.

Divestments amounted to DKK 3.3 billion and were primarily related to the receipt of deferred proceeds from our farm-down of 50% of Hornsea 1 in 2018 (DKK 1.7 billion) and to the strengthening of our strategic partnership with Eversource as they became a 50% partner in our activities in the New England area in the US in February (DKK 1.4 billion).

## Capital employed, DKKm

	2019	2018
Intangible assets and property, plant and equipment	106,685	84,832
Equity investments and non-current receivables	1,044	1,445
Net working capital, work in progress	8,756	9,654
Net working capital, tax equity	(4,587)	(3,719)
Net working capital, capital expenditures	(3,304)	(2,978)
Net working capital, other items	2,540	1,489
Derivatives, net	782	(2,626)
Assets classified as held for sale, net	8,211	10,372
Decommissioning obligations	(6,158)	(5,472)
Other provisions	(6,443)	(7,982)
Tax, net	(253)	(2,629)
Other receivables and other payables, net	(481)	510
<b>Total capital employed</b>	<b>106,792</b>	<b>82,896</b>
Of which, discontinued operations	(41)	(143)
Of which, continuing operations	106,833	83,039

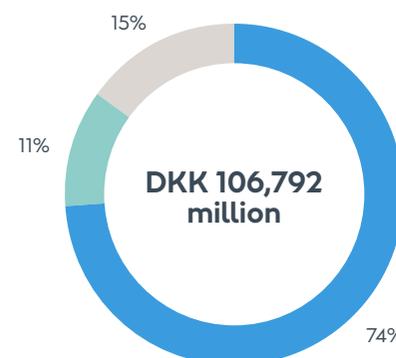


The adaption of IFRS 16 'Leases' increased our capital employed at 1 January 2019 through the addition of lease assets (property, plant and equipment) of DKK 5,065 million.

The most significant assets under construction at the end of 2019, were the offshore wind farms Hornsea 2, Borssele 1 & 2 and Greater Changhua 1 & 2a and the onshore wind and solar farms Sage Draw, Plum Creek and Permian Energy Center.

## Capital employed by segment, % 2019

- Offshore
- Onshore
- Markets & Bioenergy



# 106.8bn

Capital employed totalled DKK 106,792 million on 31 December 2019 against DKK 82,896 million in 2018.

# 23.3bn

Gross investments amounted to DKK 23,305 million in 2019 against DKK 24,481 million in 2018.

# 3.3bn

Cash flows from divestments totalled DKK 3,329 million in 2019 against DKK 19,950 million in 2018.



Capital employed by segment is based on capital employed for reportable segments of DKK 106,970 million.

# 3.1 Intangible assets and property, plant and equipment

Intangible assets and property, plant and equipment DKKm	Intangible assets	Land and buildings	Production assets	Fixtures and fittings, tools and equipment	Property, plant and equipment under construction	Property, plant and equipment
Cost at 1 January 2019	4,164	2,082	98,823	1,185	16,605	118,695
Lease assets at 1 January 2019	-	4,165	440	460	-	5,065
Exchange rate adjustments	(33)	147	3,446	(173)	903	4,323
Addition of acquisition of enterprises	66	1	-	-	85	86
Additions	354	426	1,718	82	20,214	22,440
Disposals	(312)	(80)	(3)	(22)	(2,044)	(2,149)
Adjustment of decommissioning obligations	-	-	75	-	255	330
Reclassified assets	-	117	11,671	45	(11,833)	-
Reclassified to assets classified as held for sale	(260)	(230)	(49)	(124)	(11)	(414)
<b>Cost at 31 December 2019</b>	<b>3,979</b>	<b>6,628</b>	<b>116,121</b>	<b>1,453</b>	<b>24,174</b>	<b>148,376</b>
Depreciation and amortisation at 1 January 2019	(2,745)	(1,074)	(31,421)	(843)	-	(33,338)
Exchange rate adjustments	37	(1)	(765)	184	-	(582)
Depreciation and amortisation	(73)	(423)	(6,121)	(247)	-	(6,791)
Disposals	-	14	10	17	-	41
Reclassified to assets classified as held for sale	118	78	18	88	-	184
<b>Depreciation and amortisation at 31 December 2019</b>	<b>(2,663)</b>	<b>(1,406)</b>	<b>(38,279)</b>	<b>(801)</b>	<b>-</b>	<b>(40,486)</b>
Impairment losses at 1 January 2019	(642)	(39)	(1,092)	-	(171)	(1,302)
Exchange rate adjustments	(2)	(6)	-	-	(1)	(7)
Impairment losses and reversals	-	-	(68)	-	(500)	(568)
<b>Impairment losses at 31 December 2019</b>	<b>(644)</b>	<b>(45)</b>	<b>(1,160)</b>	<b>-</b>	<b>(672)</b>	<b>(1,877)</b>
<b>Carrying amount at 31 December 2019</b>	<b>672</b>	<b>5,177</b>	<b>76,682</b>	<b>652</b>	<b>23,502</b>	<b>106,013</b>

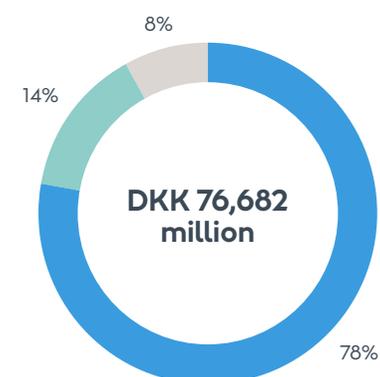
## Intangible assets

Intangible assets consist of goodwill of DKK 125 million (2018: DKK 125 million), carbon emission allowances of DKK 294 million (2018: DKK 330 million), other rights

of DKK 65 million (2018 DKK 46 million), completed development projects of DKK 119 million (2018: DKK 142 million), and development projects in progress of DKK 69 million (2018: DKK 134 million).

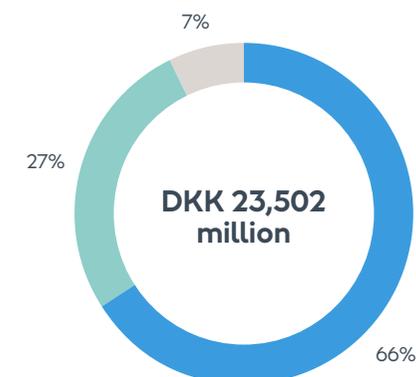
## Production assets by segment, % 2019

● Offshore ● Markets & Bioenergy  
● Onshore



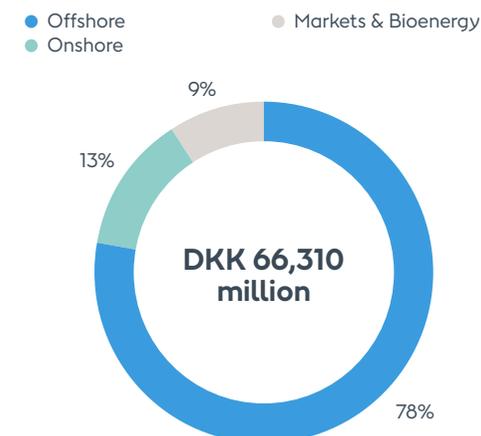
## Property, plant and equipment under construction by segment, % 2019

● Offshore ● Markets & Bioenergy  
● Onshore

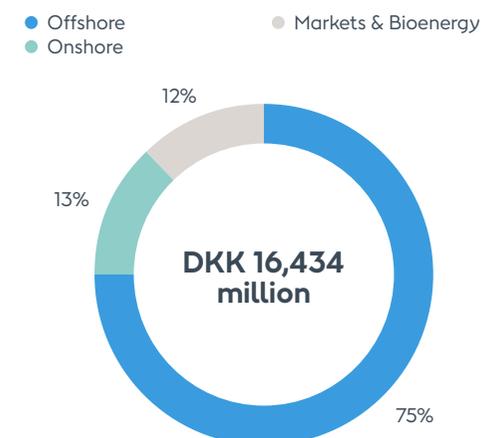


Intangible assets and property, plant and equipment DKK m	Intangible assets	Land and buildings	Production assets	Fixtures and fittings, tools and equipment	Property, plant and equipment under construction	Property, plant and equipment
Cost at 1 January 2018	4,775	2,644	97,086	1,174	13,890	114,794
Exchange rate adjustments	-	-	(395)	(1)	(277)	(673)
Addition of acquisition of enterprises	-	11	7,672	-	7,805	15,488
Additions	422	9	5	16	14,406	14,436
Divestment of enterprises	-	(30)	(2,772)	(12)	(125)	(2,939)
Disposals	(171)	-	(1,242)	(2)	(4,809)	(6,053)
Adjustment of decommissioning obligations	-	-	101	-	512	613
Reclassified assets	53	76	14,358	11	(14,498)	(53)
Reclassified to assets classified as held for sale	(915)	(628)	(15,990)	(1)	(299)	(16,918)
<b>Cost at 31 December 2018</b>	<b>4,164</b>	<b>2,082</b>	<b>98,823</b>	<b>1,185</b>	<b>16,605</b>	<b>118,695</b>
Depreciation and amortisation at 1 January 2018	(3,299)	(1,079)	(32,114)	(761)	-	(33,954)
Exchange rate adjustments	-	-	103	1	-	104
Depreciation and amortisation	(158)	(76)	(5,653)	(91)	-	(5,820)
Divestment of enterprises	-	5	391	7	-	403
Disposals	-	-	1,125	1	-	1,126
Reclassified to assets classified as held for sale	712	76	4,727	-	-	4,803
<b>Depreciation and amortisation at 31 December 2018</b>	<b>(2,745)</b>	<b>(1,074)</b>	<b>(31,421)</b>	<b>(843)</b>	<b>-</b>	<b>(33,338)</b>
Impairment losses at 1 January 2018	(787)	(64)	(4,369)	-	(562)	(4,995)
Exchange rate adjustments	-	-	5	-	8	13
Impairment losses and reversals	-	-	603	-	-	603
Divestment of enterprises	-	25	2,379	-	-	2,404
Disposals	-	-	-	-	383	383
Reclassified to assets classified as held for sale	145	-	290	-	-	290
<b>Impairment losses at 31 December 2018</b>	<b>(642)</b>	<b>(39)</b>	<b>(1,092)</b>	<b>-</b>	<b>(171)</b>	<b>(1,302)</b>
<b>Carrying amount at 31 December 2018</b>	<b>777</b>	<b>969</b>	<b>66,310</b>	<b>342</b>	<b>16,434</b>	<b>84,055</b>

Production assets by segment, % 2018



Property, plant and equipment under construction by segment, % 2018





### CGUs in Offshore

The cash generating units (CGUs) are made up of individual offshore wind farms, each of which generates cash flows for the segment independently of each other.

Significant CGUs:

Anholt, Borkum Riffgrund 1, Borkum Riffgrund 2, Borssele 1 & 2, Burbo Bank Extension, Gode Wind 1, Gode Wind 2, Greater Changhua 1 & 2a, Horns Rev 2, Hornsea 1, London Array, Race Bank, Revolution Wind, Skip Jack, South Fork, Westermost Rough, Walney, Walney Extension, and West of Duddon Sands.



### CGUs in Onshore

The CGUs are made up of individual onshore wind farms, each of which generates cash flows for the segment independently of each other.

Significant CGUs:

Amazon, Lockett, Tahoka, Willow Springs, Sage Draw, Plum Creek, and Permian Energy Center.



### CGUs in Markets & Bioenergy

The Danish power stations constitute a single CGU, as overall production planning is for the entire Danish portfolio of CHP plants. The not-yet-commissioned waste-to-energy plant Renescience in Northwich in the UK is deemed to constitute an independent CGU.

The distribution assets, each of which generates cash flows for the segment independently of each other, also constitute CGUs.

Significant CGUs:

Central CHP plants (including goodwill), Renescience Northwich, power distribution business, the offshore gas pipelines and the city light business.

## Impairment losses

### Impairment losses relating to goodwill

We have not impaired goodwill or other intangible assets in 2019.

### Impairment losses relating to property, plant and equipment

In 2019, property, plant and equipment under construction related to the Renescience facility was impaired by DKK 500 million. Renescience is part of our Markets & Bioenergy segment.

The impairment losses related to Renescience are primarily due to delays in commissioning, increases in capex, as we are optimising the waste conversion technology, and changes in cost and price estimates.

The recoverable amount of Renescience is measured on the basis of its value in use and based on internal budgets and forecasts. Significant assumptions in the forecasts include the facility capacity, the waste conversion ratios, and potential revenue streams from increased recycling. The estimated cash flows are discounted with a pre-tax rate of 7.5%.

In 2019, production assets related to the battery storage project, Carnegie Road, were fully impaired by DKK 68 million. Carnegie Road is part of our Onshore segment. The recoverable amount is measured on the basis of its value in use. The impairment losses related to Carnegie Road were primarily due to a decrease in prices of the firm frequency response market in the UK.

In connection with the reclassification of our power distribution business to assets classified as held for sale, we reversed an impairment loss from previous years of DKK 603 million during

2018. This reversal occurred, as we expected to recover a higher amount than the carrying amounts of the assets after reversal of the impairment loss in previous years.

### Useful lives

Buildings	20-50 years
Offshore wind farms	20-30 years
Onshore wind farms	24-30 years
Production assets, power (thermal) and district heating	20-25 years
Gas transportation system (marine pipelines)	20-40 years
Distribution grids, power	20-40 years
Fixtures and fittings, tools and equipment	3-10 years

### Key accounting estimates

#### Key assumptions for value in use

CGUs are tested for impairment if there is any indication of impairment. In performing an impairment test, we assess whether the CGU to which the net book value relates exceeds the recoverable amount. When performing value in use tests, we see if the CGU will be able to generate positive net cash flows sufficient to support the net book values.

Value in use calculations are based on expected future cash flows from financial budgets and forecasts and include a number of assumptions and estimates. These assumptions include future market conditions, market prices of power and biofuel, estimated discount rates, estimated useful lives of the projects, etc. The market prices applied are based on available forward prices for a period of up to five years and our best estimate of long-term prices for the remainder of the period.

When calculating the recoverable amount of property, plant and equipment under construction, other material assumptions include the expected completion costs and the commissioning dates.

## Accounting policies

### Intangible assets

Rights are measured at cost less accumulated amortisation and impairment losses. Rights are amortised on a straight-line basis over their estimated future useful lives, which are 5-20 years.

### Property, plant and equipment

Property, plant and equipment which is not a lease is measured at cost less accumulated depreciation and impairment losses. Cost of property, plant and equipment is depreciated by using the straight-line method, the diminishing-balance method or the reducing-fraction method. The diminishing-balance method and the reducing-fraction method result in decreasing depreciation over the useful life. These methods are used for some of the offshore wind farms.

Cost comprises purchase price and any costs directly attributable to the acquisition until the date the asset is available for use. The cost of self-constructed assets comprises direct and indirect costs of materials, components, sub-suppliers and labour. Borrowing costs relating to both specific and general borrowing directly attributable to assets under construction with a lengthy construction period are recognised in cost during the construction period. Cost is increased by the present value of the estimated obligations for demolition and decommissioning of assets to the extent that the obligations are recognised as a provision.

Subsequent costs, for example in connection with replacement of parts of an item of property, plant and equipment, are recognised in the carrying amount of the asset in question when it is probable that future economic benefits will flow to the Group from the expenses incurred. Other repair and maintenance expenses are recognised in profit (loss) for the year as incurred.

In 2019, we implemented IFRS 16, which resulted in the recognition of lease assets of DKK 5,066 million as of the implementation date (1 January 2019). Please see notes 1 and 8 for further information on the implementation of IFRS 16.

## 3.2 Provisions and contingent assets and liabilities

### Decommissioning obligations

Decommissioning obligations mainly comprise estimated expenses relating to decommissioning and disposal of our offshore and onshore wind farms, restoration of seabeds and the decommissioning of our CHP plants.

As developers of offshore and onshore wind farms, we are obliged to decommission our wind farms and restore the surroundings at our own expense. When we construct offshore wind farms in cooperation with partners, they are liable for their share of the decommissioning costs. Therefore, we have included only the decommissioning obligations associated with our ownership interest in the offshore wind farms.

Decommissioning obligations increased by DKK 686 million from 2018 to 2019, primarily due to the construction of new wind farms.

### Onerous contracts

The provision for onerous contracts related to the LNG terminal capacity increased by DKK 1,165 million following our agreement to divest the activities, and has subsequently been transferred to assets and liabilities held for sale.

Onerous contracts hereafter comprise:

- two contracts for gas storage capacity in Germany amounting to DKK 814 million (2018: DKK 949 million)
- a contract for gas storage capacity in Denmark amounting to DKK 164 million (2018: DKK 229 million).

Provisions, DKKm	2019				2018			
	Decommissioning obligations	Onerous contracts	Other provisions	Total	Decommissioning obligations	Onerous contracts	Other provisions	Total
Provisions at 1 January	5,472	2,418	5,564	13,454	4,751	2,711	4,058	11,520
Change in accounting policy	-	(25)	-	(25)	-	-	-	-
Exchange rate adjustments	160	-	29	189	(26)	-	(1)	(27)
Used during the year	(3)	(380)	(636)	(1,019)	(117)	(373)	(636)	(1,126)
Provisions reversed during the year	-	-	(596)	(596)	(1)	(8)	(484)	(493)
Provisions made during the year	421	1,165	1,104	2,690	547	-	2,459	3,006
Change in estimates	(93)	-	-	(93)	86	-	-	86
Transferred to assets and liabilities classified as held for sale	(11)	(2,277)	-	(2,288)	(12)	-	-	(12)
Interest element of provisions	212	77	-	289	192	88	-	280
Additions of acquisition of enterprises	-	-	-	-	259	-	168	427
Disposal related to divestment of enterprises	-	-	-	-	(12)	-	-	(12)
Disposal related to sale of assets	-	-	-	-	(195)	-	-	(195)
<b>Total provisions</b>	<b>6,158</b>	<b>978</b>	<b>5,465</b>	<b>12,601</b>	<b>5,472</b>	<b>2,418</b>	<b>5,564</b>	<b>13,454</b>
<b>Falling due as follows:</b>								
0-1 year	-	184	353	537	-	271	409	680
1-5 years	213	537	4,279	5,029	193	967	4,508	5,668
After 5 years	5,945	257	833	7,035	5,279	1,180	647	7,106

### Other provisions

Provisions made during the year primarily relate to partly divested offshore wind farms. Provisions reversed primarily relate to the Elsam competition case (DKK 564 million).

Other provisions comprise primarily:

- offshore partnership provisions, including warranty obligations and wake effect compensations
- obligations in relation to the divestment of our Oil & Gas business in 2017

- obligations in respect of our own carbon emissions
- other contractual obligations.

## Contingent liabilities

### Liability to pay compensation

In case of any environmental accidents or other types of damage caused by our oil and gas transport, the companies Ørsted Salg & Service A/S and Danish Oil Pipe A/S are liable to pay compensation according to legislation. This also applies if there is no proof of negligence (strict liability). We have taken out insurance to cover any such claims.

### Secondary liability

As part of the divestment of our Oil & Gas business, we assumed a secondary liability regarding the decommissioning of offshore installations.

### Litigation

We are party to a number of court cases and legal disputes. In our assessment, none of these will significantly impact Ørsted's financial position, neither individually nor collectively.

We have been party to actions relating to the Danish competition authorities' claim that the former Elsam A/S and Elsam Kraft A/S ('Elsam'), now part of Ørsted, charged excessive prices in the Danish wholesale power market in the period 1 July 2003 to 31 December 2006.

In May 2018, the High Court of Western Denmark found that it had not been proved that Elsam charged excessive prices in the period from 1 January 2005 to 30 June 2006. The ruling led to a subsequent settlement with the competition authorities with the same conclusion for another part of the period. From this time, there are no outstanding cases with the competition authorities claiming Elsam infringed competition law.

In connection with the cases against the competition authorities, some energy trading companies, some of their customers and others have filed claims for damages. The biggest

claim was filed in 2007 before the Copenhagen Maritime & Commercial Court, amounting to approx DKK 4.4 billion with addition of litigation interest. Despite the outcome of the actions with the competition authorities, the plaintiffs continue to pursue their claim.

In 2010, Ørsted made a provision of DKK 298 million plus litigation interest. As the competition authorities' claims against Elsam have been dismissed, we reversed the provision in 2019.

### Change of control

Some of our activities are subject to consents, permits and licences granted by public authorities. We may be faced with a claim for acceptance of any transfer, possibly with additional terms and conditions, if the Danish State holds less than 50% of the share capital or voting rights in Ørsted A/S. Read more in note 6.1 'Interest-bearing debt'.

## Key accounting estimates

### Assumptions for provisions

We continually assess our provisions recognised to cover contractual obligations and claims raised against Ørsted. Timing, probabilities, amounts, etc., which have a bearing on our provisions' estimates are updated quarterly based on our expectations.

Estimates of provisions are based on our expectations of, for example:

- timing and scope of obligation
- future cost level
- legal assessment.

The outcome of our contractual obligations and claims may depend on future events which, by nature, are uncertain.

### Accounting policies

Provisions are recognised when the following criteria are fulfilled:

- We have a legal or constructive obligation as a result of an earlier event.
- The settlement of the obligation is expected to result in an outflow of resources.
- The obligation can be measured reliably.

Decommissioning obligations are measured at the present value of the future liability in respect of decommissioning as expected at the balance sheet date. The present value of the provision and changes in estimate are recognised as part of the cost of property, plant and equipment and depreciated together with the associated asset. The addition of interest on provisions is recognised in the income statement under financial expenses.

For onerous contracts, a provision is made when the expected income to be derived from a contract is lower than the unavoidable cost of meeting our obligations under the contract.

Provisions concerning carbon emissions are recognised when our actual emissions exceed our holding of carbon emission allowances.

Decommissioning obligations by segment DKKm				Total
	Offshore	Onshore	Markets & Bioenergy	
0-5 years	204	-	9	213
5-10 years	490	-	95	585
10-20 years	2,068	-	296	2,364
After 20 years	1,800	306	890	2,996
<b>2019</b>	<b>4,562</b>	<b>306</b>	<b>1,290</b>	<b>6,158</b>
<b>2018</b>	<b>4,010</b>	<b>217</b>	<b>1,245</b>	<b>5,472</b>

## 3.3 Acquisition of enterprises

In 2019, we have paid contingent considerations of DKK 616 million in total, related to the acquisition of Deepwater Wind in 2018. The contingent payments were depending upon the regulator's approval of two power purchase agreements for our Revolution Wind project (Offshore). The contingent considerations were fully covered by provisions and therefore, profit (loss) for the year was not affected.

In 2019, we also paid DKK 148 million for the acquisition of Coronal Energy's development business (Onshore) and recognised a contingent payment of DKK 50 million.

On 1 October 2018, we acquired all of the membership interests in Lincoln Clean Energy LLC, effectively gaining control of the company. The acquisition represented the first step into our new business unit, Onshore.

On 8 November 2018, we acquired all of the membership interests in Deepwater Wind LLC, effectively gaining control of the company, which was incorporated into our Offshore business unit.

The opening balances for Lincoln Clean Energy and Deepwater Wind have been finalised in 2019 without any adjustments to the provisional opening balances.

	2019	2018		Total
	Total	Lincoln Clean Energy	Deepwater Wind	
<b>Cash flows used for acquisitions, DKKm</b>				
<b>Fair value at time of acquisition:</b>				
Property, plant and equipment	86	9,707	5,781	15,488
Other assets	115	28	158	186
Cash	-	77	363	440
Interest-bearing debt	-	(2,337)	(1,702)	(4,039)
Tax equity liabilities	-	(2,126)	(90)	(2,216)
Provisions	-	(384)	(43)	(427)
Derivatives	-	(1,185)	57	(1,128)
Deferred tax, net	-	(486)	(1,239)	(1,725)
Other liabilities	(3)	(198)	(57)	(255)
<b>Net assets acquired</b>	<b>198</b>	<b>3,096</b>	<b>3,228</b>	<b>6,324</b>
Goodwill	-	-	-	-
<b>Purchase price</b>	<b>198</b>	<b>3,096</b>	<b>3,228</b>	<b>6,324</b>
Cash, available and acquired	-	(28)	(37)	(65)
Contingent consideration – Coronal Energy	(50)	-	-	-
Contingent consideration – Deepwater Wind	616	-	(657)	(657)
<b>Cash flow used for acquisition of enterprises</b>	<b>764</b>	<b>3,068</b>	<b>2,534</b>	<b>5,602</b>
Purchase price	764	3,096	3,228	6,324
Adjustments for cash	-	(77)	(363)	(440)
Adjustments for interest-bearing tax equity liability	-	280	90	370
Adjustments for interest-bearing debt	-	2,337	1,702	4,039
<b>Enterprise value</b>	<b>764</b>	<b>5,636</b>	<b>4,657</b>	<b>10,293</b>

### Key accounting estimates

**Purchase price allocations in business combinations**  
By nature, the application of the acquisition method for business combinations involves judgement in assessing the fair value of identifiable assets and liabilities.

### Property, plant and equipment

Our assessment of fair value is based on a number of estimates regarding WACC and expected cash flows which both have a large impact on the fair value.

### Derivatives

Our assessment of fair value is dependent on expected future prices. See note 7.7 'Fair value measurement' for our valuation principles.

### Deferred tax

Our expectation of the timing of repayment of tax equity liabilities, and thereby the expected 'flip' of the tax equity structure, impacts the fair value of deferred tax on the assets and liabilities that are part of wind farms with tax equity partners. The expected tax rate also significantly impacts deferred tax.

### Accounting policies

Acquisition of enterprises are recognised using the acquisition method, whereby assets and liabilities as well as contingent liabilities of the acquired enterprise are measured at fair value on the date of acquisition.

The fair value of production assets and assets under construction are normally determined using an income approach where they are valued at present value based on the expected cash flows they can generate, including any non-separable power purchase agreements, as well as income, such as production tax credits.

The fair value of derivatives is determined using our normal approach for such items, based on market prices or expectations for prices over the term of the derivatives, as described in note 7.7 'Fair value measurement'.

The fair values of other assets and liabilities are valued using the approach we find most relevant for the individual item, which can be either a market approach, an income approach or a cost approach.

An acquired enterprise is included in the consolidated financial statements from the date of acquisition, which is the date when we obtain control of the acquired enterprise.

When an acquired enterprise has entered into a power purchase agreement classified as a derivative, the fair value of the agreement will be included in the opening balance. Post-acquisition, this fair value is recognised as an adjustment to revenue over the duration of the contract, based on the fair value calculation at the time of the acquisition.

## 3.4 Divestment of enterprises

Selling price, DKKm	2019	2018
Payment	-	497
Working capital adjustment	-	(68)
<b>Selling price on divestment of enterprises</b>	<b>-</b>	<b>429</b>
Transaction costs	(63)	(66)
Of which, selling price receivable	-	-
<b>Cash selling price on divestment of enterprises</b>	<b>(63)</b>	<b>363</b>
Payments related to provisions of divestments in previous years	(26)	-
<b>Total cash flows from divestment of enterprises</b>	<b>(89)</b>	<b>363</b>

Gain (loss) on divestment of enterprises, DKKm	2019	2018
Selling price on divestment of enterprises	-	429
Net assets sold	-	(240)
Provisions as a result of the transaction	-	4
Transaction costs	(63)	(66)
<b>Gain (loss) on divestment of enterprises</b>	<b>(63)</b>	<b>127</b>

We have not divested any enterprises in 2019.

Cash flows related to divestment of enterprises totalled DKK -89 million in 2019 (2018: DKK 363 million) and consisted of transaction costs and payments on a provision of a divestment in a previous year.

In 2018, divestment of enterprises related to the sale of our 50% ownership interest in Enecogen (Markets & Bioenergy). Transferred cash and cash equivalents totalled DKK 6 million.

### Accounting policies

We recognise income from divested enterprises in the income statement up until the date of divestment.

The date of divestment is the date on which we relinquish control of the divested enterprise.

Gains or losses on the divestment or discontinuation of subsidiaries and associates are determined as the difference between the selling price and the carrying amount of the net assets divested.

Moreover, we deduct the fees of advisers, etc., in connection with the divestment or discontinuation of the enterprise.

## 3.5 Gross and net investments

Gross and net investments, DKKm	2019	2018
Cash flows from investing activities	(10,997)	(1,026)
Dividends received and capital reductions reversed	(21)	(25)
Purchase and sale of securities, reversed	(8,949)	595
Loans to associates and joint ventures, reversed	(3)	12
Sale of non-current assets, reversed	(3,335)	(20,002)
Interest-bearing debt in acquired enterprises	-	(4,409)
Restricted cash in acquired enterprises	-	374
<b>Total gross investments</b>	<b>(23,305)</b>	<b>(24,481)</b>
Transactions with non-controlling interests in connection with divestments	(6)	(52)
Sale of non-current assets	3,335	20,002
<b>Total cash flows from divestments</b>	<b>3,329</b>	<b>19,950</b>
<b>Total net investments</b>	<b>(19,976)</b>	<b>(4,531)</b>

Gross investments totalled DKK 23,305 million in 2019, which was 5% lower than in 2018.

Gross investments in Offshore was DKK 15,121 million and was primarily related to the construction of Hornsea 1 and 2 in the UK, Borssele 1 & 2 in the Netherlands and Greater Changhua 1 & 2a in Taiwan.

In Onshore, gross investments was DKK 6,158 million and was primarily related to the construction of Sage Draw, Plum Creek, Lockett, Willow Creek and Permian Energy Center in the US.

In 2018, gross investments of DKK 15,081 million in Offshore related to the construction of Hornsea 1, Walney Extension, Borkum Riffgrund 2, Borssele 1 & 2, early investments

in the US to qualify for future tax credits as well as the acquisition of Deepwater Wind in the US. Gross investments of DKK 6,779 million in Onshore related to the acquisition of Lincoln Clean Energy in US and the construction of the Tahoka and Lockett wind farms.

Divestments totalled DKK 3,329 in 2019 and primarily related to the divestment of 50% of certain Deepwater Wind assets and the receipt of deferred proceeds from the 50% farm-down of Hornsea 1 in 2018.

In 2018, divestments related to the 50% farm-down of Hornsea 1 and the receipt of deferred proceeds from the 50% farm-down of Walney Extension in 2017 and proceeds related to the divestment of our 50% ownership share in Enecogen.

## 3.6 Assets classified as held for sale

At 31 December 2019, assets and related liabilities held for sale comprised our Danish power distribution, residential customer and city light businesses, our oil pipe system in Denmark and our LNG business. All activities are part of Markets & Bioenergy.

In September 2019, we signed an agreement to divest our Danish power distribution (Radius), residential customer and city light businesses to SEAS-NVE. We expect that the transaction will close in the first half of 2020. In December 2019, we signed an agreement to divest our LNG business, and we expect that the transaction will close during the summer of 2020.

Due to a new payment agreement with the Hejre partners on the stabilisation plant (part of the oil pipe system), we have impaired property, plant and equipment related to the stabilisation plant and recognised a receivable compensation of approx the same amount. At 31 December 2019, the compensation receivable was DKK 1.9 billion.

Assets classified as held for sale at 31 December 2018 comprised the same activities as per 31 December 2019, except for the LNG business.

### Assets classified as held for sale, DKKm

	2019	2018
Intangible assets	226	80
Property, plant and equipment	13,243	13,951
Deferred tax	589	-
Inventories	43	16
Trade receivables	736	701
Other receivables	2,113	430
Income tax	2	45
<b>Total assets classified as held for sale</b>	<b>16,952</b>	<b>15,223</b>
Deferred tax	1,315	823
Provisions	2,662	372
Contract liabilities	3,107	2,737
Trade payables	333	92
Other payables	970	826
Income tax	445	1
<b>Total liabilities relating to assets classified as held for sale</b>	<b>8,832</b>	<b>4,851</b>
<b>Net assets classified as held for sale</b>	<b>8,120</b>	<b>10,372</b>



The table shows assets and liabilities which have been put up for sale, and which are therefore not expected to contribute to our future earnings.

### Accounting policies

Assets classified as held for sale comprise assets and liabilities, the values of which are highly probable to be recovered through a sale within 12 months rather than through continued use.

Assets and liabilities classified as held for sale are measured at the carrying amount at the time of classification as 'held for sale' or at market value less selling costs, whichever is lower. The carrying amount is measured in accordance with the Group's accounting policies.

No depreciation or amortisation is effected on intangible assets and property, plant and equipment from the time of classification as 'held for sale'.



East Coast Hub,  
Grimsby, UK.



## 3.7 Discontinued operations

Discontinued operations comprise assets and liabilities related to our divested Oil & Gas business, which was sold to INEOS on 29 September 2017.

### Financial results

Profit (loss) in 2019 amounted to DKK -56 million (2018: DKK 10 million) and primarily concerned adjustments related to currency and the fair value of a receivable.

Total cash flows in 2019 amounted to DKK 174 million (2018: DKK 209 million), of which DKK -211 million was from operating activities and primarily concerned payments related to the Fredericia stabilisation plant and payment of fees for existing Oil & Gas insurance activities. The insurance fee was provided for at the time of the divestment in 2017. Cash flows from investing activities amounted to DKK 385 million and primarily concerned the receipt of a selling price receivable. The receivable was interest-bearing and therefore had no impact on our interest-bearing net debt.

### Capital employed

Our capital employed in discontinued operations at 31 December 2019 mainly consisted of provisions relating to the divestment of the Oil & Gas business (tax indemnifications and payments related to the Fredericia stabilisation plant) as well as a receivable selling price which does not carry interest. We expect to receive the outstanding selling price in 2020 and therefore, it was reclassified from non-current to current receivables at 31 December 2019.

In addition, we have an interest-bearing receivable of DKK 333 million (not part of capital employed), which we also expect to receive in 2020.



The remaining net assets under discontinued operations consist of the selling price receivable and provisions as a result of the divestment of Oil & Gas.

<b>Profit from discontinued operations, DKKm</b>	2019	2018
<b>Operating profit (loss) (EBIT)</b>	<b>(7)</b>	<b>-</b>
Gain (loss) on divestment of enterprises	(43)	(44)
Financial income and expenses, net	(8)	(53)
<b>Profit (loss) before tax</b>	<b>(58)</b>	<b>(97)</b>
Tax on profit (loss) for the year	2	107
<b>Profit from discontinued operations</b>	<b>(56)</b>	<b>10</b>

<b>Tax for the period, discontinued operations, DKKm</b>	2019	2018
Adjustment related to prior years	-	79
Gains (losses) from divestments as well as other non-taxable income and non-deductible costs	1	16
Other activities in Oil & Gas	1	12
<b>Total, business performance</b>	<b>2</b>	<b>107</b>
<b>Total, IFRS</b>	<b>2</b>	<b>107</b>

<b>Cash flows, DKKm</b>	2019	2018
Cash flows from operating activities	(211)	(53)
Cash flows from other investing activities	385	262
Cash flows from financing activities	-	-
<b>Total cash flows</b>	<b>174</b>	<b>209</b>

<b>Capital employed, DKKm</b>	2019	2018
Non-current receivables	-	746
Derivatives, net	(47)	(106)
Other provisions	(672)	(820)
Tax, net	13	29
Other receivables and other payables, net	665	8
<b>Total net assets</b>	<b>(41)</b>	<b>(143)</b>

## 3.8 Non-controlling interests

Transactions with non-controlling interests, DKKm	2019	2018
<b>Transactions with non-controlling interests</b>		
Dividends paid to non-controlling interests	(388)	(400)
Divestment of equity investments to non-controlling interests	(74)	13
Other capital transactions with non-controlling interests	-	(4)
<b>Total transactions, see statement of cash flows</b>	<b>(462)</b>	<b>(391)</b>
<b>Divestment of equity investments to non-controlling interests</b>		
Changes in receivables relating to the acquisition and divestment of non-controlling interests	(74)	13
<b>Cash selling price, total</b>	<b>(74)</b>	<b>13</b>

DKKm	Gunfleet Sands Holding Ltd. group		Walney (UK) Offshore Windfarms Ltd.	
	2019	2018	2019	2018
<b>Statement of comprehensive income</b>				
Revenue	448	431	1,170	1,079
EBITDA	275	237	616	554
Profit (loss) for the year	60	26	104	66
Total comprehensive income	84	5	192	12
Profit (loss) for the year attributable to non-controlling interests	30	13	52	33
<b>Balance sheet</b>				
Non-current assets	2,121	2,153	5,681	5,656
Current assets	187	139	247	213
Non-current liabilities	423	311	982	795
Current liabilities	62	88	303	223
Carrying amount of non-controlling interests	910	944	2,330	2,433
<b>Statement of cash flows</b>				
Cash flows from operating activities	293	264	647	563
Cash flows from investing activities	-	-	(13)	(16)
Cash flows from financing activities	(241)	(283)	(600)	(566)
– of which, dividends paid to non-controlling interests	(119)	(144)	(268)	(256)

Subsidiaries with significant non-controlling interests	Non-controlling interest	Registered office
Gunfleet Sands Holding Ltd.	49.9%	London, UK
Walney (UK) Offshore Windfarms Ltd.	49.9%	London, UK



In the table, we provide financial information for subsidiaries with significant non-controlling interests. The amounts stated are the consolidated accounting figures of the individual enterprises/groups, determined according to our accounting policies. Amounts are stated before intra-group eliminations.

### Accounting policies

Transactions with non-controlling interests are accounted for as transactions with the shareholder base.

Gains and losses on the divestment of equity investments to non-controlling interests are recognised in equity when the divestment does not result in a loss of control.

Net assets acquired are not revalued on the acquisition of non-controlling interests. Any difference between the carrying amount and the acquisition or selling price is recognised in equity.

# 4. Working capital

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112	Other receivables
113	Tax equity liabilities
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## 4. Working capital

**Our key working capital items consist of inventories, net contract assets, trade receivables and payables, tax equity liabilities and other payables.**

Working capital items vary with the seasonal variations in our generation and sales activities during the year.

Our net contract assets relate primarily to prepayments from heat customers in connection with bioconversions and construction of offshore wind farms for partners.

The net contract assets vary within and across years, depending on the portfolio of offshore construction assets, and when we reach certain milestones and trigger payments from our partners.

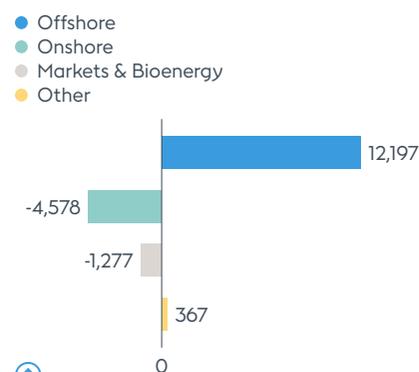
Construction of offshore transmission assets in the UK, which are recognised as inventories, will continue to tie up cash until they are divested.

Tax equity liabilities also vary within and across years. This is due to the fact that we receive cash contributions from tax equity partners at the point in time when a US wind farm enters into operation.

Trade payables relating to capital investments are not included in this section, as they are presented as part of the cash flows from investing activities.

Working capital, DKKm	2019	2018
Inventories	14,031	13,943
Contract assets, net	(3,807)	(3,115)
Trade receivables	8,140	10,741
Other receivables	3,253	2,968
Trade payables, excluding trade payables relating to capital expenditure	(7,529)	(10,099)
Tax equity liabilities	(4,587)	(3,719)
Other payables	(2,793)	(3,295)
<b>Net working capital, excluding trade payables relating to capital expenditure at 31 December</b>	<b>6,709</b>	<b>7,424</b>
Of which, work in progress and related trade payables	8,756	9,654
Of which, tax equity partner liabilities and other working capital	(2,047)	(2,230)

Working capital, DKKm 2019



Offshore primarily has funds tied up in inventories, construction agreements and trade receivables. The most significant working capital item in Onshore consists of liabilities regarding tax equity contributions from our partners. Markets & Bioenergy also has a net negative working capital due to prepayments from heat customers which are only partly countered by inventories and receivables.



Work in progress consists of inventories related to transmission assets, construction agreements and construction management agreements in connection with the construction of transmission assets and offshore wind farms for partners as well as related trade payables.

# 6.7bn

Our net working capital, excluding trade payables relating to capital expenditure, amounted to DKK 6,709 million in 2019 against DKK 7,424 million in 2018.

# -0.7bn

We reduced funds tied up in working capital by DKK 715 million relative to 2018, of which DKK 898 million pertained to work in progress and related trade payables in Offshore.

## 4.1 Inventories

Inventories, DKKm	2019	2018
Offshore transmission assets	10,114	9,885
Biomass	445	253
Gas	1,057	1,620
Coal	242	261
Oil	106	119
Green certificates	1,717	1,555
Carbon emission allowances (purchased)	345	172
Other inventories	5	78
<b>Total inventories</b>	<b>14,031</b>	<b>13,943</b>
Inventories recognised as an expense in 'Cost of sales' during the year	16,871	25,262



Inventories measured at fair value in the table above are disclosed in note 7.7 'Fair value measurement'.

We use biomass, coal, gas and, to a limited extent, oil as fuel at our CHP plants. From 2019, the use of gas is very limited as a result of the biomass conversion of the Skærbæk Power Station in Denmark and the divestment of the Enecogen Power Station in the Netherlands. Green certificates are primarily renewable obligation certificates (ROCs) which are issued to power generators sourcing from renewable energy sources in the UK.

Gas at storage primarily relates to our gas trade activities.

### Accounting policies

Offshore transmission assets are measured at cost. The costs comprises costs of materials used in construction, site labour costs, costs of renting equipment as well as indirect production costs, such as employee costs.

Gas storage in non-Danish facilities are managed on a fair value basis, and therefore the gas in these storage facilities is recognised at fair value less costs to sell. Changes in the fair value less costs to sell are recognised in cost of sales in the period of the change.

Gas in Danish storage facilities are recognised at cost determined as a weighted average of the previous months purchase price, including transportation costs.

Purchased carbon emission allowances are measured at market value.

Green certificates, which we earn by generating power using renewable energy sources, are recognised in inventories in step with our generation. We measure green certificates (earned and bought) at cost using the first in, first out (FIFO) principle.

Other inventories are measured at cost determined on a first in, first out basis or a net realisable value, where this is lower.

Inventories are written down to the lower of net realisable value and cost price. For the offshore transmission assets, it is the expected final transfer value announced by Ofgem.

The net realisable value is the sum (discounted) which the inventories are expected to generate through a normal sale.

## 4.2 Contract assets and liabilities

Revenue from contracts with customers DKKm	2019	2018
Revenue recognised included in contract liabilities at the beginning of the year	771	228
Revenue recognised from performance obligations satisfied in previous years	128	95

Contract balances, DKKm	2019	2018
<b>Contract assets</b>		
Current contract assets	739	1,451
<b>Total contract assets</b>	<b>739</b>	<b>1,451</b>
<b>Contract liabilities</b>		
Non-current contract liabilities	3,762	3,642
Current contract liabilities	784	924
<b>Total contract liabilities</b>	<b>4,546</b>	<b>4,566</b>



Contract asset and contract liabilities are primarily related to:

- the construction of offshore wind farms with partners, with each party usually owning 50% of the offshore wind farm
- prepayments from heat customers.

At the end of 2019, contract assets and liabilities regarding construction agreements relates to our partners' share of the offshore wind farm Hornsea 1 and the Coastal Virginia demonstration project in the US.

At the end of 2018, contract assets and liabilities included the construction of our partners' shares of the Hornsea 1, Walney Extension and Borkum Riffgrund 2 offshore wind farms.

The table shows how much of our revenue that relates to contract liabilities carried forward (as prepayments and deferred revenue), and how much that relates to performance obligations satisfied in a prior year (e.g. re-negotiations or constraints on variable considerations that are not recognised until they are highly probable).

### Accounting policies

We recognise a contract asset when we perform a service or transfer goods in advance of receiving consideration, and the consideration is conditional. When the consideration is unconditional, and the goods or services are delivered, we recognise a receivable. A right to consideration is unconditional if only the passage of time is required before the payment is due. Contract assets are measured at the transaction price of the good or services which we have performed less invoicing on account. We recognise a contract liability when the invoicing on account and expected losses exceed the transaction price of the goods or services transferred to our customer.

## 4.3 Trade receivables

Trade receivables, DKKm	2019	2018
Trade receivables, not due	7,353	10,186
Trade receivables, 1-30 days overdue	445	293
Trade receivables, more than 30 days overdue	416	326
Trade receivables, write-down	(74)	(64)
<b>Total trade receivables</b>	<b>8,140</b>	<b>10,741</b>

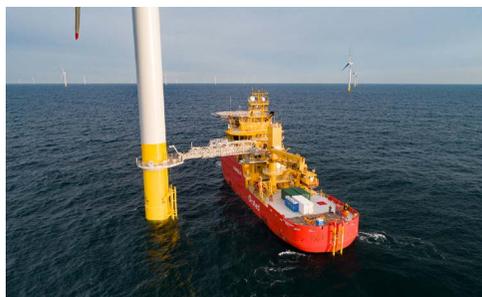
We continuously perform credit ratings of our customers, as described in note 7.5 'Credit risks'. For customers with a general credit risk, a write-down of 0-1% is carried out on initial recognition. In 2019, write-downs of receivables were DKK 33 million (2018: DKK 35 million). Losses for the year totalled DKK 0 million (2018: DKK 36 million).

### Accounting policies

We keep our receivables until maturity, and therefore, they are measured at amortised cost.

Write-downs are carried out from initial recognition of our receivables. The write-down is calculated as the difference between the carrying amount of the receivable and the net present value of expected future cash flows from the receivable. The discount rate used is the effective interest rate for the individual receivable or the individual portfolio.

We apply the simplified approach to the write-down of trade receivables, which permits calculating the write-down as the full loss during the entire term of the receivable.



Walney Extension,  
Irish Sea, UK.

## 4.4 Other receivables

Other receivables, DKKm	2019	2018
Receivables from the divestment of assets and enterprises	1,456	3,218
Receivables from the divestment of equity investments to non-controlling interests	717	634
VAT and other indirect tax receivables	574	427
Collateral provided	1,940	710
Deposits	411	240
Prepayments	556	330
Other accounts receivables	1,312	1,501
<b>Other receivables</b>	<b>6,966</b>	<b>7,060</b>
Of which, working capital	3,253	2,968
Of which, other capital employed	1,216	2,628
Of which, interest-bearing net debt	2,497	1,464



The table shows our other receivables broken down into working capital, interest-bearing net debt and other capital employed.

In 2019, receivables from the divestment of assets and enterprises primarily related to the divestment of our Oil & Gas business.

In 2018, receivables from the divestment of assets and enterprises primarily related to receivables in connection with the divestment of 50% of our ownership interests in the offshore wind farm Hornsea 1 and receivables related to the divestment of our Oil & Gas business.

Receivables from the divestment of equity investments to non-controlling interests

primarily relate to the divestment in 2011 of our ownership interests in Gunfleet Sands.

The collateral provided by the Group is receivables from banks in connection with trading of derivatives.

The short-term portion of other receivables amounted to DKK 5,253 million (2018: DKK 4,390 million).

## 4.5 Tax equity liabilities

Tax equity liabilities, DKKm	2019	2018
Balance at 1 January	4,173	-
Contribution received from tax equity partners	1,306	1,995
Tax equity balances from business acquisitions	-	2,216
Tax attributes and PTCs recognised in other operating income	(622)	(79)
Cash paid to tax equity partners	(73)	(3)
Tax equity partners' contractual return	327	44
Exchange rate adjustments	84	-
<b>Balance at 31 December</b>	<b>5,195</b>	<b>4,173</b>
Of which, working capital	4,587	3,719
Of which, interest-bearing debt	608	454



2018 was the first year we recognised US tax liabilities originating from our acquisitions and entry into the US market.

In the US, we have several wind farms with tax equity partners. During 2019, we commissioned one onshore wind farm, Lockett (184MW), with a tax equity partner.

We have four additional wind farms, three onshore and one offshore, with tax equity partners. These wind farms were commissioned during 2018 or prior to our acquisitions of Lincoln Clean Energy and Deepwater Wind.

### Description of tax equity partnerships

Tax equity partnerships are characterised by a tax equity partner who contributes an upfront payment as part of the initial project investment and does not have an operational role in the project. The partner receives a contractually agreed return on the contribution. In

order to 'repay' the initial contribution and the return, a disproportionate share of the production tax credits (PTCs) and other tax attributes (accelerated tax depreciation and other taxable results) are allocated to the partner during the first part of the project's lifetime. The partner also receives some cash payment-based percentages specified in the partnership agreements. Once the partner receives the agreed return, the agreement 'flips', and the partner is typically entitled to a minor part of the cash distributions from the project, unless we repurchase this right from them, which is highly likely.

### Accounting policies

When a tax equity partnership is formed, we evaluate if the company should still be fully consolidated based on our right to variable returns as well as our ability to exercise influence on financial and operational decisions impacting those returns. Due to the operational and financial nature of the projects, and the influence normally given to tax equity partners in such agreements, we normally have the influence to fully consolidate companies that have tax equity partners.

The terms of the tax equity partner's contribution are evaluated to determine the accounting treatment. The contribution generally has the characteristics of a liability as the initial contribution is repaid, including an agreed return, and the partner does not share in the risks of the project in the same way as a shareholder. As such, the contribution is accounted for as a liability and measured at amortised cost. The liability is based on the expected method of repayment and is divided into:

- a net working-capital element to be repaid through PTCs and other tax attributes
- an interest-bearing debt element expected to be repaid through cash distributions.

The partner's agreed return is expensed as a financial expense and is recognised as an increase of the tax equity liability. PTCs and other tax attributes transferred to the tax equity partner are recognised as other operating income. Tax attributes allocated to the tax equity partner are deferred and recognised on a straight-line basis over the estimated contractual length of the partnership structure, while PTCs are recognised in the periods earned, similar to recognition of our own PTCs.

In addition to the above, we recognise a liability for the expected purchase price for the partner's post-flip rights to cash distributions. This liability is recognised at fair value, and adjustments are expensed as a financial item. This recognition reflects the intention and high likelihood that we will purchase

the partner's post-flip rights, and they are part of the financial costs of the arrangement.

If we choose not to buy the partner's right to post-flip rights, the tax equity partner will be entitled to part of the company's returns in the post-flip period. At that point, the partner will share in the risks and rewards in the company as a shareholder and will be considered a non-controlling interest.

### Key accounting judgements

#### Assessment of recognition of tax equity partner

On formation of a tax equity partnership, we assess the appropriate recognition of the partner's contribution as well as the method of recognition for the elements used to repay the partner, such as PTCs and tax attributes.

In assessing the recognition of the partner's contribution, we look at:

- the expected flows of PTCs, tax attributes and cash payments to the partner
- the rights and obligations of both us and the tax equity partner.

The deferral of the income related to tax attributes and the recognition of the contribution as working capital or interest-bearing debt, are affected by our expectation to the size, method and timing of repayments.

## 4.6 Other payables

Other payables, DKKm	2019	2018
Carbon rights	90	62
VAT and other indirect taxes payable	686	780
Salary-related items payable	793	809
Accrued interest	1,239	687
Virtual gas storage	-	107
Other deferred income	-	84
Collateral received	205	34
Purchase price, acquisition of enterprises	116	653
Other	1,587	1,986
<b>Total other payables</b>	<b>4,716</b>	<b>5,202</b>
Of which, working capital	2,793	3,295
Of which, other capital employed	1,367	1,337
Of which, interest-bearing net debt	556	570

In 2019, the short-term portion of other payables amounted to DKK 4,247 million (2018: DKK 4,793 million).



The table shows our other payables broken down into working capital, interest-bearing net debt and other capital employed.

## 4.7 Changes in net working capital

Change in net working capital, DKKm	2019	2018
Change in inventories	529	243
Change in contract assets and liabilities	612	(1,478)
Change in trade receivables	2,846	(2,261)
Change in other receivables	(250)	(31)
Change in trade payables	(2,371)	1,601
Change in tax equity liabilities	630	1,835
Change in other payables	(427)	(827)
<b>Total change in net working capital</b>	<b>1,569</b>	<b>(918)</b>
Of which, changes relating to work in progress	1,416	(2,326)
Of which, changes relating to tax equity liabilities and other working capital	153	1,408



Work in progress consists of elements in contract assets and liabilities, construction management agreements related to construction of offshore wind farms, construction of offshore transmission assets (inventory) and related trade payables.

The change in funds tied up in work in progress and related trade payables was DKK 1,416 million in 2019 due to high activity related to the construction of offshore wind farms for partners (Hornsea 1) as well as offshore transmission assets in the UK (mainly Hornsea 2), partly offset by the receipt of milestone payments from partners and the divestment of the Race Bank transmission asset.

In 2018, the change in funds tied up in work in progress and related trade payables was DKK -2,326 million due to the construction of offshore wind farms for partners (Walney

Extension and Borkum Riffgrund 2) as well as offshore transmission assets in the UK (Hornsea 1 and Hornsea 2), partly offset by the receipt of milestone payments from partners and the divestment of the Burbo Bank Extension transmission asset.

The change in funds tied up in other working capital was a cash inflow of DKK 153 million in 2019.

# 5. Tax

116	Tax
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118	Tax on profit (loss) for the year
120	Taxes paid
121	Deferred tax
124	Total tax contribution

# 5. Tax

## Tax on profit (loss) for the year

The effective tax rate was 31% for the continuing operations. The effective tax rate was primarily affected by the sale of assets in certain wind farm projects to a partner in the US as well as recognition of a tax liability in connection with the tax equity partnership related to the Lockett Onshore Wind Farm.

## Corporate income taxes paid

We have paid DKK 4,800 million in taxes in 2019, of which DKK 17 million related to residual tax for 2017, and DKK 81 million related to receivable residual tax regarding 2018. We expect to have a residual tax of DKK 595 million regarding 2019, as we had a higher portion of income related to financial

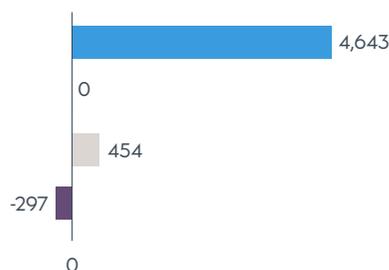
instruments in 2019 than we expected at the time we paid taxes on account.

# 4.8bn

Corporate income tax paid by the Group in 2019 totalled DKK 4,800 million against DKK 3,367 million in 2018.

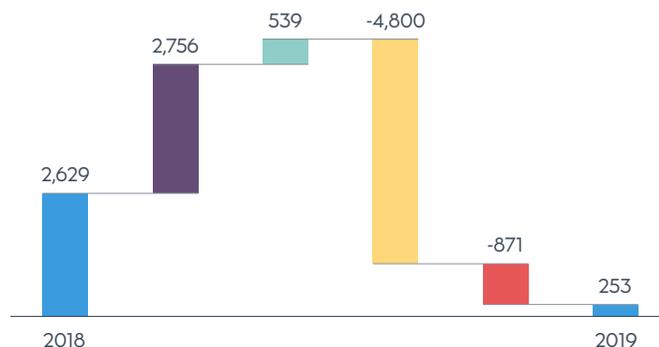
## Corporate income tax paid by segment, 2019, DKKm

- Offshore
- Onshore
- Markets & Bioenergy
- Ørsted A/S and other activities



## Development in current and deferred tax asset and liabilities (tax, net), 2019, DKKm

- Tax, net liability
- Tax on profit (loss) for the year
- Tax on other comprehensive income and hybrid capital
- Corporate taxes paid
- Other effects



2019, DKKm	Business performance		
	Profit (loss) before tax	Tax	Tax in %
Tax equity, deferred tax liability, Lockett	-	(118)	n.a.
Rest of the Group	8,856	(2,638)	30%
<b>Effective tax for the year</b>	<b>8,856</b>	<b>(2,756)</b>	<b>31%</b>

# 5.6bn

Current corporate income tax in 2019 totalled DKK 5,605 million against DKK 3,161 million in 2018.



The tax rate for 'Rest of the Group' is higher than the weighted average tax rate in the countries in which we generate income as a result of adjustments relating to previous years as well as net non-deductible expenses.

# 5.1 Tax policy and tax regimes

## Our tax policy

We recognise the key role that tax plays in society and in the development of the countries where we operate. We also believe that a responsible approach to tax is essential to the long-term sustainability of the societies where we have activities and of our business across the globe.

The world's governments have defined the greatest challenges for our societies towards 2030 through the UN Sustainable Development Goals (SDGs). At Ørsted, we are committed to running our business in a way that contributes to the SDGs. Tax payments contribute both directly and indirectly to most of the SDGs, in particular target #16.6 on the development of effective, accountable and transparent institutions.

Tax is a core part of our corporate responsibility and governance and is overseen by the Board of Directors. The Board of Directors is accountable for the tax policy, and the responsibility for tax risk management lies with the CFO and is overseen by the Audit & Risk Committee.

## Compliance

Our ambition is to apply best practices at all times and act in accordance with applicable legislation on tax computation and tax reporting to ensure that we pay the right amount of tax at the right time in the countries where we operate. We continuously evaluate our

processes and controls to ensure that we are compliant with local and international standards relevant to our business.

## Our attitude to tax planning

We only use business structures that are driven by commercial considerations, aligned with business activity, and which have genuine substance.

We make use of incentives and tax reliefs where they apply in areas where we have commercial substance.

We seek, wherever possible, to develop cooperative relationships with tax authorities, based on mutual respect, transparency and trust.

## Transparency

In line with our belief in transparency, we provide regular information to our stakeholders – including investors, policy makers, employees, civil society and the general public – about our approach to tax and taxes paid.

Read more about our tax policy at <https://orsted.com/taxpolicy>

## Tax regimes

At the end of 2019, our major activities were in Denmark, the UK, Germany, the Netherlands, the US and Taiwan.

## US tax equity partnerships

We have entered into several tax equity partnership agreements in the US. For more information on our tax equity partnership structure, see note 4.5 'Tax equity liabilities'.

The expected value of the deferred tax liability related to property, plant and equipment at the 'flip date' in the tax equity partnership agreement is included in our accounts when the tax equity partnership is established.

## Local taxes paid

Our taxes paid in Denmark for 2019 were affected by the completed construction agreement related to the Hornsea 1 Offshore Wind Farm in the UK.

We have made significant investments in offshore wind farms in the UK, Germany and the Netherlands, resulting in the accumulation of large tax assets in recent years. Accordingly, we have not paid significant taxes in these countries prior to 2019. This is changing, as the offshore wind farms are commissioned and are generating positive tax results, resulting in paid taxes in the UK and in Germany. We expect to start paying corporate tax in the Netherlands in 2021.

We are currently making significant investments in the US, and we do therefore not expect to pay any material corporate income tax in the foreseeable future.

We are also making material investments in Taiwan, and we expect to start paying corporate tax in 2022/2023. We expect to start paying withholding taxes on dividends in Taiwan in 2020.

## Danish CFC taxation

Denmark has proposed to introduce the CFC rules in the EU Anti Tax Avoidance Directive with the most likely entry into force being on 1 July 2020. The overarching purpose of the CFC rules is to prevent companies undermine the domestic tax base by moving mobile income to low tax jurisdictions. In such a case, the CFC rules will ensure that the income will still be subject to domestic taxation.

A foreign subsidiary shall be considered to be a CFC company if 1/3 or more of its income stems from CFC income, which now also includes 'other income from intangible property'. There is very little guidance on what is included in other income from intangible property.

The EU directive contains an exception for companies which have real commercial activity, or which are not situated in a low tax jurisdiction. However, Denmark has chosen not to make use of any of these exceptions. This means that operational foreign subsidiaries which are located in countries with the same or a higher tax rate than Denmark, and which have been established for commercial purposes, can be considered to be CFC companies. We see this as a risk.

## 5.2 Tax on profit (loss) for the year

	2019				2018			
	Business performance		IFRS		Business performance		IFRS	
	DKK million	%	DKK million	%	DKK million	%	DKK million	%
<b>Effective tax rate, DKKm/%</b>								
<b>Tax on profit (loss) for the year can be explained as follows:</b>								
Calculated 22% tax on profit (loss) before tax (2018: 22%)	(1,948)	22	(2,286)	22	(5,172)	22	(4,834)	22
Adjustments of calculated tax in foreign subsidiaries in relation to 22% (2018: 22%)	25	-	18	-	94	-	74	-
<b>Tax effect of:</b>								
Non-taxable income and non-deductible costs, etc., net	(540)	6	(540)	5	1,912	(8)	1,912	(9)
Unrecognised tax assets and capitalisation of tax assets not previously capitalised	(32)	-	(32)	-	(50)	-	(50)	-
Adjustment of tax concerning previous years	(261)	3	(261)	3	(802)	3	(802)	4
<b>Effective tax for the year</b>	<b>(2,756)</b>	<b>31</b>	<b>(3,101)</b>	<b>30</b>	<b>(4,018)</b>	<b>17</b>	<b>(3,700)</b>	<b>17</b>



Non-taxable income and non-deductible expenses primarily concern the tax-exempt loss on a divestment of assets and other US investment matters. See more in note 2.5 'Other operating income and expenses'.

### Income tax

Tax on business performance profit (loss) was DKK 2,756 million in 2019 against DKK 4,018 million in 2018. The effective tax rate was 31% in 2019 against 17% in 2018.

The effective tax rate in 2019 was primarily affected by the sale of assets in certain wind farm projects to a partner in the US as well as recognition of a tax liability in connection with the tax equity partnership related to the Lockett Onshore Wind Farm (see more regarding tax equity partnerships in notes 4.5 'Tax equity liabilities' and 5.4 'Deferred tax'). The deferred tax liability from existing tax equity partnerships will be reduced gradually as the assets are depreciated.

The difference in tax rates from 22% to the statutory tax rates across our jurisdiction had limited impact on the effective tax rate.

The effective tax rate in 2018 was particularly affected by a tax-exempt gain on the 50% farm-down of Hornsea 1. In addition, the effective tax rate was affected by the recognition of a deferred tax liability related to the tax equity partner for Tahoka.

### Accounting policies

Tax for the year consists of current tax, changes in deferred tax and adjustments in respect of previous years. Tax on profit (loss) for the year is recognised in the income statement. Tax relating to other items is recognised in other comprehensive income.

### Key accounting estimate

#### Estimates regarding recognition of income taxes

Ørsted is subject to income taxes in all the countries where we operate. Significant judgement and estimates are required in determining the worldwide income taxes, income tax assets and liabilities and provisions for uncertain tax positions.

In the course of conducting business around the world, tax and transfer pricing disputes with tax authorities may occur due to the complex nature of the tax rules related to the business. Judgement

is applied to assess the possible outcome of such disputes. We apply the methods prescribed in IFRIC 23 'Uncertainty over Income Tax Treatments' when making provisions for uncertain tax positions, and we consider the provisions made to be adequate. However, the actual obligation may deviate and might lead to additional tax in excess of provisions included as uncertain tax provisions depending on the result of litigations and settlements with the relevant tax authorities.

Ongoing tax disputes, primarily related to transfer pricing cases, are included as part of 'Tax payables', 'Tax receivables' and 'Deferred tax'.

### Tax on profit (loss) for the year and other comprehensive income

In 2019, tax on IFRS profit (loss) for the year amounted to DKK 3,101 million, consisting of current tax expenses of DKK 5,605 million, changes in deferred tax of DKK 2,765 million, and tax expenses concerning previous years of DKK 261 million. The adjustment primarily relates to updates of asset values in the UK and Germany.

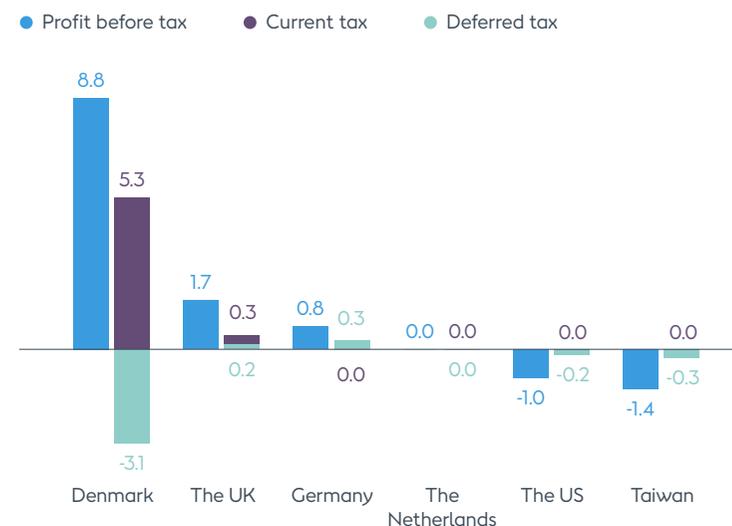
Because of the high level of investments and the subsequent deferrals of payable tax as a consequence of tax depreciation, our current tax is generally lower than the statutory corporate tax rates during construction and the initial years after first power. In 2019, however, the current tax included DKK 4,230 million which relate to accumulated income from the construction agreement regarding Hornsea 1.

### Current tax

Current tax is the payable tax expense incurred in Ørsted on profit for the year. This deviates from taxes paid as a result of payments or refunds regarding prior years and residual payments regarding the current year.

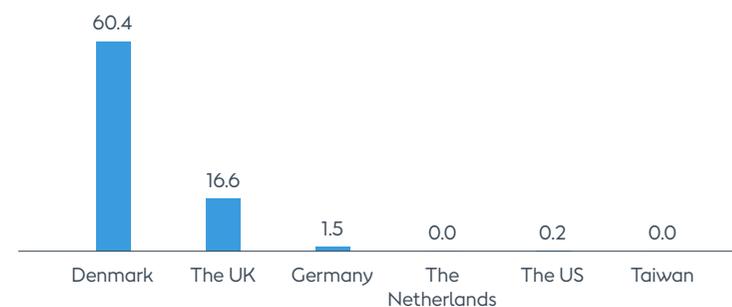
	2019		2018	
	Business performance	IFRS	Business performance	IFRS
<b>Income tax, DKKm</b>				
Tax on profit (loss) for the year	(2,756)	(3,101)	(4,018)	(3,700)
Tax on other comprehensive income	(539)	(194)	411	93
Tax on hybrid capital	34	34	120	120
<b>Total tax for the year</b>	<b>(3,261)</b>	<b>(3,261)</b>	<b>(3,487)</b>	<b>(3,487)</b>
Tax on profit (loss) for the year can be broken down as follows:				
Current tax	(5,605)	(5,605)	(3,161)	(3,161)
Deferred tax	3,110	2,765	(55)	263
Adjustment of tax concerning previous years, etc.	(261)	(261)	(802)	(802)
<b>Tax on profit (loss) for the year</b>	<b>(2,756)</b>	<b>(3,101)</b>	<b>(4,018)</b>	<b>(3,700)</b>
Tax on other comprehensive income can be broken down as follows:				
Current tax	(194)	(194)	93	93
Deferred tax	(345)	-	318	-
<b>Tax on other comprehensive income</b>	<b>(539)</b>	<b>(194)</b>	<b>411</b>	<b>93</b>

### Current and deferred tax (business performance), 2019, DKKbn



The figure shows the relationship between profit before tax and current tax in the main countries where we do business.

### Effective current tax rate (business performance), 2019, %



The figure shows the tax rates based on business performance in the main countries where we do business.



Income tax for the year is calculated on the basis of the profit (loss) before tax from continuing operations.

# 5.3 Taxes paid

We have paid DKK 4,800 million in taxes in 2019, of which DKK 17 million related to residual tax for 2017, and DKK 81 million related to receivable residual tax regarding 2018.

We paid most of our Danish taxes in March. Accordingly, the income tax paid for the year was based on estimates and preliminary tax positions.

As we had a higher portion of income related to financial instruments in 2019 than we expected at the time we paid taxes on account, we expect to have a residual tax of DKK 595 million regarding 2019.

Taxes paid, DKKm



Tax on profit (loss) for the year (business performance), DKKm

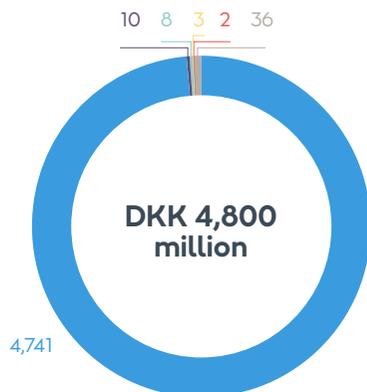


The figures show the relationship between the tax on business performance profit (loss) for the year for accounting purposes and the taxes paid for the year.

<sup>1</sup> Relates to internal transfers between continuing and discontinued operations.

Taxes paid for the year, 2019, DKKm

- Denmark
- Germany
- The UK
- Sweden
- Poland
- The US



The figure only shows our continuing operations.

## 5.4 Deferred tax

### Development in deferred tax

In 2019, net deferred tax assets from continuing operations increased, primarily due to the completion of the construction of Hornsea 1, which triggered current tax on the deferred gain.

The adjustment regarding previous years comprised a decrease in recognition of tax assets relating to offshore wind farms and true-up of the 2018 tax return position with offset on current tax.

In 2018, deferred tax from continuing operations decreased due to the completion of the construction of Borkum Riffgrund 2 and Walney Extension, as these taxes were paid and increased due to the ongoing construction of Hornsea 1. Furthermore, our tax equity partner agreements in the US resulted in the recognition of the expected deferred tax liability that we will take over once the contribution from the tax equity partner has been repaid.

The adjustment regarding previous years comprised recognition of tax assets relating to offshore wind farms.

### Deferred tax by segment

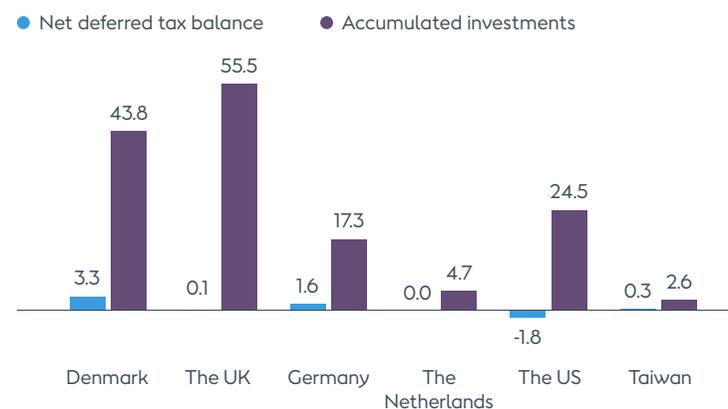
Net deferred tax in our segments primarily concerned the following:

- Offshore: upfront taxable income on internal gains where we get future tax depreciations in project companies, tax loss carryforwards and property, plant and equipment, for which depreciation for tax purposes exceeds depreciation for accounting purposes.
- Onshore: recognised deferred tax liabilities regarding wind farm assets in tax equity structures.
- Markets & Bioenergy: financial instruments and property, plant and equipment, for which depreciation for tax purposes exceeds depreciation for accounting purposes.
- Other activities/eliminations comprised intra-group eliminations in the joint taxation across segments.



The table shows the reconciliation of deferred tax to the balance sheet by segment. The non-recognised deferred tax assets are not expected to give rise to any material income tax consequence in the event of dividends received.

### Net deferred tax and accumulated investments, 2019, DKKbn



The figure shows the net deferred tax asset (+) or liability (-) on country level as well as total accumulated investments in each country

	Offshore	Onshore	Markets & Bioenergy	Other activities/eliminations	Deferred tax at 31 December
<b>Deferred tax 2019, DKKm</b>					
Deferred tax, assets	6,441	-	189	217	6,847
Deferred tax, liabilities	1,611	1,422	338	-	3,371
Unrecognised tax assets	7	-	25	-	32
<b>Deferred tax 2018, DKKm</b>					
Deferred tax, assets	3,565	235	1,152	(364)	4,588
Deferred tax, liabilities	2,838	1,293	249	(355)	4,025
Unrecognised tax assets	53	19	64	-	136

### Accounting policies

Deferred tax is recognised in respect of all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts.

However, deferred tax is not recognised in respect of temporary differences relating to:

- the acquisition of joint operations, including licence interests
- other items where differences arise at the time of acquisition, affecting neither the profit (loss) for the year nor the taxable income. However, this does not include differences arising in connection with company acquisitions.

Deferred tax is measured depending on how we plan to use the assets and settle the liabilities. We set off tax assets and liabilities when the tax assets can be offset against tax liabilities in the year in which the deferred tax assets are expected to be used.

Deferred tax assets are recognised at the value at which they are expected to be used. They may be offset against future earnings. This is done within a joint taxation scheme. Intra-group gains and losses are eliminated.

Deferred tax is measured based on the tax rules and rates applying when the deferred tax becomes current tax. Changes in deferred tax as a result of changes in tax rates are recognised in profit (loss) for the year.

Deferred tax (net liability) related to the tax equity structures is recognised as tax income in the income statement when we take over the agreements. The liability recognised is the amount that we expect to take over once the contribution from the equity partner is repaid, and the tax equity structure 'flips.'

Liabilities in respect of uncertain tax positions are measured as follows:

- The most-likely-outcome method is applied in cases where there are only two possible outcomes.
- The weighted-average method is used in cases where there are more than two possible outcomes.

The liability is recognised under income tax payable or deferred tax, depending on how the realisation of the tax position will affect the financial statement.



Burbo Bank Extension,  
Bay of Liverpool, UK.

<b>Development in deferred tax assets and liabilities, 2019, DKKm</b>	Balance sheet at 1 January	Transferred to assets and liabilities classified as assets held for sale	Exchange rate adjustments	Net acquisition of enterprises, individual assets and activities, net	Recognised in profit (loss) for the year	Adjustments to prior years, etc.	Balance sheet at 31 December
Intangible assets	36	131	-	-	(140)	2	29
Property, plant and equipment	3,031	(120)	159	(375)	(2,432)	690	953
Other non-current assets	405	-	22	8	(68)	(440)	(73)
Current assets	(25)	66	.	(68)	3	29	5
Decommissioning obligations	(757)	-	(16)	-	(33)	(60)	(866)
Other non-current liabilities	(1,386)	-	(1)	245	346	(48)	(844)
Current liabilities	(614)	-	(1)	23	495	-	(97)
Tax loss carryforwards	(1,253)	-	(53)	(42)	(936)	(299)	(2,583)
<b>Deferred tax</b>	<b>(563)</b>	<b>77</b>	<b>110</b>	<b>(209)</b>	<b>(2,765)</b>	<b>(126)</b>	<b>(3,476)</b>
Of which, recognised in the balance sheet under assets	4,588						6,847
Of which, recognised in the balance sheet under equity and liabilities	4,025						3,371
<b>Development in deferred tax assets and liabilities, 2018, DKKm</b>							
Intangible assets	61	(13)	-	-	(28)	16	36
Property, plant and equipment	2,018	(1,263)	(18)	2,252	150	(108)	3,031
Other non-current assets	140	-	(1)	9	132	125	405
Current assets	(11)	-	-	-	(13)	(1)	(25)
Decommissioning obligations	(797)	3	2	(11)	(8)	54	(757)
Other non-current liabilities	(1,106)	436	(2)	(312)	88	(490)	(1,386)
Current liabilities	(348)	14	(1)	(67)	(163)	(49)	(614)
Tax loss carryforwards	(694)	-	6	(146)	(424)	5	(1,253)
<b>Deferred tax</b>	<b>(737)</b>	<b>(823)</b>	<b>(14)</b>	<b>1,725</b>	<b>(266)</b>	<b>(448)</b>	<b>(563)</b>
Of which, recognised in the balance sheet under assets	2,865						4,588
Of which, recognised in the balance sheet under equity and liabilities	2,128						4,025



The increase in tax losses carried forward during 2019 is primarily a result of accelerated depreciations on fixed assets for tax purposes, as more wind farms enter into operation. The tax loss carryforwards are either offset against deferred tax liabilities on the same wind farm or jurisdiction or offset against expected future profits from the very same wind farm or jurisdiction.

Adjustments to prior years primarily relate to a decrease in recognition of tax assets relating to offshore wind farms and movements between deferred tax and current tax payable.

The amounts transferred to assets and liabilities classified as assets held for sale in 2018 concern our Danish power distribution, residential customer and city light businesses.

Addition of enterprises in 2018 includes the deferred tax liability recognised in relation to our US acquisitions.

# 5.5 Total tax contribution

According to the OECD classification, tax is a compulsory unrequited payment to general government. This means a payment by Ørsted paid to the government, including amounts paid through an agent. Tax does not result in a return of value to Ørsted for a right or asset used in the business.

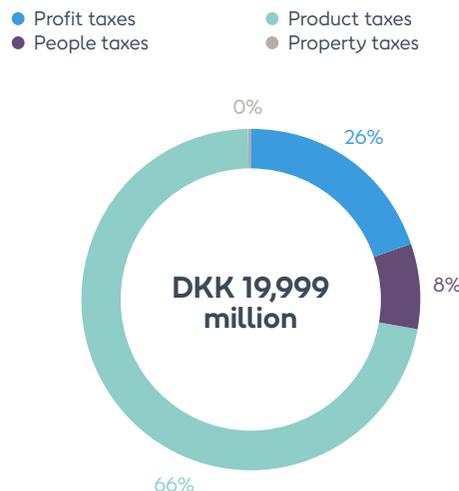
Taxes collected are those which are generated by Ørsted's operations, but not a tax liability for Ørsted. Ørsted generates the commercial activity that gives rise to the taxes and then collects and administers them on behalf of the tax authorities in the countries in which we operate.

Taxes borne by Ørsted are those that represent a direct cost and are reflected in the financial result. Taxes borne are charged to the profit and loss account or capitalised as part of an asset's costs.

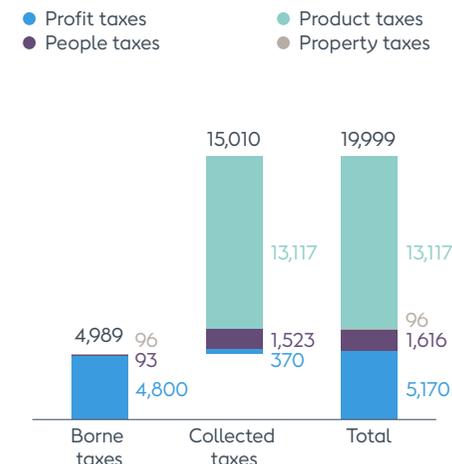
### Total global taxes that we paid in 2019

● Profit taxes	These include taxes on company profits that are borne (such as corporate income tax) and collected (such as withholding tax on payments to third parties). In 2019, Ørsted paid DKK 4,800 million in borne profit taxes and DKK 370 million in collected profit taxes. The collected profit taxes relate to withholding tax on dividends paid to Ørsted's shareholders.
● People taxes	Taxes on employment, both borne and collected (including income tax and social security tax payments). In 2019, Ørsted paid DKK 93 million in borne people taxes and DKK 1,523 million in collected people taxes.
● Product taxes	Indirect taxes on the production and consumption of goods and services, including VAT and sales tax, custom duties and insurance premium tax. In 2019, Ørsted paid DKK 13,117 million in collected product taxes. Borne product taxes were insignificant in 2019 for this summary.
● Property taxes	Taxes on the ownership, sale, transfer or occupancy of property. In 2019, Ørsted paid DKK 96 million in borne property taxes. Collected property taxes were insignificant in 2019 for this summary.

Total tax contribution, 2019, %

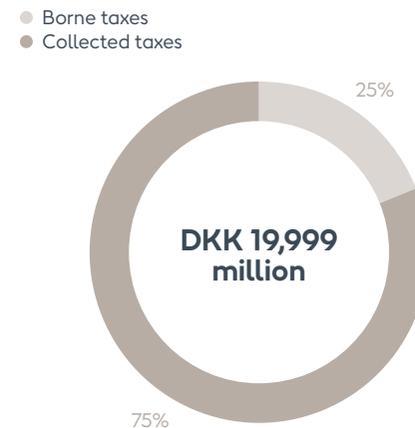


Total tax contribution, 2019, DKKm



Total tax contribution is highly impacted by collection of VAT, sales taxes, duties as well as profit taxes.

Total tax contribution, 2019, %



The chart shows the distribution between borne and collected taxes in 2019.

# 6. Capital structure

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- 127 Interest-bearing debt and FFO
- 129 Equity
- 131 Hybrid capital
- 132 Financial resources
- 134 Financial income and expenses

# 6. Capital structure

An appropriate capital structure is important to ensure we have the ability to raise new debt at attractive terms.

In 2019, we issued new green senior bonds with a total proceed of DKK 10,174 million, consisting of GBP 900 million and NTD 12 billion.

We further issued a new hybrid bond of EUR 600 million (DKK 4,483 million) to refinance our 3015 hybrid bond, of which we redeemed EUR 524 million at the same time.

All new bonds were issued in accordance with our green finance framework.

In the coming years, we expect to raise new debt to partly fund our DKK 200 billion investment programme covering the period 2019-2025.

## Capital structure

To ensure the financial strength to operate in the international energy and capital markets and secure financing on attractive terms, we have defined credit rating and capital structure targets. The overarching capital structure targets are a credit rating of Baa1/BBB+ and an FFO/adjusted net debt credit metric of around 30%.

## Financing policy

The aim of our financing policy is to ensure that hedging needs and the best possible financing arrangements are taken into account, while also minimising financing costs, liquidity and refinancing risks.

The borrowing activities are diversified among various funding sources and maturities. In addition, we have robust financial resources.

Our borrowing activities are primarily consolidated in the parent company, where cash resources are available to the Group companies via an internal bank.

## Cash management

One of the most significant cash management objectives is to secure sufficient and flexible financial resources in relation to our day-to-day operations, investment programme and debt maturity profile.

Therefore, we define minimum financial resources for the coming calendar year. We maintain robust financial resources to limit the company's sensitivity to unrest in the financial markets.

# 31.0%

Funds from operations (FFO) relative to adjusted interest-bearing net debt amounted to 31% at 31 December 2019 against 69% at 31 December 2018.

# 17.2bn

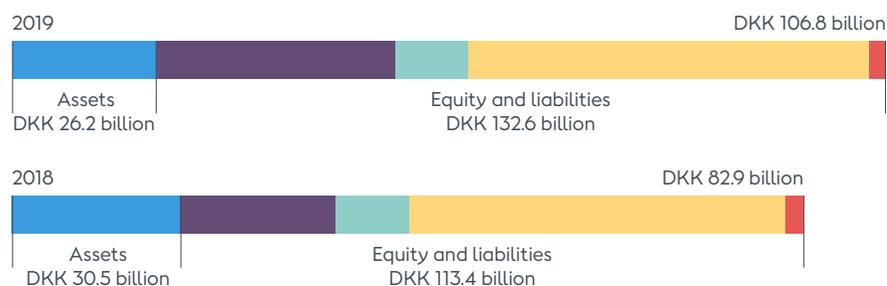
Our interest-bearing net debt totalled DKK 17,230 million at 31 December 2019 against DKK -2,219 million at 31 December 2018.

# 38.2bn

Our financial resources totalled DKK 38,244 million at 31 December 2019 against DKK 37,879 million at 31 December 2018.

## Equity and interest-bearing net debt, DKKbn

- Interest-bearing assets
- Interest-bearing debt
- Hybrid capital
- Equity attributable to shareholders in Ørsted A/S
- Non-controlling interests



# 6.1 Interest-bearing debt and FFO

## Interest-bearing debt and interest-bearing assets DKKm

	2019	2018
<b>Interest-bearing debt:</b>		
Bank debt	3,466	3,582
Bond debt	33,373	23,714
<b>Total bond and bank debt</b>	<b>36,839</b>	<b>27,296</b>
Tax equity liability (see note 4.5)	608	454
Lease liability	5,332	-
Other interest-bearing debt	649	570
<b>Total interest-bearing debt</b>	<b>43,428</b>	<b>28,320</b>
<b>Interest-bearing assets:</b>		
Securities	16,552	25,501
Cash	7,148	3,515
Receivables from associates and joint ventures	-	60
Other receivables	1,781	779
Receivables in connection with divestments	717	684
<b>Total interest-bearing assets</b>	<b>26,198</b>	<b>30,539</b>
<b>Total interest-bearing net debt</b>	<b>17,230</b>	<b>(2,219)</b>



The market value of our bond and bank debt amounted to DKK 39,281 million and DKK 3,526 million, respectively, at 31 December 2019 (2018: DKK 28,048 million and DKK 3,622 million, respectively).

The market value of our bond and bank debt exceeds the carrying amount due to the drop in interest levels since the issuance of the debt.

## Changes in interest-bearing debt, DKKm

	2019	2018
Interest-bearing debt at 1 January	28,320	29,636
Lease debt at 1 January (IFRS 16)	5,224	-
Instalments on loans according to the statement of cash flows	(2,043)	(6,429)
Proceeds from raising of loans according to the statement of cash flows	10,174	-
Debt from acquisition of enterprises	-	4,409
Instalments on leases	(664)	-
Raising of lease debt, etc.	772	-
Change in other interest-bearing debt and tax equity liability	231	570
Hybrid bond reclassified to interest-bearing debt	570	-
Foreign exchange adjustments and amortisation	844	134
<b>Interest-bearing debt at 31 December</b>	<b>43,428</b>	<b>28,320</b>



Due to the implementation of IFRS 16 'Leases' at 1 January 2019, the lease liability is included in interest-bearing debt on the balance sheet in 2019.

## Funds from operations (FFO), DKKm

	2019	2018
<b>EBITDA – business performance</b>	<b>17,484</b>	<b>30,029</b>
Interest expenses, net	(1,312)	(877)
Interest expenses, leasing	(171)	-
Reversal of interest expenses transferred to assets	(344)	(506)
Interest element of decommissioning obligations	(212)	(192)
Calculated interest paid on operating lease obligations	-	(196)
50% of coupon payments on hybrid capital	(279)	(272)
<b>Adjusted interest expenses, net</b>	<b>(2,318)</b>	<b>(2,043)</b>
Reversal of gain (loss) on divestment of assets	101	(14,995)
Reversal of recognised operating lease payment in profit (loss) for the year	-	778
Total current tax	(5,799)	(3,068)
<b>Funds from operations (FFO)</b>	<b>9,468</b>	<b>10,701</b>



FFO is calculated for the continuing operations.

We implemented IFRS 16 'Leases' at 1 January 2019. This has impacted FFO, as the in-substance fixed lease payments are recognised as depreciation of lease assets.

## Adjusted interest-bearing net debt, DKKm

	2019	2018
<b>Total interest-bearing net debt</b>	<b>17,230</b>	<b>(2,219)</b>
50% of hybrid capital	6,616	6,619
Cash and securities not available for distribution, excluding repo loans	1,437	1,583
Present value of operating lease payments	-	4,819
Decommissioning obligations	6,158	5,471
Deferred tax on decommissioning obligations	(866)	(757)
<b>Total adjusted interest-bearing net debt</b>	<b>30,575</b>	<b>15,516</b>



Due to the implementation of IFRS 16 'Leases' at 1 January 2019, the lease liability is included in 'Total interest-bearing net debt' in 2019.

## Funds from operations (FFO)/ adjusted interest-bearing net debt, %

	2019	2018
<b>Funds from operations (FFO)/ adjusted interest-bearing net debt</b>	<b>31.0%</b>	<b>69.0%</b>

### Interest-bearing net debt

Interest-bearing net debt totalled DKK 17,230 million at the end of 2019, an increase of DKK 19,449 million relative to 2018. The increase in interest-bearing net debt consists of an increase in interest-bearing debt of DKK 15,108 million and a decrease in interest-bearing assets of DKK 4,341 million.

In May 2019, we repaid the remaining outstanding amount EUR 280 million (DKK 2,092 million) on our bonds issued in May 2009.

In May 2019, we also issued a total of GBP 900 million (DKK 7,684 million) in new green bonds, split on three separate issues:

- GBP 350 million (DKK 2,988 million), 2.125% interest, maturing in May 2027.
- GBP 300 million (DKK 2,561 million), 2.5% interest, maturing in May 2033.
- GBP 250 million (DKK 2,135 million), interest of CPI+0.375%, maturing in May 2034.

In November, we issued a total of NTD 12 billion (DKK 2,653 million) in new green bonds, split on two separate issues:

- NTD 8 billion (DKK 1,769 million), 1.5% interest, maturing in November 2034.
- NTD 4 billion (DKK 884 million), 0.92% interest, maturing in November 2026.

### Rating

We have a corporate credit rating of BBB+/Baa1, stable outlook, from Standard & Poor's, Moody's and Fitch, which is in line with our target. FFO/adjusted interest-bearing net debt was 31% in 2019, in line with our target.

### Loan arrangements

At 31 December 2019, we had loan obligations totalling DKK 1,861 million (2018: DKK 1,964 million) to the European Investment Bank and the Nordic Investment Bank. The loans are recognised in the balance sheet under bank debt. The loans offered by these multilateral financial institutions include loans to co-fund infrastructure and energy projects on favourable terms and with maturities exceeding those normally

available in the commercial banking market. In connection with these loans, the Group may be met with demands for repayment or collateral in the event of the Danish state holding less than 50% of the share capital or voting rights in Ørsted A/S (change of control), or for repayment in the event of Moody's or S&P's downgrading our rating to Baa3 or BBB- or below, respectively.

### Credit facilities

Furthermore, we had non-cancellable credit facilities of DKK 15,990 million at 31 December 2019 (2018: DKK 10,447 million) with a number of Scandinavian, international and local banks in Taiwan. In connection with these credit facilities, we may be met with demands for cancellation and repayment of any drawn amount in the event of players other than a group consisting of the Danish state and Danish power distribution companies controlling more than 50% of the share capital or voting rights in Ørsted A/S, or in the event of the Danish state ceasing to hold at least 20% of the share capital. Our financing agreements are not subject to any other unusual terms or conditions.

### Accounting policies

Bond debt, bank debt and other payables are recognised at inception at market value (typically proceeds received) net of transaction costs incurred. In subsequent periods, the liabilities are measured at amortised cost, so that the difference between the cost (proceeds) and the nominal value is recognised in profit (loss) for the year as interest expenses over the term of the loan, using the effective interest rate method.

Financial liabilities are classified as current, unless the Group has an unconditional right to defer settlement of the liability to at least one year after the balance sheet date.

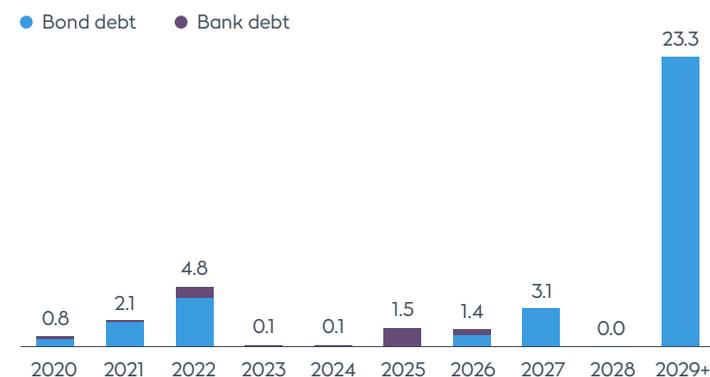
The market value of issued bonds has been determined as the market value at 31 December (level 1 – quoted prices).

The market value of bank loans has been determined as the present value of expected future instalments and interest payments using the Group's current interest rate on loans as the discount rate (level 2 – observable inputs).

### Senior bonds issued at 31 December 2019

Million	Outstanding amount		Coupon (%)	Time of issue	Maturing	Quoted in
	Currency	Issued				
EUR	272	2,033	4.875	16 Dec. 2009	16 Dec. 2021	London
EUR	517	3,863	2.625	19 Sep. 2012	19 Sep. 2022	London
EUR	750	5,604	1.500	24 Nov. 2017	26 Nov. 2029	London
GBP	350	3,087	2.125	16 May 2019	17 May 2027	Luxembourg
GBP	750	6,614	4.875	12 Jan. 2012	12 Jan. 2032	London
GBP	300	2,646	2.500	16 May 2019	16 May 2033	Luxembourg
GBP	250	2,205	CPI+0.375	16 May 2019	16 May 2034	Luxembourg
GBP	500	4,409	5.750	9 Apr. 2010	9 Apr. 2040	London
NTD	8,000	1,777	1.500	19 Nov. 2019	19 Nov 2034	Taipei
NTD	4,000	888	0.920	19 Nov. 2019	19 Nov 2026	Taipei

### Maturity profile, DKKbn



In addition to senior bonds, we have issued a number of hybrid bonds; see note 6.3 'Hybrid capital'.



In 2020, we have an instalment on a bank loan and repayment of the remaining 3013 hybrid bond.

## 6.2 Equity

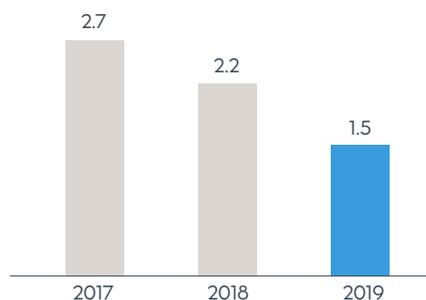
### Share capital

Ørsted's share capital is DKK 4,203,810,800 (2018: 4,204 million), divided into shares of DKK 10. The share capital is unchanged from last year. No shares are subject to special rights or restrictions on voting rights. All shares are fully paid up.

### Treasury shares

To secure our share programme, we acquired additional treasury shares in May 2019. The total portfolio of treasury shares consists of 395,619 shares at 31 December 2019 (2018: 335,904), corresponding to 0.1% of the share capital.

### Dividend yield, %



The graph shows the proposed dividends in relation to the closing price for an Ørsted share on the last trading day of the year.

### Dividends

The Board of Directors recommends that dividends of DKK 4,414 million (2018: DKK 4,099 million) be paid for the financial year, corresponding to DKK 10.50 per share (2018: DKK 9.75 per share). The proposed dividends correspond to a dividend yield of 1.5% (2018: 2.2%), calculated on the basis of the closing price for an Ørsted share on the last trading day of the year.

### Owners in Ørsted

The Danish state is the principal shareholder with an ownership interest of 50.1%. In addition, SEAS-NVE also has significant ownership interests. See note 16 'Ownership information' in the parent company's financial statements.



Asnæs power plant, Kalundborg, Denmark.

Earnings per share, DKKm	2019		2018	
	Business performance	IFRS	Business performance	IFRS
Profit (loss) for the year from continuing operations	6,100	7,291	19,486	18,266
Interest and costs, hybrid capital owners of Ørsted A/S	(675)	(675)	(425)	(425)
Non-controlling interests	(54)	(54)	(25)	(25)
<b>Ørsted's share of profit (loss) for the year from continuing operations</b>	<b>5,371</b>	<b>6,562</b>	<b>19,036</b>	<b>17,816</b>
Profit (loss) for the year from discontinued operations	(56)	(56)	10	10
<b>Ørsted's share of profit (loss) for the year from discontinued operations</b>	<b>(56)</b>	<b>(56)</b>	<b>10</b>	<b>10</b>
('000)				
Average number of outstanding shares	420,080	420,080	420,139	420,139
Dilutive effect of share programme	408	408	466	466
<b>Average number of outstanding shares, diluted</b>	<b>420,488</b>	<b>420,488</b>	<b>420,605</b>	<b>420,605</b>
(DKK)				
<b>Profit (loss) per share</b>				
From continuing operations	12.8	15.6	45.3	42.4
From discontinued operations	(0.1)	(0.1)	0.0	0.0
<b>Total profit (loss) per share</b>	<b>12.7</b>	<b>15.5</b>	<b>45.3</b>	<b>42.4</b>



The table shows earnings per share distributed on continuing and discontinued operations. Diluted profit (loss) per share corresponds to profit (loss) per share, as the dilutive effect of the share programme is 0.1% of the share capital (2018: 0.1% of the share capital).

	Foreign currency translation reserve	Hedging reserve <sup>1</sup>				Total reserves
		Hedging of net investments	Hedging of revenue	Hedging of divestments	Hedging of interest	
<b>Reserves 2019, DKKm</b>						
Reserves at 1 January 2019	(1,906)	512	(97)	(40)	(296)	(1,827)
Exchange rate adjustments	2,528	-	-	-	-	2,528
Value adjustments of hedging	-	(1,907)	1,641	(172)	(12)	(450)
<b>Value adjustments transferred to:</b>						
Revenue	-	-	49	219	-	268
Financial income and expenses	-	-	-	-	88	88
<b>Tax:</b>						
Tax on hedging and currency adjustments	(454)	419	(134)	(10)	(15)	(194)
<b>Movement in comprehensive income for the year</b>	<b>2,074</b>	<b>(1,488)</b>	<b>1,556</b>	<b>37</b>	<b>61</b>	<b>2,240</b>
<b>Total reserves at 31 December</b>	<b>168</b>	<b>(976)</b>	<b>1,459</b>	<b>(3)</b>	<b>(235)</b>	<b>413</b>

<sup>1</sup> Costs of hedging related to basis spread on currency swaps included in hedging reserve amount to DKK 94 million (2018: 183 million).

#### Reserves 2018, DKKm

Reserves at 1 January 2018	(1,825)	454	10	304	(467)	(1,524)
Exchange rate adjustments	(388)	-	-	-	-	(388)
Value adjustments of hedging	-	401	(137)	(1,054)	84	(706)
<b>Value adjustments transferred to:</b>						
Revenue	-	-	-	(301)	-	(301)
Other operating income	259	(326)	-	931	-	864
Financial income and expenses	-	-	-	-	135	135
<b>Tax:</b>						
Tax on hedging and currency adjustments	48	(17)	30	80	(48)	93
<b>Movement in comprehensive income for the year</b>	<b>(81)</b>	<b>58</b>	<b>(107)</b>	<b>(344)</b>	<b>171</b>	<b>(303)</b>
<b>Total reserves at 31 December</b>	<b>(1,906)</b>	<b>512</b>	<b>(97)</b>	<b>(40)</b>	<b>(296)</b>	<b>(1,827)</b>



#### Foreign currency translation reserve

The foreign currency translation reserve comprises:

- exchange rate adjustments arising on translation of the financial statements of foreign entities with a currency that is not the Group's functional currency
- exchange rate adjustments relating to loans that form part of our net investment in such entities
- exchange rate adjustments relating to hedging transactions on our net investment in such entities.

On realisation or partial realisation of the net investment, the exchange rate adjustments are recognised in profit (loss) for the year if a foreign exchange gain (loss) is realised by the divested entity. The foreign exchange gain (loss) is transferred to the item in which the gain (loss) is recognised.

#### Hedging reserve

The hedging reserve covers:

- hedging of net investments in foreign operations
- cash flow hedging of currency risks, inflation risks associated with revenue and power price risk
- cash flow hedging of interest expenses and the currency risk associated with the construction of offshore wind farms.

#### Deferred costs of hedging

Changes in the basic spread on currency swaps and time value of options are included in deferred costs of hedging.

#### Share premium reserve

Retained earnings include the share premium reserve of DKK 21,279 million (2018: 21,279 million), representing the excess of the amount of subscribed-for share capital over the nominal value of these shares in connection with capital injections.

## 6.3 Hybrid capital

Hybrid bonds	Due in 3013	Due in 3015	Due in 3017	Due in 3019
Type	Subordinate to other creditors	Subordinate to other creditors	Subordinate to other creditors	Subordinate to other creditors
Carrying amount	DKK 5,148 million	DKK 570 million	DKK 3,668 million	DKK 4,416 million
Financial classification	Equity	Interest-bearing debt	Equity	Equity
Notional amount	EUR 700 million (DKK 5,230 million)	EUR 76 million (DKK 570 million)	EUR 500 million (DKK 3,736 million)	EUR 600 million (DKK 4,483 million)
Issued	June 2013	May 2015	November 2017	December 2019
Maturing	June 3013	November 3015	November 3017	December 3019
Quoted in	Luxembourg	Luxembourg	Luxembourg	Luxembourg
First redemption date at par	26 June 2023	7 February 2020	24 November 2024	9 December 2027
Interest	For the first ten years, the coupon is fixed at 6.25% p.a., after which it is adjusted every five years with the five-year euro swap + 4.75 percentage points from 2023-2043 and + 5.5 percentage points after 2043	Coupon for the first 5.5 years is fixed at 3.0% p.a., after which it is adjusted every five years with the five-year euro swap + 2.819 percentage points from 2020, + 3.069 percentage points from 2025, and + 3.819 percentage points from 2040	Coupon for the first seven years is fixed at 2.25% p.a., after which it is adjusted every five years with the five-year euro swap + 1.899 percentage points from 2024, + 2.149 percentage points from 2029, and + 2.899 percentage points from 2044	Coupon for the first eight years at 1.75% p.a., after which it is adjusted every five years with the five-year euro swap + 1.952 percentage points from 2027, + 2.02 percentage points from 2032, and + 2.952 percentage points from 2047
Deferral of interest payment	Optional	Optional	Optional	Optional

We have issued hybrid capital which is subordinate to our other creditors. The purpose of issuing hybrid capital is to strengthen our capital base and fund our investments. We have issued EUR hybrid bonds with a total nominal value of EUR 1,876 million (DKK 14,019 million).

In 2019, we have issued a new hybrid bond at a nominal value of EUR 600 million which is classified as equity. In addition, we redeemed EUR 524 million of the hybrid bond maturing in November 2020. The remaining EUR 76 million is to be settled on 7 February 2020.

This hybrid bond is therefore classified as interest-bearing debt as of 31 December 2019.

For hybrid bonds, we may defer coupon payments to bond holders and ultimately decide not to pay them at maturity. Deferred coupon payments become payable, however, if we decide to pay dividends to our shareholders or pay coupon payments on other hybrid bonds.

As a consequence of the special terms regarding the hybrid bonds, these are classified as equity, and therefore coupon payments are recognised in equity.

### Accounting policies

Hybrid capital comprises issued bonds that qualify for treatment in accordance with the rules on compound financial instruments due to the special characteristics

of the bonds. The notional amount, which constitutes a liability, is recognised at present value, and equity has been increased by the difference between the net proceeds received and the present value of the discounted liability. Accordingly, any coupon payments are accounted for as dividends, which are recognised directly in equity at the time the payment obligation arises. This is because the coupon is discretionary, and therefore any deferred coupon lapses upon maturity of the hybrid capital. Consequently, coupon payments do not have any effect on profit (loss) for the year.

The part of the hybrid capital that is accounted for as a liability is measured at amortised cost. However, as the carrying amount of this component amounted to nil on initial recognition and due to the 1,000-year term of the hybrid capital, amortisation charges will only have an impact on profit (loss) for the year towards the end of the 1,000-year term of the hybrid capital. Coupon payments are recognised in the statement of cash flows in the same way as dividend payments within financing activities.

On redemption of the hybrid capital, the payment will be distributed between liability and equity, applying the same principles as used when the hybrid capital was issued. This means that the difference between the payment on redemption and the net proceeds received on issue is recognised directly in equity, as the debt portion of the existing hybrid issues will be nil during the first part of the life of the hybrid capital.

On the date when the Board of Directors decides to exercise an option to redeem hybrid capital, the part of the hybrid capital that will be redeemed will be reclassified to loans and borrowings. The reclassification will be made at the market value of the hybrid capital at the date the decision is made. Coupon payments and exchange rate adjustments following the reclassification to loans and borrowings will be recognised in profit (loss) for the year as financial income or expenses.

## 6.4 Financial resources

Financial resources at 31 December 2019 amount to DKK 38,244 million (2018: 37,879 million). The change in financial resources is due an increase in cash and undrawn credit facilities of DKK 3,796 million and DKK 5,543 million, respectively; partially offset by a decrease of DKK 8,974 million in securitites. The increase in undrawn credit facilities relates to establishment of a NTD 25 billion facility in Taiwan.

### Cash, cash equivalents and securities

Securities are a key element in our financial resources, and therefore investments are mainly made in liquid AAA-rated Danish mortgage bonds and to a lesser extent in other bonds. Most of the securities qualify for repo transactions with the Danish central bank, 'Danmarks Nationalbank'.

Securities not available for use comprise securities pledged as collateral for:

- insurance-related provisions: DKK 397 million at 31 December 2019 (2018: DKK 399 million)
- trading in financial instruments: DKK 360 million at 31 December 2019 (2018: DKK 333 million).

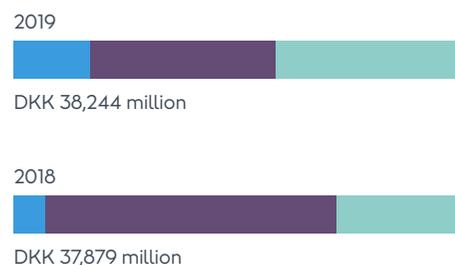
At 31 December 2019, we had received cash collateral in the amount of DKK 1,439 million (2018: DKK 852 million) concerning the positive market value of derivatives.

Cash not available for use comprises:

- collateral for insurance-related provisions: DKK 277 million (2018: DKK 264 million)
- collateral for US power purchase agreements: DKK 132 million (2018: DKK 246 million)
- collateral for other transactions: DKK 280 million (2018: DKK 342 million).

### Financial resources, DKK million

- Cash, available
- Securities, available
- Undrawn, non-cancellable credit facilities



Cash and cash equivalents, securities, DKKm	2019	2018
Cash, available	6,459	2,663
<b>Total cash and cash equivalents at 31 December, cf. statement of cash flows</b>	<b>6,459</b>	<b>2,663</b>
<b>Cash can be specified as follows:</b>		
Cash, available	6,459	2,663
Cash, not available for use	689	852
<b>Total cash at 31 December, cf. balance sheet</b>	<b>7,148</b>	<b>3,515</b>
<b>Securities can be specified as follows:</b>		
Securities, available	15,795	24,769
Securities, not available for use	757	732
<b>Total securities at 31 December</b>	<b>16,552</b>	<b>25,501</b>



The table shows our cash and securities divided into available and not available for use.

### Overview of securities, DKKm

Maturities	2019		2018	
	Fixed rate	Floating rate	Fixed rate	Floating rate
0-2 years	929	932	3,178	1,086
2-5 years	7,309	3,400	15,073	3,460
After 5 years	3,982	-	2,671	33
<b>Total carrying amount</b>	<b>12,220</b>	<b>4,332</b>	<b>20,922</b>	<b>4,579</b>



The table shows our securities split into maturities and fixed or floating interest rates.

Maturity analysis of financial liabilities 2019, DKKm	2020	2021	2022-2023	After 2023	2019
Bank loans and issued bonds:					
- Notional amount	804	2,169	4,854	29,349	37,176
- Interest payments	1,076	1,056	1,819	9,089	13,040
Trade payables	10,957	-	-	-	10,957
Derivatives	5,226	1,814	1,663	495	9,198
Tax equity debt	58	51	64	1,133	1,306
Other payables	4,940	-	-	-	4,940
Liabilities relating to assets classified as held for sale	1,287	-	-	-	1,287
<b>Total payment obligations</b>	<b>24,348</b>	<b>5,090</b>	<b>8,400</b>	<b>40,066</b>	<b>77,904</b>

Maturity analysis of financial liabilities 2018, DKKm	2019	2020	2021-2022	After 2022	2018
Bank loans and issued bonds:					
- Notional amount	2,213	235	6,917	18,179	27,544
- Interest payments	1,003	873	1,654	8,074	11,604
Trade payables	13,093	-	-	-	13,093
Derivatives	6,066	1,626	133	414	8,239
Tax equity debt	66	59	143	334	602
Other payables	5,327	-	-	-	5,327
Liabilities relating to assets classified as held for sale	812	-	-	-	812
<b>Total payment obligations</b>	<b>28,580</b>	<b>2,793</b>	<b>8,847</b>	<b>27,001</b>	<b>67,221</b>



The Group's cash needs in respect of its financial loans and borrowings are shown in the table on the left. The maturity analysis was determined on 31 December.

The maturity analysis is based on undiscounted cash flows, including estimated interest payments. Interest payments are based on market conditions and interest-rate hedging entered into on 31 December.

The maturity analysis does not include hybrid capital classified as equity. At 31 December 2019, we had issued hybrid capital with a notional amount totalling DKK 13,449 million due in 3013 (DKK 5,230 million), 3017 (DKK 3,736 million) and 3019 (DKK 4,483 million), respectively.

The maturity analysis for leasing is part of note 8.2 'Leases'.

#### Accounting policies

Securities comprise bonds that are monitored, measured and reported at market value on an on-going basis in conformity with the Group's investment policy. Changes in market value are recognised in profit (loss) for the year as financial income and expenses. Purchase and sale of securities are recognised at the settlement date.

For listed securities, market value equals the market price, and for unlisted securities, market value is estimated based on generally accepted valuation methods and market data.

Divested securities where repurchase agreements (repo transactions) have been made at the time of sale are recognised in the balance sheet at the settlement date as if the securities were still held. The amount received is recognised as a liability, and the difference between the selling price and the purchase price is recognised in profit (loss) for the year over the term as interest. The return on the securities is recognised in profit (loss) for the year.

## 6.5 Financial income and expenses

### Net financial income and expenses, DKKm

	2019	2018
Interest expenses, net	(1,312)	(877)
Interest expenses, leasing	(171)	-
Interest element of provisions, etc.	(428)	(408)
Tax equity partner's contractual return	(307)	(44)
Value adjustments of derivatives, net	(181)	(64)
Exchange rate adjustments, net	1,038	285
Value adjustments of securities, net	147	(176)
Other financial income and expenses	79	6
<b>Net financial income and expenses</b>	<b>(1,135)</b>	<b>(1,278)</b>

### Financial income and expenses, DKKm

	2019	2018
Interest income from cash, etc.	65	62
Interest income from securities at market value	226	264
Capital gains on securities at market value	161	119
Foreign exchange gains	3,020	2,033
Value adjustments of derivatives	4,185	670
Other financial income	61	31
<b>Total financial income</b>	<b>7,718</b>	<b>3,179</b>
Interest expenses relating to loans and borrowings, etc.	(1,947)	(1,710)
Interest expenses transferred to assets	344	506
Interest expenses, leasing	(171)	-
Interest element of provisions	(289)	(280)
Tax equity partner's contractual return	(307)	(44)
Capital losses on securities at market value	(24)	(304)
Foreign exchange losses	(2,219)	(1,978)
Value adjustments of derivatives	(4,069)	(466)
Other financial expenses	(171)	(181)
<b>Total financial expenses</b>	<b>(8,853)</b>	<b>(4,457)</b>
<b>Net financial income and expenses</b>	<b>(1,135)</b>	<b>(1,278)</b>



The table shows net financial income and expenses, corresponding to our internal reporting.

Exchange rate adjustments and hedging contracts entered into to hedge currency risks are presented net under the item 'Exchange rate adjustments, net'.

In 2019, interest expenses, net were affected by the reversal of previously recognised interest expenses regarding the provision related to the Elsam competition case (DKK 276 million) and interest expenses related to payable tax.



The implementation of IFRS 16 as of 1 January 2019 has caused the interest element regarding lease liabilities to be recognised as financial expenses, see note 1.3 for further details.

Exchange rate adjustments of currency hedging are recognised in revenue and cost of sales with a loss of DKK 1,943 million (2018: a gain of DKK 268 million).

Borrowing costs transferred to property, plant and equipment under construction are calculated at the weighted average effective interest rate for general borrowing. This amounted to 4.0% in 2019 (2018: 4.1%).

### Accounting policies

Market value adjustments of interest rate and currency derivatives that have not been entered into for hedging purposes are presented as financial income or expenses.

The accounting policy for the tax equity partner's contractual return is described in note 4.5 'Tax equity liabilities'.

# 7. Risk management

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# 7. Risk management

Market and credit risks are a natural part of our business activities and a precondition for being able to create value. Through risk management, risks are reduced to an acceptable level.

## Currency and energy exposures

Our forward-looking energy and currency exposures from production, sales, investments and divestments are presented in the figures to the right.

In April 2019, we took final investment decision on an offshore wind farm located in Taiwan and thereby increased our exposure towards NTD that, however, remains an insignificant risk for the period 2020-2024.

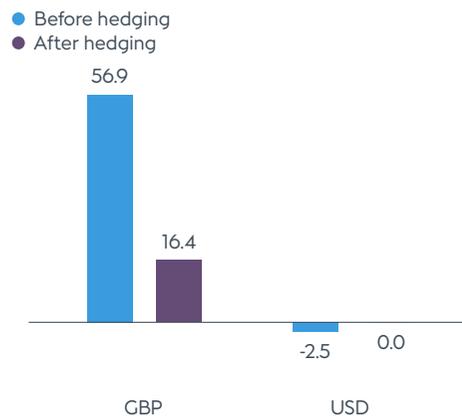
## Trading portfolio

We have a limited trading portfolio, the main purpose of which is to optimise the execution of hedging contracts and gains from short-term energy price fluctuations.

In 2019, we expanded our trading activities into the US energy market with the setup of a trading desk in Chicago to exploit opportunities from our growing activities in the US.

The trading activities comply with the mandates approved by the Board of Directors. Read more in note 7.3 'Energy trading portfolio'.

Currency exposure, GBP 2020-2024, USD 2020-2034, DKKbn

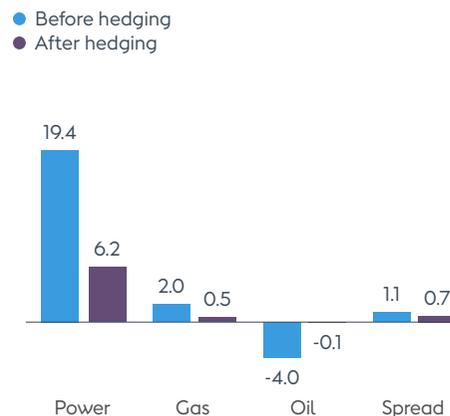


For USD, we manage our risk as a natural time spread between front-end capital expenditures and long-end revenue between 2020-2034.

NTD is not a material risk for the period 2020-2024.

We do not deem EUR to constitute a risk, as we expect that Denmark will maintain its fixed exchange-rate policy.

Energy exposure 2020-2024 DKKbn



Our energy exposures are significantly reduced due to hedging.

# +0.4bn

The value of our energy and currency hedging instruments at 31 December 2019 was a gain of DKK 441 million (2018 DKK -3,032 million), which will increase business performance EBITDA in a future period.

# 7.1 Market risks

## Market risks and market risk management

Our most significant market risks relate to:

- energy prices
- foreign exchange rates
- interest and inflation.

We manage market risks to protect Ørsted against market price volatility and ensure stable and robust financial ratios that support our growth strategy as well as protect the value of our assets.

In the short- to medium-term horizon, we primarily hedge future prices using derivatives to reduce cash flow fluctuations after tax. Minimum hedging levels are determined by the Board of Directors. In the first two years, we are almost fully hedged. The degree of hedging is declining in subsequent years due to:

- reduced certainty about long-term production volumes
- increasing hedging costs in the medium to long term; both spread costs and cost of collateral,
- adverse impact from collateral, potentially tying up large amounts of capital if hedging contracts become unfavourable.

Our long-term market risk picture is determined by our strategic asset portfolio. Our power exposure is partly mitigated through long-term power purchasing agreements (PPA), and we use debt to manage currency, interest rate and inflation risk.

## Energy price risks

Our consolidated energy exposure after hedging for the years 2020-2024 can be summarised as shown in the table.

Risk after hedging DKKbn	Effect of price change	
	+10%	-10%
Power: 6.2 sales position	+0.6	-0.6
Gas: 0.5 sales position	+0.0	-0.0
Oil: 0.1 purchase position	-0.0	+0.0
Spread: 0.7 sales position	+0.1	-0.1

A 10% increase in the power price in 2020-2024 will therefore result in a gain of DKK 0.6 billion in the period, all else remaining unchanged.

## Currency risks

Our consolidated currency exposure after hedging for the years 2020-2024 can be summarised as shown in the table.

Risk after hedging DKKbn	Effect of price change	
	+10%	-10%
GBP: 16.4 sales position	+1.6	-1.6
NTD: 0.3 sales position	+0.0	-0.0
USD: 0.0 purchase position	-0.0	+0.0

Our main currency exposure stems from offshore wind farms in the UK, but activities in the US and Taiwan have increased our USD and NTD exposure.

In general, highly certain cash flows in a foreign currency is hedged within the first five years.

Exchange rates related to energy prices in foreign currencies are not hedged until the energy price is hedged. Hence, the GBP exchange rate associated with power generation in the UK is not hedged until the GBP power price is hedged.

Cash flows that relate to fixed tariffs and guaranteed minimum prices from offshore wind farms in the UK deviate from the main principle. Hedging of these, less operating expenses, is based on a declining level of hedging over the five-year risk management horizon. The target is to hedge 100% of the risk in year 1, declining by 20 percentage points each year, to 20% in year 5.

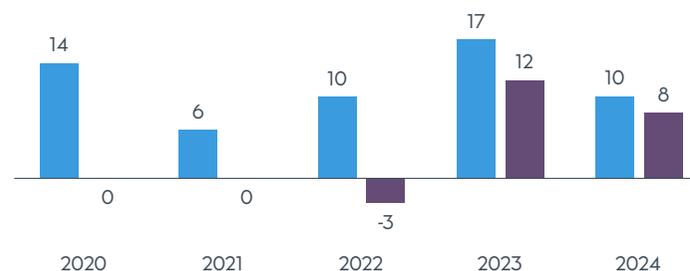
Our GBP exposure amounted to DKK 16.4 billion after hedging for the years 2020-2024. This unhedged GBP exposure stems from subsidised GBP income less operational expenditures.

The GBP exchange rate for hedges impacting EBITDA in 2020 and 2021 is hedged at an average exchange rate of DKK/GBP 8.4 and 8.2, respectively.

For our USD and NTD exposures from new markets, we do not yet have an existing portfolio against which we can net construction payments. Therefore, we seek to hedge the price risk in the near term, while simultaneously hedging a similar, but opposite, exposure in the longer term. Our EUR risk is subject to continuous assessment, but is generally not hedged, as we believe that Denmark will maintain its fixed-exchange-rate policy.

## GBP exposures, DKKbn

- Before hedging
- After hedging



The graph shows our GBP exposure before and after hedges from:

- divestment and investment
- green certificates
- hedged energy.

**Interest and inflation risk**

To a certain extent, our medium- to long-term earnings can be expected to follow the development in consumer and market prices, thereby protecting the real value of our assets and equity. This is the case for earnings related to our UK wind farms.

However, we are exposed to inflation risk on projects with fixed nominal cash flows, as an increase in inflation will erode the expected real value of the revenue. This is the case for:

- fixed nominal subsidies from offshore wind assets in Denmark, Germany, the Netherlands, Taiwan and the US
- fixed nominal power purchase agreements on onshore wind assets in the US.

The close relationship between inflation and interest rates protects our equity value against changes in interest rates to some extent. We manage interest rate and inflation risk by matching the sensitivity of our assets with the sensitivity of our debt. The share of our debt which is fixed in nominal terms partially offsets the inflation risk. We have fixed the inflation for part of the future revenue from our UK offshore wind farms at an average of 3.6% for the period 2024-2037 to create a better match with our fixed-rate UK debt.

**Offshore**

Earnings from power generation from offshore wind farms mainly comprise:

- fixed tariffs in Denmark, Germany, the Netherlands, the UK (CfD wind farms), the US and Taiwan,
- guaranteed minimum prices for green certificates in the UK (ROC wind farms)

- sale of power at market price from our out-of-subsidy wind farms or ROC wind farms in the UK.

At the end of 2019, such fixed tariffs and guaranteed minimum prices cover approx 87% of the expected income from offshore wind farms for the period 2020-2024. The remaining price exposure concerns sales of power at market price in the UK and Denmark.

**Onshore**

Earnings from power generation from onshore wind farms in the US comprise tax incentives, such as PTCs or ITCs, and power. The tax incentives have a fixed value. However, there is a price risk associated with the power which is reduced by entering into power purchase agreements (PPAs). The current PPAs cover approx 72% of the expected generation, spanning 12-15 years from the commissioning of the wind farm. The PPAs are entered into with large corporates or financial institutions.

**Markets & Bioenergy**

Our CHP plant portfolio consists of biomass and fossil-fuelled plants in Denmark. The CHP plants generate both heat and power. Concurrently with the biomass conversion of our CHP plants, a larger share of the related earnings will be coming from our heat generation. Heat generation does not give rise to price risks as the associated costs are covered by the heat customers. However, heat generation often entails a price risk for power, as heat and power are generated simultaneously to a large extent.

The profitability of power generation is determined by the difference between the selling price of power and the purchase price of fuel

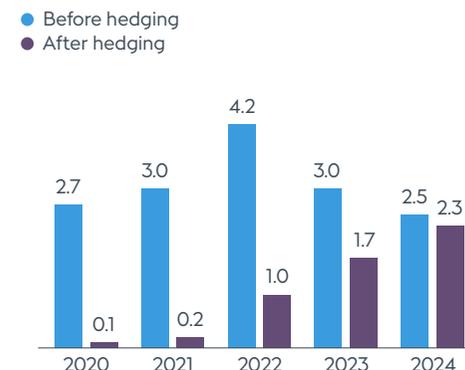
and carbon emissions allowances. For our coal-based power generation, we secure profitability by selling power and buying fuel and carbon emissions allowances, while for biomass-based power generation, we secure profitability by buying biomass at fixed prices and hedging the associated power generation. At the end of 2019, 50% of the expected power generation from our power stations in 2020 was hedged. The total net risk associated with the power stations' power generation for the 2020-2024 period is DKK 0.7 billion after hedging.

Our price risks in Markets arises from the purchase and sale of power and gas. The price risks associated with the purchase and sale of gas result from differences in the indexing of sales and purchase prices. Our largest gas purchase contracts include the option of renegotiating the contract price if it no longer reflects market conditions. We have completed most of these renegotiations in recent years; as a result, the contract prices have largely been indexed to pure gas prices and not to oil prices, as was previously the case. Therefore, we are less sensitive to differences in the oil and gas price development than before. The price risks associated with power purchases and sales are given by the difference between the purchase and sales prices. The price risk relates primarily to timing differences between purchases and sales and the related hedges and is therefore considered to be limited.

**Principles for estimating exposures**

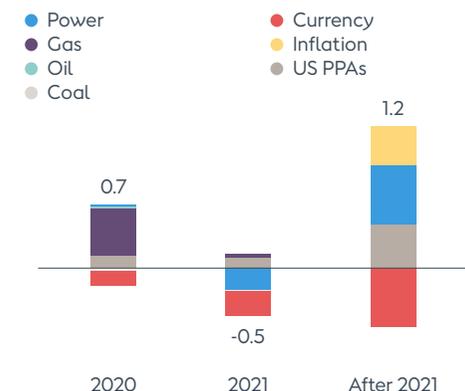
Exposure is calculated as the expected production (or net purchase/sale) times the forward price for the respective years. In addition, the exposure is determined on the basis of the expected exposure after renegotiations of oil-indexed gas purchase contracts.

**Offshore's power price exposure, DKKbn**



The table shows the exposure from Offshore's generation of power before and after hedges.

**Expected value for recognition in business performance EBITDA, DKKbn**



The table shows the time of the transfer of the value of hedging contracts in business performance EBITDA for both business performance and IFRS hedges together with deferred revenue from US power purchase agreements; see note 1.5 'Business performance'.

## 7.2 Hedge accounting and economic hedging

Note	Overview of the Group's derivative positions, DKKm	2019		2018	
		Contractual principal amount	Market value	Contractual principal amount	Market value
	<b>Recognised with EBITDA impact</b>				
1.5, 7.2	Economic hedging, currency	30,744	(1,509)	29,684	712
1.5, 7.2	Economic hedging, energy	19,026	617	27,927	(3,806)
	Hedging of cash flows, inflation	17,373	585	15,547	(69)
	Hedging of cash flows, energy	6,988	545	-	-
7.2	Hedging of cash flows, currency	243	(108)	12,434	22
7.3	Trading portfolio	9,271	1,148	6,509	313
	<b>Total</b>	<b>83,645</b>	<b>1,278</b>	<b>92,101</b>	<b>(2,828)</b>
	<b>Recognised in financial income and expenses</b>				
7.2	Hedging of fair value, currency	25,825	43	10,388	(761)
7.2	Hedging of cash flows, currency and interest	3,890	(130)	4,323	(216)
	Other currency derivatives	8,052	504	3,798	436
	Other interest derivatives	4,431	(85)	6,588	(39)
	<b>Total</b>	<b>42,198</b>	<b>332</b>	<b>25,097</b>	<b>(580)</b>
	<b>Recognised in other line items</b>				
7.2	Hedging of cash flows, energy and currency (gain/loss on divestment of enterprises)	10,487	318	-	-
7.2	Hedging of fair value, currency (discontinued)	999	(50)	2,285	(106)
7.2	Hedging of net investments (OCI)	46,717	(1,096)	27,839	888
	<b>Total</b>	<b>184,046</b>	<b>782</b>	<b>147,322</b>	<b>(2,626)</b>



The table shows the Group's derivatives and commercial contracts according to the type of accounting treatment and the items affected:

- Economic hedging comprises hedging of energy-related risks and related currency risks. These hedging contracts are treated as hedge accounting in accordance with the business performance principle (see note 1.5 'Business performance' for a detailed description).
- Hedging of cash flows includes hedging of interest rates, inflation, currencies, power prices and market risks related to the divestment of the LNG business.

- Hedging of the market value of securities or currencies comprises hedging of recognised assets or liabilities.
- Hedging of net investments comprises hedging of the currency risk associated with investments in assets located in foreign countries.
- The trading portfolio and other interest and currency derivatives are recognised at market value in the income statement.

The contractual principal amount has been determined as the net position per derivative type.

### Economic hedging and commercial contracts

The purpose of economic hedging is to reduce our risk from generation and sale of energy. Fluctuations in value are expected to be offset by the underlying exposure.

### Accounting policies

#### Economic hedging and commercial contracts

Market value adjustments of financial contracts offered to customers with a view to price hedging and financial instruments that have been entered into to hedge the Group's principal operating activities are recognised as revenue or cost of sales.

Under the business performance principle, economic hedging is accounted for as effective hedging. The resulting market value adjustment is consequently deferred to the period in which the hedged transaction affects results. See note 1.5 'Business performance' for further information.

The contractual principal amount has been determined as net position per derivative type.

Economic hedging and commercial contracts, DKKm	2019		2018	
	Contractual principal amount	Market value	Contractual principal amount	Market value
<b>Energy</b>				
Oil swaps	993	56	2,442	(182)
Gas swaps	-	-	5,717	(412)
Gas options	3,180	770	-	-
Power swaps	10,523	(490)	16,543	(3,267)
Power options	4,193	317	2,900	48
Coal	137	(36)	325	7
<b>Total</b>	<b>19,026</b>	<b>617</b>	<b>27,927</b>	<b>(3,806)</b>
<b>Currency</b>				
Forward exchange contracts	30,744	(1,509)	29,684	712
<b>Total</b>	<b>49,770</b>	<b>(892)</b>	<b>57,611</b>	<b>(3,094)</b>



Economic hedging is accounted for under the business performance principle, see description above.

The market value of DKK -892 million (2018: DKK -3,094 million) will be recognised in business performance profit or loss in a future period.

### Cash flow and fair value hedging

We have entered into forward exchange contracts for the purpose of hedging the currency risk associated with the construction of our partners' share of offshore wind farms.

Forward exchange contracts have also been concluded for the purpose of hedging the currency risk associated with interest payments on loans in GBP.

#### Cash flow hedge accounting 2019, DKKm

	Contractual principal amount	Maturity analysis			Market value		Recognised in comprehensive income	Expected transfers to income statement		
		2020	2021	After 2021	Asset	Liability		2020	2021	After 2021
Revenue (power)	6,988	499	615	5,874	824	(279)	1,021	46	46	929
Revenue (USD)	116	115	1	-	120	(182)	(41)	(41)	-	-
Revenue (UK inflation)	17,373	-	-	17,373 <sup>1</sup>	585	-	585	-	-	585
Divestments (GBP)	127	127	-	-	96	(142)	(4)	(4)	-	-
Divestments (USD)	3,518	433	830	2,255	158	(37)	-	-	-	-
Divestments (oil)	3,442	556	1,013	1,873	74	(142)	-	-	-	-
Divestments (gas)	3,527	503	936	2,088	534	(269)	-	-	-	-
Interest payments (GBP)	2,310	576	664	1,070	37	(43)	43	(42)	1	84
Interest payments (fixed)	1,580	25	29	1,526	-	124	(331)	(59)	(55)	(217)
<b>2018, DKKm</b>		2019	2020	After 2020				2019	2020	After 2020
Revenue (USD)	1,152	214	935	3	-	(55)	(55)	(11)	(42)	(2)
Revenue (UK inflation)	15,547	-	-	15,547 <sup>1</sup>	34	(103)	(69)	-	-	(69)
Divestments (GBP)	11,282	10,733	549	-	113	(36)	(51)	(49)	(2)	-
Interest payments (GBP)	2,721	543	543	1,635	-	(272)	(187)	(99)	(65)	(23)
Interest payments (fixed)	1,602	18	24	1,560	56	-	(193)	(41)	(38)	(114)

<sup>1</sup> The hedge covers inflations risk for the period 2024-2037.

#### Fair value hedge accounting 2019, DKKm

	Contractual principal amount	Maturity analysis			Market value	
		2020	2021	After 2021	Asset	Liability
GBP (sell position)	18,688	(273)	-	18,961	33	(8)
EUR (sell position)	4,483	-	-	4,483	17	-
NTD (sell position)	2,654	-	-	2,654	1	-
USD (buy position)	999	999	-	-	-	(50)
<b>2018, DKKm</b>		2019	2020	After 2020		
GBP (sell position)	5,911	(4,481)	-	10,392	60	(832)
EUR (sell position)	4,477	-	-	4,477	11	-
USD (buy position)	2,285	1,306	979	-	-	(106)

### Ineffectiveness

Ineffectiveness of cash flow and fair value hedging totalled DKK 0 million (2018: DKK 0 million).

### Accounting policies

We primarily use hedge accounting for currency and interest where it is possible to use hedging instruments which hedge the desired risk one-to-one. The GBP exposure, for example, is hedged using GBP forward exchange contracts, GBP swaps or GBP loans. There are thus no significant sources of ineffectiveness. For currency swaps, the basic spread is accounted for according to the cost of the hedging model.

To the extent that a risk needs to be hedged, and if there is no fully effective instrument available in the market, analyses are performed of the expected effectiveness of the hedging instrument before the hedging transaction is concluded. In this case, the ratio between the hedged risk and the hedging instrument may deviate from the one-to-one principle and will be determined as the ratio which most effectively hedges the desired risk.

We recognise changes to the market value of hedging instruments that qualify for recognition as a hedge of future cash flows in other comprehensive income in the hedging reserve. On realisation of the hedged cash flow, the resulting gains or losses are transferred from equity and recognised in the same item as the hedged item. However, on hedging of proceeds from future loans, the resulting gain or loss is transferred from equity over the term of the loan.

When we conclude a hedging transaction, and each time we present financial statements thereafter, we assess whether the hedged exposure and the hedging instrument are still financially correlated. If the hedged cash flows are no longer expected to be realised, the accumulated value change is transferred to profit (loss) for the year.

Changes in the market value of derivatives that are classified as hedges of the fair value of a recognised asset or liability are recognised in profit (loss) for the year together with changes in the value of the hedged asset or liability to the extent of the hedged risk.



As of 1 January 2019, we have started to apply IFRS cash flow hedge accounting on power purchase agreements related to the Onshore business unit. Subsequent to entering into an agreement to divest our LNG business, all hedges related to the period after an expected closing date are reclassified from economic hedging to IFRS cash flow hedges (divestments).



The fair value hedges are related to hedges of loans and receivables in the balance sheet.



# 7.3 Energy trading portfolio

## Trading portfolio

The purpose of our trading portfolio is to:

- optimise hedging contracts
- contribute to increased market insight and
- profit from short-term fluctuations in energy prices.

The trading portfolio consists primarily of positions in power and gas.

In 2019, we expanded our trading activities into the US energy market with the setup of a trading desk in Chicago to exploit opportunities from our growing activities in the US.

The trading portfolio constitutes a smaller part of our total portfolio of derivatives, and the associated risk is limited.

When an economic hedging instrument (business performance hedge) does not fully correspond to the hedged risk, any difference between the hedging contract entered into and the hedged exposure is recognised in the income statement as part of the gain (loss) from the trading portfolio.

## Accounting policies

Market value adjustments of physical and financial contracts relating to energy that are entered into with the purpose of generating gains from short-term price changes are recognised as revenue.

Overview of the Group's trading portfolio, DKKm	2019		2018	
	Contractual principal amount	Market value	Contractual principal amount	Market value
Power swaps and options	7,329	386	5,142	(127)
Gas swaps and options	1,467	720	1,126	308
Oil swaps	141	14	184	182
Coal swaps	5	36	50	(7)
Carbon emission allowances	329	(8)	7	(43)
<b>Total</b>	<b>9,271</b>	<b>1,148</b>	<b>6,509</b>	<b>313</b>

## Market trading mandates

VaR limit in 2019: DKK 70 million	Stress limit in 2019: DKK 400 million	Maximum open positions in trading portfolio
VaR indicates the largest loss in one trading day to a probability of 95%. VaR is based on data for the past 60 trading days with the heaviest weighting being assigned to the most recent trading days.	Stress indicates the largest daily loss we risk sustaining with the given portfolio. Stress is based on data from 1 January 2006 to the present day.	<ul style="list-style-type: none"> <li>– Max. 8TWh of power</li> <li>– Max. 15TWh of gas</li> <li>– Max. 4 million boe of oil</li> <li>– Max. 2 million tonnes of coal</li> <li>– Max. 3 million tonnes of carbon emissions</li> </ul>

## Daily position in the trading portfolio, market trading mandates, DKKm



The graph shows the daily value-at-risk position for the period 2018-2019. The mandates from the Board of Directors and Group Executive Management have not been breached during the period.



The contractual principal amount has been determined as the net position per derivative type.



Trading activities are carried out within mandates approved by the Board of Directors. The mandates comprise a value-at-risk (VaR) mandate and a stress mandate as well as a limit for the maximum positions measured in energy units per product (power, gas, etc.).

## 7.4 Sensitivity analysis of financial instruments

The sensitivity analysis in the table shows the effect of market value changes assuming a relative price change at 31 December 2019.

The effect on profit (loss) before tax comprises financial instruments that remained open at the balance sheet date, and which have an effect on profit (loss) in the current financial year. The effect is broken down by:

- trading portfolio: these contracts will affect profit
- other financial instruments, including economic hedging and commercial contracts: the market value changes of contracts allocated as economic hedges will be offset, in full or in part, by a change in the hedged risk.

Effect on equity before tax comprises financial instruments that remained open at the balance sheet date, and which are value-adjusted directly in equity.

Financial instruments include derivatives as well as receivables and payables in foreign currencies.

The illustrated sensitivities only comprise the impact from our financial instruments.

If the hedged exposure had been included in the sensitivity analysis, the effect of a price change would have been reduced or offset entirely.

### Sensitivity analysis of financial instruments DKKm

Risk	Price change	31 December 2019			31 December 2018		
		Effect on profit (loss) before tax		Effect on equity before tax	Effect on profit (loss) before tax		Effect on equity before tax
		Trading portfolio	Other financial instruments <sup>1</sup>		Trading portfolio	Other financial instruments <sup>1</sup>	
Oil	10%	(423)	106	335	(220)	230	-
	-10%	423	(106)	(335)	220	(230)	-
Gas	10%	(22)	(169)	(328)	12	(511)	-
	-10%	22	169	328	(12)	511	-
Power	10%	540	(1,334)	(827)	73	(2,385)	-
	-10%	(556)	1,350	827	(53)	2,365	-
Coal	10%	(10)	1	-	(33)	(5)	-
	-10%	10	(1)	-	33	5	-
USD	10%	(126)	81	135	(16)	(301)	(115)
	-10%	126	(81)	(135)	16	301	115
GBP	10%	68	(2,539)	119	51	(2,905)	(856)
	-10%	(68)	2,539	(119)	(51)	2,905	856
EUR	10%	(263)	(316)	(316)	(228)	(1,353)	420
	-10%	263	316	316	228	1,353	(420)
Interest	100 basis points	(268)	-	159	(454)	-	161
Inflation	100 basis points	-	-	(1,937)	-	-	(1,770)



<sup>1</sup> Other financial instruments, including derivatives classified as economic hedging, comprise derivatives entered into to hedge future financial risks. The market value changes of these contracts will be offset, in full or in part, by a change in the hedged risk. Also included are commercial contracts recognised at market value.

Net investments and associated hedging of net investments in foreign subsidiaries are not included in the table, as the effect of the sum of the investment and the hedging are considered to be neutral to changes in currencies.

A 10% increase in the currencies hedged in connection with net investments would reduce equity by DKK 4,672 million (2018: DKK -2,784 million).

## 7.5 Credit risks

We are exposed to credit risks from our trading partners and customers. A large part of our counterparty risks concerns major international energy companies and banks. Such trading is regulated under standard agreements, such as EFET and ISDA agreements, which feature, for instance, credit rating and netting provisions. Our credit exposure is mainly concentrated on counterparties in Denmark, the UK, Germany and the US.

We limit our credit risks by:

- systematically rating significant counterparties
- granting credit limits or
- demanding that collateral be furnished or credit insurance put in place.

The counterparties and credit limits granted are monitored on an ongoing basis. The monitoring is based on the framework established by our Board of Directors and Group Executive Management. For the most significant counterparties, an internal rating is required to determine credit limits. The rating is based on information from external credit rating agencies, publicly available information and our own analyses.

We suffered no losses from any single major counterparty in 2019 or 2018.

The credit risk from our financial assets primarily concerns derivatives, cash and bond portfolios as well as receivables.

Offsetting of financial assets, DKKm	2019			2018		
	Derivatives	Trade receivables		Derivatives	Trade receivables	
Financial assets	12,174	17,219	29,393	12,173	23,173	35,346
Financial liabilities, offset	(6,917)	(13,767)	(20,684)	(7,435)	(20,060)	(27,495)
<b>Financial assets in the balance sheet</b>	<b>5,257</b>	<b>3,452</b>	<b>8,709</b>	<b>4,738</b>	<b>3,113</b>	<b>7,851</b>
Amounts not offset in the balance sheet:						
Liabilities with offsetting rights	(2,044)	-	(2,044)	(1,485)	-	(1,485)
Collateral received	(1,438)	-	(1,438)	(614)	-	(614)
<b>Net</b>	<b>1,775</b>	<b>3,452</b>	<b>5,227</b>	<b>2,639</b>	<b>3,113</b>	<b>5,752</b>



The table shows our financial assets and liabilities where a share is offset and is therefore presented net. Offsetting is typically limited within specific products.

Offsetting of financial liabilities, DKKm	2019			2018		
	Derivatives	Trade payables		Derivatives	Trade payables	
Financial liabilities	13,108	16,764	29,872	13,410	23,085	36,495
Financial assets, offset	(6,917)	(13,767)	(20,684)	(7,435)	(20,060)	(27,495)
<b>Financial liabilities in the balance sheet</b>	<b>6,191</b>	<b>2,997</b>	<b>9,188</b>	<b>5,975</b>	<b>3,025</b>	<b>9,000</b>
Amounts not offset in the balance sheet:						
Assets with offsetting rights	(2,044)	-	(2,044)	(1,485)	-	(1,485)
Collateral provided	(331)	-	(331)	(713)	-	(713)
<b>Net</b>	<b>3,816</b>	<b>2,997</b>	<b>6,813</b>	<b>3,777</b>	<b>3,025</b>	<b>6,802</b>

The assessment is based on the individual counterparty's ratings with Standard & Poor's, Moody's and Fitch. The figures do not reflect our actual credit exposure as the positions are calculated before offsetting our debt to such counterparties.

### Accounting policies

We only offset positive and negative values if we are entitled to and intend to settle several financial instruments net.

### Credit quality of the Group's counterparties, DKKm

	2019	2018
AAA/Aaa	9,221	20,949
AA/Aa	4,000	3,078
A/A	11,593	6,428
BBB/Baa	5,284	3,817
Non-rated	12,246	11,638
<b>Total credit exposure</b>	<b>42,344</b>	<b>45,910</b>



The table shows the credit quality of our counterparties, distributed by category. In addition, we have receivables and construction agreements related to the construction of offshore wind farms amounting to DKK 1,017 million (2018: DKK 6,951 million) where we have collateral in the offshore wind farm under construction. The AAA/Aaa category covers our position in Danish AAA-rated government and mortgage bonds. The non-rated category primarily consists of trade receivables from customers, such as end-users.

## 7.6 Categories of financial instruments

Financial instruments are used for various purposes. The purpose determines the category, and whether the value adjustment of the instrument should be recognised in the profit (loss) for the year or as part of the hedging reserve in equity.

The fair value of financial instruments measured at amortised cost is identical to the carrying amount with the exception of bank loans and issued bonds where the market value is stated in note 6.1 'Interest-bearing debt'.



The table shows our financial instruments divided into categories. The categories indicate how the financial instruments are recognised in the financial statement.



Humberside Airport, UK.

Categories of financial instruments, DKKm	2019	2018
Energy and currency derivatives	5,072	4,096
Securities	16,552	25,501
<b>Financial assets measured at fair value via the income statement</b>	<b>21,624</b>	<b>29,597</b>
Energy derivatives	1,432	-
Interest and inflation derivatives	585	90
Currency derivatives	651	1,282
<b>Derivatives (assets) used as hedging instruments</b>	<b>2,668</b>	<b>1,372</b>
Trade receivables	8,140	10,741
Other accounts receivable	11,941	8,896
<b>Financial assets measured at amortised cost</b>	<b>20,081</b>	<b>19,637</b>
Energy and currency derivatives	4,397	6,480
<b>Financial liabilities measured at fair value via the income statement</b>	<b>4,397</b>	<b>6,480</b>
Energy derivatives	690	-
Interest and inflation derivatives	124	103
Currency derivatives	1,747	1,511
<b>Derivatives (liabilities) used as hedging instruments</b>	<b>2,561</b>	<b>1,614</b>
Bank loans and issued bonds	36,840	27,296
Trade payables	10,832	13,082
Other accounts payable	2,595	3,207
<b>Financial liabilities measured at amortised cost</b>	<b>50,267</b>	<b>43,585</b>

## 7.7 Fair value measurement

We measure our securities and derivatives at fair value. A number of our derivatives, mainly power purchase agreements, are measured based on non-observable inputs. The most significant non-observable input is the long-term US power price due to the long duration of the contracts.

### Valuation principles and key assumptions

In order to minimise the use of subjective estimates or modifications of parameters and calculation models, it is our policy to determine fair values based on the external information that most accurately reflects the market values. We use pricing services and benchmark services to increase the data quality. Market values are determined by the Treasury & Risk Management function which reports to the CFO. The development in market values is monitored on a continuing basis and reported to the Group Executive Management.

### Deferred revenue from US power purchase agreements

The deferred revenue from US PPAs consist of losses not recognised at initial recognition since the market value is based on non-observable inputs. The PPAs lock in the power price of the expected power generation over a period of 13-15 years. These contracts are accounted for at fair value. Due to the long duration of these PPAs, power prices are not observable for the last part of the duration. The deferred revenue is recognised in profit or loss in the future period to which the market value relates. In 2019, we have recognised an income of DKK 216 million (2018: DKK 12 million) related to the deferred fair value of PPAs not recognised in profit or loss at initial recognition. The total amount of deferred revenue as of 31 December 2019 amounts to DKK 995 million (2018: DKK 1,183 million).

### US power prices (ERCOT)

The US power purchase agreements give exposure to the long-term US power prices in the ERCOT region. The price is observable for the first four to six years. For the following four to six years, the power price is estimated based on observable inputs (gas prices and heat rates). For the subsequent period, the power price is non-observable and estimated by extrapolating the power price towards the U.S. Energy Information Administration's long-term power price forecast, assuming similar seasonality as in previous periods.

### Significant non-observable inputs

Market values based on non-observable input comprise primarily long-term contracts on the purchase/sale of especially power and to a less extent gas and coal. Since there are no active markets for the long-term prices

of power and gas, the market values have been determined through an estimate of the future prices. Normally, the price can be observed for a maximum of four to six years in the power market, after which an active market no longer exists.

For market prices other than ERCOT, the price is projected by extending the observable forward curve, only adjusted for the expected development in inflation.

### Accounting policies

Market values based on quoted prices comprise quoted securities and derivatives that are traded in active markets. The market value of derivatives traded in an active market are often settled on a daily basis, thereby minimising the market value presented on the balance sheet.

Market values based on observable inputs comprise derivatives where valuation models with observable inputs are used to measure fair value.

All assets and liabilities measured at market value are measured on a recurring basis.

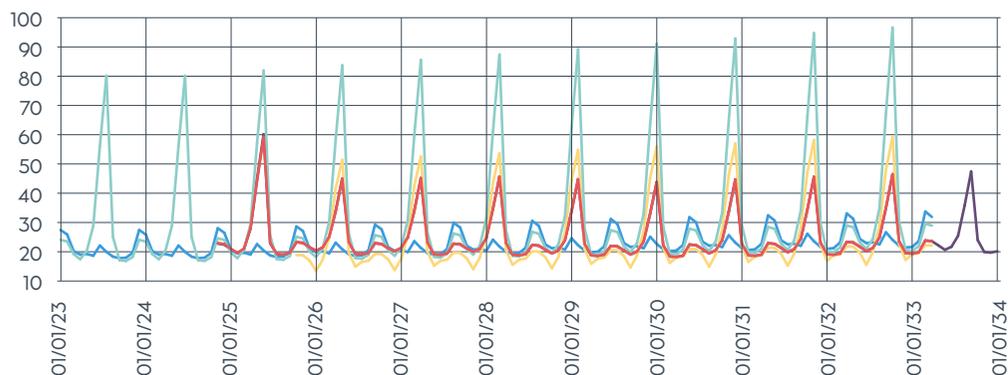
In business combinations, gain (loss) at initial recognition on derivatives whose values are based on non-observable inputs are deferred and recognised in the period to which the value relates.

Fair value hierarchy, DKKm	Assets				Liabilities	
	Inventories	Derivatives	Other receivables	Securities	Derivatives	Other payables
<b>2019</b>						
Quoted prices	959	16	-	-	21	-
Observable input	-	7,467	-	16,552	6,916	-
Non-observable input	-	257	-	-	21	-
<b>Total 2019</b>	<b>959</b>	<b>7,740</b>	-	<b>16,552</b>	<b>6,958</b>	-
<b>2018</b>						
Quoted prices	172	3	-	-	9	-
Observable input	-	5,206	-	25,501	7,179	-
Non-observable input	-	259	109	-	906	657
<b>Total 2018</b>	<b>172</b>	<b>5,468</b>	<b>109</b>	<b>25,501</b>	<b>8,094</b>	<b>657</b>

Derivatives valued on the basis of non-observable input, DKKm	2019	2018
Market value at 1 January	(2,458)	(157)
Value adjustments through profit or loss	289	61
Value adjustments through other comprehensive income	955	-
Sales/redemptions	20	580
Purchases/issues	97	(1,814)
Additions due to acquisitions of enterprises	-	(1,184)
Transferred from quoted prices and observable input	-	(344)
Transferred to quoted prices and observable input	1,333	400
<b>Market value at 31 December before deferred gain/loss</b>	<b>236</b>	<b>(2,458)</b>
Deferred loss at initial recognition on 1 January	-	1,811
<b>Market value at 31 December</b>	<b>236</b>	<b>(647)</b>

#### Non-observable inputs 2018, Monthly average power price (USD per MWh)

● SPP North RT ● Ercot North RT ● Ercot West DA ● Ercot West RT ● Ercot North DA



US power prices are no longer valued based on significant non-observable inputs, but we include 2018 comparatives. The graph shows the US power prices in the period when prices are not observable, and which we have used as basis for calculating market value as of 31 December 2018.

Non-observable inputs per commodity price input, DKKm	2019	2018
US power prices	-	(2,533)
Other power prices	221	(52)
Gas prices	15	127
<b>Total</b>	<b>236</b>	<b>(2,458)</b>



After a change in the valuation methodology, US power prices are no longer valued based on significant non-observable inputs, see description on previous page.

#### Sensitivity of non-observable inputs 2018, DKKm

Non-observable inputs	Market value	2018 Sensitivity	
		+10%	-10%
ERCOT North real time, 2024-2033	(194)	(105)	105
ERCOT North day ahead, 2024-2033	(388)	(275)	275
ERCOT West day ahead, 2023-2033	(90)	(33)	33
ERCOT West real time, 2025-2033	(132)	(34)	34
SPP North real time, 2023-2033	(288)	(68)	68
<b>Total</b>	<b>(1,092)</b>	<b>(515)</b>	<b>515</b>



US power prices are no longer valued based on significant non-observable inputs, but we include 2018 comparatives. The table shows the market value related to the non-observable input for the stated period and sensitivity per power price index. The sensitivity illustrates the impact on the market value as of 31 December 2018 if the

non-observable price increases/decreases by 10%. The most critical non-observable input in 2018 is US power prices in the period 2023-2033. If power prices as of 31 December 2018 increased/decreased by 10%, the market value would decrease/increase by DKK 515 million.

# 8. Other notes

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# 8.1 Related-party transactions

Related parties that have control over the Group comprise the Danish state, represented by the Danish Ministry of Finance.

Other related parties are the Group's associates and joint ventures, members of the Board of Directors and the Executive Board as well as other senior executives.

See note 8.5 'Company overview' for an overview of our joint ventures and associates.

Related-party transactions are made on arm's length terms. Intra-group transactions have been eliminated in the consolidated financial statements.

The remuneration and share programme for Group Executive Management and the Board of Directors are described in notes 2.6 'Employee costs' and 2.7 'Share-based payment'.

Through a directly owned company, Peter Korsholm, board member, has had ordinary transactions with Danish Oil Pipe A/S, a wholly owned subsidiary in the Ørsted Group.

We use the exemption set out in IAS 24.25 concerning entities in which the Danish state is a related party, and therefore transactions with government-related companies are not disclosed.

There were no other related-party transactions during the period.



Code Wind 1 & 2,  
North Sea, Germany.

<b>Joint ventures, DKKm</b>	2019	2018
Capital transactions, net	118	129
Sale of goods and services	3	16
Purchase of goods and services	(6)	(9)
Receivables	1	-

<b>Associates, DKKm</b>	2019	2018
Dividends received and capital reductions	-	15
Capital transactions, net	(46)	(20)
Sale of goods and services	13	-
Purchase of goods and services	(130)	(169)
Interest, net	-	3
Payables	(18)	-
Receivables	1	60

<b>Board of Directors, DKKm</b>	2019	2018
Purchase of goods and services	(107)	(139)
Payables	(11)	-

## 8.2 Leases

Our lease liabilities increased by DKK 108 million relative to 1 January 2019. Additions primarily related to commenced leases of plots of land related to development and construction projects in Onshore.

Offshore's leases mainly comprise seabeds related to the offshore wind farms in the UK and US and service vessels. Onshore's leases comprise plots of land related to onshore wind farms. Markets & Bioenergy mainly lease gas storage facilities in Germany.

Leased assets recognised under 'Other activities' mainly comprise our two office premises in Gentofte and London. The premises are used by employees in all of our business units.

Seabed leases include variable lease payments which depend on the number of megawatt hours generated. However, we have typically agreed on minimum lease payments for the seabeds, and these minimum payments are included in the lease liabilities.

Expenses for the year relating to variable lease payments not included in lease liabilities amounted to DKK 311 million. Interests on lease debt expensed in profit (loss) were DKK 171 million in 2019. Operating lease payments recognised in profit (loss) in 2018 were DKK 778 million.

Total cash outflows for leases were DKK 1,147 million in 2019.

We have entered into leases of DKK 96 million which are not commenced and therefore, they are not included in our lease liabilities.

### Accounting policies

Our lease liabilities are initially measured at the net present value of the in-substance fixed lease payments for the use of a lease asset. If, at inception of the lease, we are reasonably certain about exercising an option to extend a lease, we will include the lease payments in the option period when calculating the lease liability. We measure the lease asset to the value of the lease liability at initial recognition.

Our lease assets are classified alongside our owned assets of similar type under property, plant and equipment. We depreciate our lease assets during the lease term. The depreciation method is straight-line basis for all our lease assets, except for seabed leases where the depreciation method is aligned with the depreciation method for the related offshore wind farm. Therefore, seabed lease assets are depreciated by using either the straight-line method or the reducing-fraction method.

Contracts may contain both lease and non-lease components. We allocate the consideration in a contract to the lease and non-lease components based on their relative stand-alone prices. We account for non-lease components in accordance with the accounting policy applicable for such items. Non-lease components comprise building services and operating costs of leased vessels, etc.

Variable lease expenses are recognised in other external expenses in the period when the condition triggering those payments occurs. Interests of lease liabilities are recognised in financial expenses.

Each lease payment is separated into repayment of the lease liability and payment of interests of the lease liability. Debt repayments are classified as cash flows from financing activities, and payment of interests are classified as cash flows from operating activities.

We implemented the new lease accounting rules in IFRS 16 'Leases' on 1 January 2019. See note 1.3 'Implementation of new or changed accounting standards and interpretations'.

	Land and buildings	Production assets	Fixtures and fittings, tools and equipment	Property, plant and equipment
<b>Lease assets, DKKm</b>				
Carrying amount at 1 January 2019	4,165	440	460	5,065
Exchange rate adjustments	131	1	5	137
Additions	535	109	5	649
Disposals	(61)	-	-	(61)
Depreciation	(363)	(74)	(162)	(599)
<b>Carrying amount at 31 December 2019</b>	<b>4,407</b>	<b>476</b>	<b>308</b>	<b>5,191</b>

				Other activities	Total
<b>Lease liabilities by segment 2019, DKKm</b>	Offshore	Onshore	Markets & Bioenergy	Other activities	Total
0-1 year	309	16	89	199	613
1-3 years	205	24	185	224	638
3-5 years	20	9	41	287	357
5-10 years	46	121	44	1,224	1,435
10-15 years	489	75	-	26	590
After 15 years	2,954	1,281	66	14	4,315
<b>Total (non-discounted)</b>	<b>4,023</b>	<b>1,526</b>	<b>425</b>	<b>1,974</b>	<b>7,948</b>
<b>Carrying amount at 31 December 2019</b>	<b>2,432</b>	<b>864</b>	<b>368</b>	<b>1,668</b>	<b>5,332</b>

### Operating lease liabilities by segment 2018, DKKm

0-1 year	737	15	168	198	1,118
1-3 years	584	31	172	409	1,196
3-5 years	363	31	175	399	968
5-10 years	731	75	56	1,007	1,869
10-15 years	726	79	39	280	1,124
After 15 years	748	284	62	38	1,132
<b>Total (non-discounted)</b>	<b>3,889</b>	<b>515</b>	<b>672</b>	<b>2,331</b>	<b>7,407</b>
<b>Present value at 31 December 2018</b>	<b>2,336</b>	<b>308</b>	<b>422</b>	<b>1,753</b>	<b>4,819</b>



We have implemented IFRS 16 after the modified retrospective method. Therefore, we have not restated comparative figures.

## 8.3 Auditor's fees

PwC is Ørsted's auditor appointed by the annual general meeting. PwC audits the consolidated financial statements of Ørsted and our subsidiaries' financial statements in all the countries where we are represented.

It is our policy that the annual fee for non-audit services provided by our statutory auditor cannot exceed the annual fee for statutory audit services measured at Group level. The cap may be exceeded subject to approval by the Audit & Risk Committee.

Other assurance engagements primarily included reviews of ESG data and reviews of regulatory financial statements.

Tax and VAT advice primarily included advice in connection with the divestment of assets and enterprises and advice in connection with the preparation of tax returns.

Other services included other consultancy services from PwC, including advice in connection with accounting, GDPR, due diligence and divestment of assets and enterprises.

Fees for services other than statutory audit supplied by PwC Denmark to Ørsted amounted to DKK 6 million (2018: DKK 11 million) and consisted of accounting and tax advice in connection with both acquisition and divestment of assets and enterprises, review of ESG data and other general accounting and tax advice.

Auditor's fees, DKKm	2019	2018
<b>Audit and audit-related fees</b>		
Statutory audit	12	11
Other assurance engagements	2	2
<b>Non-audit services</b>		
Tax and VAT advice	2	3
Other services	4	7
<b>Total fees to PwC</b>	<b>20</b>	<b>23</b>
<b>Fee for non-audit services in percent of statutory audit fee</b>	<b>47%</b>	<b>94%</b>

## 8.4 Contractual obligations

Our contractual obligations at 31 December 2019 mainly related to offshore wind turbines, foundations and cables, etc., for the construction of offshore wind farms. We have increased the obligations significantly relative to the last year due to the signing of contracts related to the construction of primarily Greater Changhua 1 & 2a in Taiwan, Hornsea 2 in the UK and Borssele 1 & 2 in the Netherlands.

The obligations in Onshore mainly related to purchases of onshore wind turbines and solar PV modules.

Lease liabilities are not part of the contractual obligations. See note 8.2 'Leases'.

Contractual obligations by segment, DKKm	 Offshore	 Onshore	 Markets & Bioenergy	Total
	0-1 year	22,991	1,316	
1-5 years	27,824	11	-	27,835
<b>2019</b>	<b>50,815</b>	<b>1,327</b>	<b>209</b>	<b>52,351</b>
<b>2018</b>	<b>18,813</b>	<b>2,811</b>	<b>981</b>	<b>22,605</b>



Overview of concluded contracts where delivery had not taken place at 31 December 2019.

## 8.5 Company overview

Segment/company/registered office	Type <sup>1</sup>	Ownership interest
<b>Parent company</b>		
Ørsted A/S, Fredericia, Denmark	-	-
<b>Offshore</b>		
Acceber B.V., 's-Gravenhage, the Netherlands	S	100%
Anholt Havvindmøllepark I/S <sup>2,3</sup> , Fredericia, Denmark	JO	50%
Barrow Offshore Wind Limited, London, UK	S	100%
Bay State HoldCo LLC., Delaware, USA	JO	50%
Bay State Wind LLC <sup>2</sup> ., Delaware, USA	JO	50%
Blue Champion B.V., 's-Gravenhage, the Netherlands	S	100%
Boreas B.V., 's-Gravenhage, the Netherlands	S	100%
Borkum Riffgrund I Holding A/S, Fredericia, Denmark	S	100%
Borkum Riffgrund I Offshore Windpark A/S GmbH & Co. oHG, Norden, Germany	JO	50%
Borkum Riffgrund 2 Holding GmbH, Hamburg, Germany	S	100%
Borkum Riffgrund 2 Offshore Wind Farm GmbH & Co. oHG, Norden, Germany	JO	50%
Borkum Riffgrund 3 GmbH, Hamburg, Germany	S	100%
Borssele Wind Farm C.V., 's-Gravenhage, the Netherlands	S	100%
Breesea Limited, London, UK	S	100%
BSW Holdco LLC, Delaware, USA	JO	50%
BSW Projectco LLC <sup>2</sup> , Delaware, USA	JO	50%
Burbo Extension Holding Ltd, London, UK	JO	50%
Burbo Extension Ltd <sup>2</sup> , London, UK	S	50%
Calgary Flames B.V., 's-Gravenhage, the Netherlands	S	100%
Celtic Array Limited, Berkshire, UK	JV	50%
Cerulea Limited, London, UK	S	100%
CT Offshore A/S under frivillig likvidation, Fredericia, Denmark	S	100%
Cygnus Wind Transmission Limited, London, UK	S	100%

Segment/company/registered office	Type <sup>1</sup>	Ownership interest
Deepwater Wind, LLC, Delaware, USA	S	100%
Deepwater Wind Block Island Transmission, LLC, Delaware, USA	S	100%
Deepwater Wind Block Island, LLC, Delaware, USA	S	100%
Deepwater Wind Block Islands Holdings, LLC <sup>5</sup> , Delaware, USA	S	100%
Deepwater Wind New England, LLC, Delaware, USA	S	100%
Deepwater Wind New Jersey, LLC, Delaware, USA	S	100%
Deepwater Wind New York, LLC, Delaware, USA	S	100%
Deepwater Wind Operating, LLC, Delaware, USA	S	100%
Deepwater Wind Rhode Island, LLC (taxed as corporation), Delaware, USA	S	100%
Deepwater Wind South Fork, LLC, Delaware, USA	S	100%
DWBI Class B member, LLC, Delaware, USA	S	100%
DWW MARI Holdings, LLC, Delaware, USA	S	100%
DWW Rev 1, LLC, Delaware, USA	S	100%
Euros B.V., 's-Gravenhage, the Netherlands	S	100%
Formosa I International Investment Co., Limited, Taipei City, Taiwan	JV	35%
Formosa I Wind Power Co <sup>2</sup> ., Ltd, Taipei City, Taiwan	JV	35%
Garden State Offshore Energy, LLC, Delaware, USA	JV	50%
Gavota B.V., 's-Gravenhage, the Netherlands	S	100%
Gode Wind 1 Offshore Wind Farm GmbH & Co. oHG, Norden, Germany	JO	50%
Gode Wind 2 Offshore Wind Farm P/S GmbH & Co. oHG, Norden, Germany	JO	50%
Gode Wind 3 GmbH, Hamburg, Germany	S	100%
Golden Melody B.V., 's-Gravenhage, the Netherlands	S	100%
Greater Changhua Offshore Wind Farm SE Ltd., Changhua County, Taiwan	S	100%
Greater Changhua Offshore Wind Farm SW Ltd., Changhua County, Taiwan	S	100%
Gunfleet Sands Holding Ltd., London, UK	S	50%
Gunfleet Sands II Limited <sup>2</sup> , London, UK	S	50%
Gunfleet Sands Limited <sup>2</sup> , London, UK	S	50%
GSOE I, LLC, Delaware, USA	JV	50%

Segment/company/registered office	Type <sup>1</sup>	Ownership interest	Segment/company/registered office	Type <sup>1</sup>	Ownership interest
Horns Rev I Offshore Wind Farm <sup>o</sup> , Fredericia, Denmark	JO	40%	Orsted InvestCo Limited, Taipei City, Taiwan	S	100%
Hornsea 1 Holdings Limited, London, UK	JO	50%	Orsted Isle of Man (UK) Limited, Isle of Man	S	100%
Hornsea 1 Limited <sup>2</sup> , London, UK	JO	50%	Orsted Japan K.K., Tokyo, Japan	S	100%
Lincs Renewable Energy Holdings Limited, London, UK	JO	50%	Orsted Korea Limited, Seoul, Korea	S	100%
Lincs Wind Farm (Holding) Limited, London, UK	JO	25%	Orsted Lincs (UK) Ltd., London, UK	S	100%
Lincs Wind Farm Limited <sup>2</sup> , Aberdeen, UK	JO	25%	Orsted London Array II Limited, London, UK	S	100%
London Array Limited, Kent, UK	JO	25%	Orsted London Array Limited, London, UK	S	100%
Morecambe Wind Limited, London, UK	JO	50%	Orsted North America Inc., Delaware, USA	S	100%
Njord Limited <sup>2</sup> , London, UK	S	50%	Orsted Power (Gunfleet Sands) Ltd, London, UK	S	100%
North East Offshore, LLC, Delaware, USA.	JO	50%	Orsted Power (Participation) Ltd, London, UK	S	100%
Northeast Wind Energy LLC, Delaware, USA	S	50%	Orsted Power (UK) Limited, London, UK	S	100%
Notos B.V., 's-Gravenhage, the Netherlands	S	100%	Orsted Race Bank (Holding) Ltd., London, UK	S	100%
Nysted Havmøllepark <sup>o</sup> , Fredericia, Denmark	JO	43%	Orsted Shell Flats (UK) Limited, London, UK	S	100%
Nysted I A/S, Fredericia, Denmark	S	86%	Orsted Singapore Pte. Ltd., Singapore, Republic of Singapore	S	100%
Nördlicher Grund GmbH, Hamburg, Germany	S	100%	Orsted Speicher R GmbH, Hamburg, Germany	S	100%
Ocean Wind LLC, Delaware, USA	S	100%	Orsted Taiwan Ltd., Taipei City, Taiwan	S	100%
OFTRAC Limited, London, UK	S	100%	Orsted UK III Limited, London, UK	S	100%
Optimus Wind Limited, London, UK	S	100%	Orsted US East Coast Offshore Wind Holdco, LLC, Delaware, USA	S	100%
Optimus Wind Transmission Limited, London, UK	S	100%	Orsted Walney Extension Holdings Limited, London, UK	S	100%
Orsted Borkum Riffgrund I GmbH, Hamburg, Germany	S	100%	Orsted West of Duddon Sands (UK) Limited, London, UK	S	100%
Orsted Borkum Riffgrund I HoldCo GmbH, Hamburg, Germany	S	100%	Orsted Westermost Rough Limited, London, UK	S	100%
Orsted Borssele 1 B.V., 's-Gravenhage, the Netherlands	S	100%	Orsted Wind Power A/S (French Branch), , Denmark	S	100%
Orsted Borssele Holding B.V., 's-Gravenhage, the Netherlands	S	100%	Orsted Wind Power Germany GmbH, Hamburg, Germany	S	100%
Orsted Burbo (UK) Limited, London, UK	S	100%	Orsted Wind Power Netherlands B.V., 's-Gravenhage, the Netherlands	S	100%
Orsted Burbo Extension Holding Ltd, London, UK	S	100%	Orsted Wind Power Netherlands Holding B.V., 's-Gravenhage, the Netherlands	S	100%
Orsted Gode Wind 1 Holding GmbH, Hamburg, Germany	S	100%	Orsted Wind Power North America LLC, USA, Delaware, USA	S	100%
Orsted Gode Wind 2 GmbH, Hamburg, Germany	S	100%	Orsted Wind Power A/S (UK branch), London, UK	S	100%
Orsted Gunfleet Sands Demo (UK), Ltd, London, UK	S	100%	Preparatory Office of Greater Changhua Offshore Wind Farm NE Ltd., Changhua County, Taiwan <sup>o</sup>	S	100%
Orsted HKZ III&IV Holding B.V., 's-Gravenhage, the Netherlands	S	100%	Preparatory Office of Greater Changhua Offshore Wind Farm NW Ltd., Changhua County, Taiwan <sup>o</sup>	S	100%
Orsted Hornsea 1 Holdings Limited, London, UK	S	100%	Race Bank Wind Farm (Holding) Limited, London, UK	JO	50%
Orsted Hornsea Project Four Limited, London, UK	S	100%	Race Bank Wind Farm Limited <sup>2</sup> , London, UK	JO	50%
Orsted Hornsea Project Three (UK) Limited, London, UK	S	100%			

Segment/company/registered office	Type <sup>1</sup>	Ownership interest	Segment/company/registered office	Type <sup>1</sup>	Ownership interest
Rhiannon Wind Farm Limited <sup>2</sup> , Windsor, UK	JV	50%	<b>Onshore</b>		
Scarweather Sands Limited, Coventry, UK	JV	50%	2w Permian Solar, LLC, Delaware, USA	S	100%
Skipjack Offshore Energy, LLC, Delaware, USA	S	100%	Albaugh Solar Center, LLC, Ohio, USA	S	100%
SMart Wind Limited, London, UK	S	100%	Antelope Flats Wind, LLC, Delaware, USA	S	100%
SMRT Line, LLC, Delaware, USA	S	100%	Armadillo Solar Center, LLC, Delaware, USA	S	100%
Sonningmay Wind Limited, London, UK	S	100%	Aromas Solar Energy Center, LLC, Delaware,,USA	S	100%
Soundmark Wind Limited, London, UK	S	100%	Badger Wind, LLC, Delaware, USA	S	100%
Sunrise Wind, LLC, Delaware, USA	S	100%	Barranca Wind Energy, LLC, Delaware, USA	S	100%
UMBO GmbH, Hamburg, Germany	JV	90%	Barranca Wind Energy II, LLC, Delaware, USA	S	100%
Varinas B.V., 's-Gravenhage, the Netherlands	S	100%	Bayshore Energy Center, LLC, Delaware, USA	S	100%
VI Aura Limited <sup>2</sup> , London, UK	JO	50%	Bedford Solar Center, LLC, Virginia, USA	S	100%
VI Aura Transmission Limited, London, UK	S	100%	Biggs Ford Solar Center, LLC, Virginia, USA	S	100%
Walney (UK) Offshore Windfarms Limited, London, UK	S	50%	Bowen Solar Center, LLC, Mississippi, USA	S	100%
Walney Extension Holdings Limited, London, UK	JO	50%	Brackin Mill Solar Center, LLC, Virginia , USA	S	100%
Walney Extension Limited <sup>2</sup> , London, UK	JO	50%	Cabin Point Solar Center, LLC, Virginia , USA	S	100%
West of Duddon Sands <sup>6</sup>	JO	50%	Camino Solar Center, LLC, New Mexico, USA	S	100%
Westermost Rough (Holding) Limited, London, UK	JO	50%	Canutillo Energy Center, LLC, Texas, USA	S	100%
Westermost Rough Limited <sup>2</sup> , London, UK	JO	50%	Casper Creek Solar Center, LLC, Delaware, USA	S	100%
Zephyrus B.V. 's-Gravenhage, the Netherlands	S	100%	Casper Solar Center, LLC, Virginia, USA	S	100%
Ørsted - Anholt Offshore A/S, Fredericia, Denmark	S	100%	Chiefland Solar Center, LLC, Florida, USA	S	100%
Ørsted Horns Rev 2 A/S, Fredericia, Denmark	S	100%	Cloud Peak Solar Center, LLC, Delaware, USA	S	100%
Ørsted Horns Rev I A/S, Fredericia, Denmark	S	100%	Cockleburr Solar, LLC, Delaware, USA	S	100%
Ørsted Nearshore Wind ApS, Fredericia, Denmark	S	100%	Coolidge Solar Center, LLC, Arizona, USA	S	100%
Ørsted VE A/S, Fredericia, Denmark	S	100%	Dermott Wind Class B Holdco, LLC, Delaware, USA	S	100%
Ørsted Vind A/S, Fredericia, Denmark	S	100%	Dermott Wind Class B Member, LLC, Delaware, USA	S	100%
Ørsted Wind Power A/S <sup>4</sup> , Fredericia, Denmark	S	100%	Dermott Wind, LLC <sup>5</sup> , Delaware, USA	S	100%
Ørsted Wind Power A/S, Taiwan Branch, Taipei City, Taiwan	S	100%	Dunbar Solar, LLC, Delaware, USA	S	100%
Ørsted Wind Power Denmark A/S, Fredericia, Denmark	S	100%	Eastgate Solar Center, LLC, Florida, USA	S	100%
Ørsted Wind Power Holding A/S <sup>4</sup> , Fredericia, Denmark	S	100%	Emerick Wind, LLC, Delaware, USA	S	100%
Ørsted Wind Power NL, branch of Ørsted Wind Power A/S Denmark, 's-Gravenhage, the Netherlands	S	100%	Firefly Solar Center, LLC, Delaware, USA	S	100%

Segment/company/registered office	Type <sup>1</sup>	Ownership interest	Segment/company/registered office	Type <sup>1</sup>	Ownership interest
Garland Wind, LLC, Delaware, USA	S	100%	NJ Oak Solar Holdco, LLC, Delaware, USA	S	100%
Goose Solar Center, LLC, Texas, USA	S	100%	NJ Oak Solar, LLC, Delaware, USA	S	100%
Hamilton Solar Center, LLC, Florida, USA	S	100%	Old 300 Solar Center, LLC, Delaware, USA	S	100%
Happy Hollow Solar Center, LLC, Georgia, USA	S	100%	Orsted Energy Storage & Solar N.A. LLC, Delaware, USA	S	100%
Helena Wind, LLC, Delaware, USA	S	100%	Orsted ESS Mersey Limited, London, UK	S	100%
Highline Solar Energy Center, LLC, Delaware, USA	S	100%	Orsted Onshore Asset Management Services, LLC, Delaware, USA	S	100%
Holloman Solar Center, LLC, North Carolina, USA	S	100%	Orsted Onshore Dermott Holdings, Inc., Delaware, USA	S	100%
HolocrySTALLINE Energy Venter, LLC, California, USA	S	100%	Orsted Onshore DevCo, LLC, Delaware, USA	S	100%
Huning Ranch Solar Center, LLC, Delaware, USA	S	100%	Orsted Onshore Development North America, LLC, Delaware, USA	S	100%
Jasper Solar Center, LLC, Florida, USA	S	100%	Orsted Onshore Equipment Company, LLC, Delaware, USA	S	100%
Jones Solar Center, LLC, Florida, USA	S	100%	Orsted Onshore Equipment Holdings, Inc, Delaware, USA	S	100%
Kittias Solar Center, LLC, Washington, USA	S	100%	Orsted Onshore North America, LLC, Delaware, USA	S	100%
Legore Bridge Solar Center, LLC, Virginia, USA	S	100%	Orsted Onshore North America Power, LLC, Delaware, USA	S	100%
Live Oak Solar Center, LLC, Florida, USA	S	100%	Orsted Onshore Real Estate Holdings, LLC, Delaware, USA	S	100%
Lockett Windfarm Class B Member, LLC, Delaware, USA	S	100%	Orsted Onshore WS Holdings, Inc, Delaware, USA	S	100%
Lockett Windfarm Project Holdings, LLC <sup>5</sup> , Delaware, USA	S	100%	Orsted Onshore Services, LLC, Delaware, USA	S	100%
Lockett Windfarm LLC, Delaware, USA	S	100%	Orsted Renewables N.A. LLC, Delaware, USA	S	100%
Lower River Solar Center, LLC, Arizona, USA	S	100%	Owl Canyon Solar Center, LLC, Colorado, USA	S	100%
Lux Solar Center, LLC, Nevada, USA	S	100%	Pactolus Solar, LLC, Delaware, USA	S	100%
Madden Solar Center, LLC, Georgia, USA	S	100%	Palacios Wind, LLC, Delaware, USA	S	100%
Mason Dixon Solar Center, LLC, Virginia, USA	S	100%	Piccadilly Solar Energy Center, LLC, Colorado, USA	S	100%
Mastodon Solar Center, LLC, Delaware, USA	S	100%	Placid Solar Center, LLC, Delaware, USA	S	100%
McAlpin Solar Center, LLC, Florida, USA	S	100%	Placid Solar II, LLC, Delaware, USA	S	100%
McGrath Energy Center, LLC, Delaware, USA	S	100%	Plum Creek Wind, LLC, Delaware, USA	S	100%
McGrath Energy Center II, LLC, California, USA	S	100%	Plum Creek and Willow Creek Class B Member, LLC, Delaware, USA	S	100%
McGrath Energy Center III, LLC, California, USA	S	100%	Plum Creek and Willow Creek Project Holdings, LLC, Delaware, USA	S	100%
Michaux Solar Center, LLC, Virginia, USA	S	100%	Pyramid Lake Solar Center, LLC, Delaware, USA	S	100%
Mineola Wind, LLC, Delaware, USA	S	100%	Poleline Solar Energy Center, LLC, California, USA	S	100%
Mockingbird Solar Center, LLC, Delaware, USA	S	100%	Rockwood Energy Center, LLC, Delaware, USA	S	100%
Moonscape Solar Center, LLC, New Mexico, USA	S	100%	Rum Solar Center, LLC, Florida, USA	S	100%
Napoleon Wind, LLC, Delaware, USA	S	100%	Sage Draw Wind Class B Member, LLC, Delaware, USA	S	100%
NJ Oak Solar Finco, LLC, Delaware, USA	S	100%	Sage Draw Wind, LLC, Delaware, USA	S	100%

Segment/company/registered office	Type <sup>1</sup>	Ownership interest	Segment/company/registered office	Type <sup>1</sup>	Ownership interest
Sage Draw Wind Project Holdings, LLC, Delaware, USA	S	100%	DE Thermal Power Nr. 1 A/S in voluntary liquidation, Fredericia, Denmark	S	100%
Shawnee Energy Center, LLC, Delaware, USA	S	100%	Emineral A/S, Fredericia, Denmark	A	50%
SP Energy 1, LLC, Delaware, USA	S	100%	Etzel-Kavernenbetriebsgesellschaft mbH & Co. KG, Bremen, Germany	A	33%
SP Energy DM, LLC, Delaware, USA	S	100%	Etzel-Kavernenbetriebs-Verwaltungsgesellschaft mbH, Bremen, Germany	A	33%
SP Energy ET, LLC, Delaware, USA	S	100%	Haderslev Kraftvarmeværk A/S in voluntary liquidation, Fredericia, Denmark	S	100%
SP Energy GL, LLC, Delaware, USA	S	100%	Inbicon A/S, Fredericia, Denmark	S	100%
SP Energy PV, LLC, Delaware, USA	S	100%	Maabjerg Energy Concept A/S, Fredericia, Denmark	S	70%
SP Energy TL, LLC, Delaware, USA	S	100%	Obviux A/S, Frederiksberg, Denmark	S	100%
Staked Plains Energy, LLC, Delaware, USA	S	100%	Orsted AB, Malmö, Sweden	S	100%
Stratford Solar Center, LLC, Virginia, USA	S	100%	Orsted Bioenergy & Thermal Power A/S (UK branch) <sup>4</sup> , London, UK	S	100%
Surry Solar Center, LLC, Virginia, USA	S	100%	Orsted Customer Solutions Holding LLC, Delaware, USA	S	100%
Tahoka Wind Class B Holdco, LLC, Delaware, USA	S	100%	Orsted Energy Solutions (UK) Limited, London, UK	S	100%
Tahoka Wind Class B Member, LLC, Delaware, USA	S	100%	Orsted Holding Ludwigsau I GmbH, Hamburg, Germany	S	100%
Tahoka Wind Project Holdings, LLC <sup>5</sup> , Delaware, USA	S	100%	Orsted Infrastructure GmbH <sup>3,4</sup> , Hamburg, Germany	S	100%
Tahoka Wind, LLC, Delaware, USA	S	100%	Orsted Kraftwerke Holding GmbH, Hamburg, Germany	S	100%
Tovey Wind, LLC, Delaware, USA	S	100%	Orsted Leitung E GmbH, Hamburg, Germany	S	100%
Waukeelah Solar Center, LLC, Florida, USA	S	100%	Orsted Markets GmbH, Hamburg, Germany	S	100%
Webb East Solar Center, LLC, Virginia, USA	S	100%	Orsted Netherlands B.V., 's-Gravenhage, the Netherlands	S	100%
Western Trail Wind, LLC, Delaware, USA	S	100%	Orsted Power Sales (UK) Limited, London, UK	S	100%
Westwing Solar Center, LLC, Delaware, USA	S	100%	Orsted Renescence Northwich Limited, London, UK	S	100%
Willow Creek Wind Power, LLC, Delaware, USA	S	100%	Orsted Renescence Northwich O&M Limited, London, UK	S	100%
Willow Springs Class B Holdco, LLC, Delaware, USA	S	100%	Orsted S&D (UK) Limited, London, UK	S	100%
Willow Springs Class B Member, LLC, Delaware, USA	S	100%	Orsted Sales (UK) Limited, London, UK	S	100%
Willow Springs Project Holdings, LLC <sup>5</sup> , Delaware, USA	S	100%	Orsted Sales GmbH, Hamburg, Germany	S	100%
Willow Springs Windfarm, LLC, Delaware, USA	S	100%	Orsted Salg & Service A/S (UK branch), London, UK	S	100%
Ørsted Onshore A/S, Fredericia, Denmark	S	100%	Orsted Services B.V., 's-Gravenhage, the Netherlands	S	100%
Ørsted Onshore Holding A/S <sup>4</sup> , Fredericia, Denmark	S	100%	Orsted SP (UK) Limited, London, UK	S	100%
<b>Markets &amp; Bioenergy</b>			Orsted SP Holding (UK) Limited, London, UK	S	100%
Cure Renescence B.V., 's-Gravenhage, the Netherlands	JV	50%	Orsted Speicher E GmbH, Hamburg, Germany	S	100%
Danish Distribution Services sp. z.o.o, Warsaw, Poland	S	100%	Orsted US Trading LLC, Delaware, USA	S	100%
Danish Offshore Gas Systems A/S, Fredericia, Denmark	S	100%	Nordic Impact Bridge ApS, Copenhagen, Denmark	A	23.5%
Danish Oil Pipe A/S <sup>4</sup> , Fredericia, Denmark	S	100%	Pyroneer A/S, Fredericia, Denmark	S	100%

Segment/company/registered office	Type <sup>1</sup>	Ownership interest
Radius Elnet A/S, Fredericia, Denmark	S	100%
Radius Forsyningsnet A/S <sup>4</sup> , Fredericia, Denmark	S	100%
Renescience A/S, Fredericia, Denmark	S	100%
Severn Power Funding Limited, London, UK	S	100%
Stigsnæs Vandindvinding I/S, Skælskør, Denmark	NC	64%
Vejen Kraftvarmeværk A/S in voluntary liquidation, Fredericia, Denmark	S	100%
Wilson Battery Storage LLC, Delaware, USA	S	100%
Ørsted Bioenergy & Thermal Power A/S <sup>4</sup> , Fredericia, Denmark	S	100%
Ørsted City Light A/S <sup>4</sup> , Fredericia, Denmark	S	100%
Ørsted GWS Avedøre Biogas A/S, Fredericia, Denmark	S	100%
Ørsted New Bio Solutions China A/S, Fredericia, Denmark	S	100%
Ørsted New Bio Solutions Holding A/S, Fredericia, Denmark	S	100%
Ørsted Pipelines A/S, Fredericia, Denmark	S	100%
Ørsted Privatsalg El & Gas A/S <sup>4</sup> , Fredericia, Denmark	S	100%
Ørsted Real Estate A/S, Fredericia, Denmark	S	100%
Ørsted Sales & Distribution A/S, Fredericia, Denmark	S	100%
Ørsted Salg & Service A/S <sup>4</sup> , Fredericia, Denmark	S	100%
Ørsted Salg & Service NL, branch of Ørsted Salg & Service A/S Denmark, 's-Gravenhage, the Netherlands	S	100%
Ørsted Varmeservice A/S <sup>4</sup> , Fredericia, Denmark	S	100%



<sup>1</sup> S = subsidiary

A = associate

JO = joint operation

JV = joint venture

NC = non-consolidated entity

<sup>2</sup> The company is owned through a company which is not owned 100% by Ørsted. The disclosed ownership interest is Ørsted's ultimate ownership interest in the company.

<sup>3</sup> The company applies the provision in section 5 or section 6 of the Danish Financial Statements Act to omit presenting a separate annual report.

<sup>4</sup> Subsidiaries owned directly by Ørsted A/S.

<sup>5</sup> One or more tax equity partners own an insignificant share of the company. See note 4.5 'Tax equity liabilities'. The company is fully consolidated.

<sup>6</sup> Unincorporated activity which is owned jointly with partners.

Segment/company/registered office	Type <sup>1</sup>	Ownership interest
<b>Other</b>		
EM EL Holding A/S, Fredericia, Denmark	S	100%
EnergiGruppen Jylland EL A/S, Fredericia, Denmark	S	100%
EnergiGruppen Jylland EL Holding A/S, Fredericia, Denmark	S	100%
Lithium Balance A/S, Smørum, Denmark	A	15%
Orsted (UK) Limited, London, UK	S	100%
Orsted Holdings N.A. Inc, Delaware, USA	S	100%
Orsted Services Malaysia Sdn. Bhd., Kuala Lumpur, Malaysia	S	100%
Orsted Venture N.A. LLC, Delaware, USA	S	100%
Orsted Polska Sp. z o. o., Warsaw, Poland	S	100%
Pict Offshore Limited, London, UK	A	100%
Taiwan Orsted Financial Services Co., Ltd., Taipai City, Taiwan	S	100%
Ørsted EGJ A/S, Fredericia, Denmark	S	100%
Ørsted EL A/S <sup>4</sup> , Fredericia, Denmark	S	100%
Ørsted Insurance A/S <sup>4</sup> , Fredericia, Denmark	S	100%
Ørsted North America Holding A/S, Fredericia, Denmark	S	100%
Ørsted nr. 1 2008 A/S <sup>3,4</sup> , Fredericia, Denmark	S	100%
Ørsted Nr. 1 2014 A/S <sup>3,4</sup> , Fredericia, Denmark	S	100%
Ørsted Services A/S <sup>4</sup> , Fredericia, Denmark	S	100%
Ørsted Ventures Europe A/S <sup>4</sup> , Fredericia, Denmark	S	100%
Ørsted Wind Power TW Holding A/S, Fredericia, Denmark	S	100%

# Consolidated ESG statements

(additional information)

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The now operational Lockett Wind Farm is providing the state of Texas with green and flexible wind power. It is also supporting the local community, contributing to youth programmes, food bank donations and other non-profit contributions in the Wilbarger area.



# Basis of reporting

## Consolidated environmental, social and governance (ESG) statements

In the consolidated ESG statements, we present our results, objectives and accounting policies for the ESG data included in the management's review in this report.

Our full ESG data set can be seen in the independent publication '[ESG performance report 2019](#)'. The ESG performance report also includes additional information, such as selected ESG indicators by country and all ESG accounting policies, including a list of references for conversion factors used in calculations.

## Scope and consolidation

Unless otherwise stated, ESG data is reported on the basis of the same principles as the financial statements. Thus, the consolidated ESG statements include consolidated data from the parent company, Ørsted A/S, and subsidiaries controlled by Ørsted A/S. Data from associates and joint ventures are not included.

The consolidation of safety data deviates from the above described principles. Safety data is collected using an operational scope. This means that we, irrespective of our ownership share, include 100% of injuries and hours worked, etc., arising from all operations where Ørsted is responsible for safety, including safety related to external suppliers.

Data from acquisitions and divestments are included/excluded from the date of acquisition/divestment.

## Danish Financial Statements Act, sections 99a and 99b

Pursuant to section 99a of the Danish Financial Statements Act, Ørsted is under an obligation to account for the company's CSR activities and report on business strategies and activities with regard to human rights, labour rights, anti-corruption, the environment and the climate. By publishing our sustainability report ([orsted.com/sustainability2019](http://orsted.com/sustainability2019)), Ørsted complies with section 99a of the Danish Financial Statements Act.

Ørsted's work for greater gender diversity at management level is reported in accordance with section 99b of the Danish Financial Statements Act. The reporting of gender diversity can be seen in our [2019 ESG performance report](#).

## Business changes in 2019 affecting ESG data

There has been no M&A related business changes with significant ESG impact in 2019.

## New ESG indicators in 2019

– Scope 3 greenhouse gas emissions (introduced in the H1 2019 interim ESG report).

## Revised ESG indicator

– GHG intensity: Scope 1 and 2 GHG emission per kWh energy generated (introduced in the H1 2019 interim ESG report).

– People powered (added onshore wind capacity, solar capacity, revised load factors and state-specific emission factors for sites in the US).

## Discontinued ESG indicators

– System average interruption frequency index (SAIFI).  
– Customer satisfaction.

The two indicators can still be found in the ESG performance report for 2019.



Our full ESG data set can be seen in the ESG performance report 2019. ([orsted.com/ESGperformance2019](http://orsted.com/ESGperformance2019))

# 9.9GW

Our installed renewable capacity increased by 19% from 2018 to 2019. We have a target of 30GW installed renewable capacity in 2030.

# 86%

The green share of our heat and power generation increased from 75% in 2018 to 86% in 2019. We have a target of 99% in 2025.

# 65g CO<sub>2</sub>e/ kWh

Our greenhouse gas intensity was reduced by 50% to 65g CO<sub>2</sub>e/kWh in 2019. Our target is to reach 10g CO<sub>2</sub>e/kWh in 2025.

# 96%

The certified sustainable share of our sourced wooden biomass increased from 83% in 2018 to 96% in 2019. Our target is to reach 100% in 2020.

# Environment

Strategic target	Business driver	Indicator	Unit	Target	2019	2018
●		<b>Green share of heat and power generation</b>	%	<b>99 (2025) <sup>1</sup></b>	<b>86</b>	<b>75</b>
●		<b>Greenhouse gas (GHG) intensity (scopes 1 and 2)</b>	g CO <sub>2</sub> e/kWh	<b>10 (2025) <sup>2</sup></b>	<b>65</b>	<b>131</b>
		<b>Direct GHG emissions (scope 1)</b>	<b>Thousand tonnes CO<sub>2</sub>e</b>		<b>1,846</b>	<b>3,483</b>
		<b>Indirect GHG emissions (scope 2), market-based</b>	<b>Thousand tonnes CO<sub>2</sub>e</b>		<b>4</b>	<b>45</b>
		<b>Indirect GHG emissions (scope 3)</b>	<b>Thousand tonnes CO<sub>2</sub>e</b>		<b>34,604</b>	<b>36,234</b>
		– Category 2: Capital goods <sup>3</sup>	Thousand tonnes CO <sub>2</sub> e		740	1,032
		– Category 3: Fuel- and energy-related activities <sup>4</sup>	Thousand tonnes CO <sub>2</sub> e		3,217	3,570
		– Category 11: Use of sold products <sup>5</sup>	Thousand tonnes CO <sub>2</sub> e		30,377	31,383
		– Other <sup>6</sup>	Thousand tonnes CO <sub>2</sub> e		270	249
●		<b>Scope 3 GHG reduction from base year 2018</b>	%	<b>50% by 2032</b>	4	-
●		<b>Installed renewable capacity</b>	<b>MW</b>	<b>30GW (2030)</b>	<b>9,870</b>	<b>8,303</b>
●		– Offshore wind	MW	15GW (2025)	6,820	5,602
●		– Onshore wind	MW	5GW (2025) <sup>7</sup>	987	803
●		– Onshore solar	MW		10	10
●		– Thermal heat, biomass	MW		2,053	1,888
●		<b>Decided (FID) renewable capacity (not yet installed)</b>	<b>MW</b>		<b>4,129</b>	<b>3,665</b>
●		– Offshore wind	MW		3,038	3,356
●		– Onshore wind	MW		671	184
●		– Onshore solar	MW		420	-
●		– Thermal heat, biomass	MW		-	125
●		<b>Awarded and contracted renewable capacity (no FID yet)</b>	<b>MW</b>		<b>4,996</b>	<b>4,796</b>
●		– Offshore wind	MW		4,996	3,916
●		– Onshore wind	MW		-	530
●		– Onshore solar	MW		-	350
●		<b>Sum of installed and FID renewable capacity</b>	<b>MW</b>		<b>13,999</b>	<b>11,968</b>
●		<b>Sum of installed, FID, awarded and contracted renewable capacity</b>	<b>MW</b>		<b>18,995</b>	<b>16,764</b>

<sup>1</sup> Additional target is 95% (2023).

<sup>2</sup> Additional target is 20 (2023).

<sup>3</sup> Primary source of emission: wind farm suppliers.

<sup>4</sup> Primary source of emission: fossil-based power sales.

<sup>5</sup> Primary source of emission: natural gas sales.

<sup>6</sup> Remaining categories of the 15 defined scope 3 GHG categories according to the Greenhouse Gas Protocol.

<sup>7</sup> The 5GW target (2025) is for onshore wind and solar combined.



The green (renewable) share of our heat and power generation amounted to 86% in 2019, up 11 percentage points relative to 2018. The increase was primarily due to higher generation from wind farms, a larger share of biomass-based generation as well as lower use of gas following the divestment of the Enecogen power plant in 2018. Our target is 99% green energy generation in 2025.

Our greenhouse gas intensity was reduced by 50% for the same reasons as for the increase in the renewable energy share. We are well on track to meeting our target of a greenhouse gas emission intensity of no more than 10g CO<sub>2</sub>e/ kWh in 2025. We will continue to investigate solutions for the remaining emissions, which could also include investing in certified carbon removal projects.

Our scope 3 greenhouse gas emissions were reduced by 4% from 2018 to 2019. The main driver for this reduction was the reduced sales of gas (category 11, use of sold products). The second-largest scope 3 emission category '3: Fuel- and energy-related activities' was reduced by 10% from 2018 to 2019 due to lower fossil fuel consumption in the thermal heat and power generation and reduced sale of fossil-based power to end-customers. The third-largest category '2: Capital goods' includes greenhouse gas emissions from the supply chain and installation of the offshore wind farm Hornsea 1 and the onshore wind farm Lockett.

The installed renewable capacity increased by 19% in 2019 due to commissioning of the offshore wind farm Hornsea 1 (1,218MW) and the onshore wind farm Lockett (184MW).

Strategic target	Business driver	Indicator	Unit	Target	2019	2018
		<b>Generation, power and heat total</b>	<b>TWh</b>		<b>28.4</b>	<b>26.0</b>
	●	Power generation	TWh		20.1	17.2
	●	– Offshore wind	TWh		12.0	10.0
	●	– Onshore wind	TWh		3.5	0.5
	●	– Solar	TWh		0.0	0.0
	●	– Thermal	TWh		4.6	6.7
	●	Heat generation, thermal	TWh		8.3	8.8
		<b>Offshore wind</b>				
	●	Generation capacity	GW		3.6	3.0
	●	Wind speed	m/s		9.2	9.1
	●	Wind speed, normal wind year	m/s		9.2	9.2
	●	Load factor	%		42	42
	●	Availability	%		93	93
		<b>Onshore wind</b>				
		Generation capacity	GW		1.0	0.8
	●	Wind speed	m/s		7.3	7.3
	●	Load factor	%		45	41
	●	Availability	%		98	98
		<b>Thermal heat and power generation</b>				
		Power generation capacity	GW		2.9	2.8
		Heat generation capacity	GW		3.6	3.4
	●	Degree days, Denmark	Number		2,399	2,526
		Coal share of fuels	%	0 (2023)	24	38
		Sourcing of certified wooden biomass	%	100% (2020)	96	83
		Green share of thermal heat and power generation	%		68	58
		<b>Avoided carbon emissions</b>	<b>Million tonnes CO<sub>2</sub>e</b>		<b>11.3</b>	<b>8.1</b>
		– From offshore wind generation	Million tonnes CO <sub>2</sub> e		7.6	6.3
		– From onshore wind generation	Million tonnes CO <sub>2</sub> e		2.3	0.4
		– From biomass-converted generation	Million tonnes CO <sub>2</sub> e		1.4	1.4
		<b>Sales and distribution</b>				
	●	Gas sales	TWh		125.0	131.1
	●	Power sales	TWh		27.6	27.3 <sup>1</sup>
	●	Power distribution	TWh		8.4	8.4



The increase in offshore wind capacity contributed to a 20% increase in offshore wind-based generation in 2019. The increase in onshore wind and solar power generation is mainly because it is the first full year with onshore power capacity.

Thermal power generation decreased by 31% in 2019, mainly due to generation of heat without combined power generation at Asnæs Power Station and the divestment of the Dutch power plant Enecogen in 2018.

Thermal heat generation decreased by 6% due to warmer weather in H1 2019, leading to a lower demand for heat, partly offset by colder weather and higher heat generation in H2 2019.

The coal share of fuels in our thermal heat and power generation decreased by 14 percentage points and the green share increased by 10 percentage points, in 2019. This was primarily the result of the Asnæs Power Station generating heat without power based on coal in the period up until the new biomass converted unit was taken in use and then generating heat based on biomass towards the end of the year.

The certified share of renewable wooden biomass increased from 83% in 2018 to 96% in 2019. Our target is to source all wooden biomass as certified sustainable biomass in 2020.

Due to the increase in renewable energy generation, the amount of avoided carbon emissions increased by 40% from 2018 to 2019. In 2019, our renewable energy generation avoided the emission of 11.3 million tonnes carbon dioxide.

<sup>1</sup> We have updated the previously announced 2018 value for power sales, as we have eliminated the internally sourced power generation volumes in Germany and the UK in the total external sales for Ørsted.

# Social

Strategic target	Business driver	Indicator	Unit	Target	2019	2018
		<b>Employees</b>				
		Total number of employees at 31 December	Number of FTEs		6,526	6,080
		Average number of employees for the year	Number of FTEs		6,329	5,796
●		Employee satisfaction	Scale 0-100	77 (2020) <sup>1</sup>	77	76
		<b>Safety</b>				
		Fatalities	Number		1	0
		LTIF (lost-time injury frequency)	Per million working hours		2.1	1.5
●		TRIR (total recordable injury rate)	Per million working hours	2.9 (2025)	4.9	4.7
		<b>Job year creation from offshore wind power value chain</b>				
		Based on installed capacity	Thousand job years		137	112
		Based on installed + FID capacity	Thousand job years		197	179
		Based on installed capacity + FID + awarded and contracted capacity	Thousand job years		297	258
		<b>People powered</b>				
		Based on installed capacity	Million people		15.2	12.2 <sup>2</sup>
		Based on installed + FID capacity	Million people		23.7	21.3
		Based on installed capacity + FID + awarded and contracted capacity	Million people		32.8	30.1

<sup>1</sup> We have reached our 2020 target of 77 one year in advance. Our new target from 2020 and onward is an employee satisfaction survey result in the top ten percentile compared with an external benchmark group.

<sup>2</sup> We have restated the 2018 value with an adjustment for actual load factors, state-specific consumption factors in the US and added onshore wind and solar capacity.



The number of employees increased by 7% from 2018 to 2019 due to growth in existing and new markets.

Employee satisfaction continued to be high. With a satisfaction and motivation score of 77 in 2019, our 2020 target of reaching a satisfaction and motivation score of 77 has been reached one year in advance. We have set a new target of staying in the top 10 percentile compared to our external benchmark group.

On 1 May 2019, Ørsted experienced a fatal accident at Avedøre Power Station where a contractor was buried under coal during work in a silo. An independent investigation was completed to identify the root causes. Safety is of utmost importance to us, and we have initiated several improvement tracks to ensure that an accident like this will never happen again.

Our total recordable injury rate (TRIR) increased from 4.7 in 2018 to 4.9 in 2019. We registered 106 total recordable injuries (TRIs), 71 of which involved employees working for our suppliers. LTIF increased from 1.5 in 2018 to 2.1 in 2019. We continue to have a strong focus on safety. Our target is a TRIR of 2.9 or below in 2025.

In a lifecycle perspective, our and our partners' investments in deploying green offshore energy have created 137,000 job years based on the installed renewable capacity.

Our 2030 target of 30GW renewable energy corresponds to more than 55 million people powered.

# Governance

Strategic target	Business driver	Indicator	Unit	Target	2019	2018
		<b>Board of Directors, Ørsted A/S</b>				
		Independent board members	%		100	100
		<b>Gender diversity</b>				
		Members, female	Number		2	3
		Members, male	Number		4	5
		Gender with lowest representation	%		33	38
		<b>Nationality diversity</b>				
		Members, Danish	Number		3	5
		Members, non-Danish	Number		3	3
		<b>Group Executive Management</b>				
		<b>Gender diversity</b>				
		Members, female	Number		2	1
		Members, male	Number		5	6
		Gender with lowest representation	%		29	14
		<b>Nationality diversity</b>				
		Members, Danish	Number		3	4
		Members, non-Danish	Number		4	3
		<b>Good business conduct</b>				
		Substantiated whistleblower cases	Number		3	2
		– Cases transferred to the police	Number		0	1



The Board of Directors is responsible for the overall management of the company. The Board of Directors lays down the company's strategy and makes decisions concerning major investments and divestments, the capital base, key policies, control and audit matters, risk management and significant operational issues.

Climate change is fundamental to our business strategy, and climate-related issues are an integral part of the board agendas. The Board monitors and oversee progress related to Ørsted's strategic ambitions, including our ambitious targets for addressing climate-related issues. The Board integrates considerations for climate protection when setting our strategic direction, reviewing sustainability risks, setting performance objectives, deciding on our capital allocation, and when approving and overseeing major investments, acquisitions and divestments.

Our employees and other associates may report serious offences, such as cases of bribery, fraud and other inappropriate or illegal conduct, to our whistleblower scheme or through our management system.

In 2019, three substantiated cases of inappropriate or unlawful behaviour were reported through our whistleblower scheme. Two cases concerned violation of good business conduct policies, and one case concerned conflict of interest between a third party representative and Ørsted. The cases had consequences for the individuals involved. None of the reported cases were critical to our business or impacted our financial results.

Whistleblower cases are taken very seriously, and we continuously enhance the awareness about good business conduct, e.g. through education as well as awareness campaigns to minimise future similar cases.

## Accounting policies – Environment

### Green share of heat and power generation

The green (renewable energy) share of our heat and power generation and the distribution of the generation from the individual energy sources and fuels are calculated on the basis of the energy sources used and the energy generated at the different energy plants.

Wind and solar-based generation is computed as the input from the individual plant (wind and solar), as there is only one source of power for each plant. For CHP plants, the share of the specific fuel (e.g. biomass) is calculated relative to the total fuel consumption for a given plant/unit within a given time period. The specific fuel share is then multiplied with the total heat and power generation for the specific unit in the specific period. The result is the fuel-based generation for the individual unit – for example the biomass-based generation of heat and power from the CHP unit within a given time period.

Energy generation based on fuel, wind and solar is added up to a total which tallies with total generation. The percentage shares of the individual energy sources are calculated by dividing generation from individual energy source with the total generation.

The following energy sources and fuels are considered renewable energy: wind, solar, biomass and biogas. The following energy sources are considered fossil energy sources: coal, natural gas, oil and regular power.

### Greenhouse gas intensity

Greenhouse gas intensity is defined as the scope 1 and 2 (market-based) greenhouse gas emissions divided by the total heat and power generation.

### Scope 1 and 2 greenhouse gas emissions

The scope 1 and 2 emissions are calculated based on the Greenhouse Gas Protocol. Scope 1 covers all direct emissions of greenhouse gases from Ørsted. The direct carbon emissions from the combined heat and power plants are determined on the basis of the fuel quantities used in accordance with the EU ETS scheme. Carbon dioxide and other greenhouse gas emissions outside the EU ETS scheme are for the most part calculated as energy consumptions multiplied by emission factors. Scope 2 emissions

are primarily calculated as the power volumes purchased multiplied by country-specific emission factors. Location based is calculated based on average emission factors for each country, whereas marked based takes account for green power purchased and assumes the non-green power is delivered as residual power where the green part has been taken out.

### Scope 3 greenhouse gas emissions

The scope 3 greenhouse gas emissions are reported based on the Greenhouse Gas Protocol which divides the scope 3 inventory into 15 subcategories.

GHG emissions from capital goods include upstream GHG emissions from installed wind farms. We calculate the emissions based on GHG life-cycle data from one of our wind turbine suppliers. Carbon emissions are included from cradle to operation and maintenance for single wind turbines. Wind farms are included in the month where the wind farm passes commercial operation date.

GHG emissions from fuel- and energy-related activities are calculated based on actual fuel consumption and power sales as reported in our ESG consolidation system. The fuel consumption is multiplied by emission factors to calculate the upstream GHG emissions from extraction, mining, forestry, transportation, etc., for the fuels. We include all power sales to end-customers and use separate emission factors for green and non-green power sales.

GHG emissions from use of sold products are calculated based on actual sales of gas (to both end-users and wholesale) as reported in our ESG consolidation system. The total gas sale is divided into natural gas, LNG gas and biogas which have specific upstream and downstream emission factors.

'Other' includes GHG emissions from:

- purchased goods and services calculated based on spend reports from our SAP system. All spends are divided into categories where relevant emission factors are used to calculate the GHG emissions from each spend category
- upstream transportation and distribution which are included in the emission factors we use for purchases and sale and are therefore not reported separately

- waste generated in operations calculated based on actual waste volumes multiplied with the relevant emission factors
- business travel which is calculated based on mileage allowances for employee travel in own car. GHG emissions from airplane travel is provided by our travel agent
- employee commuting is calculated based on estimates for distance travelled and travel type (e.g. car and train)
- downstream transportation and distribution which are calculated based on actual volumes of residual products generated from our CHP plants multiplied by relevant GHG emission factors for transportation

### Installed, decided and awarded renewable energy capacity

The installed renewable capacity is calculated as the cumulative renewable gross capacity installed by Ørsted before divestments. For installed renewable thermal capacity, we use the heat capacity, as heat is the primary outcome of thermal energy generation, and as bioconversions of the combined heat and power plants are driven by heat contracts. Decided (FID) capacity is the renewable capacity for which a final investment decision (FID) has been made. The awarded renewable capacity is based on the capacities which have been awarded to Ørsted in auctions and tenders. The contracted capacity is the capacity for which Ørsted has signed a contract or power purchase agreement (PPA) concerning a new renewable energy plant. Typically, offshore wind farms are awarded, whereas onshore wind farms are contracted. We include the full capacity if more than 50% of PPAs/offtake are secured.

### Heat and power generation

Power generation from wind is calculated as sold generation. The Gunfleet Sands and Walney 1 and 2 offshore wind farms have been consolidated according to ownership interest. The other wind farms are financially consolidated.

Thermal power generation is determined as net generation sold based on settlements from the official Danish production database. Data for generation from foreign facilities are provided by the operators. Thermal heat (including steam) generation is measured as net output sold to heat customers.

### Heat and power generation capacity

Power generation capacity from wind farms is included from the time when the individual wind turbine has passed a 240-hour test for offshore. For onshore, wind and solar farms the whole farm is included after COD. The Gunfleet Sands and Walney 1 and 2 offshore wind farms have been consolidated according to ownership interest. Other wind farms, solar and CHP plants are financially consolidated. The thermal heat and power generation capacity is a measure of the maximum capability to generate heat and power. The capacity can change over time with plant modifications. For each CHP plant, the capacity is given for generation with the primary fuel mix. Overload is not included.

### Availability and load factor

The production-based availability (PBA) is calculated as the ratio of actual production to the possible production, which is the sum of lost production and actual production in a given period. PBA is impacted by grid and wind-turbine outages, which are technical production losses. PBA is not impacted by market-requested shutdowns and wind farm curtailments, as this is deemed not to be reflective of site performance, but due to external factors.

The load factor is calculated as the ratio between actual generation over a period relative to potential generation, which is possible by continuously exploiting the maximum capacity over the same period. The load factor is commercially adjusted. Commercially adjusted means that, for Danish and German offshore wind farms, the load factor is adjusted if the offshore wind farm has been financially compensated by the transmission system operators in situations where the offshore wind farm is available for generation, but the output cannot be supplied to the grid due to maintenance or grid interruptions. Wind farms in other countries are not compensated for non-access to the grid.

### Wind speed

Wind speeds for the areas where Ørsted's offshore wind farms are located are provided to Ørsted by an external supplier. Wind speeds are weighted on the basis of the capacity of the individual offshore wind farms and consolidated to an Ørsted total. Onshore wind speed is based on wind speed measurements from anemometers on the wind turbines. Due to the location of these anemometers on the wind turbine nacelles, these measurements understate actual wind speed conditions on site as they are impacted by the wake and blockage effects.

**Sales and distribution**

Sales of power and natural gas are calculated as physical sales to retail and wholesale customers and exchanges. Sales of power and gas are based on readings from Ørsted's trading systems. Internal sales to Bioenergy are not included in the statement. Power distribution is determined on the basis of data from the official system in Denmark, which measures and calculates total area consumption.

**Degree days**

Degree days are a measure of how cold it has been, and thus indicate the amount of energy needed to heat a building. The number of degree days helps to compare the heat demand for a given year with a normal year. The number of degree days expresses the difference between an average indoor temperature of 17°C and the outside mean temperature for a given period. The need for heat increases with the number of degree days.

**Coal share of fuels used for thermal heat and power generation**

The coal share is calculated as the coal consumption in gigajoule relative to the total fuel volume in gigajoule.

**Sourcing of certified wooden biomass**

Certified biomass is defined as wooden biomass, i.e. wood pellets and wood chips. Biomass is measured as sourced wooden biomass delivered to the individual combined heat and power plants within the reporting period.

Certified sustainable wooden biomass sourced must be certified within at least one of the claim categories accepted by the Danish industry agreement on certified biomass. Accepted claim categories are: FSC 100%, FSC Mix, PEFC 100%, and SBP compliant. Certified biomass is calculated as the amount of sourced wooden biomass compared to the total amount of sourced wooden biomass delivered to individual CHP plants within the reporting period.

**Biomass share of thermal heat and power generation**

This is calculated as the green share of heat and power generation, but is only shown for thermal heat and power generation.

**Avoided carbon emissions**

The avoided carbon emissions due to generation from offshore and onshore wind farms are calculated under the assumption that the generation from wind farms replace an equal quantity of power generated using fossil fuels.

The carbon emissions avoided due to conversions of combined heat and power plants and subsequent switch of fuel from fossil to biomass is calculated from the energy content of the fuel used at CHP plants. It is assumed that the use of 1GJ of biomass fuel avoids the use of 1GJ of fossil fuels. The upstream emissions from biomass fuel production and transportation are included.

**Accounting policies – Social****Employees**

Our reporting covers contractually employed employees in all Ørsted companies in which Ørsted holds an ownership interest of more than 50%. Employees in associates are not included.

Employee data are recognised based on records from the Group's ordinary registration systems. The number of employees is determined as the number of employees at the end of each month converted to full-time equivalents (FTEs).

Employees who have been made redundant are recognised until the expiry of their notice period, regardless of whether they have been released from all or some of their duties during their notice period.

**Employee satisfaction**

Ørsted conducts a comprehensive employee satisfaction survey once a year. With a few exceptions, all Ørsted employees are invited to participate in the survey.

The following employees are not invited to participate: Employees who joined the company shortly before the employee satisfaction survey, employees who resigned shortly after the employee satisfaction survey, interns, consultants/advisers and external temporary workers who do not have an employment contract with Ørsted.

In the survey, a number of questions are asked. The answers are given on a scale from 1 to 10 and are

subsequently converted to index figures on a scale from 0 to 100.

**Safety**

Occupational injuries are calculated according to operational scope. Data from companies wholly or partly owned by Ørsted, and where Ørsted is responsible for safety, is included. Occupational injuries and lost-time injuries are calculated for both our own employees and suppliers. Data from all Ørsted locations is recognised.

The lost-time injury frequency (LTIF) is calculated as the number of lost-time injuries per one million hours worked. The number of hours worked is based on 1,667 working hours annually per full-time employee and monthly records of the number of employees converted into full-time employees. For suppliers, the actual number of hours worked is recognised on the basis of data provided by the supplier, access control systems at locations or estimates.

LTIF includes lost-time injuries defined as injuries that result in incapacity to work for one or more calendar days in addition to the day of the incident. In addition to lost-time injuries, TRIR also includes injuries where the injured person is able to perform restricted work the day after the accident as well as accidents where the injured person has received medical treatment. Fatalities are the number of employees who lost their lives as a result of a work-related incident.

**Job creation**

The number of job years is calculated based on a factor for job years per megawatt installed provided by the International Renewable Energy Agency, IRENA. The job year creation factor is based on a 500MW offshore wind farm. The factor is not adjusted for other details, such as when the wind farm was constructed (wind turbine size and other parameters), wind farm size-specific parameters beyond a simple scaling of capacity size or geographical position (i.e. water depths and distance to shore).

The number of job years created relates only to the value chain from procurement and manufacturing, over installation, operation and maintenance, to decommissioning.

This means that job years related to, for example, mining and manufacturing of steel and concrete

as well as local jobs, such as hotels and dining for people working on local sites, are not included. A lifetime of 25 years for all wind farms is used.

The number of job years relates to the installed capacity and not Ørsted's ownership share of the wind farm. The number of job years varies during the lifespan, and most of the jobs are created in the beginning during construction and installation.

**People powered**

The figure for people powered based on installed capacity is calculated using the capacity installed, the actual load factor and country-specific power consumption per person (state-specific consumption factors are used in the US). People powered based on FID and awarded capacity is calculated on the basis of capacity, an average load factor based on business cases for offshore wind, onshore wind and solar. Consumption is country-specific consumption per person (state-specific consumption factors are used in the US).

**Accounting policies – Governance****Board of Directors of Ørsted A/S**

The employee representatives on the Board of Directors are not included in the data for the Board of Directors.

**Substantiated whistleblower cases**

Ørsted's whistleblower hotline is available for internal and external reporting of suspected cases of inappropriate or illegal behaviour. Whistleblower cases are received and handled by the Internal Audit function, which also receives similar reports through the management system and from compliance officers. All reports are managed in accordance with the guidelines for the handling of whistleblower reports approved by the Audit & Risk Committee, which is ultimately responsible for the whistleblower scheme. Only cases, which are closed during the financial year, and which have been reported to the Audit & Risk Committee as fully or partially substantiated, are reported in the ESG statement.

**Cases transferred to the police**

Cases transferred to the police are defined as the number of cases reported in accordance with the above which are transferred to the police.

# Parent company financial statements

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As we expand our operations in Taiwan's Changhua County, we have committed to establishing a USD 1.94 million trust fund to provide local suppliers with further training and qualifications. It is expected that the Changhua wind farm projects will create over 12,000 direct and indirect jobs.

# Income statement

1 January - 31 December

Note	Income statement, DKKm	2019	2018
	Revenue	173	198
2	Employee costs	(36)	(33)
	External expenses	(168)	(356)
	<b>Operating profit (loss) before depreciation, amortisation and impairment losses (EBITDA)</b>	<b>(31)</b>	<b>(191)</b>
	Amortisation, depreciation and impairment losses on property, plant and equipment	(146)	-
	<b>Operating profit (loss) (EBIT)</b>	<b>(177)</b>	<b>(191)</b>
	Gain on divestment of enterprises	(94)	(10)
3	Financial income	18,743	10,014
3	Financial expenses	(14,533)	(6,732)
	<b>Profit (loss) before tax</b>	<b>3,939</b>	<b>3,081</b>
4	Tax on profit (loss) for the year	(376)	(69)
5	<b>Profit (loss) for the year</b>	<b>3,563</b>	<b>3,012</b>

# Balance sheet

31 December

Note	Assets, DKKm	2019	2018
6	Land and buildings	1,352	-
	<b>Property, plant and equipment</b>	<b>1,352</b>	<b>-</b>
7	Investments in subsidiaries	36,850	40,425
8	Receivables from subsidiaries	91,839	55,131
	Other receivables	-	1,082
4	Deferred tax	126	-
	<b>Financial assets</b>	<b>128,815</b>	<b>96,638</b>
	<b>Non-current assets</b>	<b>130,167</b>	<b>96,638</b>
	Receivables from subsidiaries	20,771	32,933
9	Derivatives	4,260	3,102
	Other receivables	2,642	604
	<b>Receivables</b>	<b>27,673</b>	<b>36,639</b>
10	Securities	15,795	24,740
	Cash	947	1,105
	<b>Current assets</b>	<b>44,415</b>	<b>62,484</b>
	<b>Assets</b>	<b>174,582</b>	<b>159,122</b>

Note	Equity and liabilities, DKKm	2019	2018
	Share capital	4,204	4,204
	Reserves	(81)	(296)
	Retained earnings	24,350	25,968
	Proposed dividends	4,414	4,099
	<b>Equity attributable to shareholders in Ørsted A/S</b>	<b>32,887</b>	<b>33,975</b>
11	Hybrid capital	13,232	13,239
	<b>Equity</b>	<b>46,119</b>	<b>47,214</b>
4	Deferred tax	-	97
12	Other provisions	601	794
11	Lease liabilities	1,272	-
11	Bond and bank debt	31,808	23,482
	<b>Non-current liabilities</b>	<b>33,681</b>	<b>24,373</b>
12	Other provisions	82	-
	Lease liabilities	115	-
	Bond and bank debt	1,593	3,448
9	Derivatives	5,119	3,322
	Trade payables	33	34
	Payables to subsidiaries	85,695	79,364
	Other payables	1,084	1,242
	Income tax	1,061	125
	<b>Current liabilities</b>	<b>94,782</b>	<b>87,535</b>
	<b>Liabilities</b>	<b>128,463</b>	<b>111,908</b>
	<b>Equity and liabilities</b>	<b>174,582</b>	<b>159,122</b>

# Statement of changes in equity

1 January - 31 December

Statement of changes in equity, DKKm	Share capital	Hedging reserve	Retained earnings	Proposed dividends	Shareholders in Ørsted A/S	Hybrid capital	Total
Equity at 1 January 2019	4,204	(296)	25,968	4,099	33,975	13,239	47,214
Profit (loss) for the year	-	-	2,888	-	2,888	675	3,563
Dividends paid	-	-	3	(4,099)	(4,096)	-	(4,096)
Proposed dividends	-	-	(4,414)	4,414	-	-	-
Purchase of treasury shares	-	-	(99)	-	(99)	-	(99)
Value adjustments of hedging instruments	-	185	-	-	185	-	185
Value adjustments transferred to financial income and expenses	-	90	-	-	90	-	90
Tax on changes in equity	-	(60)	-	-	(60)	-	(60)
Coupon payments, hybrid capital	-	-	-	-	-	(556)	(556)
Tax on coupon payments	-	-	-	-	-	34	34
Share-based payment	-	-	4	-	4	-	4
Additions, hybrid capital	-	-	-	-	-	4,416	4,416
Disposals, hybrid capital	-	-	-	-	-	(4,576)	(4,576)
<b>Changes in equity in 2019</b>	-	<b>215</b>	<b>(1,618)</b>	<b>315</b>	<b>(1,088)</b>	<b>(7)</b>	<b>(1,095)</b>
<b>Equity at 31 December 2019</b>	<b>4,204</b>	<b>(81)</b>	<b>24,350</b>	<b>4,414</b>	<b>32,887</b>	<b>13,232</b>	<b>46,119</b>
Equity at 1 January 2018	4,204	(467)	27,522	3,783	35,042	13,239	48,281
Profit (loss) for the year	-	-	2,587	-	2,587	425	3,012
Dividends paid	-	-	2	(3,783)	(3,781)	-	(3,781)
Proposed dividends	-	-	(4,099)	4,099	-	-	-
Purchase of treasury shares	-	-	(48)	-	(48)	-	(48)
Value adjustments of hedging instruments	-	84	-	-	84	-	84
Value adjustments transferred to financial income and expenses	-	135	-	-	135	-	135
Tax on changes in equity	-	(48)	-	-	(48)	-	(48)
Coupon payments, hybrid capital	-	-	-	-	-	(545)	(545)
Tax on coupon payments	-	-	-	-	-	120	120
Share-based payment	-	-	4	-	4	-	4
<b>Changes in equity in 2018</b>	-	<b>171</b>	<b>(1,554)</b>	<b>316</b>	<b>(1,067)</b>	-	<b>(1,067)</b>
<b>Equity at 31 December 2018</b>	<b>4,204</b>	<b>(296)</b>	<b>25,968</b>	<b>4,099</b>	<b>33,975</b>	<b>13,239</b>	<b>47,214</b>



Share capital composition and dividends are disclosed in note 6.2 to the consolidated financial statements. Information on treasury shares is available in the note.

# 1. Basis of reporting

## Accounting policies

The parent company financial statements have been prepared in accordance with the provisions of the Danish Financial Statements Act (reporting class D).

The Danish Financial Statements Act allows us to use certain IFRS standards to interpret the act. Effective from 1 January 2019, we have implemented IFRS 16 'Leases'.

The implementation of IFRS 16 'Leases' in 2019 has increased our EBITDA for 2019 by DKK 149 million. Depreciation of lease assets amounted to DKK 146 million, and interests on lease debt amounted to DKK 38 million. The net effect on profit (loss) for 2019 was a loss of DKK 35 million.

The effect on the balance sheet per 31 December 2019 was an increase in assets of DKK 1,352 million and an increase in liabilities of DKK 1,387 million.

Also, IFRS 15 'Revenue' has been implemented. The implementation has no effect on the figures.

The accounting policies remain unchanged from the previous year with the exception of the implementation of IFRS 15 'Revenue' and IFRS 16 'Leases'.

Unless otherwise stated, the financial statements are presented in Danish kroner (DKK) rounded to the nearest million.

The parent company accounting policies are consistent with the accounting policies described for the consolidated financial statements, with the following exceptions.

## Foreign currency translation

We recognise exchange rate adjustments of receivables from and payables to subsidiaries as financial income and expenses in the income statement when the balances are accounted for as part of the total net investment in foreign enterprises. Likewise, we recognise foreign exchange gains and losses on loans and derivatives in the income statement as financial income and expenses when they have been entered into to hedge the net investment in the foreign enterprises.

## Revenue

Rental income comprises income from commercial leases and is recognised over the term of the lease. Income from services is recognised when delivery has taken place.

## Dividends from investments

Dividends from subsidiaries and associates are recognised in the income statement for the financial year in which the dividends are approved at the annual general meeting. If the dividends exceed the total income after the time of takeover, the dividends are recognised as a reduction of the cost of the investment under assets.

## Investments

We measure our investments in subsidiaries and associates at cost. If there is any indication that the value of a company is lower than our future earnings in the company, impairment testing of the company is carried out as described in the consolidated financial statements. The carrying amount is written down to the recoverable amount whenever the carrying amount exceeds the future earnings in the company (recoverable amount).

If we have a legal or constructive obligation to cover a deficit in subsidiaries and associates, we recognise a provision for this.

## Tax

Ørsted A/S is taxed jointly with its Danish subsidiaries. The jointly taxed companies are part of joint taxation with the parent company as the management company.

Subsidiaries are included in the joint taxation from the date they are consolidated in the consolidated financial statements and up to the date on which they are no longer consolidated.

Current tax for 2019 is recognised by the individual jointly taxed companies.

## Statement of cash flows

We do not prepare a separate statement of cash flows for the parent company. Reference is made to the consolidated statement of cash flows on page 71.

## Key accounting estimates

In connection with the preparation of the financial statements, a number of accounting estimates have been made that affect the profit (loss) and balance sheet. Estimates are regularly reassessed by management on the basis of historical experience and other relevant factors.

### Impairment test

If there is any indication that the carrying amount is lower than our future earnings in a company, we test for impairment as described in the consolidated financial statements. The future earnings of the company (recoverable amount) are calculated based on assumptions concerning significant estimates.



Formosa 1, north-western coast, Taiwan.

## 2. Employee costs

Employee costs, DKKm	2019	2018
Wages and salaries	27	24
Share-based payment	4	4
Remuneration of the Board of Directors	5	5
<b>Total employee costs</b>	<b>36</b>	<b>33</b>

Salaries and remuneration of the Executive Board, DKK '000	2019	2018
Fixed salary	16,810	16,400
Cash-based incentive scheme	4,561	4,630
Retention bonus, etc.	-	1,875
Share-based payment	4,046	3,537
Pension, incl. social security and benefits	564	555
<b>Total</b>	<b>25,981</b>	<b>26,997</b>

Notes 2.6 and 2.7 to the consolidated financial statements describe the remuneration of the Executive Board and the Board of Directors, share-based payment, termination and bonus scheme for the Executive Board and details on the remuneration of the Board of Directors.

The parent company had an average of six employees in 2019 (2018: five employees).

## 3. Financial income and expenses

Financial income and expenses, DKKm	2019	2018
Interest income from cash, etc.	103	56
Interest income from subsidiaries	2,546	1,803
Interest income from securities at market value	221	258
Capital gains on securities at market value	166	119
Foreign exchange gains	2,974	1,243
Value adjustments of derivatives	8,664	2,511
Dividends received	4,068	4,024
Other financial income	1	-
<b>Total financial income</b>	<b>18,743</b>	<b>10,014</b>
Interest expenses relating to loans and borrowings	(1,625)	(1,502)
Interest expenses, leases	(38)	-
Interest expenses to subsidiaries	(8)	(9)
Impairment of investments in subsidiaries	(2,101)	(1,400)
Capital losses on securities at market value	(17)	(292)
Foreign exchange losses	(1,060)	(1,169)
Value adjustments of derivatives	(9,676)	(2,330)
Other financial expenses	(8)	(30)
<b>Total financial expenses</b>	<b>(14,533)</b>	<b>(6,732)</b>
<b>Net financial income and expenses</b>	<b>4,210</b>	<b>3,282</b>

## 4. Tax on profit (loss) for the year and deferred tax

Income tax, DKKm	2019	2018
Tax on profit (loss) for the year	(376)	(69)
Tax on changes in equity	(30)	(86)
<b>Total tax for the year</b>	<b>(406)</b>	<b>(155)</b>
<b>Tax on profit (loss) for the year can be broken down as follows:</b>		
Current tax	(704)	(88)
Adjustments to deferred tax	226	(18)
Adjustments to current tax in respect of prior years	105	35
Adjustments to deferred tax in respect of prior years	(3)	2
<b>Tax on profit (loss) for the year</b>	<b>(376)</b>	<b>(69)</b>

Development in deferred tax, DKKm	2019	2018
Deferred tax at 1 January	97	81
Adjustments for the year recognised in profit (loss) for the year	(226)	18
Adjustments to deferred tax in respect of prior years	3	(2)
<b>Deferred tax at 31 December</b>	<b>(126)</b>	<b>97</b>

Specification of deferred tax, DKKm	2019	2018
Non-current liabilities	126	97
<b>Deferred tax, asset</b>	<b>126</b>	<b>-</b>
<b>Deferred tax, liability</b>	<b>-</b>	<b>97</b>

## 5. Distribution of net profit

Distribution of net profit, DKKm	2019	2018
<b>Profit (loss) for the year is attributable to:</b>		
Shareholders in Ørsted A/S, proposed dividends for the financial year	4,414	4,099
Shareholders in Ørsted A/S, retained earnings	(1,526)	(1,512)
Interest payments and costs, hybrid capital owners of Ørsted A/S	675	425
<b>Profit (loss) for the year</b>	<b>3,563</b>	<b>3,012</b>

## 6. Property, plant and equipment

Property, plant and equipment, DKKm	Land and buildings
Cost at 1 January 2019	-
Lease assets at 1 January 2019	1,498
<b>Cost at 31 December 2019</b>	<b>1,498</b>
Depreciation and amortisation at 1 January 2019	-
Depreciation and amortisation	146
<b>Depreciation and amortisation at 31 December 2019</b>	<b>146</b>
<b>Carrying amount at 31 December 2019</b>	<b>1,352</b>
<b>Value of leased assets</b>	<b>1,352</b>

Effective from 1 January 2019, we have implemented IFRS 16 'Leases', see note 1 'Basis of reporting'.

We have entered into leases for office premises, primarily in Gentofte (expiring in 2028).

We have entered into operating leases with subsidiaries for sublease of office premises.

In 2019, an amount of DKK 106 million was recognised (2018: DKK 97 million) in profit (loss) for the year in respect of rental income.

## 7. Investments in subsidiaries

Investments in subsidiaries, DKKm	2019	2018
Cost at 1 January	41,825	41,762
Additions	27	63
Disposals	(1,501)	-
<b>Cost at 31 December</b>	<b>40,351</b>	<b>41,825</b>
Value adjustments at 1 January	(1,400)	-
Impairment losses	(2,101)	(1,400)
<b>Value adjustments at 31 December</b>	<b>(3,501)</b>	<b>(1,400)</b>
<b>Carrying amount at 31 December</b>	<b>36,850</b>	<b>40,425</b>



Note 8.5 of the consolidated financial statements contains a complete overview of subsidiaries, etc.

We have tested investments in subsidiaries for impairment by comparing the expected future income from the individual subsidiaries with their carrying amounts.

The impairment test in 2019 gave rise to an impairment of DKK 2,101 million (2018: DKK 1,400 million) based on the individual subsidiaries recoverable amounts.

## 8. Receivables from subsidiaries

Non-current receivables from subsidiaries, DKKm	2019	2018
Cost at 1 January	55,131	48,706
Additions	50,844	17,641
Disposals	(14,136)	(11,216)
<b>Cost at 31 December</b>	<b>91,839</b>	<b>55,131</b>



Our Service Operations Vessel (SOV), Edda Mistral, at Hornsea 1, North Sea, UK.

## 9. Derivatives

Ørsted A/S has assumed the subsidiaries' currency risks via forward exchange contracts, which have subsequently been hedged in the market. Furthermore, hedging contracts have been concluded to hedge the currency risk associated with investments in subsidiaries in foreign currencies.

We have also entered into a number of interest rate swaps to manage our interest rate risk.

The company has fair value hedged loans and receivables in GBP, USD and EUR. The value of the fair value hedge offset in the income statement amounted to DKK 730 million (2018: DKK 263 million).

Derivatives at the end of December 2019 mature as follows: 2020: DKK -459 million, 2021: DKK -175 million, after 2021: DKK -225 million (2018: 2019: DKK -99 million, 2020: DKK -268 million, after 2020: DKK 147 million).

Overview of derivative positions, DKKm	2019		2018	
	Contractual principal amount	Market value	Contractual principal amount	Market value
Interest derivatives	4,431	(85)	6,588	(39)
Currency derivatives	26,727	(774)	17,623	(181)
<b>Total</b>	<b>31,158</b>	<b>(859)</b>	<b>24,211</b>	<b>(220)</b>
<b>Assets</b>		<b>4,260</b>		<b>3,102</b>
<b>Equity and liabilities</b>		<b>(5,119)</b>		<b>(3,322)</b>



See note 7.1 to the consolidated financial statements and the management's review on pages 60-63 for more details on risk and risk management.

## 10. Securities

Securities are a key element in our financial resources, and therefore investments are primarily made in liquid AAA-rated Danish mortgage bonds and to a lesser extent in

other bonds. Most of the securities qualify for repo transactions in the Danish central bank, 'Danmarks Nationalbank'.

Securities, DKKm	2019	2018
Securities, available for us	15,795	24,407
Securities, not available for use	-	333
<b>Total securities</b>	<b>15,795</b>	<b>24,740</b>



Securities not available for use in 2018 was used as collateral for repo loans and trading in financial instruments.

## 11. Loans and borrowings

At 31 December 2019, we had issued hybrid capital with a total notional amount of DKK 14,019 million (2018: DKK 13,432 million). The hybrid bonds have a 1,000-year term and expire as follows: DKK 5,230 million in 3013, DKK 570 million in 3015, DKK 3,736 million in 3017 and DKK 4,483 million in 3019, respectively.

The long-term portion of bank loans and issued bonds amounted to DKK 31,808 million at 31 December 2019 (2018: DKK 23,482 million), of which DKK 24,938 million (2018: DKK 16,376 million) fall due in more than five years.

The long-term portion of lease debt amounted to DKK 1,272 million, of which DKK 749 million fall due in more than five years.

## 12. Other provisions

We have made provisions for non-current liabilities totalling DKK 683 million (2018: DKK 794 million), of which DKK 82 million fall due within 1 year, DKK 563 million fall due

in 1-5 years, and DKK 38 million fall due in more than 5 years. The liabilities concern the divestment of our Oil & Gas business which was closed in 2017.

## 13. Contingent liabilities

### Contingent liabilities

#### Guarantees

Ørsted A/S has provided guarantees in connection with participation by subsidiaries and subsidiaries' joint operations and joint ventures in the construction and operation of offshore wind farms and natural gas installations as well as guarantees in respect of leases, energy trading activities, purchase, sale and supply agreements, decommissioning obligations, farmdowns and other M&A transactions as well as secondary liability on decommissioning of offshore installations related to the divestment of the Oil & Gas business, etc.

Ørsted A/S also acts as guarantor or surety provider with primary liability for bank liabilities in certain subsidiaries. This includes guarantees provided in favour of banks and investors covering credit facilities established and bonds issued in Taiwan.

Furthermore, in support of the ratings of Ørsted Salg & Service A/S by Moody's and Ørsted Wind Power TW Holding A/S by Taiwan Ratings, Ørsted A/S has provided general guarantees covering all obligations and liabilities undertaken in the ordinary course of business by these two entities.

#### Indemnities

Ørsted A/S is taxed jointly with the Danish companies in the Ørsted Group. As management company, Ørsted A/S has unlimited as well as joint and several liability together with the other jointly taxed companies for Danish income taxes and withholding taxes on dividends, interest and royalties related to the jointly taxed companies.

#### Litigation

Ørsted A/S is not a party to any litigation proceedings or legal disputes that could have an effect on the company's financial position, either individually or collectively.

## 14. Related-party transactions

Related parties are the Board of Directors, the Executive Board, Ørsted A/S's subsidiaries and the Danish state.

Remuneration of the Board of Directors and the Executive Board is disclosed in notes 2.6 'Employee costs' and 2.7 'Share-based

payment' in the consolidated financial statements.

Our related-party transactions are made on arm's length terms.

## 15. Auditor's fees

Auditor's fees, DKKm	2019	2018
Statutory audit	2	2
Tax and VAT advice	-	1
<b>Total fees to PwC</b>	<b>2</b>	<b>3</b>

## 16. Ownership information

Ownership information 31 December 2019	Registered office	Ownership interests	Voting share
The Danish state represented by the Danish Ministry of Finance	Copenhagen K, Denmark	50.12%	50.64%
SEAS-NVE A.M.B.A.	Svinninge, Denmark	7.28%	7.35%
The Capital Group Companies, Inc.	Los Angeles, USA	-	5-10% <sup>1</sup>

<sup>1</sup> Interval shown, as precise voting share is not publicly available.



The table shows the shareholders with ownership interests and voting shares of at least 5%. Difference between ownership interests and voting shares arises when power of attorney is issued.

In connection with SEAS-NVE's acquisition of our Danish power distribution, residential customer and city light businesses, SEAS-NVE stated an intention to reduce its shareholding from 9.54% to a shareholding of approx 5% over the coming 12 months. In both November 2019 and January 2020, SEAS-NVE sold shares equivalent to 2.27% of the shares in Ørsted, bringing their shareholding to 5.01%.

# Management statement, auditors' reports and glossary

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- 181** Limited Assurance Report on the consolidated ESG statements
- 182** Glossary

Walney Extension, located in the Irish Sea, generates green power for nearly 600,000 UK homes and was the world's largest offshore wind farm in operation until Hornsea 1 was commissioned at the end of 2019. Over the project's lifetime, we are investing GBP 15 million in social and environmental projects aimed at strengthening the local community and economy.



# Statement by the Executive Board and the Board of Directors

The Board of Directors and the Executive Board have today considered and approved the annual report of Ørsted A/S for the financial year 1 January - 31 December 2019.

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU and additional requirements in the Danish Financial Statements Act. The financial statements of the parent company, Ørsted A/S, have been prepared in accordance with the provisions of the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements provide a true and fair presentation of the Group's and the parent company's assets, liabilities and financial position at 31 December 2019 and of the results of the Group's and the parent company's operations and the Group's cash flows for the financial year 1 January - 31 December 2019.

In our opinion, the management's review provides a true and fair presentation of the development in the Group's and the parent company's operations and financial circumstances, of the results for the year and of the overall financial position of the Group and the parent company as well as a description

of the most significant risks and elements of uncertainty facing the Group and the parent company. The management's review has been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated ESG statements ('Additional information') represent a reasonable, fair and balanced representation of the Group's social responsibility and sustainability performance and are presented in accordance with the stated accounting policies.

We recommend that the annual report be adopted at the annual general meeting.

Skærbæk, 30 January 2020

## Executive Board:

**Henrik Poulsen**  
President and CEO

**Marianne Wiinholt**  
CFO

## Board of Directors:

**Thomas Thune Andersen**  
Chairman

**Lene Skole**  
Deputy Chairman

**Lynda Armstrong**

**Jørgen Kildahl**

**Peter Korsholm**

**Dieter Wemmer**

**Hanne Sten Andersen\***

**Poul Dreyer\***

**Benny Gøbel\***

\* Employee representative

# Independent Auditors' Report

## To the shareholders of Ørsted A/S

### Our opinion

In our opinion, the Consolidated Financial Statements give a true and fair view of the Group's financial position at 31 December 2019 and of the results of the Group's operations and cash flows for the financial year 1 January to 31 December 2019 in accordance with International Financial Reporting Standards as adopted by the EU ('IFRS') and further requirements in the Danish Financial Statements Act.

Moreover, in our opinion, the Parent Company Financial Statements give a true and fair view of the Parent Company's financial position at 31 December 2019 and of the results of the Parent Company's operations for the financial year 1 January to 31 December 2019 in accordance with the Danish Financial Statements Act.

Our opinion is consistent with our Auditor's Long-form Report to the Audit & Risk Committee and the Board of Directors.

### What we have audited

The Consolidated Financial Statements of Ørsted A/S for the financial year 1 January to 31 December 2019, pp 66 - 157 and 177, comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in

equity, the consolidated cash flow statement and the notes to the consolidated financial statements, including summary of significant accounting policies.

The Parent Company Financial Statements of Ørsted A/S for the financial year 1 January to 31 December 2019, pp 166 - 175, comprise the income statement, the balance sheet, the statement of changes in equity and the notes to the parent financial statements, including summary of significant accounting policies.

Collectively referred to as the "Financial Statements".

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for

Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark. We have also fulfilled our other ethical responsibilities in accordance with the IESBA Code.

To the best of our knowledge and belief, prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 were not provided.

### Appointment

We were first appointed auditors of Ørsted A/S on 19 April 2010 for the financial year 2010. We have been reappointed annually

### Key audit matter

#### Construction agreements

The accuracy of the revenue recognition related to large construction agreements for offshore wind farms and its presentation in the consolidated financial statements is dependent on complex estimates, such as the forecasted selling price and estimated costs related to the constructions as well as the degree of completion of the offshore wind farms under construction.

We focused on this area because the revenue recognised over time with reference to the degree of completion requires significant judgements and estimates by Management.

Refer to notes 1.2, 2.2 and 4.2 in the Consolidated Financial Statements.

by shareholder resolution for a total period of uninterrupted engagement of 10 years, including the financial year 2019.

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements for 2019. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### How our audit addressed the key audit matter

We reviewed the individual construction agreements for offshore wind farms and challenged the accounting treatment applied by Management.

On a sample basis, we tested whether revenue is accurately recorded by challenging the forecasted selling price and estimated costs related to the constructions of offshore wind farms, including the assumptions used, and by evaluating the outcome of previous estimates by agreeing the actual selling price and costs incurred post-year end to the forecasted selling price and estimated costs for the period.

We also assessed how the project managers determined that the degree of completion was substantiated by obtaining their calculations and agreeing the inputs to documentary evidence or our independently formed expectation as appropriate.

### Statement on Management's Review

Management is responsible for the Management's Review, pp 4 - 65.

Our opinion on the Financial Statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the Financial Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Moreover, we considered whether Management's Review includes the disclosures required by the Danish Financial Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Consolidated Financial Statements and the Parent Company Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement in Management's Review.

### Management's responsibilities for the Financial Statements

Management is responsible for the preparation of consolidated financial statements that

give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act and for the preparation of parent company financial statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, Management is responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs

and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit in accordance with ISAs and additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness

of the Group's and the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we

determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Hellerup, 30 January 2020

**PricewaterhouseCoopers**

Statsautoriseret Revisionspartnerselskab  
CVR no. 3377 1231

**Lars Baungaard**

State Authorised Public Accountant  
mne23331

**Rasmus Friis Jørgensen**

State Authorised Public Accountant  
mne28705

# Limited Assurance Report on the consolidated ESG statements

## To the stakeholders of Ørsted A/S

Ørsted A/S engaged us to provide limited assurance on the data described below and set out in the consolidated environment, social and governance statements for the period 1 January - 31 December 2019 (consolidated ESG statements) as included on pages 158-165 in the Annual Report of Ørsted A/S for 2019.

## Our conclusion

Based on the procedures we performed and the evidence we obtained, nothing came to our attention that causes us not to believe that the consolidated ESG statements are free of material misstatements and are prepared, in all material respects, in accordance with the accounting policies as stated on pages 158-165.

This conclusion is to be read in the context of what we say in the remainder of our report.

## What we are assuring

The scope of our work was limited to assurance over data in the consolidated ESG statements for the period 1 January - 31 December 2019 on pages 158-165.

## Professional standards applied and level of assurance

We performed a limited assurance engagement in accordance with the International Standard on Assurance Engagements 3000 (revised) 'Assurance Engagements other than Audits and Reviews of Historical Financial Information'. A limited assurance engagement is substantially less in scope than a reasonable assurance

engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks; consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

## Our independence and quality control

We have complied with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which includes independence and other ethical requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. The firm applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. Our work was carried out by an independent multi-disciplinary team with experience in sustainability reporting and assurance.

## Understanding reporting and measurement methodologies

Data and information need to be read and understood together with the accounting policies on pages 158-165, which management are solely responsible for selecting and applying. The absence of a significant body of established practice on which to draw to evaluate and

measure non-financial information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time.

## Work performed

We are required to plan and perform our work in order to consider the risk of material misstatement of the data. In doing so and based on our professional judgment, we:

- conducted interviews with Group functions to assess consolidation processes, use of company-wide systems and controls performed at Group level;
- performed an assessment of materiality and the selection of topics for the consolidated ESG statements for the period 1 January - 31 December 2019;
- conducted analytical review of the data and trend explanations submitted by all business units for consolidation at Group level;
- evaluated the evidence obtained.

## Management's responsibilities

Management of Ørsted A/S is responsible for:

- designing, implementing and maintaining internal control over information relevant to the preparation of data in the consolidated ESG statements on pages 158-165 that are free from material misstatement, whether due to fraud or error;
- establishing objective accounting policies for preparing data;
- measuring and reporting data in the consolidated ESG statements based on the accounting policies; and

- the content of the consolidated ESG statements for the period 1 January - 31 December 2019.

## Our responsibility

We are responsible for:

- planning and performing the engagement to obtain limited assurance about whether consolidated ESG statements for the period 1 January - 31 December 2019 on pages 158-165 are free from material misstatements and are prepared, in all material respects, in accordance with the accounting policies;
- forming an independent conclusion, based on the procedures performed and the evidence obtained
- reporting our conclusion to the stakeholders of Ørsted A/S.

Hellerup, 30 January 2020

## PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab  
CVR no. 3377 1231

## Lars Baugaard

State Authorised Public Accountant  
mne23331

## Rasmus Friis Jørgensen

State Authorised Public Accountant  
mne28705

# Glossary

**Alternating Current (AC):** The type of power transported to the utility grid and used in homes.

**Availability:** Availability is calculated as the ratio of actual production to the possible production, which is the sum of lost production and actual production in a given period. The production-based availability (PBA) is impacted by grid and wind turbine outages, which are technical production losses. PBA is not impacted by market requested shutdowns and wind farm curtailments, as this is deemed not to be reflective of site performance, but due to external factors.

**Avoided emissions:** The amount other sources of energy would have emitted, if we had not generated energy from renewable sources

**Awarded capacity:** Offshore capacity that we have been awarded in auctions and tenders, but where we have yet to sign a PPA and take final investment decision.

**Biomass conversion:** When a CHP plant is converted from using fossil fuels to using biomass, such as wood pellets, wood chips and straw. After the conversion, the CHP plant will typically be able to use biomass along with the original fuel types.

**Blockage effect:** The blockage effect arises from the wind slowing down as it approaches the wind turbines.

**Carbon emission allowances:** Carbon emission allowances subject to the European Union Emissions Trading Scheme (EU ETS).

**CfD:** A contract for difference is a subsidy that guarantees the difference between the market reference price and the exercise price won.

**CHP plant:** A combined heat and power (CHP) plant generates both heat and power in the same process.

**Commissioning/COD:** When our assets are in operation, and the legal liability has been transferred from the supplier to us.

**Contracted capacity:** Onshore capacity where we have signed a PPA, but where we have not yet taken final investment decision.

**Levelised cost of electricity (LCOE):** Average cost measured as present value per megawatt hour (MWh) generated power, covering costs for development and construction as well as subsequent operation and maintenance of the asset.

**Direct Current (DC):** The type of power generated by our solar panels.

**Decided (FID) and installed capacity:** Installed generation capacity plus capacity for assets where a final investment decision has been made.

**Degree days:** Number of degrees in absolute figures in difference between the average temperature and the official Danish indoor temperature of 17°C.

**EPC:** Engineering, procurement and construction. The part of our business which handles the construction and installation of assets.

**FTE:** Employees (full-time equivalent). The number of full-time employees during a fixed time period.

**Generation capacity:** Ørsted's ownership of the asset. Offshore wind turbines are included when each turbine has passed the 240-hour test.

**Green certificates:** Certificate awarded to producers of environment-friendly power as a supplement to the market price of power in the given price area.

**Green dark spread (GDS):** Green dark spread represents the contribution margin per MWh of power generated at a coal-fired CHP plant with a given efficiency. It is determined as the difference between the market price of power and the cost of the coal (including associated freight costs) and carbon emission allowances used to generate the power.

**Hedging instruments:** Financial and physical instruments that can be used to guarantee a specific price

for the purchase or sale of, for example, commodities and currency.

**Installed capacity:** Installed capacity where the asset has been completed and has passed a final test.

**Investment tax credits (ITCs):** Federal tax credit based on qualifying renewable investment costs.

**Load factor:** The ratio between the actual power generation in a given period relative to the potential generation, which is possible by continuously exploiting the maximum capacity over the same period.

**Nord Pool:** The Norwegian-based Nordic power exchange which facilitates power trading in Norway, Sweden, Finland and Denmark.

**Offshore transmission assets:** Offshore transmission assets connect offshore generation to the onshore grid and typically include the offshore power transmission infrastructure, an onshore substation and the electrical equipment relating to the operation of the substation.

**O&M:** Operation and maintenance. The part of our business that operate and maintain our assets after installation.

**Partnership income:** Income originating from our partners' purchase of ownership interests in the offshore wind farms. Includes both the gain in connection with the farm-down and the subsequent construction of the wind farm.

**Power purchase agreement (PPA):** An agreement between us and a buyer/seller to purchase/sell the power we generate, which includes all commercial terms (price, delivery, volumes etc).

**Production tax credit (PTC):** Federal tax credit based on eligible power generation in the US.

**Ramp-up:** Generation until an asset has been completed and commissioned.

**ROCs:** Renewable obligation certificates issued by Ofgem in the UK to operators of accredited generating stations for the eligible renewable energy they generate. Operators can trade ROCs with other parties.

**Stress:** Method of measuring the market trading risk of loss on a portfolio from day to day, calculated on a fair-value basis.

**Tax equity:** An arrangement where an investor obtains rights to federal tax credits and other tax attributes in exchange for a cash contribution.

**Thermal generation:** Heat and power generated through the combustion of fossil fuels, biomass or waste.

**TRIR:** In addition to lost-time injuries, the total recordable injury rate (TRIR) also includes injuries where the injured person is able to perform restricted work the day after the accident as well as accidents where the injured person has received medical treatment.

**TTF:** Title transfer facility, Dutch gas hub.

**TWh:** Terawatt hour. The amount of energy generated in one hour with the effect of 1TW. 1TWh is equivalent to 1,000GWh or 1,000,000MWh.

**Value at risk (VaR):** A financial term used for measuring the loss that may occur in connection with a risk position, assuming a certain volatility, and that the position is held for a certain period of time.

**Wake effect:** Wake within wind farms and between neighbouring wind farms. There is a wake after each wind turbine where the wind slows down. As the wind flow continues, the wake spreads, and the wind speed recovers.

**Wind speed:** Shows the wind speed for Ørsted's wind farms. The wind measurements are weighted on the basis of our generation capacity and can be compared to a normal wind period.

**Ørsted A/S**

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30 January 2020

**ATTACHMENT 7-5**

**Eversource 2017 Financial  
Report**



UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

**FORM 10-K**

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

**For the Fiscal Year Ended December 31, 2017**

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

<u>Commission File Number</u>	<u>Registrant; State of Incorporation; Address; and Telephone Number</u>	<u>I.R.S. Employer Identification No.</u>
1-5324	<b>EVERSOURCE ENERGY</b> (a Massachusetts voluntary association) 300 Cadwell Drive Springfield, Massachusetts 01104 Telephone: (800) 286-5000	04-2147929
0-00404	<b>THE CONNECTICUT LIGHT AND POWER COMPANY</b> (a Connecticut corporation) 107 Selden Street Berlin, Connecticut 06037-1616 Telephone: (800) 286-5000	06-0303850
1-02301	<b>NSTAR ELECTRIC COMPANY</b> (a Massachusetts corporation) 800 Boylston Street Boston, Massachusetts 02199 Telephone: (800) 286-5000	04-1278810
1-6392	<b>PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE</b> (a New Hampshire corporation) Energy Park 780 North Commercial Street Manchester, New Hampshire 03101-1134 Telephone: (800) 286-5000	02-0181050

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

<u>Registrant</u>	<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
<b>Eversource Energy</b>	Common Shares, \$5.00 par value	New York Stock Exchange, Inc.

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

<u>Registrant</u>	<u>Title of Each Class</u>
-------------------	----------------------------

**The Connecticut Light and Power Company**

Preferred Stock, par value \$50.00 per share, issuable in series, of which the following series are outstanding:

\$1.90	Series	of 1947
\$2.00	Series	of 1947
\$2.04	Series	of 1949
\$2.20	Series	of 1949
3.90%	Series	of 1949
\$2.06	Series E	of 1954
\$2.09	Series F	of 1955
4.50%	Series	of 1956
4.96%	Series	of 1958
4.50%	Series	of 1963
5.28%	Series	of 1967
\$3.24	Series G	of 1968
6.56%	Series	of 1968

**NSTAR Electric Company**

Preferred Stock, par value \$100.00 per share, issuable in series, of which the following series are outstanding:

4.25%	Series	of 1956
4.78%	Series	of 1958

NSTAR Electric Company and Public Service Company of New Hampshire each meet the conditions set forth in General Instruction I(1)(a) and (b) of Form 10-K, and each is therefore filing this Form 10-K with the reduced disclosure format specified in General Instruction I(2) of Form 10-K.

Indicate by check mark if the registrants are well-known seasoned issuers, as defined in Rule 405 of the Securities Act.

<u>Yes</u>	<u>No</u>
<input checked="" type="checkbox"/>	<input type="checkbox"/>

Indicate by check mark if the registrants are not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

<u>Yes</u>	<u>No</u>
<input type="checkbox"/>	<input checked="" type="checkbox"/>

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days.

<u>Yes</u>	<u>No</u>
<input checked="" type="checkbox"/>	<input type="checkbox"/>

Indicate by check mark whether the registrants have submitted electronically and posted on its corporate Web sites, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrants were required to submit and post such files).

<u>Yes</u>	<u>No</u>
<input checked="" type="checkbox"/>	<input type="checkbox"/>

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

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

	<u>Large accelerated filer</u>	<u>Accelerated filer</u>	<u>Non-accelerated filer</u>	<u>Smaller reporting company</u>	<u>Emerging growth company</u>
Eversource Energy	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The Connecticut Light and Power Company	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
NSTAR Electric Company	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Public Service Company of New Hampshire	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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

Indicate by check mark whether the registrants are shell companies (as defined in Rule 12b-2 of the Exchange Act):

	<u>Yes</u>	<u>No</u>
Eversource Energy	<input type="checkbox"/>	<input checked="" type="checkbox"/>
The Connecticut Light and Power Company	<input type="checkbox"/>	<input checked="" type="checkbox"/>
NSTAR Electric Company	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Public Service Company of New Hampshire	<input type="checkbox"/>	<input checked="" type="checkbox"/>

The aggregate market value of Eversource Energy's Common Shares, \$5.00 par value, held by non-affiliates, computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of Eversource Energy's most recently completed second fiscal quarter (June 30, 2017) was \$19,210,596,737 based on a closing market price of \$60.71 per share for the 316,432,165 common shares outstanding held by non-affiliates on June 30, 2017.

Indicate the number of shares outstanding of each of the issuers' classes of common stock, as of the latest practicable date:

<u>Company - Class of Stock</u>	<u>Outstanding as of January 31, 2018</u>
Eversource Energy Common Shares, \$5.00 par value	316,885,808 shares
The Connecticut Light and Power Company Common Stock, \$10.00 par value	6,035,205 shares
NSTAR Electric Company Common Stock, \$1.00 par value	200 shares
Public Service Company of New Hampshire Common Stock, \$1.00 par value	301 shares

Eversource Energy holds all of the 6,035,205 shares, 200 shares and 301 shares of the outstanding common stock of The Connecticut Light and Power Company, NSTAR Electric Company and Public Service Company of New Hampshire, respectively.

Eversource Energy, The Connecticut Light and Power Company, NSTAR Electric Company and Public Service Company of New Hampshire each separately file this combined Form 10-K. Information contained herein relating to any individual registrant is filed by such registrant on its own behalf. Each registrant makes no representation as to information relating to the other registrants.

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## GLOSSARY OF TERMS

The following is a glossary of abbreviations and acronyms that are found in this report:

### Current or former Eversource Energy companies, segments or investments:

Eversource, ES or the Company	Eversource Energy and subsidiaries
Eversource parent or ES parent	Eversource Energy, a public utility holding company
ES parent and other companies	ES parent and other companies are comprised of Eversource parent, Eversource Service and other subsidiaries, which primarily includes our unregulated businesses, HWP Company, The Rocky River Realty Company (a real estate subsidiary), and the consolidated operations of CYAPC and YAEC, and Aquarion's water business from the date of acquisition on December 4, 2017 through December 31, 2017
CL&P	The Connecticut Light and Power Company
NSTAR Electric	NSTAR Electric Company
PSNH	Public Service Company of New Hampshire
NSTAR Gas	NSTAR Gas Company
Yankee Gas	Yankee Gas Services Company
Aquarion	Eversource Aquarion Holdings, Inc and its subsidiaries (formerly known as Macquarie Utilities Inc)
NPT	Northern Pass Transmission LLC
Northern Pass	The HVDC and associated alternating-current transmission line project from Canada into New Hampshire
Eversource Service	Eversource Energy Service Company
Bay State Wind	A project being developed jointly by Eversource and Denmark-based Ørsted (formerly known as DONG Energy) to construct an offshore wind farm off the coast of Massachusetts
CYAPC	Connecticut Yankee Atomic Power Company
MYAPC	Maine Yankee Atomic Power Company
YAEC	Yankee Atomic Electric Company
Yankee Companies	CYAPC, YAEC and MYAPC
Electric and Natural Gas Companies	The Eversource electric and natural gas companies are comprised of the electric distribution and transmission businesses of CL&P, NSTAR Electric and PSNH, the natural gas distribution businesses of Yankee Gas and NSTAR Gas, NPT, the generation facilities of PSNH, and the solar power facilities of NSTAR Electric

### Regulators:

DEEP	Connecticut Department of Energy and Environmental Protection
DOE	U.S. Department of Energy
DOER	Massachusetts Department of Energy Resources
DPU	Massachusetts Department of Public Utilities
EPA	U.S. Environmental Protection Agency
FERC	Federal Energy Regulatory Commission
ISO-NE	ISO New England, Inc., the New England Independent System Operator
MA DEP	Massachusetts Department of Environmental Protection
NHPUC	New Hampshire Public Utilities Commission
PURA	Connecticut Public Utilities Regulatory Authority
SEC	U.S. Securities and Exchange Commission
SJC	Supreme Judicial Court of Massachusetts

### Other Terms and Abbreviations:

Access Northeast	A project being developed jointly by Eversource, Enbridge, Inc. ("Enbridge"), and National Grid plc ("National Grid") through Algonquin Gas Transmission, LLC to bring needed additional natural gas pipeline and storage capacity to New England.
ADIT	Accumulated Deferred Income Taxes
AFUDC	Allowance For Funds Used During Construction
AOCL	Accumulated Other Comprehensive Loss
ARO	Asset Retirement Obligation
Bcf	Billion cubic feet
C&LM	Conservation and Load Management
CfD	Contract for Differences
Clean Air Project	The construction of a wet flue gas desulphurization system, known as "scrubber technology," to reduce mercury emissions of the Merrimack coal-fired generation station in Bow, New Hampshire
CO <sub>2</sub>	Carbon dioxide
CPSL	Capital Projects Scheduling List
CTA	Competitive Transition Assessment
CWIP	Construction Work in Progress
EDC	Electric distribution company
EPS	Earnings Per Share
ERISA	Employee Retirement Income Security Act of 1974

ESOP	Employee Stock Ownership Plan
ESPP	Employee Share Purchase Plan
Eversource 2016 Form 10-K	The Eversource Energy and Subsidiaries 2016 combined Annual Report on Form 10-K as filed with the SEC
Fitch	Fitch Ratings
FMCC	Federally Mandated Congestion Charge
FTR	Financial Transmission Rights
GAAP	Accounting principles generally accepted in the United States of America
GSC	Generation Service Charge
GSRP	Greater Springfield Reliability Project
GWh	Gigawatt-Hours
HQ	Hydro-Québec, a corporation wholly-owned by the Québec government, including its divisions that produce, transmit and distribute electricity in Québec, Canada
HVDC	High-voltage direct current
Hydro Renewable Energy	Hydro Renewable Energy, Inc., a wholly-owned subsidiary of Hydro-Québec
IPP	Independent Power Producers
ISO-NE Tariff	ISO-NE FERC Transmission, Markets and Services Tariff
kV	Kilovolt
kVa	Kilovolt-ampere
kW	Kilowatt (equal to one thousand watts)
kWh	Kilowatt-Hours (the basic unit of electricity energy equal to one kilowatt of power supplied for one hour)
LBR	Lost Base Revenue
LNG	Liquefied natural gas
LRS	Supplier of last resort service
MMcf	Million cubic feet
MGP	Manufactured Gas Plant
MMBtu	One million British thermal units
Moody's	Moody's Investors Services, Inc.
MW	Megawatt
MWh	Megawatt-Hours
NEEWS	New England East-West Solution
NETOs	New England Transmission Owners (including Eversource, National Grid and Avangrid)
NO <sub>x</sub>	Nitrogen oxides
OCI	Other Comprehensive Income/(Loss)
PAM	Pension and PBOP Rate Adjustment Mechanism
PBOP	Postretirement Benefits Other Than Pension
PBOP Plan	Postretirement Benefits Other Than Pension Plan that provides certain retiree benefits, primarily medical, dental and life insurance
PCRBs	Pollution Control Revenue Bonds
Pension Plan	Single uniform noncontributory defined benefit retirement plan
PPA	Pension Protection Act
RECs	Renewable Energy Certificates
Regulatory ROE	The average cost of capital method for calculating the return on equity related to the distribution and generation business segment excluding the wholesale transmission segment
RNS	Regional Network Service
ROE	Return on Equity
RRB	Rate Reduction Bond or Rate Reduction Certificate
RSUs	Restricted share units
S&P	Standard & Poor's Financial Services LLC
SBC	Systems Benefits Charge
SCRC	Stranded Cost Recovery Charge
SERP	Supplemental Executive Retirement Plans and non-qualified defined benefit retirement plans
SIP	Simplified Incentive Plan
SO <sub>2</sub>	Sulfur dioxide
SS	Standard service
TCAM	Transmission Cost Adjustment Mechanism
TSA	Transmission Service Agreement
UI	The United Illuminating Company

EVERSOURCE ENERGY AND SUBSIDIARIES  
THE CONNECTICUT LIGHT AND POWER COMPANY  
NSTAR ELECTRIC COMPANY AND SUBSIDIARY  
PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE AND SUBSIDIARY

2017 FORM 10-K ANNUAL REPORT

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**EVERSOURCE ENERGY AND SUBSIDIARIES  
THE CONNECTICUT LIGHT AND POWER COMPANY  
NSTAR ELECTRIC COMPANY AND SUBSIDIARY  
PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE AND SUBSIDIARY**

**SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES  
LITIGATION REFORM ACT OF 1995**

References in this Annual Report on Form 10-K to "Eversource," the "Company," "we," "our," and "us" refer to Eversource Energy and its consolidated subsidiaries. CL&P, NSTAR Electric, and PSNH are each doing business as Eversource Energy.

From time to time, we make statements concerning our expectations, beliefs, plans, objectives, goals, strategies, assumptions of future events, future financial performance or growth and other statements that are not historical facts. These statements are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. You can generally identify our forward-looking statements through the use of words or phrases such as "estimate," "expect," "anticipate," "intend," "plan," "project," "believe," "forecast," "should," "could," and other similar expressions. Forward-looking statements are based on the current expectations, estimates, assumptions or projections of management and are not guarantees of future performance. These expectations, estimates, assumptions or projections may vary materially from actual results. Accordingly, any such statements are qualified in their entirety by reference to, and are accompanied by, the following important factors that could cause our actual results to differ materially from those contained in our forward-looking statements, including, but not limited to:

- cyber breaches and other disruptions to our information technology system that may compromise the confidentiality of our proprietary information and the personal information of our customers,
- acts of war, terrorism or grid disturbances that may disrupt our transmission and distribution systems,
- ability or inability to successfully commence and complete our major strategic development opportunities,
- actions or inaction of local, state and federal regulatory, public policy and taxing bodies,
- changes in business conditions, which could include disruptive technology related to our current or future business model,
- changes in economic conditions, including impact on interest rates, tax policies, and customer demand and payment ability,
- fluctuations in weather patterns, including extreme weather due to climate change,
- changes in laws, regulations or regulatory policy,
- changes in levels or timing of capital expenditures,
- disruptions in the capital markets or other events that make our access to necessary capital more difficult or costly,
- developments in legal or public policy doctrines,
- technological developments and alternative energy sources,
- changes in accounting standards and financial reporting regulations,
- actions of rating agencies, and
- other presently unknown or unforeseen factors.

Other risk factors are detailed in our reports filed with the SEC and updated as necessary, and we encourage you to consult such disclosures.

All such factors are difficult to predict and contain uncertainties that may materially affect our actual results, many of which are beyond our control. You should not place undue reliance on the forward-looking statements, as each speaks only as of the date on which such statement is made, and, except as required by federal securities laws, we undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time and it is not possible for us to predict all of such factors, nor can we assess the impact of each such factor on the business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. For more information, see Item 1A, *Risk Factors*, included in this combined Annual Report on Form 10-K. This Annual Report on Form 10-K also describes material contingencies and critical accounting policies in the accompanying *Management's Discussion and Analysis of Financial Condition and Results of Operations* and *Combined Notes to Financial Statements*. We encourage you to review these items.

**EVERSOURCE ENERGY AND SUBSIDIARIES  
THE CONNECTICUT LIGHT AND POWER COMPANY  
NSTAR ELECTRIC COMPANY AND SUBSIDIARY  
PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE AND SUBSIDIARY**

**PART I**

**Item 1. Business**

Please refer to the Glossary of Terms for definitions of defined terms and abbreviations used in this combined Annual Report on Form 10-K.

Eversource Energy, headquartered in Boston, Massachusetts and Hartford, Connecticut, is a public utility holding company subject to regulation by the FERC under the Public Utility Holding Company Act of 2005. We are engaged primarily in the energy delivery business through the following wholly-owned utility subsidiaries:

- The Connecticut Light and Power Company (CL&P), a regulated electric utility that serves residential, commercial and industrial customers in parts of Connecticut;
- NSTAR Electric Company (NSTAR Electric), a regulated electric utility that serves residential, commercial and industrial customers in parts of eastern and western Massachusetts and owns solar power facilities;
- Public Service Company of New Hampshire (PSNH), a regulated electric utility that serves residential, commercial and industrial customers in parts of New Hampshire and owns generation assets used to serve customers;
- NSTAR Gas Company (NSTAR Gas), a regulated natural gas utility that serves residential, commercial and industrial customers in parts of Massachusetts; and
- Yankee Gas Services Company (Yankee Gas), a regulated natural gas utility that serves residential, commercial and industrial customers in parts of Connecticut.
- Aquarion Water Company (Aquarion), a regulated water utility holding company that serves residential, commercial, industrial and fire protection customers through its separate three regulated utilities, AWC-CT, AWC-MA and AWC-NH in parts of Connecticut, Massachusetts and New Hampshire;

CL&P, NSTAR Electric and PSNH also serve New England customers through Eversource Energy's electric transmission business, and are each doing business as Eversource Energy in their respective service territories.

On December 31, 2017, Western Massachusetts Electric Company, a former subsidiary of Eversource Energy, merged with and into NSTAR Electric, with NSTAR Electric as the surviving entity. As a result, NSTAR Electric serves all of Eversource Energy's electric customers in Massachusetts. For purposes of this combined Annual Report on Form 10-K, the financial statements and financial information presented for prior years were retrospectively adjusted as if the merger had occurred on the first day of the earliest period presented. Upon the closing of the merger, all assets, contracts, rights and obligations of Western Massachusetts Electric Company were reflected as part of NSTAR Electric.

On December 4, 2017, Eversource acquired Macquarie Utilities Inc., subsequently renamed Eversource Aquarion Holdings, Inc., and its Aquarion Water Company subsidiaries. Collectively, these water utility companies serve residential, commercial, industrial and fire protection customers in parts of Connecticut, Massachusetts and New Hampshire.

Eversource Energy, CL&P, NSTAR Electric and PSNH each report their financial results separately. We also include information in this report on a segment basis for Eversource Energy. Eversource Energy recognizes three reportable segments: electric distribution, electric transmission, and natural gas distribution. Eversource Energy's electric distribution segment includes the results of PSNH's generation facilities and NSTAR Electric's solar power facilities. The energy transmission and distribution segments represented substantially all of Eversource Energy's total consolidated revenues for the years ended December 31, 2017, 2016 and 2015. CL&P, NSTAR Electric and PSNH do not report separate business segments.

## ELECTRIC DISTRIBUTION SEGMENT

### General

Eversource Energy's electric distribution segment consists of the distribution businesses of CL&P, NSTAR Electric and PSNH, which are engaged in the distribution of electricity to retail customers in Connecticut, Massachusetts and New Hampshire, respectively, plus the regulated electric generation facilities of PSNH and solar power facilities of NSTAR Electric.

The following table shows the sources of electric franchise retail revenues for Eversource Energy's electric distribution companies, collectively, based on categories of customers:

<i>(Thousands of Dollars)</i>	2017	2016	2015
Residential	\$ 3,457,986	\$ 3,448,043	\$ 3,608,155
Commercial	2,459,985	2,465,664	2,476,686
Industrial	330,995	328,103	326,564
Other	94,091	139,527	151,195
Total Retail Electric Revenues	\$ 6,343,057	\$ 6,381,337	\$ 6,562,600

A summary of our distribution companies' retail electric GWh sales volumes and percentage changes for 2017, as compared to 2016, is as follows:

	2017	2016	Percentage Change
Residential	20,496	21,002	(2.4)%
Commercial	26,570	27,206	(2.3)%
Industrial	5,180	5,434	(4.7)%
Total	52,246	53,642	(2.6)%

Certain Eversource electric, natural gas and water companies, including CL&P and NSTAR Electric (for a portion of its customers), have a regulatory commission approved revenue decoupling mechanism ("decoupled companies"). Distribution revenues are decoupled from customer sales volumes, where applicable, which breaks the relationship between sales volumes and revenues recognized. The decoupled companies reconcile their annual base distribution rate recovery to pre-established levels of baseline distribution delivery service revenues. Any difference between the allowed level of distribution revenue and the actual amount realized is adjusted through rates in a subsequent period.

Retail electric sales volumes at our electric utilities with a traditional rate structure (the eastern region of NSTAR Electric and PSNH) were lower in 2017, as compared to 2016, due primarily to the mild summer weather in 2017, as compared to 2016. Cooling degree days in 2017 were 14.7 percent lower in the Boston metropolitan area and 22.7 percent lower in New Hampshire, as compared to 2016. Sales volumes were positively impacted by improved economic conditions across our service territories, but this trend was offset by lower customer usage driven by the impact of increased customer energy conservation efforts.

CL&P and NSTAR Electric (for its western Massachusetts customer rates) reconcile their annual base distribution rate recovery amounts to their pre-established levels of baseline distribution delivery service revenues of \$1.059 billion and \$132.4 million, respectively, through December 31, 2017. Effective February 1, 2018, NSTAR Electric, operating entirely under decoupled rates, will reconcile its annual base distribution rate recovery to its new baseline of \$974.8 million.

## ELECTRIC DISTRIBUTION – CONNECTICUT

### THE CONNECTICUT LIGHT AND POWER COMPANY

CL&P's distribution business consists primarily of the purchase, delivery and sale of electricity to its residential, commercial and industrial customers. As of December 31, 2017, CL&P furnished retail franchise electric service to approximately 1.2 million customers in 149 cities and towns in Connecticut, covering an area of 4,400 square miles. CL&P does not own any electric generation facilities.

The following table shows the sources of CL&P's electric franchise retail revenues based on categories of customers:

<i>(Thousands of Dollars)</i>	CL&P		
	2017	2016	2015
Residential	\$ 1,649,294	\$ 1,603,351	\$ 1,641,165
Commercial	883,904	858,965	841,093
Industrial	144,672	139,556	129,544
Other	29,144	47,672	62,704
Total Retail Electric Revenues	\$ 2,707,014	\$ 2,649,544	\$ 2,674,506

A summary of CL&P's retail electric GWh sales volumes and percentage changes for 2017, as compared to 2016, is as follows:

	2017	2016	Percentage Change
Residential	9,642	9,907	(2.7)%
Commercial	9,161	9,461	(3.2)%
Industrial	2,146	2,249	(4.6)%
Total	20,949	21,617	(3.1)%

#### Rates

CL&P is subject to regulation by the PURA, which, among other things, has jurisdiction over rates, certain dispositions of property and plant, mergers and consolidations, issuances of long-term securities, standards of service and construction and operation of facilities. CL&P's present general rate structure consists of various rate and service classifications covering residential, commercial and industrial services. CL&P's retail rates include a delivery service component, which includes distribution, transmission, conservation, renewable energy programs and other charges that are assessed on all customers.

Under Connecticut law, all of CL&P's customers are entitled to choose their energy suppliers, while CL&P remains their electric distribution company. For those customers who do not choose a competitive energy supplier, under SS rates for customers with less than 500 kilowatts of demand (residential customers and small and medium commercial and industrial customers), and LRS rates for customers with 500 kilowatts or more of demand (larger commercial and industrial customers), CL&P purchases power under standard offer contracts and passes the cost of the purchased power to customers through a combined charge on customers' bills.

The rates established by the PURA for CL&P are comprised of the following:

- An electric GSC, which recovers energy-related costs incurred as a result of providing electric generation service supply to all customers that have not migrated to competitive energy suppliers. The GSC is adjusted periodically and reconciled semi-annually in accordance with the policies and procedures of the PURA, with any differences refunded to, or recovered from, customers.
- A revenue decoupling adjustment that reconciles the amounts recovered from customers, on an annual basis, to the distribution revenue requirement approved by the PURA in its last rate case, which currently is an annual amount of \$1.059 billion.
- A distribution charge, which includes a fixed customer charge and a demand and/or energy charge to collect the costs of building and expanding the infrastructure to deliver electricity to customers, as well as ongoing operating costs to maintain the infrastructure.
- An FMCC, which recovers any costs imposed by the FERC as part of the New England Standard Market Design, including locational marginal pricing, locational installed capacity payments, and any costs approved by the PURA to reduce these charges. The FMCC also recovers costs associated with CL&P's system resiliency program. The FMCC is adjusted periodically and reconciled semi-annually in accordance with the policies and procedures of the PURA, with any differences refunded to, or recovered from, customers.
- A transmission charge that recovers the cost of transporting electricity over high-voltage lines from generating plants to substations, including costs allocated by ISO-NE to maintain the wholesale electric market.
- A CTA charge, assessed to recover stranded costs associated with electric industry restructuring such as various IPP contracts. The CTA is reconciled annually to actual costs incurred and reviewed by the PURA, with any difference refunded to, or recovered from, customers.
- An SBC, established to fund expenses associated with various hardship and low income programs and a program that compensates municipalities for lost property tax revenues due to decreased values of generating facilities caused by electric industry restructuring. The SBC is reconciled annually to actual costs incurred and reviewed by the PURA, with any difference refunded to, or recovered from, customers.
- A Clean Energy Fund charge, which is used to promote investment in renewable energy sources. Amounts collected by this charge are deposited into the Clean Energy Fund and administered by the Clean Energy Finance and Investment Authority. The Clean Energy Fund charge is set by statute and is currently 0.1 cent per kWh.
- A conservation charge, comprised of a statutory rate established to implement cost-effective energy conservation programs and market transformation initiatives, plus a conservation adjustment mechanism charge to recover the residual energy efficiency spending associated with the expanded energy efficiency costs directed by the Comprehensive Energy Strategy Plan for Connecticut.

As required by regulation, CL&P, jointly with UI, entered into the following contracts whereby UI will share 20 percent and CL&P will share 80 percent of the costs and benefits (CL&P's portion of these costs are either recovered from, or refunded to, customers through the FMCC):

- Four capacity CfDs (totaling approximately 787 MW of capacity) with three electric generation units and one demand response project, which extend through 2026 and have terms of up to 15 years beginning in 2009. The capacity CfDs obligate both CL&P and UI to make or receive payments on a monthly basis to or from the project and generation owners based on the difference between a contractually set capacity price and the capacity market prices that the project and generation owners receive in the ISO-NE capacity markets.
- Three peaker CfDs (totaling approximately 500 MW of peaking capacity) with three peaking generation units. The three peaker CfDs pay the generation owners the difference between capacity, forward reserve and energy market revenues and a cost-of-service payment stream for 30 years beginning in 2008 (including costs of plant operation and the prices that the generation owners receive for capacity and other products in the ISO-NE markets).

Distribution Rates: On April 20, 2017, PURA approved the joint request of CL&P, the Connecticut Office of Consumer Counsel ("OCC") and the Connecticut Attorney General to amend the deadline to establish new electric distribution rates in the 2012 Connecticut merger settlement agreement from "no later than December 1, 2017" to "no later than July 1, 2018." On November 22, 2017, CL&P filed its application with PURA, which sought a rate increase of \$255.8 million, \$45.0 million and \$36.0 million effective May 2018, 2019, and 2020, respectively. On December 15, 2017, CL&P, the Prosecutorial Unit of PURA, and the OCC reached a settlement in principle.

On January 11, 2018, CL&P filed the distribution rate case settlement agreement for approval by PURA, which included, among other things, rate increases of \$97.1 million, \$32.7 million and \$24.7 million, effective May 1, 2018, 2019, and 2020, respectively, an authorized regulatory ROE of 9.25 percent, 53 percent common equity in CL&P's capital structure, and a new capital tracker through 2020 for capital additions, system resiliency, and grid modernization. The rate increases associated with the settlement agreement will be reduced by the impact of the decrease in the federal corporate income tax rate, as part of the "Tax Cuts and Jobs Act", which we currently estimate to average approximately \$45 million to \$50 million per year, while amounts related to ADIT will be addressed in a separate manner. We expect to receive final approval from PURA in the second quarter of 2018.

#### **Sources and Availability of Electric Power Supply**

As noted above, CL&P does not own any generation assets and purchases energy supply to serve its SS and LRS loads from a variety of competitive sources through requests for proposals. CL&P continues to supply approximately 42 percent of its customer load at SS or LRS rates while the other 58 percent of its customer load has migrated to competitive energy suppliers. Because this customer migration is only for energy supply service, it has no impact on CL&P's electric distribution business or its operating income.

CL&P periodically enters into full requirements contracts for SS loads for periods of up to one year. CL&P typically enters into full requirements contracts for LRS loads every three months. Currently, CL&P has full requirements contracts in place for 100 percent of its SS loads for the first half of 2018. For the second half of 2018, CL&P has 60 percent of its SS load under full requirements contracts, and intends to purchase an additional 40 percent of full requirements. None of the SS load for 2019 has been procured. CL&P has full requirements contracts in place for its LRS loads through June 2018 and intends to purchase 100 percent of full requirements for the remainder of 2018.

#### **ELECTRIC DISTRIBUTION – MASSACHUSETTS**

##### **NSTAR ELECTRIC COMPANY**

NSTAR Electric's distribution business consists primarily of the purchase, delivery and sale of electricity to residential, commercial and industrial customers within its franchise service territory. As of December 31, 2017, NSTAR Electric furnished retail franchise electric service to approximately 1.4 million customers in Boston and 139 cities and towns in eastern and western Massachusetts, including Cape Cod, Martha's Vineyard and the greater Springfield metropolitan area, covering an aggregate area of approximately 3,200 square miles. NSTAR Electric does not own any generating facilities used to supply customers and purchases its energy requirements from competitive energy suppliers.

On December 29, 2016, the DPU approved NSTAR Electric's application to develop 62 MW of new solar power facilities. Currently, NSTAR Electric owns 8 MW of solar power facilities on sites in Pittsfield, Springfield, and East Springfield, Massachusetts that were completed from 2010 through 2014. We expect development of the new facilities to be completed in 2018. Similar to NSTAR Electric's current practice on the existing 8MW of solar power facilities, we expect that NSTAR Electric will sell energy from the new facilities into the ISO-NE market. We estimate our investment in these new facilities will be approximately \$180 million.

The following table shows the sources of the electric franchise retail revenues of NSTAR Electric based on categories of customers:

(Thousands of Dollars)	NSTAR Electric		
	2017	2016	2015
Residential	\$ 1,271,253	\$ 1,322,778	\$ 1,461,184
Commercial	1,278,739	1,310,743	1,322,674
Industrial	113,952	117,683	120,106
Other	45,347	54,666	53,388
Total Retail Electric Revenues	\$ 2,709,291	\$ 2,805,870	\$ 2,957,352

A summary of NSTAR Electric's retail electric GWh sales volumes and percentage changes for 2017, as compared to 2016, is as follows:

	NSTAR Electric		
	2017	2016	Percentage Change
Residential	7,721	7,959	(3.0)%
Commercial	14,127	14,404	(1.9)%
Industrial	1,691	1,802	(6.2)%
Total	23,539	24,165	(2.6)%

In 2017 and 2016, NSTAR Electric operated under two different rate structures based on its service territory geography. For customers in eastern Massachusetts, including metropolitan Boston, Cape Cod and Martha's Vineyard, NSTAR Electric operated using Traditional rates. For customers in western Massachusetts, including the metropolitan Springfield region, NSTAR Electric operated using Decoupled rates. Effective February 1, 2018, all of NSTAR Electric's distribution revenues were decoupled as a result of the DPU-approved rate decision. See "Regulatory Developments and Rate Matters - Massachusetts - NSTAR Electric Distribution Rate Case Decision" in the accompanying Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

#### Rates

NSTAR Electric is subject to regulation by the DPU, which, among other things, has jurisdiction over rates, certain dispositions of property and plant, mergers and consolidations, issuances of long-term securities, acquisition of securities, standards of service and construction and operation of facilities. The present general rate structure for NSTAR Electric consists of various rate and service classifications covering residential, commercial and industrial services.

Under Massachusetts law, all customers of NSTAR Electric are entitled to choose their energy suppliers, while NSTAR Electric remains their electric distribution company. NSTAR Electric purchases power from competitive suppliers on behalf of, and passes the related cost through to, its customers who do not choose a competitive energy supplier (basic service). Most of the residential customers of NSTAR Electric have continued to buy their power from NSTAR Electric at basic service rates. Most commercial and industrial customers have switched to a competitive energy supplier.

The Cape Light Compact, an inter-governmental organization consisting of the 21 towns and two counties on Cape Cod and Martha's Vineyard, serves 200,000 customers through the delivery of energy efficiency programs, effective consumer advocacy, competitive electricity supply and green power options. NSTAR Electric continues to provide electric service to these customers including the delivery of power, maintenance of infrastructure, capital investment, meter reading, billing, and customer service.

NSTAR Electric continues to supply approximately 50 percent of its Residential customer load, 41 percent of its Small Commercial and Industrial (C&I) customer load, and 9 percent of its Large C&I customer load at basic service rates. The remainder of its customer load is distributed between Municipal Aggregation and Competitive Supply. Because customer migration is limited to energy supply service, it has no impact on the delivery business or operating income of NSTAR Electric.

The rates established by the DPU for NSTAR Electric are comprised of the following:

- A basic service charge that represents the collection of energy costs, including costs related to charge-offs of uncollectible energy costs from customers. Electric distribution companies in Massachusetts are required to obtain and resell power to retail customers through basic service for those who choose not to buy energy from a competitive energy supplier. Basic service rates are reset every six months (every three months for large commercial and industrial customers). Additionally, the DPU has authorized NSTAR Electric to recover the cost of its NSTAR Green wind contracts through the basic service charge. Basic service costs are reconciled annually, with any differences refunded to, or recovered from, customers.
- A distribution charge, which includes a fixed customer charge and a demand and/or energy charge to collect the costs of building and expanding the distribution infrastructure to deliver power to its destination, as well as ongoing operating costs.
- A revenue decoupling adjustment that reconciles distribution revenue, on an annual basis, to the amount of distribution revenue approved by the DPU. During 2017 only the western Massachusetts customer rates, including the metropolitan Springfield region,

were decoupled, which resulted in allowed distribution revenues of approximately \$132.4 million. Effective February 1, 2018, NSTAR Electric is allowed to collect distribution revenues of \$974.8 million annually, which covers its entire service territory.

- A transmission charge that recovers the cost of transporting electricity over high-voltage lines from generating plants to substations, including costs allocated by ISO-NE to maintain the wholesale electric market.
- A transition charge that represents costs to be collected primarily from previously held investments in generating plants, costs related to existing above-market power contracts, and contract costs related to long-term power contract buy-outs.
- A renewable energy charge that represents a legislatively-mandated charge to support the Massachusetts Renewable Energy Trust Fund.
- An energy efficiency charge that represents a legislatively-mandated charge to collect costs for energy efficiency programs.
- Reconciling adjustment charges that recover certain DPU-approved costs, including pension and PBOP benefits, low income customer discounts, lost revenue and credits associated with net-metering facilities installed by customers, costs associated with the solar power facilities, storms, long-term renewable contracts and energy efficiency programs.

As required by regulation, NSTAR Electric, along with two other Massachusetts electric utilities, signed long-term commitments to purchase a combined estimated generating capacity of approximately 334 MW of wind power from two wind farms in Maine over 15 years. One wind farm began operating in late 2015, and the other wind farm began operating in late 2016. In addition, NSTAR Electric previously signed a long-term commitment to purchase an estimated generating capacity of approximately 37.5 MW of wind power from a wind farm in Maine over 15 years that began operating in 2016.

Distribution Rates: On November 30, 2017, the DPU issued its decision in the NSTAR Electric distribution rate case, which approved an annual distribution rate increase of \$37 million, with rates effective February 1, 2018. On January 3, 2018, NSTAR Electric filed a motion to reflect a revenue requirement reduction of \$56 million (due to the decrease in the federal corporate income tax rate, as part of the "Tax Cuts and Jobs Act"), resulting in an annual net decrease in rates of \$19 million.

In addition to its decision regarding rates, the DPU approved an authorized regulatory ROE of 10 percent, the establishment of a revenue decoupling rate mechanism for the portion of the NSTAR Electric business that did not previously have a decoupling mechanism, and the implementation of an inflation-based adjustment mechanism with a five-year stay-out until January 1, 2023.

Among other items, the DPU approved the recovery of previously expensed merger-related costs over a 10-year period and the recovery of previously deferred storm costs with carrying charges at the prime rate, but disallowed certain property taxes. The rate case decision resulted in the recognition of an aggregate \$44.1 million pre-tax benefit recorded in 2017.

Service Quality Metrics: NSTAR Electric is subject to service quality ("SQ") metrics that measure safety, reliability and customer service, and could be required to pay to customers a SQ charge of up to 2.5 percent of annual transmission and distribution revenues for failing to meet such metrics. NSTAR Electric will not be required to pay a SQ charge for its 2017 performance as the company achieved results at or above target for all of its SQ metrics in 2017.

#### **Sources and Availability of Electric Power Supply**

As noted above, NSTAR Electric does not own any generation assets (other than solar power facilities), and it purchases its energy requirements from a variety of competitive sources through requests for proposals issued periodically, consistent with DPU regulations. NSTAR Electric enters into supply contracts for basic service for 50 percent of its residential and small commercial and industrial customers twice per year for twelve month terms. NSTAR Electric enters into supply contracts for basic service for 100 percent of large commercial and industrial customers every three months.

#### **ELECTRIC DISTRIBUTION – NEW HAMPSHIRE**

##### **PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE**

PSNH's distribution business consists primarily of the generation, delivery and sale of electricity to its residential, commercial and industrial customers. As of December 31, 2017, PSNH furnished retail franchise electric service to approximately 515,000 retail customers in 211 cities and towns in New Hampshire, covering an area of approximately 5,630 square miles. As of December 31, 2017, PSNH owned and operated approximately 1,200 MW of coal-, natural gas-, oil-fired, and hydro electricity generation facilities. PSNH's distribution business included the activities of its generation facilities.

On October 11, 2017, PSNH entered into a Purchase and Sale Agreement for the sale of its thermal generation facilities and a separate Purchase and Sale Agreement for the sale of its hydroelectric generation facilities. On January 10, 2018, PSNH completed the sale of its thermal generation facilities. The thermal generation facilities included approximately 1,100 MW of coal, natural gas, biomass and oil-fired electricity generation facilities. The sale of the hydroelectric generation facilities is targeted to close by the end of the first quarter of 2018. For further information, see "Generation Divestiture" below.

The following table shows the sources of PSNH's electric franchise retail revenues based on categories of customers:

<i>(Thousands of Dollars)</i>	PSNH		
	2017	2016	2015
Residential	\$ 537,439	\$ 521,914	\$ 505,806
Commercial	297,342	295,956	312,918
Industrial	72,371	70,864	76,914
Other	19,600	37,188	35,103
Total Retail Electric Revenues	\$ 926,752	\$ 925,922	\$ 930,741

A summary of PSNH's retail electric GWh sales volumes and percentage changes for 2017, as compared to 2016, is as follows:

	2017	2016	Percentage Change
Residential	3,134	3,136	(0.1)%
Commercial	3,282	3,342	(1.8)%
Industrial	1,342	1,382	(2.9)%
Total	7,758	7,860	(1.3)%

### Rates

PSNH is subject to regulation by the NHPUC, which, among other things, has jurisdiction over rates, certain dispositions of property and plant, mergers and consolidations, issuances of securities, standards of service and construction and operation of facilities.

Under New Hampshire law, all of PSNH's customers are entitled to choose competitive energy suppliers. Prior to the Generation Divestiture, PSNH provided default energy service under its ES rate for those customers who did not choose a competitive energy supplier. At the end of 2017, approximately 26 percent of all of PSNH's customers (approximately 56 percent of load) were taking service from competitive energy suppliers, compared to 25 percent of customers (approximately 56 percent of load) at the end of 2016.

The rates established by the NHPUC for PSNH are comprised of the following:

- A default energy service charge which recovers energy-related costs incurred as a result of providing electric generation service supply to all customers that have not migrated to competitive energy suppliers. Through March 31, 2018, the default energy service charge recovers the costs of PSNH's generation, as well as purchased power, and includes an allowed ROE of 9.81 percent. Effective April 1, 2018, as a result of the divestiture of its generation assets, PSNH will obtain power for retail customers who have not chosen a competitive supplier through a periodic market solicitation with the rate set to recover the cost of that power and statutorily mandated renewable portfolio standard costs. Effective April 1, 2018, any remaining costs from ownership of generation will be recovered as part of the SCRC described below.
- A distribution charge, which includes an energy and/or demand-based charge to recover costs related to the maintenance and operation of PSNH's infrastructure to deliver power to its destination, as well as power restoration and service costs. This includes a customer charge to collect the cost of providing service to a customer; such as the installation, maintenance, reading and replacement of meters and maintaining accounts and records.
- A transmission charge that recovers the cost of transporting electricity over high-voltage lines from generating plants to substations, including costs allocated by ISO-NE to maintain the wholesale electric market.
- An SCRC, which allows PSNH to recover its stranded costs, including above-market expenses incurred under mandated power purchase obligations and other long-term investments and obligations. The stranded costs associated with the sale of the generation facilities, which are targeted to be sold in their entirety by the end of the first quarter of 2018, will be recovered in the SCRC rate charged to PSNH customers.
- An SBC, which funds energy efficiency programs for all customers, as well as assistance programs for residential customers within certain income guidelines.
- An electricity consumption tax, which is a state mandated tax on electric energy consumption.

The default energy service charge and SCRC rates change semi-annually and are reconciled annually in accordance with the policies and procedures of the NHPUC, with any differences refunded to, or recovered from, customers.

In New Hampshire, PSNH distribution rates were established in a settlement approved by the NHPUC in 2010. Prior to the expiration of that settlement on June 30, 2015, the NHPUC approved the continuation of those rates, and increased funding via rates, of PSNH's reliability enhancement program.

## Generation Divestiture

In June 2015, Eversource and PSNH entered into the 2015 Public Service Company of New Hampshire Restructuring and Rate Stabilization Agreement, under the terms of which PSNH agreed to divest its generation assets, subject to NHPUC approval. The NHPUC approval for this agreement, as well as NHPUC approval of the final divestiture plan and auction process, were received in the second half of 2016. In October 2017, PSNH entered into two Purchase and Sale Agreements ("Agreements") to sell its thermal and hydroelectric generation assets to private investors at purchase prices of \$175 million and \$83 million, respectively, subject to adjustments as set forth in the Agreements. The NHPUC approved the Agreements in late November 2017.

On January 10, 2018, PSNH completed the sale of its thermal generation facilities. In accordance with the Purchase and Sale Agreement, the original purchase price of \$175 million was adjusted to reflect working capital adjustments, closing date adjustments and proration of taxes and fees prior to closing, totaling \$40.9 million, resulting in net proceeds of \$134.1 million. We are targeting for PSNH to complete the sale of its hydroelectric generation facilities by the end of the first quarter of 2018 at a sale price of \$83 million, subject to adjustment. On January 30, 2018, the NHPUC approved the issuance of rate reduction bonds up to \$690 million to recover stranded costs, subject to an audit by the NHPUC Audit Staff. This order is subject to an appeal period of 30 days.

Upon completion of the divestiture, full recovery of PSNH's generation assets and transaction-related costs are expected to occur through a combination of cash flows during the remaining operating period, sales proceeds, and recovery of stranded costs via the issuance of bonds that will be secured by a non-bypassable charge or through recoveries in future rates billed to PSNH's customers.

## Sources and Availability of Electric Power Supply

During 2017, approximately 47 percent of PSNH's load was met through its own generation, long-term power supply provided pursuant to orders of the NHPUC, and contracts with competitive energy suppliers. The remaining 53 percent of PSNH's load was met by short-term (less than one year) purchases and spot purchases in the competitive New England wholesale power market. Included in the above are PSNH's obligations to purchase power from approximately two dozen IPPs, the output of which it either uses to serve its customer load or sells into the ISO-NE market. With the anticipated completion of the divestiture of its own generation facilities in the first quarter of 2018, PSNH will meet its load requirements in 2018 with purchases of energy requirements from competitive sources through requests for proposals issued periodically, consistent with NHPUC regulations.

## ELECTRIC TRANSMISSION SEGMENT

### General

Each of CL&P, NSTAR Electric and PSNH owns and maintains transmission facilities that are part of an interstate power transmission grid over which electricity is transmitted throughout New England. Each of CL&P, NSTAR Electric and PSNH, and most other New England utilities, are parties to a series of agreements that provide for coordinated planning and operation of the region's transmission facilities and the rules by which they acquire transmission services. Under these arrangements, ISO-NE, a non-profit corporation whose board of directors and staff are independent of all market participants, serves as the regional transmission organization of the New England transmission system.

### Wholesale Transmission Revenues

A summary of Eversource Energy's wholesale transmission revenues is as follows:

<i>(Thousands of Dollars)</i>	2017	2016	2015
CL&P	\$ 609,880	\$ 575,735	\$ 513,025
NSTAR Electric	514,151	483,050	428,743
PSNH	177,821	151,354	127,509
Total Wholesale Transmission Revenues	\$ 1,301,852	\$ 1,210,139	\$ 1,069,277

### Wholesale Transmission Rates

Wholesale transmission revenues are recovered through FERC-approved formula rates. Annual transmission revenue requirements include recovery of transmission costs and include a return on equity applied to transmission rate base. Transmission revenues are collected from New England customers, including distribution customers of CL&P, NSTAR Electric and PSNH. The transmission rates provide for an annual true-up of estimated to actual costs. The financial impacts of differences between actual and estimated costs are deferred for future recovery from, or refunded to, transmission customers.

## **FERC Base ROE Complaints**

Four separate complaints have been filed at the FERC by combinations of New England state attorneys general, state regulatory commissions, consumer advocates, consumer groups, municipal parties and other parties (collectively the "Complainants"). In each of the first three complaints, the Complainants challenged the NETOs' base ROE of 11.14 percent that had been utilized since 2005, and sought an order to reduce it prospectively from the date of the final FERC order and for the 15-month complaint periods arising from the separate complaints. In the fourth complaint, the Complainants challenged the NETOs' base ROE of 10.57 percent and the maximum ROE for transmission incentive ("incentive cap") of 11.74 percent, asserting that these ROEs were unjust and unreasonable. In response to appeals of the FERC decision in the first complaint filed by the NETOs and the Complainants, the D.C. Circuit Court of Appeals issued a decision on April 14, 2017 vacating and remanding the FERC's decision. For further information, see "FERC Regulatory Issues - FERC ROE Complaints" in the accompanying Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

## **Transmission Projects**

During 2017, we were involved in the planning, development and construction of a series of electric transmission projects, including the Greater Hartford Central Connecticut projects and the Greater Boston Reliability Solutions, that will be built within the next five years and that will enhance system reliability and improve capacity. We were also involved in the planning and development of Northern Pass and the Seacoast Reliability Project. On February 1, 2018, the New Hampshire Site Evaluation Committee ("NHSEC") voted to deny Northern Pass' siting application. Consistent with Eversource's and HQ's long-term relationship to bring clean energy into New England, Eversource and HQ continue to support Northern Pass and the many benefits this project will bring to our customers and region. Eversource intends to seek reconsideration of the NHSEC's decision and to review all options for moving this critical clean energy project forward. For further information, see "Business Development and Capital Expenditures - Electric Transmission Business" in the accompanying Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

## **Transmission Rate Base**

Transmission rate base under our FERC-approved tariff primarily consists of our investment in transmission net utility plant less accumulated deferred income taxes.

Under our FERC-approved tariff, and with the exception of transmission projects that received specific FERC approval to include CWIP in rate base, transmission projects generally enter rate base after they are placed in commercial operation. At the end of 2017, our estimated transmission rate base was approximately \$6 billion, including approximately \$2.7 billion at CL&P, \$2.5 billion at NSTAR Electric, and \$765 million at PSNH.

## **NATURAL GAS DISTRIBUTION SEGMENT**

NSTAR Gas distributes natural gas to approximately 292,000 customers in 51 communities in central and eastern Massachusetts covering 1,067 square miles, and Yankee Gas distributes natural gas to approximately 232,000 customers in 72 cities and towns in Connecticut covering 2,187 square miles. Total throughput (sales and transportation) in 2017 was approximately 69.4 Bcf for NSTAR Gas and 56.0 Bcf for Yankee Gas. Our natural gas businesses provide firm natural gas sales service to retail customers who require a continuous natural gas supply throughout the year, such as residential customers who rely on natural gas for heating, hot water and cooking needs, and commercial and industrial customers who choose to purchase natural gas from Eversource Energy's natural gas distribution companies. A portion of the storage of natural gas supply for NSTAR Gas during the winter heating season is provided by Hopkinton LNG Corp., an indirect, wholly-owned subsidiary of Eversource Energy. NSTAR Gas has access to Hopkinton LNG Corp. facilities in Hopkinton, Massachusetts consisting of a LNG liquefaction and vaporization plant and three above-ground cryogenic storage tanks having an aggregate capacity of 3.0 Bcf of liquefied natural gas. NSTAR Gas also has access to Hopkinton LNG Corp. facilities in Acushnet, Massachusetts that include additional storage capacity of 0.5 Bcf and additional vaporization capacity.

Yankee Gas owns a 1.2 Bcf LNG facility in Waterbury, Connecticut, which is used primarily to assist Yankee Gas in meeting its supplier-of-last-resort obligations and also enables it to provide economic supply and make economic refill of natural gas typically during periods of low demand.

NSTAR Gas and Yankee Gas generate revenues primarily through the sale and/or transportation of natural gas. Predominantly all residential customers in the NSTAR Gas service territory buy natural gas supply and delivery from NSTAR Gas while all customers may choose their natural gas suppliers. Retail natural gas service in Connecticut is partially unbundled: residential customers in Yankee Gas' service territory buy natural gas supply and delivery only from Yankee Gas while commercial and industrial customers may choose their natural gas suppliers. NSTAR Gas offers firm transportation service to all customers who purchase natural gas from sources other than NSTAR Gas while Yankee Gas offers firm transportation service to its commercial and industrial customers who purchase natural gas from sources other than Yankee Gas. In addition, both natural gas distribution companies offer interruptible transportation and interruptible natural gas sales service to those high volume commercial and industrial customers, generally during the colder months, that have the capability to switch from natural gas to an alternative fuel on short notice, for whom NSTAR Gas and Yankee Gas can interrupt service during peak demand periods or at any other time to maintain distribution system integrity.

The following table shows the sources of the total Eversource Energy natural gas franchise retail revenues based on categories of customers:

<i>(Thousands of Dollars)</i>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Residential	\$ 500,229	\$ 446,052	\$ 497,873
Commercial	312,034	279,001	327,439
Industrial	90,024	80,093	93,378
Total Retail Natural Gas Revenues	\$ 902,287	\$ 805,146	\$ 918,690

A summary of our firm natural gas sales volumes in million cubic feet and percentage changes for 2017, as compared to 2016, is as follows:

	<b>2017</b>	<b>2016</b>	<b>Percentage Change</b>
Residential	37,421	35,734	4.7%
Commercial	42,992	41,895	2.6%
Industrial	20,613	20,413	1.0%
Total	101,026	98,042	3.0%
Total, Net of Special Contracts <sup>(1)</sup>	96,617	93,346	3.5%

<sup>(1)</sup> Special contracts are unique to the customers who take service under such an arrangement and generally specify the amount of distribution revenue to be paid to Yankee Gas regardless of the customers' usage.

Our firm natural gas sales volumes are subject to many of the same influences as our retail electric sales volumes. In addition, they have benefited from customer growth in both of our natural gas distribution companies. Consolidated firm natural gas sales volumes were higher in 2017, as compared to 2016, due primarily to colder winter weather in the fourth quarter of 2017, as compared to 2016. Heating degree days in 2017 were 2.5 percent higher in Connecticut, as compared to 2016. Sales volumes were also positively impacted by improved economic conditions across our natural gas service territories.

For NSTAR Gas, the DPU approved a distribution revenue decoupling mechanism effective January 1, 2016. Natural gas distribution revenues are decoupled from their customer sales volumes, where applicable, which breaks the relationship between sales volumes and revenues recognized. As a result, fluctuations in natural gas sales volumes in Massachusetts do not impact earnings.

#### **Rates**

NSTAR Gas and Yankee Gas are subject to regulation by the DPU and the PURA, respectively, which, among other things, have jurisdiction over rates, certain dispositions of property and plant, mergers and consolidations, issuances of long-term securities, standards of service and construction and operation of facilities.

Retail natural gas delivery and supply rates are established by the DPU and the PURA and are comprised of:

- A distribution charge consisting of a fixed customer charge and a demand and/or energy charge that collects the costs of building and expanding the natural gas infrastructure to deliver natural gas supply to its customers. This also includes collection of ongoing operating costs.
- A seasonal cost of gas adjustment clause ("CGAC") at NSTAR Gas that collects natural gas supply costs, pipeline and storage capacity costs, costs related to charge-offs of uncollected energy costs and working capital related costs. The CGAC is reset semi-annually. In addition, NSTAR Gas files interim changes to its CGAC factor when the actual costs of natural gas supply vary from projections by more than five percent.
- A local distribution adjustment clause ("LDAC") at NSTAR Gas that collects all energy efficiency and related program costs, environmental costs, pension and PBOP related costs, attorney general consultant costs, and costs associated with low income customers. The LDAC is reset annually and provides for the recovery of certain costs applicable to both sales and transportation customers.
- Purchased Gas Adjustment ("PGA") clause, which allows Yankee Gas to recover the costs of the procurement of natural gas for its firm and seasonal customers. Differences between actual natural gas costs and collection amounts on August 31st of each year are deferred and then recovered from or refunded to customers during the following year. Carrying charges on outstanding balances are calculated using Yankee Gas' weighted average cost of capital in accordance with the directives of the PURA.
- Conservation Adjustment Mechanism ("CAM") at Yankee Gas, which allows 100 percent recovery of conservation costs through this mechanism including program incentives to promote energy efficiency, as well as recovery of any lost revenues associated with implementation of energy conservation measures. A reconciliation of CAM revenues to expenses is performed annually with any difference being recovered from or refunded to customers, with carrying charges, during the following year.

NSTAR Gas purchases financial contracts based on the New York Mercantile Exchange ("NYMEX") natural gas futures in order to reduce cash flow variability associated with the purchase price for approximately one-third of its normal winter season natural gas supplies. These purchases are made under a program approved by the DPU in 2006. This practice attempts to minimize the impact of fluctuations in natural gas prices to NSTAR Gas' firm natural gas customers. These financial contracts do not procure natural gas supply. All costs incurred or benefits realized when these contracts are settled are included in the CGAC.

NSTAR Gas is subject to SQ metrics that measure safety, reliability and customer service and could be required to pay to customers a SQ charge of up to 2.5 percent of annual distribution revenues for failing to meet such metrics. NSTAR Gas will not be required to pay a SQ charge for its 2017 performance as it achieved results at or above target for all of its SQ metrics in 2017.

NSTAR Gas distribution rates were set in its 2015 DPU approved rate case, which included an annualized base rate increase of \$15.8 million, plus other increases of approximately \$11.5 million, mostly relating to recovery of pension and PBOP expenses and the Hopkinton Gas Service Agreement, effective January 1, 2016. In the order, the DPU also approved an authorized regulatory ROE of 9.8 percent, the establishment of a revenue decoupling mechanism, the recovery of certain bad debt expenses, and a 52.1 percent equity component of its capital structure.

Yankee Gas' last rate case proceeding was in 2011, which approved an allowed ROE of 8.83 percent and allowed for a substantial increase in annual spending for bare steel and cast iron pipeline replacement. In 2015, Yankee Gas entered into a settlement agreement with the PURA staff pursuant to which Yankee Gas provided a \$1.5 million rate credit to firm customers beginning in December 2015, and established an earnings sharing mechanism whereby Yankee Gas and its customers will share equally in any earnings exceeding a 9.5 percent ROE in a twelve month period commencing with the period from April 1, 2015 through March 31, 2016. As of December 31, 2017, Yankee Gas had not triggered any of the earnings sharing thresholds.

### **Massachusetts Natural Gas Replacement and Expansion**

On July 7, 2014, Massachusetts enacted "An Act Relative to Natural Gas Leaks" (the "Act"). The Act established a uniform natural gas leak classification standard for all Massachusetts natural gas utilities and a program that accelerates the replacement of aging natural gas infrastructure. The program enabled companies, including NSTAR Gas, to better manage the scheduling and costs of replacement. The Act called for the DPU to authorize natural gas utilities to design and offer programs to customers that will increase the availability, affordability and feasibility of natural gas service for new customers.

In October 2014, pursuant to the Act, NSTAR Gas filed the Gas System Enhancement Program ("GSEP") with the DPU. NSTAR Gas' program accelerates the replacement of certain natural gas distribution facilities in the system to within 25 years. The GSEP includes a new tariff effective January 1, 2016 that provides NSTAR Gas an opportunity to collect the costs for the program on an annual basis through a newly designed reconciling factor. On April 30, 2015, the DPU approved the GSEP. We expect capital expenditures of approximately \$374.4 million for the period 2016 through 2020 for the GSEP.

### **Connecticut Natural Gas Expansion Plan**

In 2013, in accordance with Connecticut law and regulations, the PURA approved a comprehensive joint natural gas infrastructure expansion plan (the "Expansion Plan") filed by Yankee Gas and other Connecticut natural gas distribution companies. The Expansion Plan described how Yankee Gas expects to add approximately 82,000 new natural gas heating customers over a 10-year period. Yankee Gas estimates that its portion of the Expansion Plan will cost approximately \$700 million over 10 years. In January 2015, the PURA approved a joint settlement agreement proposed by Yankee Gas and other Connecticut natural gas distribution companies and regulatory agencies that clarified the procedures and oversight criteria applicable to the Expansion Plan. On November 30, 2016, Yankee Gas received PURA approval of its initial 2014 System Expansion Reconciliation as well as its 2015 Reconciliation after a combined review of the reconciliations by PURA. Yankee Gas filed its 2016 System Expansion Reconciliation in March 2017, which was approved by PURA on September 13, 2017.

### **Sources and Availability of Natural Gas Supply**

NSTAR Gas maintains a flexible resource portfolio consisting of natural gas supply contracts, transportation contracts on interstate pipelines, market area storage and peaking services. NSTAR Gas purchases transportation, storage, and balancing services from Tennessee Gas Pipeline Company and Algonquin Gas Transmission Company, as well as other upstream pipelines that transport gas from major gas producing regions in the U.S., including the Gulf Coast, Mid-continent region, and Appalachian Shale supplies to the final delivery points in the NSTAR Gas service area. NSTAR Gas purchases all of its natural gas supply under a firm portfolio management contract with a term of one year. In addition to the firm transportation and natural gas storage supplies mentioned above, NSTAR Gas utilizes contracts for underground storage and LNG facilities to meet its winter peaking demands. The LNG facilities, described below, are located within NSTAR Gas' distribution system and are used to liquefy and store pipeline natural gas during the warmer months for vaporization and use during the heating season. During the summer injection season, excess pipeline capacity and supplies are used to deliver and store natural gas in market area underground storage facilities located in the New York and Pennsylvania regions. Stored natural gas is withdrawn during the winter season to supplement flowing pipeline supplies in order to meet firm heating demand. NSTAR Gas has firm underground storage contracts and total storage capacity entitlements of approximately 6.6 Bcf. A portion of the storage of natural gas supply for NSTAR Gas during the winter heating season is provided by Hopkinton LNG Corp., which owns an LNG liquefaction and vaporization plant and three above-ground cryogenic storage tanks having an aggregate capacity of 3.0 Bcf of liquefied natural gas. NSTAR Gas also has access to Hopkinton LNG Corp. facilities that include additional storage capacity of 0.5 Bcf and additional vaporization capacity.

The PURA requires that Yankee Gas meet the needs of its firm customers under all weather conditions. Specifically, Yankee Gas must structure its supply portfolio to meet firm customer needs under a design day scenario (defined as the coldest day in 30 years) and under a design year scenario (defined as the average of the four coldest years in the last 30 years). Yankee Gas' on-system stored LNG and underground storage supplies help to meet consumption needs during the coldest days of winter. Yankee Gas obtains its interstate capacity from the three interstate pipelines that directly serve Connecticut: the Algonquin, Tennessee and Iroquois Pipelines, which connect to other upstream pipelines that transport gas from major gas producing regions, including the Gulf Coast, Mid-continent, Canadian regions and Appalachian Shale supplies.

Based on information currently available regarding projected growth in demand and estimates of availability of future supplies of pipeline natural gas, NSTAR Gas and Yankee Gas each believes that participation in planned and anticipated pipeline and storage expansion projects will be required in order for it to meet current and future sales growth opportunities.

## **WATER BUSINESS**

Eversource Water Ventures, Inc., a Connecticut corporation, through its wholly-owned subsidiary, Eversource Aquarion Holdings, Inc. (Aquarion), operates regulated water utilities in Connecticut (Aquarion Water Company of Connecticut, or "AWC-CT"), Massachusetts (Aquarion Water Company of Massachusetts, or "AWC-MA") and New Hampshire (Aquarion Water Company of New Hampshire, or "AWC-NH"). These regulated companies provide water services to approximately 226,000 residential, commercial, industrial, municipal and fire protection and other customers, in 59 towns and cities in Connecticut, Massachusetts and New Hampshire. As of December 31, 2017, approximately 87 percent of Aquarion's customers were based in Connecticut.

For the period from December 4, 2017, the date Aquarion was acquired by Eversource, through December 31, 2017, water franchise retail revenues based on categories of customers for residential, commercial, municipal and fire protection, industrial and other totaled \$9.9 million, \$2.3 million, \$2.5 million, \$0.2 million and \$1.0 million, respectively.

### **Rates**

Aquarion's water utilities are subject to regulation by the PURA, the DPU and the NHPUC in Connecticut, Massachusetts and New Hampshire, respectively. These regulatory agencies, have jurisdiction over, among other things, rates, certain dispositions of property and plant, mergers and consolidations, issuances of long-term securities, standards of service and construction and operation of facilities.

Aquarion's general rate structure consists of various rate and service classifications covering residential, commercial, industrial, and municipal and fire protection services.

The rates established by the PURA, DPU and NHPUC are comprised of the following:

- A base rate, which is comprised of fixed charges based on meter/fire connection sizes, as well as volumetric charges based on the amount of water sold. Together these charges are designed to recover the full cost of service resulting from a general rate proceeding.
- A revenue adjustment mechanism ("RAM") that reconciles earned revenues, with certain allowed adjustments, on an annual basis, to the revenue requirement approved by the PURA in AWC-CT's last rate case (2013), which is an annual amount of \$178.0 million.
- The water infrastructure conservation adjustment ("WICA") charge, which is applied between rate case proceedings and seeks recovery of allowed costs associated with WICA-eligible capital projects placed in-service. The WICA is updated semiannually in Connecticut and annually in New Hampshire.
- Treatment plant surcharges, which are a series of three surcharges in Massachusetts (one fixed and two volumetric in nature) that are designed to recover certain operating costs and the costs of the lease of the treatment plant located in Hingham. These surcharges are applicable only to customers in Hingham, Hull and Cohasset.

### **Sources and Availability of Water Supply**

Our water utilities obtain their water supplies from owned surface water sources (reservoirs) and groundwater supplies (wells) with a total supply yield of approximately 131 million gallons per day, as well as water purchased from other water suppliers. Approximately 98 percent of our annual production is self-supplied and processed at 10 surface water treatment plants and numerous well stations, which are all located in Connecticut, Massachusetts, and New Hampshire.

The capacities of Aquarion's sources of supply, and water treatment, pumping and distribution facilities, are considered sufficient to meet the present requirements of Aquarion's customers under normal conditions. On occasion, drought declarations are issued for portions of Aquarion's service territories in response to extended periods of dry weather conditions.

## **OFFSHORE WIND PROJECT**

Bay State Wind is a proposed offshore wind project being jointly developed by Eversource and Denmark-based Ørsted. Bay State Wind will be located in a 300-square-mile area approximately 25 miles off the coast of Massachusetts that has the ultimate potential to generate more than 2,000 MW of clean, renewable energy. Eversource and Ørsted each hold a 50 percent ownership interest in Bay State Wind.

For more information regarding the clean energy legislation, see "Regulatory Developments and Rate Matters – Massachusetts – Massachusetts RFPs" in the accompanying Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

## **PROJECTED CAPITAL EXPENDITURES**

We project to make capital expenditures of approximately \$10.8 billion from 2018 through 2021, of which we expect approximately \$5.7 billion to be in our electric and natural gas distribution segments, approximately \$4.1 billion to be in our electric transmission segment and \$0.4 billion to be in our water utility business. We also project to invest approximately \$0.5 billion in information technology and facilities upgrades and enhancements. These projections do not include any expected investments related to Bay State Wind.

## **FINANCING**

Our credit facilities and indentures require that Eversource parent and certain of its subsidiaries, including CL&P, NSTAR Electric, PSNH, NSTAR Gas, and Yankee Gas, and Aquarion comply with certain financial and non-financial covenants as are customarily included in such agreements, including maintaining a ratio of consolidated debt to total capitalization of no more than 65 percent. All of these companies currently are, and expect to remain, in compliance with these covenants.

As of December 31, 2017, \$961.0 million of Eversource's long-term debt, including \$450.0 million, \$300.0 million, \$110.0 million, \$100.0 million and \$1.0 million for Eversource parent, CL&P, PSNH, Yankee Gas and Aquarion, respectively, will be paid within the next 12 months.

## **NUCLEAR FUEL STORAGE**

CL&P, NSTAR Electric, PSNH, and several other New England electric utilities are stockholders in three inactive regional nuclear generation companies, CYAPC, MYAPC and YAEC (collectively, the Yankee Companies). The Yankee Companies have completed the physical decommissioning of their respective generation facilities and are now engaged in the long-term storage of their spent nuclear fuel. The Yankee Companies have completed collection of their decommissioning and closure costs through the proceeds from the spent nuclear fuel litigation against the DOE and has refunded amounts to its member companies. These proceeds were used by the Yankee Companies to offset the decommissioning and closure cost amounts due from their member companies or to decrease the wholesale FERC-approved rates charged under power purchase agreements with CL&P, NSTAR Electric and PSNH and several other New England utilities. The decommissioning rates charged by the Yankee Companies have been reduced to zero. CL&P, NSTAR Electric and PSNH can recover these costs from, or refund proceeds to, their customers through state regulatory commission-approved retail rates.

We consolidate the assets and obligations of CYAPC and YAEC on our consolidated balance sheet because we own more than 50 percent of these companies.

## **OTHER REGULATORY AND ENVIRONMENTAL MATTERS**

### **General**

We are regulated in virtually all aspects of our business by various federal and state agencies, including FERC, the SEC, and various state and/or local regulatory authorities with jurisdiction over the industry and the service areas in which each of our companies operates, including the PURA, which has jurisdiction over CL&P, Yankee Gas, and Aquarion, the NHPUC, which has jurisdiction over PSNH and Aquarion, and the DPU, which has jurisdiction over NSTAR Electric, NSTAR Gas, and Aquarion.

### **Environmental Regulation**

We are subject to various federal, state and local requirements with respect to water quality, air quality, toxic substances, hazardous waste and other environmental matters. Additionally, major generation and transmission facilities may not be constructed or significantly modified without a review of the environmental impact of the proposed construction or modification by the applicable federal or state agencies.

### **Water Quality Requirements**

The Clean Water Act requires every "point source" discharger of pollutants into navigable waters to obtain a National Pollutant Discharge Elimination System ("NPDES") permit from the EPA or state environmental agency specifying the allowable quantity and characteristics of its effluent. States may also require additional permits for discharges into state waters.

### **Air Quality Requirements**

The Clean Air Act Amendments ("CAAA"), as well as New Hampshire law, impose stringent requirements on emissions of SO<sub>2</sub> and NO<sub>x</sub> for the purpose of controlling acid rain and ground level ozone. In addition, the CAAA address the control of toxic air pollutants. Requirements for the installation of continuous emissions monitors and expanded permitting provisions also are included. Following the completion of the sale of PSNH's thermal generation facilities on January 10, 2018, we no longer own facilities subject to the provisions of the CAAA.

## **Renewable Portfolio Standards**

Each of the states in which we do business also has Renewable Portfolio Standards ("RPS") requirements, which generally require fixed percentages of our energy supply to come from renewable energy sources such as solar, wind, hydropower, landfill gas, fuel cells and other similar sources.

New Hampshire's RPS provision requires increasing percentages of the electricity sold to retail customers to have direct ties to renewable sources. In 2017, the total RPS obligation was 17.6 percent and it will ultimately reach 25.2 percent in 2025. The costs of the RECs are recovered by PSNH through rates charged to customers.

Similarly, Connecticut's RPS statute requires increasing percentages of the electricity sold to retail customers to have direct ties to renewable sources. In 2017, the total RPS obligation was 22.5 percent and will ultimately reach 28 percent in 2020. CL&P is permitted to recover any costs incurred in complying with RPS from its customers through its GSC rate.

Massachusetts' RPS program also requires electricity suppliers to meet renewable energy standards. For 2017, the requirement was 22.34 percent, and will ultimately reach 26.1 percent in 2020. NSTAR Electric is permitted to recover any costs incurred in complying with RPS from its customers through rates. NSTAR Electric also owns renewable solar power facilities. The RECs generated from NSTAR Electric's solar power facilities are sold to other energy suppliers, and the proceeds from these sales are credited back to customers.

## **Hazardous Materials Regulations**

We have recorded a liability for what we believe, based upon currently available information, is our reasonably estimable environmental investigation, remediation, and/or Natural Resource Damages costs for waste disposal sites for which we have probable liability. Under federal and state law, government agencies and private parties can attempt to impose liability on us for recovery of investigation and remediation costs at hazardous waste sites. As of December 31, 2017, the liability recorded for our reasonably estimable and probable environmental remediation costs for known sites needing investigation and/or remediation, exclusive of recoveries from insurance or from third parties, was \$54.9 million, representing 59 sites. These costs could be significantly higher if additional remediation becomes necessary or when additional information as to the extent of contamination becomes available.

The most significant liabilities currently relate to future clean-up costs at former MGP facilities. These facilities were owned and operated by our predecessor companies from the mid-1800's to mid-1900's. By-products from the manufacture of gas using coal resulted in fuel oils, hydrocarbons, coal tar, purifier wastes, metals and other waste products that may pose risks to human health and the environment. We currently have partial or full ownership responsibilities at former MGP sites that have a reserve balance of \$49.0 million of the total \$54.9 million as of December 31, 2017. MGP costs are recoverable through rates charged to our customers.

## **Electric and Magnetic Fields**

For more than twenty years, published reports have discussed the possibility of adverse health effects from electric and magnetic fields ("EMF") associated with electric transmission and distribution facilities and appliances and wiring in buildings and homes. Although weak health risk associations reported in some epidemiology studies remain unexplained, most researchers, as well as numerous scientific review panels, considering all significant EMF epidemiology and laboratory studies, have concluded that the available body of scientific information does not support the conclusion that EMF affects human health.

In accordance with recommendations of various regulatory bodies and public health organizations, we reduce EMF associated with new transmission lines by the use of designs that can be implemented without additional cost or at a modest cost. We do not believe that other capital expenditures are appropriate to minimize unsubstantiated risks.

## **Global Climate Change and Greenhouse Gas Emission Issues**

Global climate change and greenhouse gas emission issues have received an increased focus from state governments and the federal government. The EPA initiated a rulemaking addressing greenhouse gas emissions and, on December 7, 2009, issued a finding that concluded that greenhouse gas emissions are "air pollution" that endangers public health and welfare and should be regulated. The largest source of greenhouse gas emissions in the U.S. is the electricity generating sector. The EPA has mandated greenhouse gas emission reporting beginning in 2011 for emissions for certain aspects of our business including stationary combustion, volume of gas supplied to large customers and fugitive emissions of SF6 gas and methane.

We are continually evaluating the regulatory risks and regulatory uncertainty presented by climate change concerns. Such concerns could potentially lead to additional rules and regulations that impact how we operate our business, both in terms of the generating facilities we own and operate as well as general utility operations. These could include federal "cap and trade" laws, carbon taxes, fuel and energy taxes, or regulations requiring additional capital expenditures at our generating facilities. We expect that any costs of these rules and regulations would be recovered from customers.

Connecticut, New Hampshire and Massachusetts are each members of the Regional Greenhouse Gas Initiative (RGGI), a cooperative effort by nine northeastern and mid-Atlantic states, to develop a regional program for stabilizing and reducing CO<sub>2</sub> emissions from coal- and oil-fired electric generating plants. Because CO<sub>2</sub> allowances issued by any participating state are usable across all nine RGGI state programs, the individual state CO<sub>2</sub> trading programs, in the aggregate, form one regional compliance market for CO<sub>2</sub> emissions. The third three-year control period took effect on January 1, 2015 and extended through December 31, 2017. In this control period, each regulated power plant must hold CO<sub>2</sub> allowances equal to 50 percent of its emissions during each of the first two years of the three-year period, and hold CO<sub>2</sub> allowances equal to 100 percent of its remaining emissions for the three-year control period at the end of the period.

#### **FERC Hydroelectric Project Licensing**

Federal Power Act licenses may be issued for hydroelectric projects for terms of 30 to 50 years as determined by the FERC. Upon the expiration of an existing license, (i) the FERC may issue a new license to the existing licensee, (ii) the United States may take over the project, or (iii) the FERC may issue a new license to a new licensee, upon payment to the existing licensee of the lesser of the fair value or the net investment in the project, plus severance damages, less certain amounts earned by the licensee in excess of a reasonable rate of return.

PSNH currently owns nine hydroelectric generation facilities with a current claimed capability representing winter rates of approximately 71 MW, eight of which are licensed by the FERC under long-term licenses. PSNH and its hydroelectric facilities are subject to conditions set forth in such licenses, the Federal Power Act and related FERC regulations, including provisions related to the condemnation of a project upon payment of just compensation, amortization of project investment from excess project earnings, possible takeover of a project after expiration of its license upon payment of net investment and severance damages and other matters. We are targeting for PSNH to close on the sale of its hydroelectric generation facilities by the end of the first quarter of 2018.

#### **EMPLOYEES**

As of December 31, 2017, Eversource Energy employed a total of 8,084 employees, excluding temporary employees, of which 1,270 were employed by CL&P, 1,922 were employed by NSTAR Electric, and 918 were employed by PSNH. Approximately 50 percent of our employees are members of the International Brotherhood of Electrical Workers, the Utility Workers Union of America or The United Steelworkers, and are covered by 11 collective bargaining agreements.

#### **INTERNET INFORMATION**

Our website address is [www.eversource.com](http://www.eversource.com). We make available through our website a link to the SEC's EDGAR website (<http://www.sec.gov/edgar/searchedgar/companysearch.html>), at which site Eversource Energy's, CL&P's, NSTAR Electric's and PSNH's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports may be reviewed. Information contained on the Company's website or that can be accessed through the website is not incorporated into and does not constitute a part of this Annual Report on Form 10-K. Printed copies of these reports may be obtained free of charge by writing to our Investor Relations Department at Eversource Energy, 107 Selden Street, Berlin, CT 06037.

## Item 1A. Risk Factors

In addition to the matters set forth under "Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995" included immediately prior to Item 1, *Business*, above, we are subject to a variety of significant risks. Our susceptibility to certain risks, including those discussed in detail below, could exacerbate other risks. These risk factors should be considered carefully in evaluating our risk profile.

### **Cyberattacks could severely impair operations, negatively impact our business, lead to the disclosure of confidential information and adversely affect our reputation.**

A successful cyberattack on the information technology systems that control our transmission and distribution systems or other assets could impair or prevent us from managing these systems and facilities, operating our systems effectively, or properly managing our data, networks and programs. The breach of certain information technology systems could adversely affect our ability to correctly record, process and report financial information. A major cyber incident could result in significant expenses to investigate and to repair system damage or security breaches and could lead to litigation, fines, other remedial action, heightened regulatory scrutiny and damage to our reputation.

We have instituted safeguards to protect our information technology systems and assets. We devote substantial resources to network and application security, encryption and other measures to protect our computer systems and infrastructure from unauthorized access or misuse and interface with numerous external entities to improve our cybersecurity situational awareness. The FERC, through the North American Electric Reliability Corporation, requires certain safeguards to be implemented to deter cyberattacks. These safeguards may not always be effective due to the evolving nature of cyberattacks.

Any such cyberattacks could result in loss of service to customers and a significant decrease in revenues, which could have a material adverse impact on our financial position, results of operations or cash flows.

### **Acts of war or terrorism, both threatened and actual, or physical attacks could adversely affect our ability to operate our systems and could adversely affect our financial results and liquidity.**

Acts of war or terrorism, both threatened and actual, or actual physical attacks that damage our transmission and distribution systems or other assets could negatively impact our ability to transmit or distribute energy, distribute water, or operate our systems efficiently or at all. Because our electric transmission systems are part of an interconnected regional grid, we face the risk of blackout due to grid disturbances or disruptions on a neighboring interconnected system. If our assets were physically damaged and were not recovered in a timely manner, it could result in a loss of service to customers and a significant decrease in revenues.

Any such acts of war or terrorism, physical attacks or grid disturbances could result in a significant decrease in revenues, significant expense to repair system damage, costs associated with governmental actions in response to such attacks, and liability claims, all of which could have a material adverse impact on our financial position, results of operations and cash flows.

### **Strategic development opportunities may not be successful and projects may not commence operation as scheduled or be completed, which could have a material adverse effect on our business prospects.**

We are pursuing broader strategic development investment opportunities that will benefit the New England region related to the construction of electric transmission facilities, off-shore wind electric generation facilities, interconnections to generating resources and other investment opportunities. The development of these activities involve numerous risks. Various factors could result in increased costs or result in delays or cancellation of these projects. Risks include regulatory approval processes, new legislation, economic events or factors, environmental and community concerns, design and siting issues, difficulties in obtaining required rights of way, competition from incumbent utilities and other entities, and actions of strategic partners. Should any of these factors result in such delays or cancellations, our financial position, results of operations, and cash flows could be adversely affected or our future growth opportunities may not be realized as anticipated.

As a result of legislative and regulatory changes, the states in which we provide service have implemented new procedures to select for construction new major electric transmission, natural gas pipeline, off-shore wind and other clean energy facilities. These procedures require the review of competing projects and permit the selection of only those projects that are expected to provide the greatest benefit to customers. If the projects in which we have invested are not selected for construction, or even if our projects are selected, other legislative or regulatory actions could result in our projects not being probable of entering the construction phase, it could have a material adverse effect on our future financial position, results of operations and cash flows.

After being selected as the winning bidder in the Massachusetts clean energy RFP in January 2018, on February 1, 2018, the NHSEC voted to deny the siting application for our Northern Pass project. Following the NHSEC's decision, the Massachusetts EDCs, in coordination with the DOER and the independent evaluator, notified NPT that the EDCs will continue contract negotiations, with the option of discontinuing discussions and terminating its conditional selection by March 27, 2018.

### **The actions of regulators and legislators can significantly affect our earnings, liquidity and business activities.**

The rates that our electric, natural gas and water companies charge their customers are determined by their state regulatory commissions and by the FERC. These commissions also regulate the companies' accounting, operations, the issuance of certain securities and certain other matters. The FERC also regulates the transmission of electric energy, the sale of electric energy at wholesale, accounting, issuance of certain securities and certain other matters.

Under state and federal law, our electric, natural gas and water companies are entitled to charge rates that are sufficient to allow them an opportunity to recover their reasonable operating and capital costs and a reasonable ROE, to attract needed capital and maintain their financial integrity, while also protecting relevant public interests. Each of these companies prepares and submits periodic rate filings with their respective regulatory commissions for review and approval.

The FERC has jurisdiction over our transmission costs recovery and our allowed ROE. Certain outside parties have filed four complaints against all electric companies under the jurisdiction of ISO-NE alleging that our allowed ROE is unjust and unreasonable. An adverse decision in any of these four complaints could adversely affect our financial position, results of operations or cash flows.

FERC's policy has encouraged competition for transmission projects, even within existing service territories of electric companies. Implementation of FERC's goals, including within our service territories, may expose us to competition for construction of transmission projects, additional regulatory considerations, and potential delay with respect to future transmission projects, which may adversely affect our results of operation.

There is no assurance that the commissions will approve the recovery of all costs incurred by our electric, natural gas and water companies, including costs for construction, operation and maintenance, as well as a reasonable return on their respective regulated assets. The amount of costs incurred by the companies, coupled with increases in fuel and energy prices, could lead to consumer or regulatory resistance to the timely recovery of such costs, thereby adversely affecting our financial position, results of operations or cash flows.

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

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

**The effects of climate change, including severe storms, could cause significant damage to any of our facilities requiring extensive expenditures, the recovery for which is subject to approval by regulators.**

Climate change creates physical and financial risks. Physical risks from climate change may include an increase in sea levels and changes in weather conditions, such as changes in precipitation and extreme weather events including drought. Customers' energy needs vary with weather conditions, primarily temperature and humidity. For residential customers, heating and cooling represent their largest energy use. For water customers, conservation measures imposed by the communities we serve could impact water usage. To the extent weather conditions are affected by climate change, customers' energy and water usage could increase or decrease depending on the duration and magnitude of the changes.

Severe weather, such as ice and snow storms, hurricanes and other natural disasters, may cause outages and property damage, which may require us to incur additional costs that may not be recoverable from customers. The cost of repairing damage to our operating subsidiaries' facilities and the potential disruption of their operations due to storms, natural disasters or other catastrophic events could be substantial, particularly as regulators and customers demand better and quicker response times to outages. If, upon review, any of our state regulatory authorities finds that our actions were imprudent, some of those restoration costs may not be recoverable from customers. The inability to recover a significant amount of such costs could have an adverse effect on our financial position, results of operations and cash flows.

**Our transmission and distribution systems may not operate as expected, and could require unplanned expenditures, which could adversely affect our financial position, results of operations and cash flows.**

Our ability to properly operate our transmission and distribution systems is critical to the financial performance of our business. Our transmission and distribution businesses face several operational risks, including the breakdown, failure of, or damage to operating equipment, information technology systems, or processes, especially due to age; labor disputes; disruptions in the delivery of electricity, natural gas and water, including impacts on us or our customers; increased capital expenditure requirements, including those due to environmental regulation; catastrophic events such as fires, explosions, or other similar occurrences; extreme weather conditions beyond equipment and plant design capacity; other unanticipated operations and maintenance expenses and liabilities; and potential claims for property damage or personal injuries beyond the scope of our insurance coverage. Many of our transmission projects are expected to alleviate identified reliability issues and reduce customers' costs. However, if the in-service date for one or more of these projects is delayed due to economic events or factors, or regulatory or other delays, the risk of failures in the electricity transmission system may increase. Any failure of our transmission and distribution systems to operate as planned may result in increased capital costs, reduced earnings or unplanned increases in operation and maintenance costs. The inability to recover a significant amount of such costs could have an adverse effect on our financial position, results of operations and cash flows.

**New technology, conservation measures and alternative energy sources could adversely affect our operations and financial results.**

Advances in technology that reduce the costs of alternative methods of producing electric energy to a level that is competitive with that of current electric production methods, could result in loss of market share and customers, and may require us to make significant expenditures to remain competitive. These changes in technology could also alter the channels through which electric customers buy or utilize energy, which could reduce

our revenues or increase our expenses. Economic downturns or periods of high energy supply costs typically can lead to the development of legislative and regulatory policy designed to promote reductions in energy consumption and increased energy efficiency and self-generation by customers. Customers' increased use of energy efficiency measures, distributed generation and energy storage technology could result in lower demand. Similarly, mandatory water conservation imposed due to drought conditions could result in lower demand for water. Reduced demand for electricity due to energy efficiency measures and the use of distributed generation, and reduced demand for water due to mandatory or voluntary conservation efforts, to the extent not substantially offset through ratemaking or decoupling mechanisms, could have a material adverse effect on our financial condition, results of operations and cash flows.

**The unauthorized access to and the misappropriation of confidential and proprietary customer, employee, financial or system operating information could adversely affect our business operations and adversely impact our reputation.**

In the regular course of business, we maintain sensitive customer, employee, financial and system operating information and are required by various federal and state laws to safeguard this information. Cyber intrusions, security breaches, theft or loss of this information by cybercrime or otherwise could lead to the release of critical operating information or confidential customer or employee information, which could adversely affect our business operations or adversely impact our reputation, and could result in significant costs, fines and litigation. We maintain limited privacy protection liability insurance to cover limited damages and defense costs arising from unauthorized disclosure of, or failure to protect, private information, as well as costs for notification to, or for credit card monitoring of, customers, employees and other persons in the event of a breach of private information. This insurance covers amounts paid to avert, prevent or stop a network attack or the disclosure of personal information, and costs of a qualified forensics firm to determine the cause, source and extent of a network attack or to investigate, examine and analyze our network to find the cause, source and extent of a data breach. While we have implemented measures designed to prevent cyberattacks and mitigate their effects should they occur, these measures may not be effective due to the continually evolving nature of efforts to access confidential information.

**Contamination of our water supplies, the failure of dams on reservoirs providing water to our customers, or requirements to repair, upgrade or dismantle any of these dams, may disrupt our ability to distribute water to our customers and result in substantial additional costs, which could adversely affect our financial condition, and results of operations.**

Our water supplies, including water provided to our customers, are subject to possible contamination from naturally occurring compounds or man-made substances.

Our water systems include impounding dams and reservoirs of various sizes. Although we believe our dams are structurally sound and well-maintained, significant damage to these facilities, or a significant decrease in the water in our reservoirs, could adversely affect our ability to provide water to our customers until the facilities and a sufficient amount of water in our reservoirs can be restored. A failure of a dam could result in personal injuries and downstream property damage for which we may be liable. The failure of a dam would also adversely affect our ability to supply water in sufficient quantities to our customers. Any losses or liabilities incurred due to a failure of one of our dams may not be covered by existing insurance, may exceed such insurance coverage limits, or may not be recoverable in rates. Any such losses may make it difficult for us to obtain insurance at acceptable rates in the future, and may have a material adverse effect on our financial condition, results of operations and cash flows.

**Our goodwill is valued and recorded at an amount that, if impaired and written down, could adversely affect our future operating results and total capitalization.**

We have a significant amount of goodwill on our consolidated balance sheet, which, as of December 31, 2017, totaled \$4.4 billion. The carrying value of goodwill represents the fair value of an acquired business in excess of identifiable assets and liabilities as of the acquisition date. We test our goodwill balances for impairment on an annual basis or whenever events occur or circumstances change that would indicate a potential for impairment. A determination that goodwill is deemed to be impaired would result in a non-cash charge that could materially adversely affect our financial position, results of operations and total capitalization. The annual goodwill impairment test in 2017 resulted in a conclusion that our goodwill was not impaired.

**Eversource Energy and its utility subsidiaries are exposed to significant reputational risks, which make them vulnerable to increased regulatory oversight or other sanctions.**

Because utility companies, including our electric, natural gas and water utility subsidiaries, have large customer bases, they are subject to adverse publicity focused on the reliability of their distribution services and the speed with which they are able to respond to electric outages, natural gas leaks and similar interruptions caused by storm damage or other unanticipated events. Adverse publicity of this nature could harm the reputations of Eversource Energy and its subsidiaries; may make state legislatures, utility commissions and other regulatory authorities less likely to view them in a favorable light; and may cause them to be subject to less favorable legislative and regulatory outcomes or increased regulatory oversight. Unfavorable regulatory outcomes can include more stringent laws and regulations governing our operations, such as reliability and customer service quality standards or vegetation management requirements, as well as fines, penalties or other sanctions or requirements. The imposition of any of the foregoing could have a material adverse effect on the business, financial position, results of operations and cash flows of Eversource Energy and each of its utility subsidiaries.

**Limits on our access to and increases in the cost of capital may adversely impact our ability to execute our business plan.**

We use short-term debt and the long-term capital markets as a significant source of liquidity and funding for capital requirements not obtained from our operating cash flow. If access to these sources of liquidity becomes constrained, our ability to implement our business strategy could be

adversely affected. In addition, higher interest rates would increase our cost of borrowing, which could adversely impact our results of operations. A downgrade of our credit ratings or events beyond our control, such as a disruption in global capital and credit markets, could increase our cost of borrowing and cost of capital or restrict our ability to access the capital markets and negatively affect our ability to maintain and to expand our businesses.

**Our counterparties may not meet their obligations to us or may elect to exercise their termination rights, which could adversely affect our earnings.**

We are exposed to the risk that counterparties to various arrangements who owe us money, have contracted to supply us with energy, coal, or other commodities or services, or who work with us as strategic partners, including on significant capital projects, will not be able to perform their obligations, will terminate such arrangements or, with respect to our credit facilities, fail to honor their commitments. Should any of these counterparties fail to perform their obligations or terminate such arrangements, we might be forced to replace the underlying commitment at higher market prices and/or have to delay the completion of, or cancel a capital project. Should any lenders under our credit facilities fail to perform, the level of borrowing capacity under those arrangements could decrease. In any such events, our financial position, results of operations, or cash flows could be adversely affected.

**Costs of compliance with environmental laws and regulations may increase and have an adverse effect on our business and results of operations.**

Our subsidiaries' operations are subject to extensive federal, state and local environmental statutes, rules and regulations that govern, among other things, air emissions, water quality, water discharges, and the management of hazardous and solid waste. Compliance with these requirements requires us to incur significant costs relating to environmental monitoring, maintenance and upgrading of facilities, remediation and permitting. The costs of compliance with existing legal requirements or legal requirements not yet adopted may increase in the future. An increase in such costs, unless promptly recovered, could have an adverse impact on our business and our financial position, results of operations or cash flows.

For further information, see Item 1, *Business - Other Regulatory and Environmental Matters*, included in this Annual Report on Form 10-K.

**Market performance or changes in assumptions may require us to make significant contributions to our pension and other postretirement benefit plans.**

We provide a defined benefit pension plan and other postretirement benefits for a substantial number of employees, former employees and retirees. Our future pension obligations, costs and liabilities are highly dependent on a variety of factors beyond our control. These factors include estimated investment returns, interest rates, discount rates, health care cost trends, benefit changes, salary increases and the demographics of plan participants. If our assumptions prove to be inaccurate, our future costs could increase significantly. In addition, various factors, including underperformance of plan investments and changes in law or regulation, could increase the amount of contributions required to fund our pension plan in the future. Additional large funding requirements, when combined with the financing requirements of our construction program, could impact the timing and amount of future financings and negatively affect our financial position, results of operations or cash flows. For further information, see Note 9A, "Employee Benefits - Pensions and Postretirement Benefits Other Than Pensions," to the financial statements.

**The loss of key personnel or the inability to hire and retain qualified employees could have an adverse effect on our business, financial position and results of operations.**

Our operations depend on the continued efforts of our employees. Retaining key employees and maintaining the ability to attract new employees are important to both our operational and financial performance. We cannot guarantee that any member of our management or any key employee at the Eversource parent or subsidiary level will continue to serve in any capacity for any particular period of time. In addition, a significant portion of our workforce in our subsidiaries, including many workers with specialized skills maintaining and servicing the electric, gas and water infrastructure, will be eligible to retire over the next five to ten years. Such highly skilled individuals cannot be quickly replaced due to the technically complex work they perform. We have developed strategic workforce plans to identify key functions and proactively implement plans to assure a ready and qualified workforce, but cannot predict the impact of these plans on our ability to hire and retain key employees.

**As a holding company with no revenue-generating operations, Eversource parent's liquidity is dependent on dividends from its subsidiaries, its commercial paper program, and its ability to access the long-term debt and equity capital markets.**

Eversource parent is a holding company and as such, has no revenue-generating operations of its own. Its ability to meet its debt service obligations and to pay dividends on its common shares is largely dependent on the ability of its subsidiaries to pay dividends to or repay borrowings from Eversource parent, and/or Eversource parent's ability to access its commercial paper program or the long-term debt and equity capital markets. Prior to funding Eversource parent, the subsidiary companies have financial obligations that must be satisfied, including among others, their operating expenses, debt service, preferred dividends of certain subsidiaries, and obligations to trade creditors. Additionally, the subsidiary companies could retain their free cash flow to fund their capital expenditures in lieu of receiving equity contributions from Eversource parent. Should the subsidiary companies not be able to pay dividends or repay funds due to Eversource parent, or if Eversource parent cannot access its commercial paper programs or the long-term debt and equity capital markets, Eversource parent's ability to pay interest, dividends and its own debt obligations would be restricted.

**Item 1B. Unresolved Staff Comments**

We do not have any unresolved SEC staff comments.

## Item 2. Properties

### Transmission and Distribution System

As of December 31, 2017, Eversource and our electric operating subsidiaries owned the following:

Eversource	Electric Distribution	Electric Transmission
Number of substations owned	508	74
Transformer capacity (in kVa)	42,810,000	17,012,000
Overhead lines (in circuit miles)	40,532	3,947
Capacity range of overhead transmission lines (in kV)	N/A	69 to 345
Underground lines (distribution in circuit miles and transmission in cable miles)	17,438	405
Capacity range of underground transmission lines (in kV)	N/A	69 to 345

	CL&P		NSTAR Electric		PSNH	
	Distribution	Transmission	Distribution	Transmission	Distribution	Transmission
Number of substations owned	182	20	178	34	148	20
Transformer capacity (in kVa)	19,965,000	3,633,000	17,535,000	7,465,000	5,310,000	5,914,000
Overhead lines (in circuit miles)	16,955	1,673	11,404	1,233	12,173	1,041
Capacity range of overhead transmission lines (in kV)	N/A	69 to 345	N/A	69 to 345	N/A	115 to 345
Underground lines (distribution in circuit miles and transmission in cable miles)	6,639	137	8,875	267	1,924	1
Capacity range of underground transmission lines (in kV)	N/A	69 to 345	N/A	115 to 345	N/A	115

	Eversource	CL&P	NSTAR Electric	PSNH
Underground and overhead line transformers in service	624,472	289,986	170,383	164,103
Aggregate capacity (in kVa)	36,140,835	15,684,715	13,996,195	6,459,925

### Electric Generating Plants

As of December 31, 2017, PSNH owned the following electric generating plants:

Type of Plant	Number of Units	Year Installed	Claimed Capability* (kilowatts)
Steam Plants	5	1952-74	934,940
Hydro	20	1901-83	58,951
Internal Combustion	5	1968-70	101,535
Biomass	1	2006	42,594
Total PSNH Generating Plant	31		1,138,020

\* Claimed capability represents winter ratings as of December 31, 2017. The combined nameplate capacity of the generating plants is approximately 1,200 MW.

On January 10, 2018, Eversource and PSNH completed the sale of PSNH's thermal generation assets, including the steam, internal combustion and biomass units, above. See Note 12, "Assets Held for Sale," in the accompanying Item 8, *Financial Statements and Supplementary Data* for further information.

As of December 31, 2017, NSTAR Electric owned the following solar power facilities:

Type of Plant	Number of Sites	Year Installed	Claimed Capability** (kilowatts)
Solar Fixed Tilt, Photovoltaic	3	2010-14	8,000

\*\* Claimed capability represents the direct current nameplate capacity of the plant.

CL&P does not own any electric generating plants.

## **Natural Gas Distribution System**

As of December 31, 2017, Yankee Gas owned 28 active gate stations, 197 district regulator stations, and approximately 3,362 miles of natural gas main pipeline. Yankee Gas also owns a liquefaction and vaporization plant and above ground storage tank with a storage capacity equivalent of 1.2 Bcf of natural gas in Waterbury, Connecticut.

As of December 31, 2017, NSTAR Gas owned 21 active gate stations, 166 district regulator stations, and approximately 3,292 miles of natural gas main pipeline. Hopkinton, another subsidiary of Eversource, owns a satellite vaporization plant and above ground storage tanks in Acushnet, MA. In addition, Hopkinton owns a liquefaction and vaporization plant with above ground storage tanks in Hopkinton, MA. Combined, the two plants' tanks have an aggregate storage capacity equivalent to 3.5 Bcf of natural gas that is provided to NSTAR Gas under contract.

## **Water Distribution System**

Aquarion's properties consist of water transmission and distribution mains and associated valves, hydrants and service lines, water treatment plants, pumping facilities, wells, tanks, meters, dams, reservoirs, buildings, and other facilities and equipment used for the operation of our systems, including the collection, treatment, storage, and distribution of water.

As of December 31, 2017, Aquarion owned and operated sources of water supply with a combined yield of approximately 131 million gallons per day; 3,614 miles of transmission and distribution mains; 10 surface water treatment plants; 31 dams; and 106 wellfields.

## **Franchises**

**CL&P** Subject to the power of alteration, amendment or repeal by the General Assembly of Connecticut and subject to certain approvals, permits and consents of public authority and others prescribed by statute, CL&P has, subject to certain exceptions not deemed material, valid franchises free from burdensome restrictions to provide electric transmission and distribution services in the respective areas in which it is now supplying such service.

In addition to the right to provide electric transmission and distribution services as set forth above, the franchises of CL&P include, among others, limited rights and powers, as set forth under Connecticut law and the special acts of the General Assembly constituting its charter, to manufacture, generate, purchase and/or sell electricity at retail, including to provide Standard Service, Supplier of Last Resort service and backup service, to sell electricity at wholesale and to erect and maintain certain facilities on public highways and grounds, all subject to such consents and approvals of public authority and others as may be required by law. The franchises of CL&P include the power of eminent domain.

Connecticut law prohibits an electric distribution company from owning or operating generation assets. However, under "An Act Concerning Electricity and Energy Efficiency," enacted in 2007, an electric distribution company, such as CL&P, is permitted to purchase an existing electric generating plant located in Connecticut that is offered for sale, subject to prior approval from the PURA and a determination by the PURA that such purchase is in the public interest.

**NSTAR Electric** Through its charter, which is unlimited in time, NSTAR Electric has the right to engage in the business of delivering and selling electricity within its respective service territory, and has the power incidental thereto and is entitled to all the rights and privileges of and subject to the duties imposed upon electric companies under Massachusetts laws. The locations in public ways for electric transmission and distribution lines are obtained from municipal and other state authorities who, in granting these locations, act as agents for the state. In some cases, the actions of these authorities are subject to appeal to the DPU. The rights to these locations are not limited in time and are subject to the action of these authorities and the legislature. Under Massachusetts law, with the exception of municipal-owned utilities, no other entity may provide electric delivery service to retail customers within NSTAR Electric service territory without the written consent of NSTAR Electric. This consent must be filed with the DPU and the municipality so affected. The franchises of NSTAR Electric include the power of eminent domain.

The Massachusetts restructuring legislation defines service territories as those territories actually served on July 1, 1997 and following municipal boundaries to the extent possible. The restructuring legislation further provides that until terminated by law or otherwise, distribution companies shall have the exclusive obligation to serve all retail customers within their service territories and no other person shall provide distribution service within such service territories without the written consent of such distribution companies. Pursuant to the Massachusetts restructuring legislation, the DPU (then, the Department of Telecommunications and Energy) was required to define service territories for each distribution company, including NSTAR Electric. The DPU subsequently determined that there were advantages to the exclusivity of service territories and issued a report to the Massachusetts Legislature recommending against, in this regard, any changes to the restructuring legislation.

**PSNH** The NHPUC, pursuant to statutory requirements, has issued orders granting PSNH exclusive franchises to distribute electricity in the respective areas in which it is now supplying such service.

In addition to the right to distribute electricity as set forth above, the franchises of PSNH include, among others, rights and powers to manufacture, generate, purchase, and transmit electricity, to sell electricity at wholesale to other utility companies and municipalities and to erect and maintain certain facilities on certain public highways and grounds, all subject to such consents and approvals of public authority and others as may be required by law. PSNH's status as a public utility gives it the ability to petition the NHPUC for the right to exercise eminent domain for distribution services and for transmission eligible for regional cost allocation.

PSNH is also subject to certain regulatory oversight by the Maine Public Utilities Commission and the Vermont Public Utility Commission.

**NSTAR Gas** Through its charter, which is unlimited in time, NSTAR Gas has the right to engage in the business of delivering and selling natural gas within its respective service territory, and has the power incidental thereto and is entitled to all the rights and privileges of and subject to the duties imposed upon natural gas companies under Massachusetts laws. The locations in public ways for natural gas distribution pipelines are obtained from municipal and other state authorities who, in granting these locations, act as agents for the state. In some cases, the actions of these authorities are subject to appeal to the DPU. The rights to these locations are not limited in time and are subject to the action of these authorities and the legislature. Under Massachusetts law, with the exception of municipal-owned utilities, no other entity may provide natural gas delivery service to retail customers within the NSTAR Gas service territory without the written consent of NSTAR Gas. This consent must be filed with the DPU and the municipality so affected.

**Yankee Gas** Yankee Gas holds valid franchises to sell natural gas in the areas in which Yankee Gas supplies natural gas service, which it acquired either directly or from its predecessors in interest. Generally, Yankee Gas holds franchises to serve customers in areas designated by those franchises as well as in most other areas throughout Connecticut so long as those areas are not occupied and served by another natural gas utility under a valid franchise of its own or are not subject to an exclusive franchise of another natural gas utility or by consent. Yankee Gas' franchises are perpetual but remain subject to the power of alteration, amendment or repeal by the General Assembly of the State of Connecticut, the power of revocation by the PURA and certain approvals, permits and consents of public authorities and others prescribed by statute. Generally, Yankee Gas' franchises include, among other rights and powers, the right and power to manufacture, generate, purchase, transmit and distribute natural gas and to erect and maintain certain facilities on public highways and grounds, and the right of eminent domain, all subject to such consents and approvals of public authorities and others as may be required by law.

**Aquarion Water Company of Connecticut** AWC-CT derives its rights and franchises to operate from special acts of the Connecticut General Assembly and subject to certain approvals, permits and consents of public authority and others prescribed by statute and by its charter, AWC-CT has, with minor exceptions, solid franchises free from burdensome restrictions and unlimited as to time, and is authorized to sell potable water in the towns (or parts thereof) in which water is now being supplied by AWC-CT.

In addition to the right to sell water as set forth above, the franchises of AWC-CT include rights and powers to erect and maintain certain facilities on public highways and grounds, all subject to such consents and approvals of public authority and others as may be required by law. Under the Connecticut General Statutes, AWC-CT may, upon payment of compensation, take and use such lands, springs, streams or ponds, or such rights or interests therein as the Connecticut Superior Court, upon application, may determine is necessary to enable AWC-CT to supply potable water for public or domestic use in its franchise areas.

**Aquarion Water Company of Massachusetts** Through its charters, which are unlimited in time, AWC-MA has the right to engage in the business of distributing and selling water within its service territories, and has the power incidental thereto and is entitled to all the rights and privileges of and subject to the duties imposed upon water companies under Massachusetts laws. AWC-MA has the right to construct and maintain its mains and distribution pipes in and under any public ways and to take and hold water within its respective service territories. Subject to DPU regulation, AWC-MA has the right to establish and fix rates for use of the water distributed and to establish reasonable regulations regarding same. Certain of the towns within our service area have the right, at any time, to purchase the corporate property and all rights and privileges of AWC-MA according to pricing formulas and procedures specifically described in AWC-MA's respective charters and in compliance with Massachusetts law.

**Aquarion Water Company of New Hampshire** The NHPUC, pursuant to statutory law, has issued orders granting and affirming AWC-NH's exclusive franchise to own, operate, and manage plant and equipment and any part of the same, for the conveyance of water for the public located within its franchise territory. That franchise territory encompasses the towns of Hampton, North Hampton and Rye. Subject to NHPUC's regulations, AWC-NH has the right to establish and fix rates for use of the water distributed and to establish reasonable regulations regarding the same.

In addition to the right to provide water supply, the franchise also allows AWC-NH to sell water at wholesale to other water utilities and municipalities and to construct plant and equipment and maintain such plant and equipment on certain public highways and grounds, all subject to such consents and approvals of public authority and others as may be required by law.

AWC-NH's status as a regulated public utility gives it the ability to petition the NHPUC for the right to exercise eminent domain for the establishment of plant and equipment. It can also petition the NHPUC for exemption from the operation of any local ordinance when certain utility structures are reasonably necessary for the convenience or welfare of the public and the local conditions, and, if the purpose of the structure relates to water supply withdrawal, the exemption is recommended by the New Hampshire Department of Environmental Services.

### **Item 3. Legal Proceedings**

#### **1. Yankee Companies v. U.S. Department of Energy**

*DOE Phase I Damages* - In 1998, the Yankee Companies filed separate complaints against the DOE in the Court of Federal Claims seeking monetary damages resulting from the DOE's failure to begin accepting spent nuclear fuel for disposal by January 31, 1998 pursuant to the terms of the 1983 spent fuel and high-level waste disposal contracts between the Yankee Companies and the DOE ("DOE Phase I Damages"). Phase I covered damages for the years 1998 through 2002. Following multiple appeals and cross-appeals in December 2012, the judgment awarding \$39.6 million, \$38.3 million and \$81.7 million to CYAPC, YAEC and MYAPC, respectively, became final.

In January 2013, the proceeds from the DOE Phase I Damages Claim were received by the Yankee Companies and transferred to each Yankee Company's respective decommissioning trust.

In June 2013, FERC approved CYAPC, YAEC and MYAPC to reduce rates in their wholesale power contracts through the application of the DOE proceeds for the benefit of customers. Changes to the terms of the wholesale power contracts became effective on July 1, 2013. In accordance with the FERC order, CL&P, NSTAR Electric and PSNH began receiving the benefit of the DOE proceeds, and the benefits have been passed on to customers.

On September 17, 2014, in accordance with the MYAPC refund plan, MYAPC returned a portion of the DOE Phase I Damages proceeds to the member companies, including CL&P, NSTAR Electric and PSNH, in the amount of \$3.2 million, \$1.9 million and \$1.4 million, respectively.

*DOE Phase II Damages* - In December 2007, the Yankee Companies each filed subsequent lawsuits against the DOE seeking recovery of actual damages incurred related to the alleged failure of the DOE to provide for a permanent facility to store spent nuclear fuel generated in years 2001 through 2008 for CYAPC and YAEC and from 2002 through 2008 for MYAPC ("DOE Phase II Damages"). In November 2013, the court issued a final judgment awarding \$126.3 million, \$73.3 million, and \$35.8 million to CYAPC, YAEC and MYAPC, respectively. On January 14, 2014, the Yankee Companies received a letter from the U.S. Department of Justice stating that the DOE will not appeal the court's final judgment.

In March and April 2014, CYAPC, YAEC and MYAPC received payment of \$126.3 million, \$73.3 million and \$35.8 million, respectively, of the DOE Phase II Damages proceeds and made the required informational filing with FERC in accordance with the process and methodology outlined in the 2013 FERC order. The Yankee Companies returned the DOE Phase II Damages proceeds to the member companies, including CL&P, NSTAR Electric and PSNH, for the benefit of their respective customers, on June 1, 2014. Refunds to CL&P's, NSTAR Electric's and PSNH's customers for these DOE proceeds began in the third quarter of 2014 and all refunds under these proceedings have been disbursed.

*DOE Phase III Damages* - In August 2013, the Yankee Companies each filed subsequent lawsuits against the DOE seeking recovery of actual damages incurred in the years 2009 through 2012 ("DOE Phase III"). The DOE Phase III trial concluded on July 1, 2015, followed by a post-trial briefing that concluded on October 4, 2015. On March 25, 2016, the court issued its decision and awarded CYAPC, YAEC and MYAPC damages of \$32.6 million, \$19.6 million and \$24.6 million, respectively. In total, the Yankee Companies were awarded \$76.8 million of the \$77.9 million in damages sought in the DOE Phase III. The decision became final on July 18, 2016, and the Yankee Companies received the awards from the DOE on October 14, 2016. The Yankee Companies received FERC approval of their proposed distribution of certain amounts of the awarded damages proceeds to member companies, including CL&P, NSTAR Electric and PSNH, which CYAPC and MYAPC made in December 2016. MYAPC also refunded \$56.5 million from its spent nuclear fuel trust, a portion of which was also refunded to the Eversource utility subsidiaries. In total, Eversource received \$26.1 million, of which CL&P, NSTAR Electric and PSNH received \$13.6 million, \$8.6 million and \$3.9 million, respectively. All refunds under these proceedings have been disbursed.

*DOE Phase IV Damages* - On May 22, 2017, each of the Yankee Companies filed subsequent lawsuits against the DOE in the Court of Federal Claims seeking monetary damages totaling approximately \$100 million for CYAPC, YAEC and MYAPC, resulting from the DOE's failure to begin accepting spent nuclear fuel for disposal covering the years from 2013 to 2016 ("DOE Phase IV"). The DOE Phase IV trial is expected to begin in 2018.

## 2. Other Legal Proceedings

For further discussion of legal proceedings, see Item 1, *Business*: "- Electric Distribution Segment," "- Electric Transmission Segment," and "- Natural Gas Distribution Segment" for information about various state and federal regulatory and rate proceedings, civil lawsuits related thereto, and information about proceedings relating to power, transmission and pricing issues; "- Nuclear Fuel Storage" for information related to nuclear waste; and "- Other Regulatory and Environmental Matters" for information about proceedings involving water and air quality requirements, toxic substances and hazardous waste, electric and magnetic fields, and other matters. In addition, see Item 1A, *Risk Factors*, for general information about several significant risks.

## **Item 4. Mine Safety Disclosures**

Not applicable.

## **EXECUTIVE OFFICERS OF THE REGISTRANT**

The following table sets forth the executive officers of Eversource Energy as of February 23, 2018. All of the Company's officers serve terms of one year and until their successors are elected and qualified:

<b>Name</b>	<b>Age</b>	<b>Title</b>
James J. Judge	62	President and Chief Executive Officer
Philip J. Lembo	62	Executive Vice President and Chief Financial Officer
Gregory B. Butler	60	Executive Vice President and General Counsel
Christine M. Carmody	55	Executive Vice President-Human Resources and Information Technology
Joseph R. Nolan, Jr.	54	Executive Vice President-Customer and Corporate Relations
Leon J. Olivier	70	Executive Vice President-Enterprise Energy Strategy and Business Development
Werner J. Schweiger	58	Executive Vice President and Chief Operating Officer
Jay S. Buth	48	Vice President, Controller and Chief Accounting Officer

*James J. Judge.* Mr. Judge has served as Chairman of the Board, President and Chief Executive Officer of Eversource Energy since May 3, 2017; as a Trustee of Eversource Energy and as Chairman of CL&P, NSTAR Electric and PSNH since May 4, 2016; and as Chairman, President and Chief Executive Officer of Eversource Service and Chairman of NSTAR Gas and Yankee Gas since May 9, 2016. Mr. Judge has served as a Director of CL&P, PSNH, Yankee Gas and Eversource Service since April 10, 2012; and of NSTAR Electric and NSTAR Gas since September 27, 1999. Previously, Mr. Judge served as President and Chief Executive Officer of Eversource Energy from May 4, 2016 until May 3, 2017; as Chairman of WMECO from May 4, 2016 until December 31, 2017; as a Director of WMECO from April 10, 2012 until December 31, 2017; and as Executive Vice President and Chief Financial Officer of Eversource Energy, CL&P, NSTAR Electric, PSNH and WMECO from April 10, 2012 until May 4, 2016; of NSTAR Gas, Yankee Gas and Eversource Service from April 10, 2012 until May 9, 2016. Mr. Judge serves as a director of Analogic Corporation and as chairman of its audit committee. He serves on the Board of Directors of the Edison Electric Institute and the Massachusetts Competitive Partnership. He has also served on the Board of Directors of the United Way of Massachusetts Bay and Merrimack Valley. Mr. Judge has served as Chairman of the Board of Eversource Energy Foundation, Inc. since May 9, 2016; and as a Director since April 10, 2012. He previously served as Treasurer of the Eversource Energy Foundation, Inc. from May 10, 2012 until May 9, 2016. He has served as a Trustee of the NSTAR Foundation since December 12, 1995.

*Philip J. Lembo.* Mr. Lembo has served as Executive Vice President and Chief Financial Officer of Eversource Energy since May 3, 2017; and of CL&P, NSTAR Electric, NSTAR Gas, PSNH, Yankee Gas and Eversource Service since March 31, 2017. Mr. Lembo has served as a Director of CL&P, NSTAR Electric and PSNH since May 4, 2016; and of NSTAR Gas, Yankee Gas and Eversource Service since May 9, 2016. Mr. Lembo previously served as Executive Vice President and Chief Financial Officer of WMECO from May 3, 2017 until December 31, 2017; as a Director of WMECO from May 4, 2016 until December 31, 2017; as Executive Vice President, Chief Financial Officer and Treasurer of Eversource Energy from August 8, 2016 until May 3, 2017; of CL&P, NSTAR Electric, PSNH, WMECO, NSTAR Gas, Yankee Gas and Eversource Service from August 8, 2016 until March 31, 2017; as Senior Vice President, Chief Financial Officer and Treasurer of Eversource Energy, CL&P, NSTAR Electric, PSNH and WMECO from May 4, 2016 until August 8, 2016; and of NSTAR Gas, Yankee Gas and Eversource Service from May 9, 2016 until August 8, 2016; as Vice President and Treasurer of Eversource Energy, CL&P, PSNH and WMECO from April 10, 2012 until May 4, 2016; and of Yankee Gas and Eversource Service from April 10, 2012 until May 9, 2016. Mr. Lembo served as Vice President and Treasurer of NSTAR Electric and NSTAR Gas from March 29, 2006 until May 4, 2016. Mr. Lembo has served as a Director of Eversource Energy Foundation, Inc. since May 9, 2016. He previously served as Treasurer of Eversource Energy Foundation, Inc. from May 9, 2016 until March 31, 2017. He has served as a Trustee of the NSTAR Foundation since May 9, 2016.

*Gregory B. Butler.* Mr. Butler has served as Executive Vice President and General Counsel of Eversource Energy, CL&P, NSTAR Electric, NSTAR Gas, PSNH, Yankee Gas and Eversource Service since August 8, 2016. Mr. Butler has served as a Director of NSTAR Electric and NSTAR Gas since April 10, 2012; of Eversource Service since November 27, 2012; and of CL&P, PSNH and Yankee Gas since April 22, 2009. Mr. Butler previously served as Executive Vice President and General Counsel of WMECO from August 8, 2016 until December 31, 2017; as a Director of WMECO from April 22, 2009 until December 31, 2017; as Senior Vice President and General Counsel of Eversource Energy from May 1, 2014 until August 8, 2016; of NSTAR Electric and NSTAR Gas from April 10, 2012 until August 8, 2016; of CL&P, PSNH, WMECO, Yankee Gas and Eversource Service from March 9, 2006 until August 8, 2016; and as Senior Vice President, General Counsel and Secretary of Eversource Energy from April 10, 2012 until May 1, 2014. He has served as a Director of Eversource Energy Foundation, Inc. since December 1, 2002. He has been a Trustee of the NSTAR Foundation since April 10, 2012.

*Christine M. Carmody.* Ms. Carmody has served as Executive Vice President-Human Resources and Information Technology of Eversource Energy and Eversource Service since August 8, 2016. Ms. Carmody has served as a Director of Eversource Service since November 27, 2012. Previously Ms. Carmody served as Senior Vice President-Human Resources of Eversource Energy from May 4, 2016 until August 8, 2016; of Eversource Service from April 10, 2012 until August 8, 2016; as Senior Vice President-Human Resources of CL&P, PSNH, WMECO and Yankee Gas from November 27, 2012 until September 29, 2014; of NSTAR Electric and NSTAR Gas from August 1, 2008 until September 29, 2014; and as a Director of CL&P, PSNH, WMECO and Yankee Gas from April 10, 2012 until September 29, 2014; and of NSTAR Electric and NSTAR Gas from November 27, 2012 until September 29, 2014. Ms. Carmody has served as a Director of Eversource Energy Foundation, Inc. since April 10, 2012. She has served as a Trustee of the NSTAR Foundation since August 1, 2008.

*Joseph R. Nolan, Jr.* Mr. Nolan has served as Executive Vice President-Customer and Corporate Relations of Eversource Energy and Eversource Service since August 8, 2016. Mr. Nolan has served as a Director of Eversource Service since November 27, 2012. Previously Mr. Nolan served as Senior Vice President-Corporate Relations of Eversource Energy from May 4, 2016 until August 8, 2016; of Eversource Service from April 10, 2012 until August 8, 2016; of NSTAR Electric and NSTAR Gas from April 10, 2012 until September 29, 2014; and of CL&P, PSNH, WMECO and Yankee Gas from November 27, 2012 until September 29, 2014. Mr. Nolan previously served as a Director of CL&P, PSNH, WMECO and Yankee Gas from April 10, 2012 until September 29, 2014; and of NSTAR Electric and NSTAR Gas from November 27, 2012 until September 29,

2014. Mr. Nolan has served as a Director of Eversource Energy Foundation, Inc. since April 10, 2012, and as Executive Director of Eversource Energy Foundation, Inc. since October 15, 2013. He has served as a Trustee of the NSTAR Foundation since October 1, 2000.

*Leon J. Olivier.* Mr. Olivier has served as Executive Vice President-Enterprise Energy Strategy and Business Development of Eversource Energy since September 2, 2014; and of Eversource Service since August 11, 2014. Mr. Olivier has served as a Director of Eversource Service since January 17, 2005. Mr. Olivier previously served as Executive Vice President and Chief Operating Officer of Eversource Energy from May 13, 2008 until September 2, 2014; of Eversource Service from May 13, 2008 until August 11, 2008; as Chief Executive Officer of NSTAR Electric and NSTAR Gas from April 10, 2012 until August 11, 2014; of CL&P, PSNH, WMECO and Yankee Gas from January 15, 2007 until August 11, 2014; and of CL&P from September 10, 2001 until September 29, 2014; as a Director of NSTAR Electric and NSTAR Gas from November 27, 2012 until September 29, 2014; of PSNH, WMECO and Yankee Gas from January 17, 2005 until September 29, 2014; and of CL&P from September 10, 2001 until September 29, 2014. He has served as a Director of Eversource Energy Foundation, Inc. since April 1, 2006. Mr. Olivier has served as a Trustee of the NSTAR Foundation since April 10, 2012.

*Werner J. Schweiger.* Mr. Schweiger has served as Executive Vice President and Chief Operating Officer of Eversource Energy since September 2, 2014; of Eversource Service since August 11, 2014; and as Chief Executive Officer of CL&P, NSTAR Electric, NSTAR Gas, PSNH and Yankee Gas since August 11, 2014. Mr. Schweiger has served as a Director of Eversource Service, NSTAR Gas and Yankee Gas since September 29, 2014; and of CL&P, PSNH and NSTAR Electric since May 28, 2013. He previously served as Chief Executive Officer of WMECO from August 11, 2014 until December 31, 2017; as a Director of WMECO from May 28, 2013 until December 31, 2017; as President of CL&P from June 2, 2015 until June 27, 2016; as President of NSTAR Gas and Yankee Gas from September 29, 2014 until November 10, 2014; as President-Electric Distribution of Eversource Service from January 16, 2013 until August 11, 2014; as President of NSTAR Electric from April 10, 2012 until January 16, 2013; and as a Director of NSTAR Electric from November 27, 2012 until January 16, 2013. Mr. Schweiger has served as a Director of Eversource Energy Foundation, Inc. since September 29, 2014. He has served as a Trustee of the NSTAR Foundation since September 29, 2014.

*Jay S. Buth.* Mr. Buth has served as Vice President, Controller and Chief Accounting Officer of Eversource Energy, CL&P, NSTAR Electric, NSTAR Gas, PSNH, Yankee Gas and Eversource Service since April 10, 2012. Previously, Mr. Buth served as Vice President, Controller and Chief Accounting Officer of WMECO from April 10, 2012 until December 31, 2017; and as Vice President-Accounting and Controller of Eversource Energy, CL&P, PSNH, WMECO, Yankee Gas and Eversource Service from June 9, 2009 until April 10, 2012.

## PART II

### Item 5. Market for the Registrants' Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

#### (a) Market Information and (c) Dividends

Eversource. Our common shares are listed on the New York Stock Exchange. The ticker symbol is "ES." The high and low sales prices of our common shares and the dividends declared, for the past two years, by quarter, are shown below.

Year	Quarter	High	Low	Dividends Declared
2017	First	\$ 60.36	\$ 54.08	\$ 0.4750
	Second	63.34	58.11	0.4750
	Third	64.19	59.55	0.4750
	Fourth	66.15	59.59	0.4750
2016	First	\$ 58.81	\$ 50.01	\$ 0.4450
	Second	59.95	53.90	0.4450
	Third	60.44	53.08	0.4450
	Fourth	55.74	50.56	0.4450

Information with respect to dividend restrictions for us, CL&P, NSTAR Electric and PSNH is contained in Item 8, *Financial Statements and Supplementary Data*, in the *Combined Notes to Financial Statements*, within this Annual Report on Form 10-K.

There is no established public trading market for the common stock of CL&P, NSTAR Electric and PSNH. All of the common stock of CL&P, NSTAR Electric and PSNH is held solely by Eversource.

Common stock dividends approved and paid to Eversource during the year were as follows:

(Millions of Dollars)	For the Years Ended December 31,	
	2017	2016
CL&P	\$ 254.8	\$ 199.6
NSTAR Electric	272.0	316.3
PSNH <sup>(1)</sup>	23.9	77.6

<sup>(1)</sup> The 2017 amount does not include \$150.0 million of dividends declared but not paid as of December 31, 2017.

#### (b) Holders

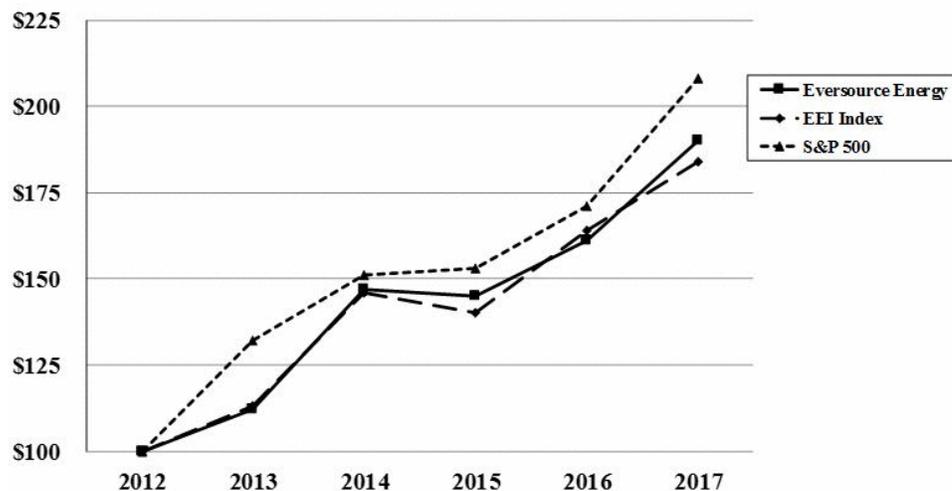
As of January 31, 2018, there were 37,428 registered common shareholders of our company on record. As of the same date, there were a total of 316,885,808 shares issued.

#### (d) Securities Authorized for Issuance Under Equity Compensation Plans

For information regarding securities authorized for issuance under equity compensation plans, see Item 12, *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*, included in this Annual Report on Form 10-K.

(e) Performance Graph

The performance graph below illustrates a five-year comparison of cumulative total returns based on an initial investment of \$100 in 2012 in Eversource Energy common stock, as compared with the S&P 500 Stock Index and the EEI Index for the period 2012 through 2017, assuming all dividends are reinvested.



	December 31,					
	2012	2013	2014	2015	2016	2017
Eversource Energy	\$100	\$112	\$147	\$145	\$161	\$190
EEI Index	\$100	\$113	\$146	\$140	\$164	\$184
S&P 500	\$100	\$132	\$151	\$153	\$171	\$208

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table discloses purchases of our common shares made by us or on our behalf for the periods shown below. The common shares purchased consist of open market purchases made by the Company or an independent agent. These share transactions related to shares awarded under the Company's Incentive Plan and Dividend Reinvestment Plan and matching contributions under the Eversource 401k Plan.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans and Programs (at month end)
October 1 - October 31, 2017	101,737	\$ 60.52	—	—
November 1 - November 30, 2017	6,411	64.22	—	—
December 1 - December 31, 2017	190,873	62.86	—	—
Total	299,021	\$ 62.09	—	—

## Item 6. Selected Consolidated Financial Data

### Eversource Selected Consolidated Financial Data (Unaudited)

(Thousands of Dollars, except percentages and common share information)

	2017	2016	2015	2014	2013
<b>Balance Sheet Data:</b>					
Property, Plant and Equipment, Net	\$ 23,617,463	\$ 21,350,510	\$ 19,892,441	\$ 18,647,041	\$ 17,576,186
Total Assets	36,220,386	32,053,173	30,580,309	29,740,387	27,760,315
Common Shareholders' Equity	11,086,242	10,711,734	10,352,215	9,976,815	9,611,528
Noncontrolling Interest - Preferred Stock of Subsidiaries	155,570	155,568	155,568	155,568	155,568
Long-Term Debt <sup>(a)</sup>	12,325,520	9,603,237	9,034,457	8,851,600	8,310,179
Obligations Under Capital Leases <sup>(a)</sup>	9,898	8,924	8,222	9,434	10,744
<b>Income Statement Data:</b>					
Operating Revenues	\$ 7,751,952	\$ 7,639,129	\$ 7,954,827	\$ 7,741,856	\$ 7,301,204
Net Income	\$ 995,515	\$ 949,821	\$ 886,004	\$ 827,065	\$ 793,689
Net Income Attributable to Noncontrolling Interests	7,519	7,519	7,519	7,519	7,682
Net Income Attributable to Common Shareholders	\$ 987,996	\$ 942,302	\$ 878,485	\$ 819,546	\$ 786,007
<b>Common Share Data:</b>					
Net Income Attributable to Common Shareholders:					
Basic Earnings Per Common Share	\$ 3.11	\$ 2.97	\$ 2.77	\$ 2.59	\$ 2.49
Diluted Earnings Per Common Share	\$ 3.11	\$ 2.96	\$ 2.76	\$ 2.58	\$ 2.49
Dividends Declared Per Common Share	\$ 1.90	\$ 1.78	\$ 1.67	\$ 1.57	\$ 1.47
Market Price - Closing (end of year) <sup>(b)</sup>	\$ 63.18	\$ 55.23	\$ 51.07	\$ 53.52	\$ 42.39
Book Value Per Common Share (end of year)	\$ 34.98	\$ 33.80	\$ 32.64	\$ 31.47	\$ 30.49
Tangible Book Value Per Common Share (end of year) <sup>(c)</sup>	\$ 21.00	\$ 22.70	\$ 21.54	\$ 20.37	\$ 19.32
Rate of Return Earned on Average Common Equity (%) <sup>(d)</sup>	9.1	9.0	8.7	8.4	8.3
Market-to-Book Ratio (end of year) <sup>(e)</sup>	1.8	1.6	1.6	1.7	1.4

### CL&P Selected Financial Data (Unaudited)

(Thousands of Dollars)

	2017	2016	2015	2014	2013
<b>Balance Sheet Data:</b>					
Property, Plant and Equipment, Net	\$ 8,271,030	\$ 7,632,392	\$ 7,156,809	\$ 6,809,664	\$ 6,451,259
Total Assets	10,630,246	10,035,044	9,592,957	9,344,400	8,965,906
Common Stockholder's Equity	3,587,127	3,470,387	3,140,717	2,936,767	2,702,494
Preferred Stock Not Subject to Mandatory Redemption	116,200	116,200	116,200	116,200	116,200
Long-Term Debt <sup>(a)</sup>	3,059,135	2,766,010	2,763,682	2,841,951	2,741,208
Obligations Under Capital Leases <sup>(a)</sup>	5,711	6,767	7,624	8,439	9,309
<b>Income Statement Data:</b>					
Operating Revenues	2,887,359	2,805,955	2,802,675	2,692,582	2,442,341
Net Income	376,726	334,254	299,360	287,754	279,412
<b>Common Stock Data:</b>					
Cash Dividends on Common Stock	254,800	199,599	196,000	171,200	151,999

<sup>(a)</sup> Includes portions due within one year.

<sup>(b)</sup> Market price information reflects closing prices as reflected by the New York Stock Exchange.

<sup>(c)</sup> Common Shareholders' Equity adjusted for goodwill and intangibles divided by total common shares outstanding.

<sup>(d)</sup> Net Income Attributable to Common Shareholders divided by average Common Shareholders' Equity.

<sup>(e)</sup> The closing market price divided by the book value per share.

See the *Combined Notes to Financial Statements* in this Annual Report on Form 10-K for a description of the acquisition of Aquarion on December 4, 2017, the classification as held for sale of PSNH's thermal and hydroelectric generating assets as result of generation divestiture, and any accounting changes materially affecting the comparability of the information reflected in the tables above.

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

### EVERSOURCE ENERGY AND SUBSIDIARIES

The following discussion and analysis should be read in conjunction with our consolidated financial statements and related combined notes included in this combined Annual Report on Form 10-K. References in this Annual Report on Form 10-K to "Eversource," the "Company," "we," "us," and "our" refer to Eversource Energy and its consolidated subsidiaries. All per-share amounts are reported on a diluted basis. The consolidated financial statements of Eversource, NSTAR Electric and PSNH and the financial statements of CL&P are herein collectively referred to as the "financial statements."

Refer to the Glossary of Terms included in this combined Annual Report on Form 10-K for abbreviations and acronyms used throughout this *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

The only common equity securities that are publicly traded are common shares of Eversource. The earnings and EPS of each business discussed below do not represent a direct legal interest in the assets and liabilities of such business but rather represent a direct interest in our assets and liabilities, as a whole. EPS by business is a financial measure not recognized under GAAP that is calculated by dividing the Net Income Attributable to Common Shareholders of each business by the weighted average diluted Eversource common shares outstanding for the period. The discussion below also includes non-GAAP financial measures referencing our 2015 earnings and EPS excluding certain integration costs incurred by Eversource parent and our Electric and Natural Gas companies. We use these non-GAAP financial measures to evaluate and to provide details of earnings by business and to more fully compare and explain our 2017, 2016 and 2015 results without including the impact of these items. Due to the nature and significance of these items on Net Income Attributable to Common Shareholders, we believe that the non-GAAP presentation is a meaningful representation of our financial performance and provides additional and useful information to readers of this report in analyzing historical and future performance by business. These non-GAAP financial measures should not be considered as an alternative to reported Net Income Attributable to Common Shareholders or EPS determined in accordance with GAAP as an indicator of operating performance.

Reconciliations of the non-GAAP financial measures to the most directly comparable GAAP measures of consolidated diluted EPS and Net Income Attributable to Common Shareholders are included under "Financial Condition and Business Analysis – Overview – Consolidated" and "Financial Condition and Business Analysis – Overview – Electric and Natural Gas Companies" in this *Management's Discussion and Analysis of Financial Condition and Results of Operations*, herein.

The results of Aquarion and its subsidiaries, hereinafter referred to as "Aquarion," are included from the date of the acquisition, December 4, 2017, through December 31, 2017 throughout this *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

#### Financial Condition and Business Analysis

##### Executive Summary

###### *Results and Future Outlook:*

- We earned \$988.0 million, or \$3.11 per share, in 2017, compared with \$942.3 million, or \$2.96 per share, in 2016.
- Our electric distribution segment, which includes generation results, earned \$497.4 million, or \$1.57 per share, in 2017, compared with \$462.8 million, or \$1.46 per share, in 2016. Our electric transmission segment earned \$391.9 million, or \$1.23 per share, in 2017, compared with \$370.8 million, or \$1.16 per share, in 2016. Our natural gas distribution segment earned \$74.6 million, or \$0.23 per share, in 2017, compared with \$77.7 million, or \$0.24 per share, in 2016.
- Eversource parent and other companies earned \$24.1 million, or \$0.08 per share, in 2017, compared with \$31.0 million, or \$0.10 per share, in 2016.
- We currently project 2018 earnings of between \$3.20 per share and \$3.30 per share.

###### *Liquidity:*

- Cash flows provided by operating activities totaled \$2.0 billion in 2017, compared with \$2.2 billion in 2016. Investments in property, plant and equipment totaled \$2.3 billion in 2017 and \$2.0 billion in 2016. Cash and cash equivalents totaled \$38.2 million as of December 31, 2017, compared with \$30.3 million as of December 31, 2016.
- In 2017, we issued \$2.5 billion of new long-term debt, consisting of \$1.2 billion by Eversource parent, \$700 million by NSTAR Electric, \$525 million by CL&P and \$75 million by Yankee Gas. Proceeds from these new issuances were used primarily to pay short-term borrowings and repay long-term debt at maturity. In 2017, Eversource, NSTAR Electric, CL&P, PSNH and NSTAR Gas repaid, at maturity, \$745 million, \$400 million, \$250 million, \$70 million and \$25 million, respectively, of previously issued long-term debt.

- In 2017, we paid cash dividends on common shares of \$602.1 million, compared with \$564.5 million in 2016. On February 7, 2018, our Board of Trustees approved a common share dividend of \$0.505 per share, payable on March 30, 2018 to shareholders of record as of March 6, 2018. The 2018 dividend represents an increase of 6.3 percent over the dividend paid in December 2017, and is the equivalent to dividends on common shares of approximately \$640 million on an annual basis.
- We project to make capital expenditures of \$10.8 billion from 2018 through 2021, of which we expect \$5.7 billion to be in our electric and natural gas distribution segments, \$4.1 billion to be in our electric transmission segment and \$0.4 billion to be in our water utility business. We also project to invest \$0.5 billion in information technology and facilities upgrades and enhancements. These projections do not include any expected investments related to Bay State Wind.

*Strategic Items:*

- On January 25, 2018, Northern Pass was selected from the 46 proposals submitted as the winning bidder in the Massachusetts clean energy request for proposal ("RFP"), which successfully positioned Northern Pass to provide a firm delivery of hydropower to Massachusetts. Northern Pass is Eversource's planned 1,090 MW HVDC transmission line from the Québec-New Hampshire border to Franklin, New Hampshire and an associated alternating current radial transmission line between Franklin and Deerfield, New Hampshire. On February 1, 2018, the New Hampshire Site Evaluation Committee ("NHSEC") voted to deny Northern Pass' siting application. We intend to seek reconsideration of the NHSEC's decision and to review all options for moving this critical clean energy project forward. As of December 31, 2017, we have approximately \$277 million in capitalized costs associated with Northern Pass.
- On December 20, 2017, Bay State Wind submitted two proposals, one for 400 MW and the other for 800 MW, in response to the Massachusetts clean energy RFP.
- On December 4, 2017, Eversource completed the acquisition of Aquarion (formerly Macquarie Utilities Inc.) from Macquarie Infrastructure Partners for \$1.675 billion, consisting of approximately \$880 million in cash and \$795 million of assumed debt. As a result, Aquarion became a wholly-owned subsidiary of Eversource.

*Legislative, Regulatory, Policy and Other Items:*

- On November 30, 2017, the DPU issued its decision in the NSTAR Electric distribution rate case, which approved an annual distribution rate increase of \$37 million, with rates effective February 1, 2018. As a result of this decision, we recognized an aggregate \$44.1 million pre-tax benefit to earnings in 2017. On January 3, 2018, NSTAR Electric filed a motion to reflect a revenue requirement reduction of \$56 million due to the decrease in the federal corporate income tax rate, as part of the "Tax Cuts and Jobs Act", resulting in an annual net decrease in rates of \$19 million.
- On January 11, 2018, CL&P filed a distribution rate case settlement agreement for approval with PURA, which included, among other things, rate increases of \$97.1 million, \$32.7 million and \$24.7 million, effective May 1, 2018, 2019, and 2020, respectively, an authorized regulatory ROE of 9.25 percent, and 53 percent common equity in CL&P's capital structure. The rate increases associated with the settlement agreement will be reduced by the impact of the decrease in the federal corporate income tax rate, as part of the "Tax Cuts and Jobs Act", which we currently estimate to average approximately \$45 million to \$50 million per year.
- On December 22, 2017, the "Tax Cuts and Jobs Act" (the "Act") became law, which amended existing federal tax rules and included numerous provisions that impacted corporations. In particular, the Act reduced the federal corporate income tax rate from 35 percent to 21 percent effective January 1, 2018. As of December 31, 2017, we estimated approximately \$2.9 billion of provisional regulated excess ADIT liabilities that we expect to benefit our customers in future periods. The ultimate amount and timing of when certain income tax benefits resulting from the Act benefit our customers will vary by jurisdiction.
- On January 10, 2018, PSNH completed the sale of its thermal generation facilities. In accordance with the Purchase and Sale Agreement, the original purchase price of \$175 million was adjusted to reflect working capital adjustments, closing date adjustments and proration of taxes and fees prior to closing, totaling \$40.9 million, resulting in net proceeds of \$134.1 million. We are targeting for PSNH to complete the sale of its hydroelectric generation facilities by the end of the first quarter of 2018.

Overview

*Consolidated:* Below is a summary of our earnings by business, which also reconciles the non-GAAP financial measure of EPS by business to the most directly comparable GAAP measure of diluted EPS, for the years ended December 31, 2017, 2016 and 2015. Also included in the summary for the year ended December 31, 2015, is a reconciliation of the non-GAAP financial measure of consolidated non-GAAP earnings to the most directly comparable GAAP measure of consolidated Net Income Attributable to Common Shareholders.

	For the Years Ended December 31,					
	2017		2016		2015	
	Amount	Per Share	Amount	Per Share	Amount	Per Share
<i>(Millions of Dollars, Except Per Share Amounts)</i>						
Net Income Attributable to Common Shareholders (GAAP)	\$ 988.0	\$ 3.11	\$ 942.3	\$ 2.96	\$ 878.5	\$ 2.76
Electric and Natural Gas Companies	\$ 963.9	\$ 3.03	\$ 911.3	\$ 2.86	\$ 884.8	\$ 2.78
Eversource Parent and Other Companies	24.1	0.08	31.0	0.10	9.5	0.03
Non-GAAP Earnings	N/A	N/A	N/A	N/A	894.3	2.81
Integration Costs (after-tax) <sup>(1)</sup>	—	—	—	—	(15.8)	(0.05)
Net Income Attributable to Common Shareholders (GAAP)	\$ 988.0	\$ 3.11	\$ 942.3	\$ 2.96	\$ 878.5	\$ 2.76

(1) The 2015 integration costs were associated with our branding efforts and severance costs.

*Electric and Natural Gas Companies:* Our electric and natural gas companies consist of the electric distribution (including PSNH's generation facilities and NSTAR Electric's solar power facilities), electric transmission and natural gas distribution segments. A summary of our segment earnings and EPS is as follows:

	For the Years Ended December 31,					
	2017		2016		2015	
	Amount	Per Share	Amount	Per Share	Amount	Per Share
<i>(Millions of Dollars, Except Per Share Amounts)</i>						
Electric Distribution	\$ 497.4	\$ 1.57	\$ 462.8	\$ 1.46	\$ 507.9	\$ 1.59
Electric Transmission	391.9	1.23	370.8	1.16	304.5	0.96
Natural Gas Distribution	74.6	0.23	77.7	0.24	72.4	0.23
Non-GAAP Earnings	N/A	N/A	N/A	N/A	884.8	2.78
Integration Costs (after-tax) <sup>(1)</sup>	—	—	—	—	(0.8)	—
Net Income - Electric and Natural Gas Companies	\$ 963.9	\$ 3.03	\$ 911.3	\$ 2.86	\$ 884.0	\$ 2.78

(1) The 2015 Electric and Natural Gas Companies' integration costs include severance in connection with cost saving initiatives.

Our electric distribution segment earnings increased \$34.6 million in 2017, as compared to 2016, due primarily to a lower effective tax rate, lower non-tracked operations and maintenance expense, higher lost base revenues at NSTAR Electric and higher distribution revenues at CL&P due in part to a higher rate base for the system resiliency program, partially offset by higher depreciation expense, lower sales volumes primarily driven by the mild summer weather in 2017, as compared to 2016 (primarily at NSTAR Electric), and higher property tax expense.

Our electric transmission segment earnings increased \$21.1 million in 2017, as compared to 2016, due primarily to a higher transmission rate base as a result of our continued investment in our transmission infrastructure, partially offset by the absence in 2017 of the FERC-allowed recovery of certain previously expensed merger-related costs in 2016, and a lower benefit in the second quarter of 2017 related to the annual billing and cost reconciliation filing with the FERC.

Our natural gas distribution segment earnings decreased \$3.1 million in 2017, as compared to 2016, due primarily to higher depreciation expense, lower demand revenues in Connecticut driven by lower peak usage in 2017, as compared to 2016, higher non-tracked operations and maintenance expense, and higher property tax expense, partially offset by higher sales volumes driven by colder winter weather in the fourth quarter of 2017, as compared to 2016.

*Eversource Parent and Other Companies:* Eversource parent and other companies earned \$24.1 million in 2017, compared with \$31.0 million in 2016. The decrease in earnings was due primarily to a higher effective tax rate, higher interest expense and the absence in 2017 of the earnings and gain on the sale of an unregulated business in 2016. These decreases were partially offset by the 2017 DPU-allowed recovery of certain previously expensed merger-related costs in NSTAR Electric's distribution rates, and increased gains on investments recorded in 2017.

*Electric and Natural Gas Sales Volumes:* Weather, fluctuations in energy supply costs, conservation measures (including utility-sponsored energy efficiency programs), and economic conditions affect customer energy usage. Industrial sales volumes are less sensitive to temperature variations than residential and commercial sales volumes. In our service territories, weather impacts electric sales volumes during the summer and both electric and natural gas sales volumes during the winter; however, natural gas sales volumes are more sensitive to temperature variations than are electric sales volumes. Customer heating or cooling usage may not directly correlate with historical levels or with the level of degree-days that occur.

Fluctuations in retail electric sales volumes at certain of our electric utilities impact earnings ("Traditional" in the table below). For others, fluctuations in retail electric sales volumes do not impact earnings due to their regulatory commission approved distribution revenue decoupling mechanisms ("Decoupled" in the table below). These distribution revenues are decoupled from their customer sales volumes, which breaks the relationship between sales volumes and revenues recognized.

In 2017 and 2016, NSTAR Electric operated under two different rate structures based on its service territory geography. For customers that were served in eastern Massachusetts, including metropolitan Boston, Cape Cod and Martha's Vineyard, NSTAR Electric operated using Traditional rates. For customers that were served in western Massachusetts, including the metropolitan Springfield region, NSTAR Electric operated using Decoupled rates. Effective February 1, 2018, all of NSTAR Electric's distribution revenues were decoupled as a result of the

DPU-approved rate decision. See "Regulatory Developments and Rate Matters - Massachusetts - NSTAR Electric Distribution Rate Case Decision" in this *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

CL&P and NSTAR Electric (for its western Massachusetts customer rates) reconciled their annual base distribution rate recovery amounts to their pre-established levels of baseline distribution delivery service revenues of \$1.059 billion and \$132.4 million, respectively, through December 31, 2017. Effective February 1, 2018, NSTAR Electric, operating entirely under decoupled rates, will reconcile its annual base distribution rate recovery to its new baseline of \$974.8 million. Any difference between the allowed level of distribution revenue and the actual amount realized during a 12-month period is adjusted through rates in the following period.

Fluctuations in natural gas sales volumes in Connecticut impact earnings ("Traditional" in the table below). In Massachusetts, fluctuations in natural gas sales volumes do not impact earnings due to the DPU-approved natural gas distribution revenue decoupling mechanism approved in the last rate case decision ("Decoupled" in the table below). These distribution revenues are decoupled from their customer sales volumes, which breaks the relationship between sales volumes and revenues recognized.

A summary of our retail electric GWh sales volumes and our firm natural gas sales volumes in MMcf and percentage changes is as follows:

	Electric			Firm Natural Gas		
	For the Year Ended December 31, 2017 Compared to 2016			For the Year Ended December 31, 2017 Compared to 2016		
	Sales Volumes (GWh)		Percentage Decrease	Sales Volumes (MMcf)		Percentage Increase/(Decrease)
2017	2016	2017		2016		
Traditional:						
Residential	9,453	9,654	(2.1)%	15,502	15,118	2.5 %
Commercial	15,958	16,267	(1.9)%	20,649	19,846	4.0 %
Industrial	2,444	2,558	(4.5)%	10,806	10,350	4.4 %
Total - Traditional	27,855	28,479	(2.2)%	46,957	45,314	3.6 %
Decoupled:						
Residential	11,043	11,347	(2.7)%	21,919	20,616	6.3 %
Commercial	10,612	10,940	(3.0)%	21,859	21,583	1.3 %
Industrial	2,736	2,876	(4.9)%	5,882	5,833	0.8 %
Total - Decoupled	24,391	25,163	(3.1)%	49,660	48,032	3.4 %
Special Contracts <sup>(1)</sup>	N/A	N/A	N/A	4,409	4,696	(6.1)%
Total - Decoupled and Special Contracts	24,391	25,163	(3.1)%	54,069	52,728	2.5 %
Total Sales Volumes	52,246	53,642	(2.6)%	101,026	98,042	3.0 %

(1) Special contracts are unique to the natural gas distribution customers who take service under such an arrangement and generally specify the amount of distribution revenue to be paid to Yankee Gas regardless of the customers' usage.

Retail electric sales volumes at our electric utilities with a traditional rate structure (the eastern region of NSTAR Electric and PSNH) were lower in 2017, as compared to 2016, due primarily to the mild summer weather in 2017, as compared to 2016. Cooling degree days in 2017 were 14.7 percent lower in the Boston metropolitan area and 22.7 percent lower in New Hampshire, as compared to 2016. Sales volumes were positively impacted by improved economic conditions across our service territories, but this trend was offset by lower customer usage driven by the impact of increased customer energy conservation efforts.

On January 28, 2016, Eversource received approval of a three-year energy efficiency plan in Massachusetts, which included recovery of LBR in the NSTAR Electric eastern Massachusetts service territory until it was covered under a decoupled rate structure, which occurred on February 1, 2018. NSTAR Electric recorded LBR related to reductions in sales volume as a result of successful energy efficiency programs. LBR was recovered from retail customers through rates. NSTAR Electric recognized LBR of \$73.7 million and \$60.7 million in 2017 and 2016, respectively.

Our firm natural gas sales volumes are subject to many of the same influences as our retail electric sales volumes. In addition, they have benefited from customer growth in both of our natural gas distribution companies. Consolidated firm natural gas sales volumes were higher in 2017, as compared to 2016, due primarily to colder winter weather in the fourth quarter of 2017, as compared to 2016. Heating degree days in 2017 were 2.5 percent higher in Connecticut, as compared to 2016. Sales volumes were also positively impacted by improved economic conditions across our natural gas service territories.

#### Liquidity

*Consolidated:* Cash and cash equivalents totaled \$38.2 million as of December 31, 2017, compared with \$30.3 million as of December 31, 2016.

*Long-Term Debt Issuances and Repayments:* The following table summarizes long-term debt issuances and repayments:

<i>(Millions of Dollars)</i>	<b>Issue Date</b>	<b>Issuances/(Repayments)</b>	<b>Maturity Date</b>	<b>Use of Proceeds</b>
<b>CL&amp;P:</b>				
3.20% 2017 Series A First Mortgage Bonds	March 2017	\$ 300.0	2027	Repay short-term debt borrowings
4.30% 2014 Series A First Mortgage Bonds <sup>(1)</sup>	August 2017	225.0	2044	Refinance short-term debt and fund working capital and capital expenditures
5.375% 2007 Series A First Mortgage Bonds	March 2007	(150.0)	2017	N/A
5.75% 2007 Series C First Mortgage Bonds	September 2007	(100.0)	2017	N/A
<b>NSTAR Electric:</b>				
3.20% Debentures	May 2017	350.0	2027	Repay short-term borrowings and fund capital expenditures and working capital
3.20% Debentures <sup>(2)</sup>	October 2017	350.0	2027	Redeem long-term debt that matured in 2017
5.625% Debentures	November 2007	(400.0)	2017	N/A
<b>PSNH:</b>				
6.15% Series N First Mortgage Bonds	September 2007	(70.0)	2017	N/A
<b>Other:</b>				
Yankee Gas 3.02% Series N First Mortgage Bonds	September 2017	75.0	2027	Repay short-term borrowings
NSTAR Gas 7.04% Series M First Mortgage Bonds	September 1997	(25.0)	2017	N/A
Eversource Parent 2.75% Series K Senior Notes	March 2017	300.0	2022	Repay short-term borrowings
Eversource Parent 2.75% Series K Senior Notes <sup>(3)</sup>	October 2017	450.0	2022	Repay short-term borrowings
Eversource Parent 2.90% Series L Senior Notes	October 2017	450.0	2024	Repay short-term borrowings
Eversource Parent 2.50% Series I Senior Notes <sup>(4)</sup>	January 2018	200.0	2021	Repay long-term debt due to mature in 2018 and repay short-term borrowings
Eversource Parent 3.30% Series M Senior Notes	January 2018	450.0	2028	Repay long-term debt due to mature in 2018
Eversource Parent 1.60% Series G Senior Notes <sup>(5)</sup>	January 2015	(150.0)	2018	N/A

(1) These bonds are part of the existing series initially issued by CL&P in 2014. The aggregate outstanding principal amount for these bonds is now \$475 million.

(2) These debentures are part of the same series initially issued by NSTAR Electric in May 2017. The aggregate outstanding principal amount for these debentures is now \$700 million.

(3) These notes are part of the same series issued by Eversource parent in March 2017. The aggregate outstanding principal amount for these notes is now \$750 million.

(4) These notes are part of the same series issued by Eversource parent in March 2016. The aggregate outstanding principal amount for these notes is now \$450 million.

(5) Represents a repayment at maturity on January 15, 2018.

*Commercial Paper Programs and Credit Agreements:* Eversource parent has a \$1.45 billion commercial paper program allowing Eversource parent to issue commercial paper as a form of short-term debt. Eversource parent, CL&P, PSNH, NSTAR Gas and Yankee Gas are also parties to a five-year \$1.45 billion revolving credit facility. On December 8, 2017, Eversource parent amended and restated the revolving credit facility. The amended and restated revolving credit facility terminates on December 8, 2022 and serves to backstop Eversource parent's \$1.45 billion commercial paper program. There were no borrowings outstanding on the revolving credit facility as of December 31, 2017 or 2016.

NSTAR Electric has a \$650 million commercial paper program allowing NSTAR Electric to issue commercial paper as a form of short-term debt. On December 8, 2017, NSTAR Electric increased its commercial paper program from \$450 million to \$650 million. NSTAR Electric is also a party to a five-year \$650 million revolving credit facility. On December 8, 2017, NSTAR Electric amended and restated the revolving credit facility, increasing it from \$450 million to \$650 million. The amended and restated revolving credit facility terminates on December 8, 2022 and serves to backstop NSTAR Electric's \$650 million commercial paper program. There were no borrowings outstanding on the revolving credit facility as of December 31, 2017 or 2016.

The amount of borrowings outstanding and available under the commercial paper programs and revolving credit facility was as follows:

<i>(Millions of Dollars)</i>	<b>Borrowings Outstanding as of December 31,</b>		<b>Available Borrowing Capacity as of December 31,</b>		<b>Weighted-Average Interest Rate as of December 31,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Eversource Parent Commercial Paper Program	\$ 979.3	\$ 1,022.0	\$ 470.7	\$ 428.0	1.86%	0.88%
NSTAR Electric Commercial Paper Program	234.0	126.5	416.0	323.5	1.55%	0.71%
Revolving Credit Facility <sup>(1)</sup>	76.0	N/A	24.0	N/A	2.66%	N/A

<sup>(1)</sup> Aquarion has a \$100.0 million revolving credit facility, which expires on August 19, 2019.

Amounts outstanding under the commercial paper programs and revolving credit facility are included in Notes Payable for Eversource and NSTAR Electric and are classified in current liabilities on the balance sheets as all borrowings are outstanding for no more than 364 days at one time. As a result of the Eversource parent long-term debt issuances on January 8, 2018, the net proceeds of which were used to repay short-term borrowings

outstanding under its commercial paper program, \$201.2 million of commercial paper borrowings under the Eversource parent commercial paper program were reclassified to Long-Term Debt as of December 31, 2017.

As of December 31, 2017, there were intercompany loans from Eversource parent of \$69.5 million to CL&P and \$262.9 million to PSNH. As of December 31, 2016, there were intercompany loans from Eversource parent of \$80.1 million to CL&P, \$160.9 million to PSNH and \$51.0 million to NSTAR Electric. These intercompany loans from Eversource parent are included in Notes Payable to Eversource Parent and are classified in current liabilities on the respective subsidiary's balance sheets. Intercompany loans from Eversource parent are eliminated in consolidation on Eversource's balance sheets.

*Cash Flows:* Cash flows provided by operating activities totaled \$2.0 billion in 2017, compared with \$2.2 billion in 2016. The decrease in operating cash flows was due primarily to the \$166.3 million net unfavorable impact as a result of the change in income tax payments made, or refunds received, in 2017 when compared to 2016. This unfavorable impact was primarily the result of the December 2015 legislation, which extended the accelerated deduction of depreciation from 2015 to 2019. The legislation resulted in a significant refund of approximately \$275 million, which we received in the first quarter of 2016. Additionally, there was an increase of \$84.1 million in Pension and PBOP Plan cash contributions made in 2017, as compared to 2016, a decrease of \$59.8 million related to the absence in 2017 of the Yankee Companies' DOE Damages received in 2016, and the unfavorable impact related to the timing of regulatory recoveries, which were significantly impacted by NSTAR Electric's timing of collections of purchased power and transmission costs. Partially offsetting these unfavorable impacts was the benefit related to the timing of collections and payments of our working capital items, including accounts payable.

In 2017, we paid cash dividends of \$602.1 million, or \$1.90 per common share, compared with \$564.5 million, or \$1.78 per common share in 2016. Our quarterly common share dividend payment was \$0.475 per share, in 2017, as compared to \$0.445 per common share in 2016. On February 7, 2018, our Board of Trustees approved a common share dividend of \$0.505 per share, payable on March 30, 2018 to shareholders of record as of March 6, 2018. The 2018 dividend represents an increase of 6.3 percent over the dividend paid in December 2017, and is the equivalent to dividends on common shares of approximately \$640 million on an annual basis.

In 2017, CL&P, NSTAR Electric and PSNH paid \$254.8 million, \$272.0 million and \$23.9 million, respectively, in common stock dividends to Eversource parent.

Investments in Property, Plant and Equipment on the statements of cash flows do not include amounts incurred on capital projects but not yet paid, cost of removal, AFUDC related to equity funds, and the capitalized portions of pension expense. In 2017, investments for Eversource, CL&P, NSTAR Electric and PSNH were \$2.3 billion, \$824.4 million, \$719.6 million and \$312.7 million, respectively.

Eversource completed the acquisition of Aquarion from Macquarie Infrastructure Partners on December 4, 2017 for \$1.675 billion, consisting of approximately \$880 million in cash and \$795 million of assumed debt.

Eversource, CL&P, NSTAR Electric and PSNH each use its available capital resources to fund its respective construction expenditures, meet debt requirements, pay operating costs, including storm-related costs, pay dividends and fund other corporate obligations, such as pension contributions. Eversource's regulated companies recover their electric and natural gas distribution construction expenditures as the related project costs are depreciated over the life of the assets. This impacts the timing of the revenue stream designed to fully recover the total investment plus a return on the equity and debt used to finance the investments. The current growth in Eversource's construction expenditures utilizes a significant amount of cash for projects that have a long-term return on investment and recovery period, totaling approximately \$2.3 billion in cash capital spend in 2017. In addition, growth in Eversource's key business initiatives in 2017 required cash contributions of \$32.6 million, which are recognized as long-term assets. These factors have resulted in current liabilities exceeding current assets by \$1.1 billion, \$338.1 million, \$137.5 million, and \$183.1 million at Eversource, CL&P, NSTAR Electric and PSNH, respectively, as of December 31, 2017.

As of December 31, 2017, \$961.0 million of Eversource's long-term debt, including \$450.0 million, \$300.0 million, \$110.0 million, \$100.0 million and \$1 million for Eversource parent, CL&P, PSNH, Yankee Gas and Aquarion, respectively, will be paid within the next 12 months. Included in the current portion of long-term debt is \$35.4 million related to fair value adjustments from our business combinations that will be amortized within the next 12 months and have no cash flow impact. Eversource, with its strong credit ratings, has several options available in the financial markets to repay or refinance these maturities with the issuance of new long-term debt. Eversource, CL&P, NSTAR Electric and PSNH will reduce their short-term borrowings with operating cash flows or with the issuance of new long-term debt, determined by considering capital requirements and maintenance of Eversource's credit rating and profile. We expect the future operating cash flows of Eversource, CL&P, NSTAR Electric and PSNH, along with the access to financial markets, will be sufficient to meet any future operating requirements and capital investment forecasted opportunities.

*Credit Ratings:* On December 5, 2017, S&P upgraded Eversource and its subsidiaries' corporate credit rating to A+ and changed the outlook to stable.

A summary of our corporate credit ratings and outlooks by Moody's, S&P and Fitch is as follows:

	Moody's		S&P		Fitch	
	Current	Outlook	Current	Outlook	Current	Outlook
Eversource Parent	Baa1	Stable	A+	Stable	BBB+	Positive
CL&P	Baa1	Stable	A+	Stable	A-	Stable
NSTAR Electric	A2	Stable	A+	Stable	A	Stable
PSNH	A3	Stable	A+	Stable	A-	Stable

A summary of the current credit ratings and outlooks by Moody's, S&P and Fitch for senior unsecured debt of Eversource parent and NSTAR Electric, and senior secured debt of CL&P and PSNH is as follows:

	Moody's		S&P		Fitch	
	Current	Outlook	Current	Outlook	Current	Outlook
Eversource Parent	Baa1	Stable	A	Stable	BBB+	Positive
CL&P	A2	Stable	AA-	Stable	A+	Stable
NSTAR Electric	A2	Stable	A+	Stable	A+	Stable
PSNH	A1	Stable	AA-	Stable	A+	Stable

#### Business Development and Capital Expenditures

Our consolidated capital expenditures, including amounts incurred but not paid, cost of removal, AFUDC, and the capitalized portions of pension expense (all of which are non-cash factors), totaled \$2.5 billion in 2017, \$2.2 billion in 2016, and \$1.9 billion in 2015. These amounts included \$165.9 million in 2017, \$137.7 million in 2016, and \$102.0 million in 2015 related to information technology and facilities upgrades and enhancements, primarily at Eversource Service and The Rocky River Realty Company.

*Aquarion:* On December 4, 2017, Eversource acquired Aquarion (formerly Macquarie Utilities Inc.) from Macquarie Infrastructure Partners for \$1.675 billion, consisting of approximately \$880 million in cash and \$795 million of assumed Aquarion debt. As a result, Aquarion became a wholly-owned subsidiary of Eversource. Aquarion is a regulated water utility holding company that operates three separate regulated water utilities in Connecticut, Massachusetts and New Hampshire. Aquarion collects, treats and distributes water to residential, commercial and industrial customers, to other utilities for resale, and for private and municipal fire protection.

*Bay State Wind:* Bay State Wind is a proposed offshore wind project being jointly developed by Eversource and Denmark-based Ørsted. Bay State Wind will be located in a 300-square-mile area approximately 25 miles off the coast of Massachusetts that has the ultimate potential to generate more than 2,000 MW of clean, renewable energy. Eversource and Ørsted each hold a 50 percent ownership interest in Bay State Wind.

On June 29, 2017, the Bureau of Ocean Energy Management ("BOEM") approved the project's Site Assessment Plan ("SAP"), the first BOEM approval of an offshore wind SAP in the U.S.

In August 2016, Massachusetts passed clean energy legislation that requires EDCs to jointly solicit RFPs and enter into long-term contracts for offshore wind, creating RFP opportunities for projects like Bay State Wind. On June 29, 2017, the Massachusetts RFP was issued, seeking bids for a minimum of 400 MW of offshore wind capacity. The RFP stated that bids of up to 800 MW would be considered, provided they demonstrated significant net economic benefits to customers. On December 20, 2017, Bay State Wind submitted two proposals, one for 400 MW and the other for 800 MW, in response to the Massachusetts clean energy RFP.

For more information regarding the clean energy legislation, see "Regulatory Developments and Rate Matters – Massachusetts – Massachusetts RFPs" in this *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

#### *Electric Transmission Business:*

Our consolidated electric transmission business capital expenditures increased by \$35.4 million in 2017, as compared to 2016. A summary of electric transmission capital expenditures by company is as follows:

(Millions of Dollars)	For the Years Ended December 31,		
	2017	2016	2015
CL&P	\$ 431.5	\$ 338.3	\$ 252.9
NSTAR Electric	301.9	398.7	354.2
PSNH	155.6	119.0	161.2
NPT	43.3	40.9	38.3
Total Electric Transmission Segment	\$ 932.3	\$ 896.9	\$ 806.6

Northern Pass: Northern Pass is Eversource's planned 1,090 MW HVDC transmission line that will interconnect from the Québec-New Hampshire border to Franklin, New Hampshire and an associated alternating current radial transmission line between Franklin and Deerfield, New Hampshire.

Northern Pass has achieved several key milestones, including the following:

- Receiving NHPUC approval on February 12, 2018 for the proposed lease of certain land and easement rights from PSNH to NPT, concluding that the lease is in the public interest;
- Receiving the U.S. Forest Service Record of Decision on January 5, 2018, which allows NPT to install approximately 11 miles of underground transmission lines in areas along existing roads through the White Mountain National Forest;
- Receiving the Province of Québec permit granted to HQ on December 21, 2017 to construct the hydroelectric transmission line that will connect at the border of New Hampshire;
- Receiving the DOE Record of Decision and Presidential Permit on November 16, 2017, which will allow construction of transmission facilities at the Québec-New Hampshire border; and
- Receiving the DOE final Environmental Impact Statement issued on August 10, 2017, which concluded that the proposed Northern Pass route is the preferred alternative, providing substantial benefits with only minimal impacts.

On January 25, 2018, Northern Pass was selected from the 46 proposals submitted as the winning bidder in the Massachusetts clean energy request for proposal ("RFP"), which successfully positioned Northern Pass to provide a firm delivery of hydropower to Massachusetts. On February 1, 2018, the NHSEC voted to deny Northern Pass' siting application. On February 14, 2018, pursuant to the NHSEC's decision, the Massachusetts EDCs, in coordination with the DOER and an independent evaluator, notified NPT that the EDCs will continue contract negotiations, with the option of discontinuing discussions and terminating its conditional selection by March 27, 2018.

Consistent with Eversource's and HQ's long-term relationship to bring clean energy into New England, Eversource and HQ continue to support Northern Pass and the many benefits this project will bring to our customers and region. We intend to seek reconsideration of the NHSEC's decision and to review all options for moving this critical clean energy project forward.

As of December 31, 2017, we have approximately \$277 million in capitalized costs associated with Northern Pass. We continue to believe that the Northern Pass project is probable of being placed in service. If in the future, events and changes in circumstances indicate that the Northern Pass project's capitalized costs may not be fully recoverable, we will then evaluate those costs for impairment. Should we conclude that these capitalized costs are impaired, this would have a significant negative impact on our financial position, results of operations, and cash flows.

For more information regarding the Massachusetts clean energy RFP, see "Regulatory Developments and Rate Matters – Massachusetts –Massachusetts RFPs" in this Management's Discussion and Analysis of Financial Condition and Results of Operations.

Greater Boston Reliability Solution: In February 2015, ISO-NE selected the Greater Boston and New Hampshire Solution (the "Solution"), proposed by Eversource and National Grid, to satisfy the requirements identified in the Greater Boston study. The Solution consists of a portfolio of electric transmission upgrades covering southern New Hampshire and northern Massachusetts and continuing into the greater Boston metropolitan area, of which 28 upgrades are in Eversource's service territory. The NHSEC issued its written order approving the New Hampshire upgrades on October 4, 2016. We are currently pursuing the necessary regulatory and siting application approvals in Massachusetts. To date, we have received approval for three of these projects from the Massachusetts Energy Facilities Siting Board. Construction has also begun on multiple smaller projects, several of which have been placed in service. All upgrades are expected to be completed by the end of 2019. We estimate our portion of the investment in the Solution will be approximately \$560 million, of which \$235.8 million has been capitalized through December 31, 2017.

GHCC: The Greater Hartford Central Connecticut ("GHCC") projects, which have been approved by ISO-NE, consist of 27 projects with an expected investment of approximately \$350 million that are expected to be placed in service through 2019. As of December 31, 2017, 18 projects have been placed in service, and six projects are in active construction. As of December 31, 2017, CL&P had capitalized \$210.0 million in costs associated with GHCC.

Seacoast Reliability Project: On April 12, 2016, PSNH filed a siting application with the NHSEC for the Seacoast Reliability Project, a 13-mile, 115kV transmission line within several New Hampshire communities, which proposes to use a combination of overhead, underground and underwater line design to help meet the growing demand for electricity in the Seacoast region. In June 2016, the NHSEC accepted our application as complete. The New Hampshire Department of Environmental Services has experienced delays with the issuance of permit conditions and now expects to complete its review in February 2018. As a result, siting hearings have yet to be rescheduled and we now expect the NHSEC decision in late-2018. This project is expected to be completed by the end of 2019. We estimate our investment in this project to be approximately \$84 million, of which, PSNH had capitalized \$24.5 million in costs, through December 31, 2017.

*Distribution Business:*

A summary of distribution capital expenditures by company is as follows:

<i>(Millions of Dollars)</i>	For the Years Ended December 31,					
	CL&P	NSTAR Electric	PSNH	Total Electric	Natural Gas	Total Electric and Natural Gas Distribution Segments
<b>2017</b>						
Basic Business	\$ 214.0	\$ 166.1	\$ 67.2	\$ 447.3	\$ 67.7	\$ 515.0
Aging Infrastructure	180.7	95.4	87.8	363.9	219.9	583.8
Load Growth and Other	52.3	96.6	13.2	162.1	47.7	209.8
Total Distribution	447.0	358.1	168.2	973.3	335.3	1,308.6
Solar Power and Generation	—	100.1	8.5	108.6	—	108.6
Total	\$ 447.0	\$ 458.2	\$ 176.7	\$ 1,081.9	\$ 335.3	\$ 1,417.2
<b>2016</b>						
Basic Business	\$ 179.8	\$ 146.0	\$ 70.0	\$ 395.8	\$ 70.7	\$ 466.5
Aging Infrastructure	144.7	105.7	84.7	335.1	155.9	491.0
Load Growth and Other	48.6	89.2	17.3	155.1	44.2	199.3
Total Distribution	373.1	340.9	172.0	886.0	270.8	1,156.8
Generation	—	—	17.5	17.5	—	17.5
Total	\$ 373.1	\$ 340.9	\$ 189.5	\$ 903.5	\$ 270.8	\$ 1,174.3
<b>2015</b>						
Basic Business	\$ 141.1	\$ 126.9	\$ 59.2	\$ 327.2	\$ 46.8	\$ 374.0
Aging Infrastructure	151.0	121.6	57.3	329.9	122.3	452.2
Load Growth and Other	42.2	58.5	25.5	126.2	43.5	169.7
Total Distribution	334.3	307.0	142.0	783.3	212.6	995.9
Generation	—	—	33.3	33.3	—	33.3
Total	\$ 334.3	\$ 307.0	\$ 175.3	\$ 816.6	\$ 212.6	\$ 1,029.2

For the electric distribution business, basic business includes the purchase of meters, tools, vehicles, information technology, transformer replacements, equipment facilities, and the relocation of plant. Aging infrastructure relates to reliability and the replacement of overhead lines, plant substations, underground cable replacement, and equipment failures. Load growth and other includes requests for new business and capacity additions on distribution lines and substation additions and expansions. For the natural gas distribution business, basic business addresses daily operational needs including meters, pipe relocations due to public works projects, vehicles, and tools. Aging infrastructure projects seek to improve the reliability of the system through enhancements related to cast iron and bare steel replacement of main and services, corrosion mediation, and station upgrades. Load growth and other reflects growth in existing service territories including new developments, installation of services, and expansion.

The natural gas distribution segment's capital spending program increased by \$64.5 million in 2017, as compared to 2016, primarily due to an increased investment in system replacement and reliability, as well as upgrades to our LNG facilities. We expect the LNG facility upgrades to cost approximately \$200 million and to be placed in service in late 2019.

**Projected Capital Expenditures:** A summary of the projected capital expenditures for the regulated companies' electric transmission and for the total electric distribution, solar development and natural gas distribution businesses for 2018 through 2021, including information technology and facilities upgrades and enhancements on behalf of the regulated companies, is as follows:

(Millions of Dollars)	Years					2018-2021 Total
	2018	2019	2020	2021		
CL&P Transmission	\$ 390	\$ 228	\$ 155	\$ 128	\$ 901	
NSTAR Electric Transmission	333	293	267	248	1,141	
PSNH Transmission	149	144	138	147	578	
NPT	300	718	436	70	1,524	
<i>Total Electric Transmission</i>	<i>\$ 1,172</i>	<i>\$ 1,383</i>	<i>\$ 996</i>	<i>\$ 593</i>	<i>\$ 4,144</i>	
Electric Distribution	\$ 1,094	\$ 963	\$ 984	\$ 940	\$ 3,981	
Solar Development	76	—	—	—	76	
Natural Gas Distribution	422	425	380	389	1,616	
<i>Total Distribution</i>	<i>\$ 1,592</i>	<i>\$ 1,388</i>	<i>\$ 1,364</i>	<i>\$ 1,329</i>	<i>\$ 5,673</i>	
Water	\$ 100	\$ 102	\$ 108	\$ 125	\$ 435	
Information Technology and All Other	\$ 178	\$ 124	\$ 111	\$ 112	\$ 525	
Total	\$ 3,042	\$ 2,997	\$ 2,579	\$ 2,159	\$ 10,777	

The projections do not include investments related to Bay State Wind. Actual capital expenditures could vary from the projected amounts for the companies and years above.

#### FERC Regulatory Issues

**FERC ROE Complaints:** Four separate complaints have been filed at the FERC by combinations of New England state attorneys general, state regulatory commissions, consumer advocates, consumer groups, municipal parties and other parties (collectively the "Complainants"). In each of the first three complaints, the Complainants challenged the NETOs' base ROE of 11.14 percent that had been utilized since 2005 and sought an order to reduce it prospectively from the date of the final FERC order and for the separate 15-month complaint periods. In the fourth complaint, filed April 29, 2016, the Complainants challenged the NETOs' base ROE of 10.57 percent and the maximum ROE for transmission incentive ("incentive cap") of 11.74 percent, asserting that these ROEs were unjust and unreasonable.

In response to appeals of the FERC decision in the first complaint filed by the NETOs and the Complainants, the U.S. Court of Appeals for the D.C. Circuit (the "Court") issued a decision on April 14, 2017 vacating and remanding the FERC's decision. The Court found that the FERC failed to make an explicit finding that the 11.14 percent base ROE was unjust and unreasonable, as required under Section 206 of the Federal Power Act, before it set a new base ROE. The Court also found that the FERC did not provide a rational connection between the record evidence and its decision to select the midpoint of the upper half of the zone of reasonableness for the new base ROE.

Hearings on the fourth complaint were held in December 2017 before the Administrative Law Judge ("ALJ"), who is expected to issue an initial decision in March 2018.

A summary of the four separate complaints and the base ROEs pertinent to those complaints are as follows:

Complaint	15-Month Time Period of Complaint (Beginning as of Complaint Filing Date)	Original Base ROE Authorized by FERC at Time of Complaint Filing Date <sup>(1)</sup>	Base ROE Subsequently Authorized by FERC for First Complaint Period and also Effective from October 16, 2014 through April 14, 2017 <sup>(1)</sup>	Reserve (Pre-Tax and Excluding Interest) as of December 31, 2017 (in millions)	FERC ALJ Recommendation of Base ROE on Second and Third Complaints (Issued March 22, 2016)
First	10/1/2011 - 12/31/2012	11.14%	10.57%	\$— <sup>(2)</sup>	N/A
Second	12/27/2012 - 3/26/2014	11.14%	N/A	39.1 <sup>(3)</sup>	9.59%
Third	7/31/2014 - 10/30/2015	11.14%	10.57%	—	10.90%
Fourth	4/29/2016 - 7/28/2017	10.57%	10.57%	—	N/A

(1) The ROE billed during the period October 1, 2011 through October 15, 2014 consisted of a base ROE of 11.14 percent and incentives up to 13.1 percent. On October 16, 2014, the FERC set the base ROE at 10.57 percent and an incentive cap at 11.74 percent for the first complaint period and also effective from the date of the FERC order on October 16, 2014. This FERC order was vacated on April 14, 2017.

(2) CL&P, NSTAR Electric and PSNH have refunded all amounts associated with the first complaint period, totaling \$38.9 million (pre-tax and excluding interest) at Eversource (consisting of \$22.4 million at CL&P, \$13.7 million at NSTAR Electric and \$2.8 million at PSNH), reflecting both the base ROE and incentive cap prescribed by the FERC order.

(3) The reserve represents the difference between the billed rates during the second complaint period and a 10.57 percent base ROE and 11.74 percent incentive cap. The reserve consisted of \$21.4 million for CL&P, \$14.6 million for NSTAR Electric and \$3.1 million for PSNH as of December 31, 2017.

On June 5, 2017, the NETOs, including Eversource, submitted a filing to the FERC to reinstate the base ROE of 11.14 percent with an associated ROE incentive cap of 13.5 percent effective June 8, 2017, as these were the last ROEs lawfully in effect for transmission billing purposes prior to the FERC order vacated by the Court on April 14, 2017. On October 6, 2017, the FERC did not accept the NETOs filing, temporarily leaving in place the ROEs (10.57 percent base ROE with an 11.74 percent incentive cap ROE) set in the first complaint proceeding until the FERC addresses the Court's decision. On November 6, 2017, the NETOs submitted a request for rehearing of the FERC's October 6, 2017 Order rejecting the compliance filing.

On October 5, 2017, the NETOs filed a series of motions, requesting that the FERC dismiss the four complaint proceedings. Alternatively, if the FERC does not dismiss the proceedings, the NETOs requested that the FERC consolidate all four complaint proceedings for expeditious resolution and/or stay the trial in the fourth complaint proceeding and resolve it based on the standards set in the April 14, 2017 Court decision.

At this time, the Company cannot reasonably estimate a range of gain or loss for the complaint proceedings. No events in 2017 provided a reasonable basis for a change to the reserve balance of \$39.1 million (pre-tax, excluding interest) for the second complaint period, and the Company has not changed its reserve or recognized ROEs for any of the complaint periods.

Management cannot at this time predict the ultimate effect of the Court decision or future FERC action on any of the complaint periods or the estimated impacts on the financial position, results of operations or cash flows of Eversource, CL&P, NSTAR Electric or PSNH.

The average impact of a 10 basis point change to the base ROE for each of the 15-month complaint periods would affect Eversource's after-tax earnings by approximately \$3 million.

#### Regulatory Developments and Rate Matters

##### *Electric, Natural Gas, and Water Utility Base Distribution Rates:*

Each Eversource utility subsidiary is subject to the regulatory jurisdiction of the state in which it operates: CL&P, Yankee Gas and Aquarion operate in Connecticut and are subject to PURA regulation; NSTAR Electric, NSTAR Gas and Aquarion operate in Massachusetts and are subject to DPU regulation; and PSNH and Aquarion operate in New Hampshire and are subject to NHPUC regulation. The regulated companies' distribution rates are set by their respective state regulatory commissions, and their tariffs include mechanisms for periodically adjusting their rates for the recovery of specific incurred costs.

In Connecticut, electric and natural gas utilities are required to file a distribution rate case, or for PURA to initiate a rate review, within four years of the last rate case. CL&P distribution rates were established in a 2014 PURA-approved rate case. On January 11, 2018, CL&P filed a distribution rate case settlement agreement for approval with PURA. See "Regulatory Developments and Rate Matters - Connecticut - CL&P Rate Case Settlement" in this *Management's Discussion and Analysis of Financial Condition and Results of Operations*, for more information. Yankee Gas distribution rates were established in a 2011 PURA-approved rate case. The requirement for Yankee Gas to file a base distribution rate case in 2015 was eliminated due to a rate review conducted by PURA and a resulting settlement in 2015 between Yankee Gas and PURA.

In Massachusetts, electric distribution companies are required to file at least one distribution rate case every five years, and natural gas local distribution companies to file at least one distribution rate case every 10 years, and those companies are limited to one settlement agreement in any 10-year period. On November 30, 2017, the DPU approved the NSTAR Electric rate case application. See "Regulatory Developments and Rate Matters - Massachusetts - NSTAR Electric Distribution Rate Case Decision" in this *Management's Discussion and Analysis of Financial Condition and Results of Operations*, for more information. NSTAR Gas distribution rates were established in a 2015 DPU-approved rate case.

In New Hampshire, PSNH distribution rates were established in a settlement approved by the NHPUC in 2010. Prior to the expiration of that settlement, the NHPUC approved the continuation of those rates, and increased funding via rates, of PSNH's reliability enhancement program.

##### *Electric and Natural Gas Retail Rates:*

The Eversource EDCs obtain and resell power to retail customers who choose not to buy energy from a competitive energy supplier. The natural gas distribution companies procure natural gas for firm and seasonal customers. These energy supply procurement costs are recovered from customers in energy supply rates that are approved by the respective state regulatory commission. The rates are reset periodically and are fully reconciled to their costs. Each electric and natural gas distribution company fully recovers its energy supply costs through approved regulatory rate mechanisms and, therefore, such costs have no impact on earnings.

The electric and natural gas distribution companies also recover certain other costs on a fully reconciling basis through regulatory commission-approved cost tracking mechanisms and, therefore, such costs have no impact on earnings. Costs recovered through cost tracking mechanisms include energy efficiency program costs, electric transmission charges, electric federally mandated congestion charges, system resiliency costs, certain uncollectible hardship bad debt expenses, and restructuring and stranded costs resulting from deregulation. The reconciliation filings compare the total actual costs allowed to revenue requirements related to these services and the difference between the costs incurred (or the rate recovery allowed) and the actual costs allowed is deferred and included, to be either recovered or refunded, in future customer rates.

*U.S. Federal Corporate Income Taxes:* On December 22, 2017, the "Tax Cuts and Jobs Act" (the "Act") became law, which amended existing federal tax rules and included numerous provisions that impacted corporations. In particular, the Act reduced the U.S. federal corporate income tax rate from 35 percent to 21 percent effective January 1, 2018. For our regulated companies, the most significant changes will be (1) the benefit of incurring a lower federal income tax expense, which we expect to be passed back to customers, and (2) the provisional regulated excess ADIT liabilities that we expect to benefit our customers in future periods, which were estimated to be approximately \$2.9 billion and recognized as regulatory liabilities as of December 31, 2017. We are currently working with our state regulatory commissions, who have opened investigations to examine the impact of the Act on customer rates. FERC has yet to address how the Act would impact transmission rates.

We will continue to evaluate the impacts of the Act on our statement of financial position, results of operations, and cash flows. The impacts will vary depending on the ultimate amount and timing of when certain income tax benefits will benefit our customers, and will vary by jurisdiction.

*Connecticut:*

CL&P Rate Case Settlement: On April 20, 2017, PURA approved the joint request of CL&P, the Connecticut Office of Consumer Counsel ("OCC") and the Connecticut Attorney General to amend the deadline to establish new electric distribution rates in the 2012 Connecticut merger settlement agreement from "no later than December 1, 2017" to "no later than July 1, 2018." On November 22, 2017, CL&P filed its application with PURA, which sought a rate increase of \$255.8 million, \$45.0 million and \$36.0 million effective in May 2018, 2019, and 2020, respectively. On December, 15, 2017, CL&P, the Prosecutorial Unit of PURA, and the OCC reached a settlement in principle.

On January 11, 2018, CL&P filed a distribution rate case settlement agreement for approval by PURA, which included, among other things, rate increases of \$97.1 million, \$32.7 million and \$24.7 million, effective May 1, 2018, 2019, and 2020, respectively, an authorized regulatory ROE of 9.25 percent, 53 percent common equity in CL&P's capital structure, and a new capital tracker through 2020 for capital additions, system resiliency, and grid modernization. The rate increases associated with the settlement agreement will be reduced by the impact of the decrease in the federal corporate income tax rate, as part of the "Tax Cuts and Jobs Act", which we currently estimate to average approximately \$45 million to \$50 million per year, while amounts related to ADIT will be addressed in a separate manner. We expect to receive final approval from PURA in the second quarter of 2018.

Clean Energy RFP: On January 31, 2018, pursuant to Section 8 of Public Act 13-303, "An Act Concerning Connecticut's Clean Energy Goals," as amended by Section 10 of Public Act 17-144, "An Act Promoting the Use of Fuel Cells for Electric Distribution System Benefits and Reliability and Amending Various Energy-Related Programs and Requirements," DEEP issued the Connecticut Clean Energy RFP, seeking bids from developers of qualified offshore wind, fuel cell and anaerobic digestion Class I resources. The maximum authorized procurement for qualified clean energy and RECs is 899,250 MWh per year, of which no more than 825,000 MWh per year may be provided by offshore wind, which in aggregate is the equivalent to the output of an approximate 200 MW facility. Energy deliveries under any resulting agreement must begin no earlier than July 1, 2019 and no later than December 31, 2025. The Connecticut EDC's, including CL&P, will be part of the evaluation team responsible for conducting an evaluation and ranking bids received. Eversource and Ørsted are expected to submit a bid in response to this RFP.

*Massachusetts:*

NSTAR Electric Distribution Rate Case Decision: On November 30, 2017, the DPU issued its decision in the NSTAR Electric distribution rate case, which approved an annual distribution rate increase of \$37 million, with rates effective February 1, 2018. On January 3, 2018, NSTAR Electric filed a motion to reflect a revenue requirement reduction of \$56 million (due to the decrease in the federal corporate income tax rate, as part of the "Tax Cuts and Jobs Act"), resulting in an annual net decrease in rates of \$19 million.

In addition to its decision regarding rates, the DPU approved an authorized regulatory ROE of 10 percent, the establishment of a revenue decoupling rate mechanism for the portion of the NSTAR Electric business that did not previously have a decoupling mechanism, and the implementation of an inflation-based adjustment mechanism with a five-year stay-out until January 1, 2023.

Among other items, the DPU approved the recovery of previously expensed merger-related costs over a 10-year period and the recovery of previously deferred storm costs with carrying charges at the prime rate, but disallowed certain property taxes. The rate case decision resulted in the recognition of an aggregate \$44.1 million pre-tax benefit recorded in 2017.

Eversource and NSTAR Electric Boston Harbor Civil Action: On July 15, 2016, the United States Attorney on behalf of the United States Army Corps of Engineers filed a civil action in the United States District Court for the District of Massachusetts under provisions of the Rivers and Harbors Act of 1899 and the Clean Water Act against NSTAR Electric, Harbor Electric Energy Company, a wholly-owned subsidiary of NSTAR Electric ("HEEC"), and the Massachusetts Water Resources Authority (together with NSTAR Electric and HEEC, the "Defendants"). The action alleged that the Defendants failed to comply with certain permitting requirements related to the placement of the HEEC-owned electric distribution cable beneath Boston Harbor. The action sought an order to compel HEEC to comply with cable depth requirements in the United States Army Corps of Engineers' permit or alternatively to remove the electric distribution cable and cease unauthorized work in U.S. waterways. The action also sought civil penalties and other costs.

The parties reached a settlement pursuant to which HEEC agreed to install a new 115kV distribution cable across Boston Harbor to Deer Island, utilizing a different route, and remove portions of the existing cable. Upon the installation and completion of the new cable and the removal of the portions of the existing cable, all issues surrounding the current permit from the United States Army Corps of Engineers are expected to be resolved, and such litigation is expected to be dismissed with prejudice.

In 2017, as a result of the settlement, NSTAR Electric expensed \$4.9 million (pre-tax) of previously incurred capitalized costs associated with engineering work performed on the existing cable that will no longer be used. In addition, NSTAR Electric agreed to provide a rate base credit of \$17.5 million to the Massachusetts Water Resources Authority for the new cable. This negotiated credit will result in the initial \$17.5 million of construction costs on the new cable to be expensed as incurred. Of this amount, NSTAR Electric expensed \$11.1 million (pre-tax) of costs incurred on the new cable in 2017. Construction of the new cable is expected to be completed in 2019.

Massachusetts RFPs: On March 31, 2017, pursuant to a comprehensive energy law enacted in 2016, "An Act to Promote Energy Diversity," (the "Act") the Massachusetts EDCs, including NSTAR Electric, and the DOER issued a joint RFP for 9.45 terawatt hours of clean energy per year, such as hydropower, land-based wind or solar. The RFP seeks proposals for long-term contracts of 15 to 20 years to provide the state's EDCs with clean energy generation with a submission due date of July 27, 2017.

On January 25, 2018, the Northern Pass project was selected from the 46 proposals submitted as a winning bidder. On February 1, 2018, the NHSEC voted to deny Northern Pass' siting application. On February 14, 2018, pursuant to the NHSEC's decision, the Massachusetts EDCs, in coordination with the DOER and an independent evaluator, notified NPT that the EDCs will continue contract negotiations, with the option of discontinuing discussions and terminating its conditional selection by March 27, 2018.

On June 29, 2017, pursuant to the Act, the Massachusetts EDCs, including NSTAR Electric, and the DOER issued a joint RFP for long-term contracts for offshore wind energy projects, seeking bids for a minimum of 400 MW of offshore wind capacity. The RFP stated that bids of up to 800 MW would be considered, provided they demonstrated significant net economic benefits to customers. On December 20, 2017, Bay State Wind submitted two proposals in response to the Massachusetts clean energy RFP to the EDCs. One proposal was for 400 MW and the other was for 800 MW. The selection of the winning proposals for further negotiation of power purchase agreements with the EDCs is currently expected to occur by April 23, 2018.

#### *New Hampshire:*

Generation Divestiture: In June 2015, Eversource and PSNH entered into the 2015 Public Service Company of New Hampshire Restructuring and Rate Stabilization Agreement, under the terms of which PSNH agreed to divest its generation assets, subject to NHPUC approval. The NHPUC approval for this agreement, as well as NHPUC approval of the final divestiture plan and auction process, were received in the second half of 2016. In October 2017, PSNH entered into two Purchase and Sale Agreements ("Agreements") to sell its thermal and hydroelectric generation assets to private investors at purchase prices of \$175 million and \$83 million, respectively, subject to adjustments as set forth in the Agreements. The NHPUC approved the Agreements in late November 2017.

On January 10, 2018, PSNH completed the sale of its thermal generation facilities. In accordance with the Purchase and Sale Agreement, the original purchase price of \$175 million was adjusted to reflect working capital adjustments, closing date adjustments and proration of taxes and fees prior to closing, totaling \$40.9 million, resulting in net proceeds of \$134.1 million. We are targeting for PSNH to complete the sale of its hydroelectric generation facilities by the end of the first quarter of 2018 at a sale price of \$83 million, subject to adjustment. On January 30, 2018, the NHPUC approved the issuance of rate reduction bonds up to \$690 million to recover stranded costs, subject to an audit by the NHPUC Audit Staff. This order is subject to an appeal period of 30 days.

Upon completion of the divestiture, full recovery of PSNH's generation assets and transaction-related costs are expected to occur through a combination of cash flows during the remaining operating period, sales proceeds, and recovery of stranded costs via the issuance of bonds that will be secured by a non-bypassable charge or through recoveries in future rates billed to PSNH's customers.

#### Legislative and Policy Matters

*Federal:* On December 22, 2017, the "Tax Cuts and Jobs Act" (the "Act") became law, which amended existing federal tax rules and included numerous provisions that will impact corporations. In particular, the Act reduced the federal corporate income tax rate from 35 percent to 21 percent effective January 1, 2018. See "Regulatory Developments and Rate Matters - U.S. Federal Corporate Income Taxes" in this *Management's Discussion and Analysis of Financial Condition and Results of Operations*, for more information.

*Massachusetts:* On August 11, 2017, Massachusetts issued final legislation, pursuant to Executive Order 569, which established volumetric limits on multiple greenhouse emission sources to ensure reductions are realized by deadlines established in the Massachusetts Global Warming Solutions Act enacted in 2008. Under this legislation, the initial target date for reduction in greenhouse gas emissions has been established in the year 2020. The legislation is not expected to have a material impact on the financial statements of Eversource or NSTAR Electric.

*New Hampshire:* On January 11, 2018, the New Hampshire Supreme Court issued a decision affirming the lower court's October 2016 decision that the Town of Bow, New Hampshire had over-assessed the value of the property owned by PSNH for the 2012 and 2013 property tax years. We estimate that the result of this decision will be approximately \$7.5 million in property taxes and interest payable to PSNH. PSNH plans to account for any recovery on the same basis that the taxes were originally expensed in the respective periods covered by the decision.

## Critical Accounting Policies

The preparation of financial statements in conformity with GAAP requires management to make estimates, assumptions and, at times, difficult, subjective or complex judgments. Changes in these estimates, assumptions and judgments, in and of themselves, could materially impact our financial position, results of operations or cash flows. Our management discusses with the Audit Committee of our Board of Trustees significant matters relating to critical accounting policies. Our critical accounting policies are discussed below. See the combined notes to our financial statements for further information concerning the accounting policies, estimates and assumptions used in the preparation of our financial statements.

*Regulatory Accounting:* Our regulated companies are subject to rate-regulation that is based on cost recovery and meets the criteria for application of accounting guidance for rate-regulated operations, which considers the effect of regulation on the timing of the recognition of certain revenues and expenses. The regulated companies' financial statements reflect the effects of the rate-making process.

The application of accounting guidance for rate-regulated enterprises results in recording regulatory assets and liabilities. Regulatory assets represent the deferral of incurred costs that are probable of future recovery in customer rates. Regulatory assets are amortized as the incurred costs are recovered through customer rates. In some cases, we record regulatory assets before approval for recovery has been received from the applicable regulatory commission. We must use judgment to conclude that costs deferred as regulatory assets are probable of future recovery. We base our conclusion on certain factors, including, but not limited to, regulatory precedent. Regulatory liabilities represent revenues received from customers to fund expected costs that have not yet been incurred or probable future refunds to customers.

We use judgment when recording regulatory assets and liabilities; however, regulatory commissions can reach different conclusions about the recovery of costs, and those conclusions could have a material impact on our financial statements. We believe it is probable that each of the regulated companies will recover the regulatory assets that have been recorded. If we determine that we can no longer apply the accounting guidance applicable to rate-regulated enterprises to our operations, or that we cannot conclude it is probable that costs will be recovered from customers in future rates, the costs would be charged to earnings in the period in which the determination is made.

*Unbilled Revenues:* The determination of retail energy sales to residential, commercial and industrial customers is based on the reading of meters, which occurs regularly throughout the month. Billed revenues are based on these meter readings, and the majority of our recorded annual revenues is based on actual billings. Because customers are billed throughout the month based on pre-determined cycles rather than on a calendar month basis, an estimate of electricity or natural gas delivered to customers for which the customers have not yet been billed is calculated as of the balance sheet date.

Unbilled revenues represent an estimate of electricity or natural gas delivered to customers but not yet billed. Unbilled revenues are included in Operating Revenues on the statement of income and are assets on the balance sheet that are reclassified to Accounts Receivable in the following month as customers are billed. Such estimates are subject to adjustment when actual meter readings become available or when there is a change in our estimates.

Unbilled revenues are recognized by allocating estimated unbilled sales volumes to the respective customer classes, and then applying an estimated rate by customer class to those sales volumes. Unbilled revenues can vary significantly from period to period as a result of seasonality, weather, customer usage patterns, customer rates in effect for customer classes, and the timing of customer billing. The estimate of unbilled revenues can significantly impact the amount of revenues recorded at the operating companies that do not have a revenue decoupling mechanism. CL&P, NSTAR Electric and NSTAR Gas record a regulatory deferral to reflect the actual allowed amount of revenue associated with their respective decoupled distribution rate design.

*Pension, SERP and PBOP:* We sponsor Pension, SERP and PBOP Plans to provide retirement benefits to our employees. For each of these plans, several significant assumptions are used to determine the projected benefit obligation, funded status and net periodic benefit cost. These assumptions include the expected long-term rate of return on plan assets, discount rate, compensation/progression rate and mortality and retirement assumptions. We evaluate these assumptions at least annually and adjust them as necessary. Changes in these assumptions could have a material impact on our financial position, results of operations or cash flows.

*Expected Long-Term Rate of Return on Plan Assets:* In developing this assumption, we consider historical and expected returns, as well as input from our consultants. Our expected long-term rate of return on assets is based on assumptions regarding target asset allocations and corresponding expected rates of return for each asset class. We routinely review the actual asset allocations and periodically rebalance the investments to the targeted asset allocations when appropriate. For the year ended December 31, 2017, our aggregate expected long-term rate-of-return assumption of 8.25 percent was used to determine our pension and PBOP expense. For the forecasted 2018 pension and PBOP expense, our expected long-term rate of return of 8.25 percent will be used reflecting our target asset allocations.

*Discount Rate:* Payment obligations related to the Pension, SERP and PBOP Plans are discounted at interest rates applicable to the expected timing of each plan's cash flows. The discount rate that was utilized in determining the 2017 pension, SERP and PBOP obligations was based on a yield-curve approach. This approach utilizes a population of bonds with an average rating of AA based on bond ratings by Moody's, S&P and Fitch, and uses bonds with above median yields within that population. As of December 31, 2017, the discount rates used to determine the funded status were within a range of 3.43 percent to 3.75 percent for the Pension and SERP Plans, and within a range of 3.55 percent to 3.70 percent for the PBOP Plans. As of December 31, 2016, the discount rates used were within a range of 4.01 percent to 4.33 percent for the Pension and SERP Plans, and 4.21 percent for the PBOP Plan. The decrease in the discount rates used to calculate the funded status resulted in an increase to the Pension and PBOP Plans' liability of approximately \$390 million and \$64 million, respectively, as of December 31, 2017.

Effective January 1, 2016, we elected to transition the discount rate to the spot rate methodology from the yield-curve approach for the service and interest cost components of Pension, SERP and PBOP expense because it provides a more precise measurement by matching projected cash flows to the corresponding spot rates on the yield curve. Historically, these components were estimated using the same weighted-average discount rate as for the funded status. The discount rates used to estimate the 2017 service costs were within a range of 3.58 percent to 3.90 percent for the Pension and SERP Plans, and 4.64 percent for the PBOP Plans. The discount rates used to estimate the 2017 interest costs were within a range of 3.20 percent and 3.36 percent for the Pension and SERP Plans, and 3.48 percent for the PBOP Plans.

**Mortality Assumptions:** Assumptions as to mortality of the participants in our Pension, SERP and PBOP Plans are a key estimate in measuring the expected payments a participant may receive over their lifetime and the corresponding plan liability we need to record. In 2017, the IRS issued a revised mortality table used for determining lump sum payments from the Pension Plan, resulting in an increase to the liability of approximately \$38 million. Also in 2017, a revised scale for the mortality table was released, having the effect of decreasing the estimate of benefits to be provided to plan participants. The impact of the adoption of the revised mortality scale resulted in a decrease of approximately \$26 million and \$4 million for the Pension and PBOP Plans, respectively, as of December 31, 2017.

**Compensation/Progression Rate:** This assumption reflects the expected long-term salary growth rate, including consideration of the levels of increases built into collective bargaining agreements, and impacts the estimated benefits that Pension and SERP Plan participants receive in the future. As of December 31, 2017, the compensation/progression rate used to determine the funded status was within a range of 3.50 percent to 4.00 percent. As of December 31, 2016, this rate was 3.50 percent.

**Health Care Cost:** In August 2016, we amended the Eversource PBOP Plan to standardize benefit design and make benefit changes. As a result, this plan is no longer subject to health care cost trends.

**Actuarial Determination of Expense:** Pension, SERP and PBOP expense is determined by our actuaries and consists of service cost and prior service cost, interest cost based on the discounting of the obligations, and amortization of actuarial gains and losses, offset by the expected return on plan assets. Actuarial gains and losses represent differences between assumptions and actual information or updated assumptions. Pre-tax net periodic benefit expense for the Pension and SERP Plans was \$64.9 million, \$71.9 million and \$134.7 million for the years ended December 31, 2017, 2016 and 2015, respectively. The pre-tax net periodic PBOP cost is income of \$39.6 million and \$17.9 million for the years ended December 31, 2017 and 2016, respectively, and expense of \$2.4 million for the year ended December 31, 2015.

The expected return on plan assets is determined by applying the assumed long-term rate of return to the Pension and PBOP Plan asset balances. This calculated expected return is compared to the actual return or loss on plan assets at the end of each year to determine the investment gains or losses to be immediately reflected in unrecognized actuarial gains and losses.

**Forecasted Expenses and Expected Contributions:** We estimate that the expense for the Pension and SERP Plans will be approximately \$45 million and income for the PBOP Plans will be approximately \$45 million in 2018. Pension, SERP and PBOP expense for subsequent years will depend on future investment performance, changes in future discount rates and other assumptions, and various other factors related to the populations participating in the plans.

Our policy is to fund the Pension Plans annually in an amount at least equal to the amount that will satisfy all federal funding requirements. We contributed \$235.2 million to the Pension Plans in 2017. We currently estimate contributing approximately \$180 million to the Pension Plans in 2018.

For the PBOP Plans, it is our policy to fund the PBOP Plans annually through tax deductible contributions to external trusts. We contributed \$7.6 million to the PBOP Plans in 2017. We currently estimate contributing \$10 million to the PBOP Plans in 2018.

**Sensitivity Analysis:** The following represents the hypothetical increase to the Pension Plans' (excluding the SERP Plans) and PBOP Plans' reported annual cost as a result of a change in the following assumptions by 50 basis points:

Assumption Change	Increase in Pension Plan Cost				Increase in PBOP Plan Cost			
	As of December 31,							
	2017		2016		2017		2016	
Eversource								
Lower expected long-term rate of return	\$	20.4	\$	19.5	\$	4.1	\$	3.9
Lower discount rate		19.7		20.7		3.6		3.9
Higher compensation rate		9.3		10.2		N/A		N/A

**Goodwill:** We recorded goodwill on our balance sheet associated with previous mergers and acquisitions. On December 4, 2017, we completed the acquisition of Aquarion, resulting in the addition of \$0.9 billion of goodwill. As of December 31, 2017, a total of \$4.4 billion of goodwill is recorded on our balance sheet. We have identified our reporting units for purposes of allocating and testing goodwill as Electric Distribution, Electric Transmission, Natural Gas Distribution and Water. These reporting units are consistent with our operating segments underlying our reportable segments. Electric Distribution and Electric Transmission reporting units include carrying values for the respective components of CL&P, NSTAR Electric and PSNH. The Natural Gas Distribution reporting unit includes the carrying values of NSTAR Gas and Yankee Gas. The Water reporting unit was created upon completion of the acquisition of Aquarion and includes its water utility businesses. As of December 31, 2017, goodwill was allocated to the reporting units as follows: \$2.5 billion to Electric Distribution, \$0.6 billion to Electric Transmission, \$0.4 billion to Natural Gas Distribution and \$0.9 billion to Water.

We are required to test goodwill balances for impairment at least annually by considering the fair values of the reporting units, which requires us to use estimates and judgments.

We have selected October 1st of each year as the annual goodwill impairment testing date. Goodwill impairment is deemed to exist if the carrying amount of a reporting unit exceeds its estimated fair value and if the implied fair value of goodwill based on the estimated fair values of the reporting units' assets and liabilities is less than the carrying amount of the goodwill. If goodwill were deemed to be impaired, it would be written down in the current period to the extent of the impairment.

We performed an impairment test of goodwill as of October 1, 2017 for the Electric Distribution, Electric Transmission and Natural Gas Distribution reporting units. This evaluation required the consideration of several factors that impact the fair value of the reporting units, including conditions and assumptions that affect the future cash flows of the reporting units. Key considerations include discount rates, utility sector market performance and merger transaction multiples, and internal estimates of future cash flows and net income.

The 2017 goodwill impairment test resulted in a conclusion that goodwill is not impaired and no reporting unit is at risk of a goodwill impairment.

*Long-Lived Assets:* Impairment evaluations of long-lived assets, including property, plant and equipment and strategic, infrastructure and other investments, involve a significant degree of estimation and judgment, including identifying circumstances that indicate an impairment may exist. Impairment analysis is required when events or changes in circumstances indicate that the carrying value of a long-lived asset may not be recoverable. Indicators of potential impairment include a deteriorating business climate, unfavorable regulatory action, decline in value that is other than temporary in nature, plans to dispose of a long-lived asset significantly before the end of its useful life, and accumulation of costs that are in excess of amounts allowed for recovery. The review of long-lived assets for impairment utilizes significant assumptions about operating strategies and external developments, including assessment of current and projected market conditions that can impact future cash flows.

As of December 31, 2017, we did not identify any impairment indicators for our long-lived assets. If events or changes in circumstances indicate the carrying value of a long-lived asset may not be recoverable, we would perform an impairment analysis. An impairment analysis would consist of two steps: first, the estimated undiscounted future cash flows attributable to the asset would be compared with the carrying value of the asset, and second, if the carrying value is greater than the undiscounted future cash flows, an impairment charge would be recognized equal to the amount by which the carrying value of the asset exceeds its estimated fair value.

*Income Taxes:* Income tax expense is estimated for each of the jurisdictions in which we operate and is recorded each quarter using an estimated annualized effective tax rate. This process to record income tax expense involves estimating current and deferred income tax expense or benefit and the impact of temporary differences resulting from differing treatment of items for financial reporting and income tax return reporting purposes. Such differences are the result of timing of the deduction for expenses, as well as any impact of permanent differences, non-tax deductible expenses, or other items that directly impact income tax expense as a result of regulatory activity (flow-through items). The temporary differences and flow-through items result in deferred tax assets and liabilities that are included in the balance sheets.

We also account for uncertainty in income taxes, which applies to all income tax positions previously filed in a tax return and income tax positions expected to be taken in a future tax return that have been reflected on our balance sheets. The determination of whether a tax position meets the recognition threshold under applicable accounting guidance is based on facts and circumstances available to us. Once a tax position meets the recognition threshold, the tax benefit is measured using a cumulative probability assessment. Assigning probabilities in measuring a recognized tax position and evaluating new information or events in subsequent periods requires significant judgment and could change previous conclusions used to measure the tax position estimate. New information or events may include tax examinations or appeals (including information gained from those examinations), developments in case law, settlements of tax positions, changes in tax law and regulations, rulings by taxing authorities and statute of limitation expirations. Such information or events may have a significant impact on our financial position, results of operations and cash flows.

On December 22, 2017, the "Tax Cuts and Jobs Act" (the "Act") became law, which amended existing federal tax rules and included numerous provisions that impacted corporations. In particular, the Act reduced the U.S. federal corporate income tax rate from 35 percent to 21 percent effective January 1, 2018. For our regulated companies, the most significant changes will be (1) the benefit of incurring a lower federal income tax expense, which we expect to be passed back to customers, and (2) the provisional regulated excess ADIT liabilities that we expect to benefit our customers in future periods, which were estimated to be approximately \$2.9 billion and recognized as regulatory liabilities as of December 31, 2017.

We will continue to evaluate the impacts of the Act, which will vary depending on the ultimate amount and timing of when certain income tax benefits will benefit our customers, and will vary by jurisdiction. Although the impacts could not be finalized upon the issuance of this combined Annual Report on Form 10-K, reasonable provisional estimates were recognized as of December 31, 2017. In accordance with SEC Staff Accounting Bulletin No. 118 ("SAB 118"), additional re-measurement may occur based on final analyses, computations, technical corrections, or other forms of guidance issued from regulatory agencies or commissions. While we believe the impacts of the Act were appropriately accounted for in accordance with applicable authoritative guidance, the ultimate outcome may be different from the provisional estimates recorded, and those differences may materially impact our future statement of financial position, results of operations, and cash flows.

*Accounting for Environmental Reserves:* Environmental reserves are accrued when assessments indicate it is probable that a liability has been incurred and an amount can be reasonably estimated. Adjustments made to estimates of environmental liabilities could have an adverse impact on earnings. We estimate these liabilities based on findings through various phases of the assessment, considering the most likely action plan from a variety of available remediation options (ranging from no action required to full site remediation and long-term monitoring), current site information from our site assessments, remediation estimates from third party engineering and remediation contractors, and our prior experience in remediating contaminated sites. If a most likely action plan cannot yet be determined, we estimate the liability based on the low end of a range of possible action plans. A significant portion of our environmental sites and reserve amounts relate to former MGP sites that were operated several decades ago and manufactured gas from coal and other processes, which resulted in certain by-products remaining in the environment that may pose a potential risk to human health and the environment, for which we may have potential liability. As assessments on these sites are performed, we may receive new information to be considered in our estimates related to the extent and nature of the contamination and the costs of required remediation.

Our estimates also incorporate currently enacted state and federal environmental laws and regulations and data released by the EPA and other organizations. The estimates associated with each possible action plan are judgmental in nature partly because there are usually several different remediation options from which to choose. Our estimates are subject to revision in future periods based on actual costs or new information from other sources, including the level of contamination at the site, the extent of our responsibility or the extent of remediation required, recently enacted laws and regulations or a change in cost estimates due to certain economic factors.

*Fair Value Measurements:* We follow fair value measurement guidance that defines fair value as the price that would be received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). We have applied this guidance to our Company's derivative contracts that are not elected or designated as "normal purchases or normal sales" (normal), to marketable securities held in trusts, to our investments in our Pension and PBOP Plans, and to nonfinancial assets such as goodwill and AROs. This guidance was also applied in estimating the fair value of preferred stock and long-term debt.

Changes in fair value of the derivative contracts are recorded as Regulatory Assets or Liabilities, as we recover the costs of these contracts in rates charged to customers. These valuations are sensitive to the prices of energy and energy-related products in future years for which markets have not yet developed and assumptions are made.

We use quoted market prices when available to determine the fair value of financial instruments. If quoted market prices are not available, fair value is determined using quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments that are not active and model-derived valuations. When quoted prices in active markets for the same or similar instruments are not available, we value derivative contracts using models that incorporate both observable and unobservable inputs. Significant unobservable inputs utilized in the models include energy and energy-related product prices for future years for long-dated derivative contracts and market volatilities. Discounted cash flow valuations incorporate estimates of premiums or discounts, reflecting risk-adjusted profit that would be required by a market participant to arrive at an exit price, using available historical market transaction information. Valuations of derivative contracts also reflect our estimates of nonperformance risk, including credit risk.

#### Other Matters

*Accounting Standards:* For information regarding new accounting standards, see Note 1D, "Summary of Significant Accounting Policies - Accounting Standards," to the financial statements.

*Contractual Obligations and Commercial Commitments:* Information regarding our contractual obligations and commercial commitments as of December 31, 2017, is summarized annually through 2022 and thereafter as follows:

#### **Eversource**

(Millions of Dollars)

	2018	2019	2020	2021	2022	Thereafter	Total
Long-term debt maturities <sup>(a)</sup>	\$ 961.0	\$ 801.0	\$ 296.1	\$ 922.8	\$ 1,188.9	\$ 7,643.1	\$ 11,812.9
Estimated interest payments on existing debt <sup>(b)</sup>	446.4	417.4	378.9	361.5	328.9	2,994.5	4,927.6
Capital leases <sup>(c)</sup>	2.9	3.3	3.3	2.8	1.3	2.5	16.1
Operating leases <sup>(d)</sup>	13.2	11.4	10.0	8.9	7.4	19.7	70.6
Funding of pension obligations <sup>(d)(e)</sup>	180.0	—	—	—	—	—	180.0
Funding of PBOP obligations <sup>(d)(e)</sup>	10.0	—	—	—	—	—	10.0
Estimated future annual long-term contractual costs <sup>(f)</sup>	599.0	578.2	542.8	497.2	459.5	2,869.4	5,546.1
Total <sup>(g)</sup>	\$ 2,212.5	\$ 1,811.3	\$ 1,231.1	\$ 1,793.2	\$ 1,986.0	\$ 13,529.2	\$ 22,563.3

<b>CL&amp;P</b>							
<i>(Millions of Dollars)</i>							
	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>Thereafter</b>	<b>Total</b>
Long-term debt maturities <sup>(a)</sup>	\$ 300.0	\$ 250.0	\$ —	\$ —	\$ —	\$ 2,515.3	\$ 3,065.3
Estimated interest payments on existing debt <sup>(b)</sup>	137.1	121.7	114.8	114.8	114.8	1,462.8	2,066.0
Capital leases <sup>(c)</sup>	2.0	2.0	2.0	1.4	—	—	7.4
Operating leases <sup>(d)</sup>	1.8	1.5	1.3	1.1	1.0	1.0	7.7
Funding of pension obligations <sup>(d),(e)</sup>	82.0	—	—	—	—	—	82.0
Estimated future annual long-term contractual costs <sup>(f)</sup>	177.9	175.4	198.2	187.8	175.6	836.9	1,751.8
<b>Total <sup>(g)</sup></b>	<b>\$ 700.8</b>	<b>\$ 550.6</b>	<b>\$ 316.3</b>	<b>\$ 305.1</b>	<b>\$ 291.4</b>	<b>\$ 4,816.0</b>	<b>\$ 6,980.2</b>

- (a) Long-term debt maturities exclude the CYAPC pre-1983 spent nuclear fuel obligation, net unamortized premiums, discounts and debt issuance costs, and other fair value adjustments.
- (b) Estimated interest payments on fixed-rate debt are calculated by multiplying the coupon rate on the debt by its scheduled notional amount outstanding for the period of measurement. Estimated interest payments on floating-rate debt are calculated by multiplying the end of 2017 floating-rate reset on the debt by its scheduled notional amount outstanding for the period of measurement. This same rate is then assumed for the remaining life of the debt.
- (c) The capital lease obligations include interest.
- (d) Amounts are not included on our balance sheets.
- (e) These amounts represent expected pension and PBOP contributions for 2018. Future contributions will vary depending on many factors, including the performance of existing plan assets, valuation of the plans' liabilities and long-term discount rates.
- (f) Other than certain derivative contracts held by the regulated companies, these obligations are not included on our balance sheets.
- (g) Does not include other long-term liabilities recorded on our balance sheet, such as environmental reserves, employee medical insurance, workers compensation and long-term disability insurance reserves, ARO liability reserves and other reserves, as we cannot make reasonable estimates of the timing of payments. Also, does not include amounts not included on our balance sheets for future funding of Eversource's equity method investments, as we cannot make reasonable estimates of the periods or the investment contributions.

For further information regarding our contractual obligations and commercial commitments, see Note 6, "Asset Retirement Obligations," Note 7, "Short-Term Debt," Note 8, "Long-Term Debt," Note 9A, "Employee Benefits - Pension Benefits and Postretirement Benefits Other Than Pensions," Note 11, "Commitments and Contingencies," and Note 13, "Leases," to the financial statements.

## RESULTS OF OPERATIONS – EVERSOURCE ENERGY AND SUBSIDIARIES

The following provides the amounts and variances in operating revenues and expense line items in the statements of income for Eversource for the years ended December 31, 2017 and 2016 included in this Annual Report on Form 10-K:

<i>(Millions of Dollars)</i>	For the Years Ended December 31,		
	2017	2016	Increase/(Decrease)
Operating Revenues	\$ 7,752.0	\$ 7,639.1	\$ 112.9
Operating Expenses:			
Purchased Power, Fuel and Transmission	2,535.3	2,500.8	34.5
Operations and Maintenance	1,277.1	1,323.5	(46.4)
Depreciation	773.8	715.5	58.3
Amortization of Regulatory Assets, Net	90.0	71.7	18.3
Energy Efficiency Programs	480.8	533.7	(52.9)
Taxes Other Than Income Taxes	676.8	634.0	42.8
Total Operating Expenses	5,833.8	5,779.2	54.6
Operating Income	1,918.2	1,859.9	58.3
Interest Expense	421.8	401.0	20.8
Other Income, Net	78.0	45.9	32.1
Income Before Income Tax Expense	1,574.4	1,504.8	69.6
Income Tax Expense	578.9	555.0	23.9
Net Income	995.5	949.8	45.7
Net Income Attributable to Noncontrolling Interests	7.5	7.5	—
Net Income Attributable to Common Shareholders	\$ 988.0	\$ 942.3	\$ 45.7

### Operating Revenues

A summary of our Operating Revenues by segment was as follows:

<i>(Millions of Dollars)</i>	For the Years Ended December 31,		
	2017	2016	Increase/(Decrease)
Electric Distribution	\$ 5,542.9	\$ 5,594.3	\$ (51.4)
Natural Gas Distribution	947.3	857.7	89.6
Electric Transmission	1,301.7	1,210.0	91.7
Other and Eliminations	(39.9)	(22.9)	(17.0)
Total Operating Revenues	\$ 7,752.0	\$ 7,639.1	\$ 112.9

A summary of our retail electric GWh sales volumes and our firm natural gas sales volumes in MMcf and percentage changes was as follows:

	Electric				Firm Natural Gas			
	For the Years Ended December 31,				For the Years Ended December 31,			
	2017	2016	Decrease	Percent	2017	2016	Increase	Percent
Traditional	27,855	28,479	(624)	(2.2)%	46,957	45,314	1,643	3.6%
Decoupled and Natural Gas Special Contracts	24,391	25,163	(772)	(3.1)%	54,069	52,728	1,341	2.5%
Total Sales Volumes	52,246	53,642	(1,396)	(2.6)%	101,026	98,042	2,984	3.0%

Fluctuations in sales volumes at certain of the electric and natural gas utilities impact earnings ("Traditional" in the table above). Fluctuations in CL&P's, NSTAR Electric's (for a portion of its sales volumes as of December 31, 2017) and NSTAR Gas' sales volumes do not impact the level of base distribution revenue realized or earnings due to the commission-approved revenue decoupling mechanisms ("Decoupled and Natural Gas Special Contracts" in the table above). The revenue decoupling mechanisms permit recovery of a base amount of distribution revenues and breaks the relationship between sales volumes and revenues recognized. Effective February 1, 2018, all of NSTAR Electric's distribution revenues were decoupled as a result of the DPU-approved rate case decision.

Operating Revenues, which primarily consist of base electric and natural gas distribution revenues and tracked revenues further described below, increased by \$112.9 million in 2017, as compared to 2016.

*Base electric and natural gas distribution revenues:* Base electric distribution segment revenues, excluding LBR, decreased \$12.3 million in 2017, as compared to 2016, due primarily to a decrease in sales volumes driven by the mild summer weather in 2017 at our non-decoupled electric companies. LBR increased \$13.0 million in 2017, as compared to 2016. Effective February 1, 2018, NSTAR Electric no longer has an LBR mechanism. Base natural gas distribution revenues increased \$2.9 million in 2017, as compared to 2016. The impact of higher firm natural gas

sales volumes, which was driven by colder winter weather in the fourth quarter of 2017, was partially offset by lower demand revenues in Connecticut driven by lower peak usage in 2017, as compared to 2016.

*Tracked distribution revenues:* Tracked revenues consist of certain costs that are recovered from customers in rates through regulatory commission-approved cost tracking mechanisms and therefore, have no impact on earnings. Costs recovered through cost tracking mechanisms include energy supply procurement and other energy-related costs for our electric and natural gas customers, retail transmission charges, energy efficiency program costs, net metering for distributed generation and restructuring and stranded cost recovery revenues. In addition, certain tracked revenues include incentives earned and carrying charges that are billed in rates to customers.

Tracked natural gas distribution segment revenues increased as a result of an increase in natural gas supply costs (\$68.7 million) and an increase in energy efficiency program revenues (\$18.1 million). Tracked electric distribution revenues decreased as a result of a decrease in electric energy supply costs (\$21.7 million), driven by decreased average retail prices and lower sales volumes, a decrease in retail electric transmission charges (\$14.8 million), a decrease in transition and stranded cost recovery revenues (\$46.2 million), a decrease in pension rate adjustment mechanisms (\$21.6 million), a decrease in revenues related to the timing of the sale of PSNH's RECs (\$16.3 million), and a decrease in energy efficiency program revenues (\$10.4 million). Partially offsetting these decreases were increases in tracked electric distribution revenues related to federally-mandated congestion charges (\$30.1 million), net metering revenues (\$29.8 million) and revenues related to renewable energy requirements (\$41.9 million).

*Electric transmission revenues:* The electric transmission segment revenues increased by \$91.7 million due primarily to the recovery of higher revenue requirements associated with ongoing investments in our transmission infrastructure.

*Other:* Other revenues decreased due primarily to the sale of Eversource's unregulated telecommunication business on December 31, 2016 (\$20.0 million), partially offset by the addition of Aquarion revenues due to the acquisition on December 4, 2017 (\$15.9 million).

**Purchased Power, Fuel and Transmission** expense includes costs associated with purchasing electricity and natural gas on behalf of our customers. These energy supply costs are recovered from customers in rates through commission-approved cost tracking mechanisms, which have no impact on earnings (tracked costs). Purchased Power, Fuel and Transmission expense increased in 2017, as compared to 2016, due primarily to the following:

<i>(Millions of Dollars)</i>	<b>(Decrease)/Increase</b>
Electric Distribution	\$ (68.9)
Natural Gas Distribution	59.5
Transmission	43.9
Total Purchased Power, Fuel and Transmission	\$ 34.5

The decrease in purchased power expense at the electric distribution business in 2017, as compared to 2016, was driven primarily by lower prices associated with the procurement of energy supply and lower sales volumes. The increase in purchased power expense at the natural gas distribution business was due to higher average natural gas prices and higher sales volumes. The increase in transmission costs in 2017, as compared to 2016, was primarily the result of an increase in costs billed by ISO-NE that support regional grid investment, and Local Network Service charges, which reflect the cost of transmission service provided by Eversource over our local transmission network. This was partially offset by a decrease in the retail transmission cost deferral, which reflects the actual costs of transmission service compared to estimated amounts billed to customers.

**Operations and Maintenance** expense includes tracked costs and costs that are part of base electric and natural gas distribution rates with changes impacting earnings (non-tracked costs). Operations and Maintenance expense decreased in 2017, as compared to 2016, due primarily to the following:

<i>(Millions of Dollars)</i>	<b>Increase/(Decrease)</b>
Base Electric Distribution:	
Employee-related expenses, including labor and benefits	\$ (47.4)
Bad debt expense	(14.5)
Shared corporate costs (including computer software depreciation at Eversource Service)	24.2
Boston Harbor civil action settlement charges	16.0
Other non-tracked operations and maintenance	7.4
Total Base Electric Distribution	(14.3)
Base Natural Gas Distribution	3.7
Tracked costs (Electric Distribution, Electric Transmission and Natural Gas Distribution):	
Absence in 2017 of earnings benefit related to merger-related costs allowed for recovery through transmission rates	27.5
Other tracked operations and maintenance	(15.4)
Total Tracked costs (Electric Distribution, Electric Transmission and Natural Gas Distribution)	12.1
Other and eliminations:	
Merger-related costs allowed for recovery through NSTAR Electric distribution rates as a result of the November 30, 2017 DPU distribution rate case decision (earnings benefit)	(30.5)
Addition of Aquarion operations and maintenance expenses due to acquisition on December 4, 2017	7.2
Eversource Parent and Other Companies - other operations and maintenance	8.2
Eliminations	(32.8)
Total Operations and Maintenance	\$ (46.4)

**Depreciation** expense increased in 2017, as compared to 2016, due primarily to higher utility plant in service balances.

**Amortization of Regulatory Assets, Net** expense includes the deferral of energy supply and energy-related costs included in certain regulatory-approved tracking mechanisms, and the amortization of certain costs. The deferral adjusts expense to match the corresponding revenues. Amortization of Regulatory Assets, Net increased in 2017, as compared to 2016, due primarily to the deferral of energy supply and energy-related costs which can fluctuate from period to period based on the timing of costs incurred and the related rate changes to recover these costs. Energy supply and energy-related costs at the electric and natural gas companies are recovered from customers in rates and have no impact on earnings.

**Energy Efficiency Programs** expense decreased in 2017, as compared to 2016, due primarily to a State of Connecticut policy change impacting CL&P requiring the remittance of \$25.4 million of 2017 energy efficiency funds to the State (resulting in these costs being classified as Taxes Other than Income Taxes), and the deferral adjustment at NSTAR Electric. The deferral adjustment reflects the actual costs of energy efficiency programs compared to the estimated amounts billed to customers. The deferral adjusts costs incurred to match energy efficiency revenue billed to customers and the timing of the recovery of energy efficiency costs. The costs for various state energy policy initiatives and expanded energy efficiency programs are recovered from customers in rates and have no impact on earnings.

**Taxes Other Than Income Taxes** expense increased in 2017, as compared to 2016, due primarily to a State of Connecticut policy change requiring \$25.4 million of 2017 CL&P energy efficiency costs to be remitted to the State of Connecticut that is included in Taxes Other than Income Taxes, an increase in property taxes as a result of higher utility plant balances, partially offset by a decrease in gross earnings taxes. Gross earnings taxes are recovered from customers in rates and have no impact on earnings.

**Interest Expense** increased in 2017, as compared to 2016, due primarily to an increase in interest on long-term debt (\$30.3 million) as a result of new debt issuances and an increase in interest on notes payable (\$5.1 million), partially offset by a decrease in regulatory deferrals, primarily at NSTAR Electric, which decreased interest expense (\$14.7 million) due primarily to the November 30, 2017 NSTAR Electric DPU distribution rate case decision which allowed for a higher rate on carrying charges for past storm costs.

**Other Income, Net** increased in 2017, as compared to 2016, due primarily to increased gains on investments (\$27.2 million), primarily related to Eversource's investment in a renewable energy fund, changes in the market value related to deferred compensation plans (\$8.3 million) and higher AFUDC related to equity funds (\$8.2 million). Partially offsetting these favorable impacts was the absence in 2017 of a gain on the sale of an unregulated business in 2016 (\$11.8 million) and lower interest income (\$3.3 million).

**Income Tax Expense** increased in 2017, as compared to 2016, due primarily to higher pre-tax earnings (\$29.1 million), lower excess tax benefit (\$16.2 million), the absence of tax credits in 2017 (\$3.5 million), and the impact from federal tax rate change (\$0.5 million), partially offset by items that impact our tax rate as a result of regulatory treatment (flow-through items) and permanent differences (\$11.4 million), the sale of an unregulated business in 2016 (\$10.2 million), and lower state taxes (\$3.8 million).

**RESULTS OF OPERATIONS –  
THE CONNECTICUT LIGHT AND POWER COMPANY  
NSTAR ELECTRIC COMPANY AND SUBSIDIARY  
PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE AND SUBSIDIARY**

The following provides the amounts and variances in operating revenues and expense line items in the statements of income for CL&P, NSTAR Electric and PSNH for the years ended December 31, 2017 and 2016 included in this Annual Report on Form 10-K:

<i>(Millions of Dollars)</i>	For the Years Ended December 31,								
	CL&P			NSTAR Electric			PSNH		
	2017	2016	Increase/(Decrease)	2017	2016	Increase/(Decrease)	2017	2016	Increase/(Decrease)
Operating Revenues	\$ 2,887.4	\$ 2,806.0	\$ 81.4	\$ 2,980.6	\$ 3,041.6	\$ (61.0)	\$ 981.6	\$ 959.5	\$ 22.1
Operating Expenses:									
Purchased Power, Fuel and Transmission	930.8	919.7	11.1	1,025.4	1,084.3	(58.9)	237.5	210.8	26.7
Operations and Maintenance	500.4	490.1	10.3	463.7	489.9	(26.2)	257.2	260.8	(3.6)
Depreciation	249.4	230.5	18.9	274.0	259.3	14.7	128.2	116.5	11.7
Amortization of Regulatory Assets/ (Liabilities), Net	83.2	38.8	44.4	33.8	34.3	(0.5)	(16.6)	11.2	(27.8)
Energy Efficiency Programs	114.7	154.0	(39.3)	294.1	321.8	(27.7)	13.8	14.2	(0.4)
Taxes Other Than Income Taxes	323.8	299.7	24.1	182.0	177.8	4.2	89.7	82.9	6.8
Total Operating Expenses	2,202.3	2,132.8	69.5	2,273.0	2,367.4	(94.4)	709.8	696.4	13.4
Operating Income	685.1	673.2	11.9	707.6	674.2	33.4	271.8	263.1	8.7
Interest Expense	143.0	144.1	(1.1)	105.7	108.4	(2.7)	51.0	50.0	1.0
Other Income, Net	21.2	13.5	7.7	14.9	10.8	4.1	3.9	1.2	2.7
Income Before Income Tax Expense	563.3	542.6	20.7	616.8	576.6	40.2	224.7	214.3	10.4
Income Tax Expense	186.6	208.3	(21.7)	242.1	225.8	16.3	88.7	82.3	6.4
Net Income	\$ 376.7	\$ 334.3	\$ 42.4	\$ 374.7	\$ 350.8	\$ 23.9	\$ 136.0	\$ 132.0	\$ 4.0

**Operating Revenues**

A summary of our retail electric GWh sales volumes was as follows:

	Rate Structure	For the Years Ended December 31,			
		2017	2016	Decrease	Percent
CL&P	Decoupled	20,950	21,617	(667)	(3.1)%
NSTAR Electric (eastern Massachusetts)	Traditional	20,097	20,619	(522)	(2.5)%
NSTAR Electric (western Massachusetts)	Decoupled	3,441	3,546	(105)	(3.0)%
PSNH	Traditional	7,758	7,860	(102)	(1.3)%

Fluctuations in retail electric sales volumes at certain of the electric utilities impact earnings ("Traditional" in the table above). For others, fluctuations in retail electric sales volumes do not impact earnings due to their regulatory commission-approved distribution revenue decoupling mechanisms ("Decoupled" in the table above). These distribution revenues are decoupled from their customer sales volumes, which breaks the relationship between sales volumes and revenues recognized.

In 2017 and 2016, NSTAR Electric operated under two different rate structures based on its service territory geography. For customers that were served in eastern Massachusetts, including metropolitan Boston, Cape Cod and Martha's Vineyard, NSTAR Electric operated using traditional rates. For customers that were served in western Massachusetts, including the metropolitan Springfield region, NSTAR Electric operated using decoupled rates. Effective February 1, 2018, all of NSTAR Electric's distribution revenues were decoupled as a result of the DPU-approved rate decision. See "Regulatory Developments and Rate Matters - Massachusetts - NSTAR Electric Distribution Rate Case Decision" in this *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

CL&P and NSTAR Electric (for its western Massachusetts customer rates) reconcile their annual base distribution rate recovery amounts to their pre-established levels of baseline distribution delivery service revenues of \$1.059 billion and \$132.4 million, respectively, through December 31, 2017. Effective February 1, 2018, NSTAR Electric, operating entirely under decoupled rates, will reconcile its annual base distribution rate recovery to its new baseline of \$974.8 million. Any difference between the allowed level of distribution revenue and the actual amount realized during a 12-month period is adjusted through rates in the following period.

Operating Revenues, which consist of base distribution revenues and tracked revenues further described below, increased/(decreased) in 2017, as compared to 2016 as follows:

<i>(Millions of Dollars)</i>	CL&P	NSTAR Electric	PSNH
Operating Revenues	\$ 81.4	\$ (61.0)	\$ 22.1

*Base Distribution Revenues, with changes that impact earnings:*

- NSTAR Electric's base distribution revenues, excluding LBR, decreased \$10.8 million in 2017, as compared to 2016, as a result of lower sales volumes driven by the mild summer weather in 2017. LBR increased \$13.0 million in 2017, as compared to 2016. Effective February 1, 2018, NSTAR Electric no longer has an LBR mechanism.
- PSNH's base distribution revenues decreased \$1.5 million in 2017, as compared to 2016, as a result of lower sales volumes driven by the mild summer weather in 2017.

*Tracked Revenues:* Fluctuations in the overall level of operating revenues are primarily related to tracked revenues. Tracked revenues consist of certain costs that are recovered from customers in rates through commission-approved cost tracking mechanisms and therefore have no impact on earnings. Costs recovered through cost tracking mechanisms include energy supply procurement and other energy-related costs, retail transmission charges, energy efficiency program costs, net metering for distributed generation and restructuring and stranded cost recovery revenues. In addition, tracked revenues include certain incentives earned and carrying charges. Tracked revenues increased/(decreased) in 2017, as compared to 2016, due primarily to the following:

<i>(Millions of Dollars)</i>	<b>CL&amp;P</b>	<b>NSTAR Electric</b>	<b>PSNH</b>
Energy supply procurement	\$ 18.8	\$ (50.8)	\$ 10.3
All other distribution tracking mechanisms	35.0	(33.7)	(12.7)

*Transmission Revenues:* Transmission revenues increased by \$34.2 million, \$31.0 million and \$26.5 million at CL&P, NSTAR Electric and PSNH, respectively, due primarily to higher revenue requirements associated with ongoing investments in our transmission infrastructure.

**Purchased Power, Fuel and Transmission** expense includes costs associated with purchasing electricity on behalf of CL&P, NSTAR Electric and PSNH's customers. For PSNH, these costs also include PSNH's generation of electricity. These energy supply costs are recovered from customers in commission-approved cost tracking mechanisms, which have no impact on earnings (tracked costs). Purchased Power, Fuel and Transmission expense increased/(decreased) in 2017, as compared to 2016, due primarily to the following:

<i>(Millions of Dollars)</i>	<b>CL&amp;P</b>	<b>NSTAR Electric</b>	<b>PSNH</b>
Purchased Power Costs	\$ (41.4)	\$ (27.9)	\$ 3.7
Transmission Costs	52.5	(31.0)	23.0
Total Purchased Power, Fuel and Transmission	\$ 11.1	\$ (58.9)	\$ 26.7

*Purchased Power Costs:* Included in purchased power costs are the costs associated with certain energy supply tracking mechanisms and deferred energy supply costs. Energy supply tracking mechanisms recover energy-related costs incurred as a result of providing electric generation service supply to all customers who have not migrated to third party suppliers. In order to meet the demand of customers who have not migrated to third party suppliers, PSNH procures power through power supply contracts and spot purchases in the competitive New England wholesale power market and/or produces power through its own generation. The increase/(decrease) in purchased power costs in 2017, as compared to 2016, was due primarily to the following:

- The decrease at CL&P was due primarily to a decrease in the price of standard offer supply associated with the GSC.
- The decrease at NSTAR Electric was due primarily to lower prices associated with the procurement of energy supply, lower sales volumes and the expiration of certain purchase power agreements.
- The increase at PSNH was due primarily to higher purchased power energy expenses that are recovered as a component of the Energy Service rate, and Regional Greenhouse Gas Initiative related expenses recovered in the SCRC.

*Transmission Costs:* Included in transmission costs are charges that recover the cost of transporting electricity over high-voltage lines from generating plants to substations, including costs allocated by ISO-NE to maintain the wholesale electric market. The increase/(decrease) in transmission costs in 2017, as compared to 2016, was due primarily to the following:

- The increase at CL&P was primarily the result of an increase in costs billed by ISO-NE that support regional grid investment, Local Network Service charges, which reflect the cost of transmission service, and the retail transmission cost deferral, which reflects the actual costs of transmission service compared to estimated amounts billed to customers.
- The decrease at NSTAR Electric was primarily the result of a decrease in the retail transmission cost deferral. This was partially offset by an increase in costs billed by ISO-NE.
- The increase at PSNH was primarily the result of increases in costs billed by ISO-NE, Local Network Service charges, and the retail transmission cost deferral.

**Operations and Maintenance** expense includes tracked costs and costs that are part of base distribution rates with changes impacting earnings (non-tracked costs). Operations and Maintenance expense increased/(decreased) in 2017, as compared to 2016, due primarily to the following:

(Millions of Dollars)

	CL&P	NSTAR Electric	PSNH
Base Electric Distribution (Non-Tracked Costs):			
Employee-related expenses, including labor and benefits	\$ (4.5)	\$ (36.6)	\$ (6.3)
Bad debt expense	(6.8)	(7.5)	(0.2)
Shared corporate costs (including computer software depreciation at Eversource Service)	7.8	12.6	3.8
Boston Harbor civil action settlement charges	—	16.0	—
Other non-tracked operations and maintenance	8.8	0.6	(2.0)
Total Base Electric Distribution (Non-Tracked Costs)	5.3	(14.9)	(4.7)
Tracked Costs:			
Employee-related expenses, including labor and benefits	1.3	(16.2)	(0.5)
Other tracked operations and maintenance	3.7	4.9	1.6
Total Tracked Costs	5.0	(11.3)	1.1
Total Operations and Maintenance	\$ 10.3	\$ (26.2)	\$ (3.6)

**Depreciation** increased at CL&P, NSTAR Electric and PSNH in 2017, as compared to 2016, due primarily to higher utility plant in service balances.

**Amortization of Regulatory Assets/(Liabilities), Net** expense includes the deferral of energy supply and energy-related costs and the amortization of storm and other costs. Amortization of Regulatory Assets/(Liabilities), Net increased at CL&P and decreased for both NSTAR Electric and PSNH in 2017, as compared to 2016, due primarily to the deferral adjustment of energy supply and energy-related costs, which can fluctuate from period to period based on the timing of costs incurred and related rate changes to recover these costs. The deferral adjusts expense to match the corresponding revenues. Energy supply and energy-related costs, which are the primary drivers of amortization, are recovered from customers in rates and have no impact on earnings.

**Energy Efficiency Programs** expense includes costs for various state policy initiatives and are recovered from customers in rates and have no impact on earnings. Energy Efficiency Programs expense decreased in 2017, as compared to 2016, due primarily to the following:

- The decrease at CL&P is due primarily to a State of Connecticut policy change requiring the remittance of \$25.4 million of 2017 energy efficiency funds to the State. These amounts collected from customers were reclassified to Taxes Other than Income Taxes.
- The decrease at NSTAR Electric is due to the deferral adjustment, which reflects the actual cost of energy efficiency programs compared to the estimated amounts billed to customers and the timing of the recovery of energy efficiency costs. The deferral adjusts costs to match energy efficiency revenue billed to customers.

**Taxes Other Than Income Taxes** increased in 2017, as compared to 2016, due primarily to the following:

- The increase at CL&P is due primarily to a State of Connecticut policy change requiring the remittance of \$25.4 million of 2017 energy efficiency funds to the State and higher utility plant balances, partially offset by a decrease in gross earnings taxes. Gross earnings taxes are recovered from customers in rates and have no impact on earnings.
- The increase at NSTAR Electric is due primarily to higher property taxes resulting from disallowed costs in the November 30, 2017 NSTAR Electric DPU distribution rate case decision and higher employee-related payroll taxes, partially offset by a decrease in property tax rates in Boston.
- The increase at PSNH is due to an increase in property taxes as a result of higher utility plant balances.

**Interest Expense** at NSTAR Electric decreased in 2017, as compared to 2016, due primarily to lower deferred regulatory interest expense (\$14.0 million), primarily as a result of the November 30, 2017 NSTAR Electric DPU distribution rate case decision, which allowed for a higher interest rate on carrying charges for past storm costs, partially offset by an increase in interest on long-term debt (\$9.6 million).

**Other Income, Net** increased in 2017, as compared to 2016, due primarily to the following:

- The increase at CL&P is due to higher AFUDC related to equity funds (\$5.9 million) and market value changes related to the deferred compensation plans (\$6.3 million), partially offset by lower interest income (\$4.4 million).
- The increase at NSTAR Electric is due to market value changes related to the deferred compensation plans (\$1.6 million), an increase in amounts related to officer life insurance policies (\$1.3 million) and an increase in interest income (\$1.2 million).
- The increase at PSNH is due to market value changes related to the deferred compensation plans (\$1.5 million).

**Income Tax Expense** increased/(decreased) in 2017, as compared to 2016, due primarily to the following:

- The decrease at CL&P is due primarily to the tax reform impacts on the federal tax effect of state reserves and credits (\$10.7 million), items that impact our tax rate as a result of regulatory treatment (flow-through items) and permanent differences (\$10.1 million), the true up of the return to provision impacts (\$2.6 million), and lower state taxes (\$5.5 million), partially offset by higher pre-tax earnings (\$7.2 million).
- The increase at NSTAR Electric is due primarily to higher pre-tax earnings (\$14.5 million), higher state taxes (\$2.4 million), partially offset by items that impact our tax rate as a result of flow-through items and permanent differences (\$0.6 million).
- The increase at PSNH is due primarily to higher pre-tax earnings (\$3.6 million) and the absence of tax credits in 2017 (\$3.5 million), partially offset by items that impact our tax rate as a result of flow-through items and permanent differences (\$0.7 million).

## EARNINGS SUMMARY

CL&P's earnings increased \$42.4 million in 2017, as compared to 2016, due primarily to a lower effective tax rate, an increase in transmission earnings driven by a higher transmission rate base, and higher distribution revenues due in part to a higher rate base for the system resiliency program. These favorable earnings impacts were partially offset by higher depreciation expense, higher operations and maintenance expense, and higher property tax expense.

NSTAR Electric's earnings increased \$23.9 million in 2017, as compared to 2016, due primarily to higher distribution revenues related to lost base revenues, net metering and the PAM, lower operations and maintenance expense, lower interest expense as a result of the November 30, 2017 NSTAR Electric distribution rate case decision, and an increase in transmission earnings driven by a higher transmission rate base. These favorable earnings impacts were partially offset by lower sales volumes driven by the mild summer weather in 2017, higher depreciation expense, and higher property tax expense.

PSNH's earnings increased \$4.0 million in 2017, as compared to 2016, due primarily to an increase in transmission earnings driven by a higher transmission rate base and lower operations and maintenance expense. These favorable earnings impacts were partially offset by lower generation earnings, higher depreciation expense, higher property tax expense, lower sales volumes driven by the mild summer weather in 2017, and a higher effective tax rate.

## LIQUIDITY

### CL&P:

Cash totaled \$6.0 million as of December 31, 2017, compared with \$6.6 million as of December 31, 2016.

CL&P had cash flows provided by operating activities of \$804.6 million in 2017, compared with \$811.5 million in 2016. The decrease in operating cash flows was due primarily to income tax payments of \$68.8 million made in 2017, compared to the income tax refunds of \$73.9 million received in 2016. Partially offsetting this decrease was the timing of regulatory recoveries, an increase in distribution rates due to higher rate base, and the timing of collections and payments related to our working capital items.

Eversource parent has a \$1.45 billion commercial paper program allowing Eversource parent to issue commercial paper as a form of short-term debt, with intercompany loans to certain subsidiaries, including CL&P. The weighted-average interest rate on the commercial paper borrowings as of December 31, 2017 and 2016 was 1.86 percent and 0.88 percent, respectively. As of December 31, 2017 and 2016, there were intercompany loans from Eversource parent to CL&P of \$69.5 million and \$80.1 million, respectively. Eversource parent, and certain of its subsidiaries, including CL&P, are parties to a five-year \$1.45 billion revolving credit facility. On December 8, 2017, Eversource parent amended and restated the revolving credit facility. The amended and restated credit facility terminates on December 8, 2022 and serves to backstop Eversource parent's \$1.45 billion commercial paper program. There were no borrowings outstanding on the revolving credit facility as of December 31, 2017 or 2016.

Investments in Property, Plant and Equipment on the statements of cash flows do not include amounts incurred on capital projects but not yet paid, cost of removal, AFUDC related to equity funds, and the capitalized portions of pension expense. CL&P's investments totaled \$824.4 million in 2017, compared with \$612.0 million in 2016.

Financing activities in 2017 included \$254.8 million in common stock dividends paid to Eversource parent.

**NSTAR Electric:**

NSTAR Electric had cash flows provided by operating activities of \$638.4 million in 2017, as compared to \$808.7 million in 2016. The decrease in operating cash flows was due primarily to a decrease in regulatory recoveries, which were significantly impacted by the timing of collections of purchased power and transmission costs, an increase of \$53.4 million in Pension and PBOP Plan cash contributions and an increase of \$29.5 million in income tax payments made in 2017, compared to 2016. Also contributing to the decrease was the timing of working capital items, including accounts payable and inventory.

NSTAR Electric has a \$650.0 million commercial paper program allowing NSTAR Electric to issue commercial paper as a form of short-term debt. On December 8, 2017, NSTAR Electric increased its commercial paper program from \$450 million to \$650 million. As of December 31, 2017 and 2016, NSTAR Electric had \$234.0 million and \$126.5 million, respectively, in short-term borrowings outstanding under its commercial paper program, leaving \$416.0 million and \$323.5 million of available borrowing capacity as of December 31, 2017 and 2016, respectively. The weighted-average interest rate on these borrowings as of December 31, 2017 and 2016 was 1.55 percent and 0.71 percent, respectively. NSTAR Electric is also a party to a five-year \$650.0 million revolving credit facility. On December 8, 2017, NSTAR Electric amended and restated the revolving credit facility, increasing it from \$450 million to \$650 million. The amended and restated credit facility terminates on December 8, 2022 and serves to backstop NSTAR Electric's \$650.0 million commercial paper program. There were no borrowings outstanding on the revolving credit facility as of December 31, 2017 or 2016.

**PSNH:**

PSNH had cash flows provided by operating activities of \$300.9 million in 2017, as compared to \$361.8 million in 2016. The decrease in operating cash flows was due primarily to the income tax payments of \$26.1 million made in 2017, compared to the income tax refunds of \$36.0 million received in 2016 and the unfavorable impacts related to the timing of regulatory recoveries. Partially offsetting these decreases were the timing of collections and payments of our working capital items, including accounts payable and inventory, and a \$16.3 million decrease in Pension Plan cash contributions.

## RESULTS OF OPERATIONS – EVERSOURCE ENERGY AND SUBSIDIARIES

The following provides the amounts and variances in operating revenues and expense line items in the statements of income for Eversource for the years ended December 31, 2016 and 2015 included in this Annual Report on Form 10-K:

<i>(Millions of Dollars)</i>	For the Years Ended December 31,			
	2016	2015	Increase/(Decrease)	Percent
Operating Revenues	\$ 7,639.1	\$ 7,954.8	\$ (315.7)	(4.0)%
Operating Expenses:				
Purchased Power, Fuel and Transmission	2,500.8	3,086.9	(586.1)	(19.0)
Operations and Maintenance	1,323.5	1,329.3	(5.8)	(0.4)
Depreciation	715.5	665.9	49.6	7.4
Amortization of Regulatory Assets, Net	71.7	22.3	49.4	(a)
Energy Efficiency Programs	533.7	495.7	38.0	7.7
Taxes Other Than Income Taxes	634.0	590.5	43.5	7.4
<b>Total Operating Expenses</b>	<b>5,779.2</b>	<b>6,190.6</b>	<b>(411.4)</b>	<b>(6.6)</b>
Operating Income	1,859.9	1,764.2	95.7	5.4
Interest Expense	401.0	372.4	28.6	7.7
Other Income, Net	45.9	34.2	11.7	34.2
Income Before Income Tax Expense	1,504.8	1,426.0	78.8	5.5
Income Tax Expense	555.0	540.0	15.0	2.8
Net Income	949.8	886.0	63.8	7.2
Net Income Attributable to Noncontrolling Interests	7.5	7.5	—	—
Net Income Attributable to Common Shareholders	\$ 942.3	\$ 878.5	\$ 63.8	7.3 %

(a) Percent greater than 100 not shown as it is not meaningful.

### Operating Revenues

A summary of our Operating Revenues by segment was as follows:

<i>(Millions of Dollars)</i>	For the Years Ended December 31,			
	2016	2015	Increase/(Decrease)	Percent
Electric Distribution	\$ 5,594.3	\$ 5,903.6	\$ (309.3)	(5.2)%
Natural Gas Distribution	857.7	995.5	(137.8)	(13.8)
Electric Transmission	1,210.0	1,069.1	140.9	13.2
Other and Eliminations	(22.9)	(13.4)	(9.5)	70.9
<b>Total Operating Revenues</b>	<b>\$ 7,639.1</b>	<b>\$ 7,954.8</b>	<b>\$ (315.7)</b>	<b>(4.0)%</b>

A summary of our retail electric GWh sales volumes and our firm natural gas sales volumes in MMcf were as follows:

	For the Years Ended December 31,			
	2016	2015	Decrease	Percent
<b>Electric</b>				
Traditional	28,479	28,982	(503)	(1.7)%
Decoupled	25,163	25,634	(471)	(1.8)
<b>Total Electric</b>	<b>53,642</b>	<b>54,616</b>	<b>(974)</b>	<b>(1.8)%</b>
<b>Firm Natural Gas</b>				
Traditional	45,314	47,600	(2,286)	(4.8)%
Decoupled and Special Contracts	52,728	55,399	(2,671)	(4.8)
<b>Total Firm Natural Gas</b>	<b>98,042</b>	<b>102,999</b>	<b>(4,957)</b>	<b>(4.8)%</b>

Operating Revenues, which primarily consist of base electric and natural gas distribution revenues and tracked revenues further described below, decreased by \$315.7 million in 2016, as compared to 2015.

*Base electric and natural gas distribution revenues:* Base electric distribution segment revenues increased by \$19.9 million due primarily to a higher rate base resulting from the 2015 PURA ADIT settlement agreement that is being collected from customers in distribution rates at CL&P (\$26.1 million) and the absence of a required ROE reduction in 2015, as stipulated in the PURA 2014 rate case decision, at CL&P (\$4 million). This increase was partially offset by the absence of the benefit recognized in 2015 in Operating Revenues due to the PURA ADIT settlement agreement. In addition, traditional electric base distribution revenues decreased \$10.1 million due to a 1.7 percent decrease in non-decoupled retail electric sales volumes due primarily to increased customer energy conservation efforts, partly offset by PSNH distribution rate increases effective July 1, 2015 and July 1, 2016.

Contributing to the decrease in Operating Revenues in 2016 was the absence of an \$11 million benefit related to the Comprehensive Settlement Agreement associated with the recovery of LBR related to 2009 through 2011 energy efficiency programs recorded at NSTAR Electric in 2015.

Firm natural gas base distribution segment revenues increased \$11.7 million due primarily to the impact of the NSTAR Gas base distribution rate increase effective January 1, 2016, partially offset by a 4.8 percent decrease in traditional firm natural gas sales volumes as a result of warmer than normal weather experienced in the first quarter of 2016, as compared to much colder than normal temperatures in 2015.

Fluctuations in CL&P's, NSTAR Electric's and NSTAR Gas' sales volumes do not impact the level of base distribution revenue realized or earnings due to their respective regulatory commission approved revenue decoupling mechanisms. The revenue decoupling mechanisms permit recovery of a base amount of distribution revenues and break the relationship between sales volumes and revenues recognized. Revenue decoupling mechanisms result in the recovery of our approved base distribution revenue requirements.

*Tracked distribution revenues:* Tracked revenues consist of certain costs that are recovered from customers in rates through regulatory commission-approved cost tracking mechanisms and therefore have no impact on earnings. Costs recovered through cost tracking mechanisms include energy supply procurement costs and other energy-related costs for our electric and natural gas customers, retail transmission charges, energy efficiency program costs, and restructuring and stranded cost recovery revenues. In addition, tracked revenues include certain incentives earned and carrying charges. Tracked electric distribution segment revenues decreased as a result of decreases in energy supply costs (\$625.2 million), driven by decreased average retail rates and lower sales volumes, partially offset by an increase in retail electric transmission charges (\$84.6 million), an increase in federally mandated congestion charges (\$103.0 million), an increase in energy efficiency program revenues (\$51.7 million), an increase in stranded cost recovery charges (\$39.2 million) and an increase in net metering for distributed generation revenues (\$34.0 million). In addition, as a result of a change to the amounts collected in the system benefits charge, CL&P's calculated rate base increased, providing an increase to distribution revenues that positively impacted earnings by \$23.2 million.

In 2016, tracked natural gas distribution segment revenues decreased as a result of decreases in natural gas supply costs (\$128.2 million) driven by decreased average rates and lower sales volumes, and a decrease in energy efficiency program revenues (\$22.7 million).

*Electric transmission revenues:* The electric transmission segment revenues increased by \$140.9 million due primarily to the recovery of higher revenue requirements associated with ongoing investments in our transmission infrastructure and the absence in 2016 of a \$20 million reserve charge recorded in 2015 associated with the March 2015 FERC ROE order.

*Other:* Other revenues decreased due primarily to the sale of Eversource's unregulated contracting business on April 13, 2015 (\$11.4 million).

**Purchased Power, Fuel and Transmission** expense includes costs associated with purchasing electricity and natural gas on behalf of our customers. These energy supply costs are recovered from customers in rates through cost tracking mechanisms, which have no impact on earnings (tracked costs). Purchased Power, Fuel and Transmission expense decreased in 2016, as compared to 2015, due primarily to the following:

<i>(Millions of Dollars)</i>	<b>(Decrease)/Increase</b>
Electric Distribution	\$ (625.9)
Natural Gas Distribution	(130.3)
Transmission	170.1
Total Purchased Power, Fuel and Transmission	\$ (586.1)

The decrease in purchased power expense at the electric distribution business was driven by lower prices associated with the procurement of energy supply, lower sales volumes, and a decrease in the amount of electricity generated by PSNH facilities in 2016, as compared to 2015. The decrease in purchased power expense at the natural gas distribution business was due to lower sales volumes and lower average natural gas prices. The increase in transmission costs was primarily the result of an increase in costs billed by ISO-NE that support regional grid investment.

**Operations and Maintenance** expense includes tracked costs and costs that are part of base electric and natural gas distribution rates with changes impacting earnings (non-tracked costs). Operations and Maintenance expense decreased in 2016, as compared to 2015, due primarily to the following:

<i>(Millions of Dollars)</i>	<b>Increase/(Decrease)</b>
<b>Base Electric Distribution:</b>	
Absence of 2015 resolution of basic service bad debt adder mechanism at NSTAR Electric	\$ 24.2
Absence of 2015 regulatory proceedings benefiting NSTAR Electric	10.5
Employee-related expenses, including labor and benefits	(27.0)
Storm restoration costs	15.0
Write-off of software design costs	9.2
Other operations and maintenance	14.1
<b>Total Base Electric Distribution</b>	<b>46.0</b>
<b>Total Base Natural Gas Distribution:</b>	
Employee-related expenses, including labor and benefits	(15.5)
Other operations and maintenance	8.2
<b>Total Base Natural Gas Distribution</b>	<b>(7.3)</b>
<b>Tracked costs (Electric Distribution, Electric Transmission and Natural Gas Distribution):</b>	
Merger-related costs allowed for recovery through transmission rates (earnings benefit)	(27.5)
Other tracked operations and maintenance	41.8
<b>Total Tracked costs (Electric Distribution, Electric Transmission and Natural Gas Distribution)</b>	<b>14.3</b>
<b>Other and eliminations:</b>	
Integration costs	(27.2)
Absence of Eversource's unregulated electrical contracting business due to sale in April 2015, net	(13.9)
Eversource Parent and Other Companies	(2.8)
Eliminations	(14.9)
<b>Total Operations and Maintenance</b>	<b>\$ (5.8)</b>

**Depreciation** expense increased in 2016, as compared to 2015, due primarily to higher utility plant in service balances.

**Amortization of Regulatory Assets, Net** expense includes the deferral of energy supply and energy-related costs included in certain regulatory-approved tracking mechanisms and the amortization of certain costs. The deferral adjusts expense to match the corresponding revenues. Amortization of Regulatory Assets, Net increased in 2016, as compared to 2015, due primarily to the deferral of energy supply and energy-related costs which can fluctuate from period to period based on the timing of costs incurred and the related rate changes to recover these costs. Energy supply and energy-related costs at CL&P, NSTAR Electric and PSNH, which are the primary drivers in amortization, are recovered from customers in rates and have no impact on earnings. The increase in Amortization of Regulatory Assets, Net for the year ended December 31, 2016 also includes the absence in 2016 of the \$11.7 million benefit recorded in 2015 at NSTAR Electric in connection with the Comprehensive Settlement Agreement.

**Energy Efficiency Programs** expense increased in 2016, as compared to 2015, due primarily to deferral adjustments at NSTAR Electric, partially offset by deferral adjustments for the natural gas businesses, which reflect the actual costs of energy efficiency programs compared to the estimated amounts billed to customers, and the timing of the recovery of energy efficiency costs incurred in accordance with the three-year program guidelines established by the DPU. The deferrals adjust expense to match the energy efficiency programs revenue. The costs for various state energy policy initiatives and expanded energy efficiency programs are recovered from customers in rates and have no impact on earnings.

**Taxes Other Than Income Taxes** expense increased in 2016, as compared to 2015, due primarily to an increase in property taxes as a result of higher utility plant balances and an increase in gross earnings taxes. Gross earnings taxes are recovered from customers in rates and have no impact on earnings.

**Interest Expense** increased in 2016, as compared to 2015, due primarily to an increase in interest on long-term debt (\$33.8 million) as a result of new debt issuances and an increase in interest on notes payable (\$2.2 million), partially offset by a decrease in regulatory deferrals which decreased interest expense (\$5.5 million).

**Other Income, Net** increased in 2016, as compared to 2015, due primarily to higher equity AFUDC amounts (\$7.4 million), higher gains related to the sales of unregulated businesses (\$9.4 million) and an increase in interest income (\$4.1 million). Partially offsetting these favorable impacts were the market value changes related to deferred compensation plans (\$9.6 million).

**Income Tax Expense** increased in 2016, as compared to 2015, due primarily to higher pre-tax earnings (\$24.2 million), higher state taxes (\$7.5 million), and the sale of an unregulated business (\$10.2 million), partially offset by the excess tax benefit due to the adoption of new accounting guidance related to share based payment transactions (\$19.1 million), the true-up of the return to provision impacts and a higher tax benefit from a reduction in tax reserves (\$7.6 million), and items that impact our tax rate as a result of regulatory treatment (flow-through items) and permanent differences (\$0.2 million).

## EARNINGS SUMMARY

*Regulated Companies:* Our electric distribution segment earnings decreased \$44.3 million in 2016, as compared to 2015. The decrease was due primarily to the absence in 2016 of the resolution of NSTAR Electric's basic service bad debt adder mechanism recorded in 2015 (\$14.5 million), the absence in 2016 of the favorable impact associated with the NSTAR Electric Comprehensive Settlement Agreement recorded in 2015 (\$13.0 million), and higher depreciation expense. In addition, earnings decreased due to higher operations and maintenance expense (primarily related to the absence of a \$6.3 million regulatory benefit related to certain uncollectible hardship accounts receivable that was recorded in 2015 at NSTAR Electric, as well as higher storm restoration costs, higher vegetation management costs and the write-off of software design costs), higher property tax expense, and lower non-decoupled retail electric sales volumes due primarily to increased customer energy conservation efforts. These unfavorable earnings impacts were partially offset by increased CL&P distribution revenues primarily as a result of higher rate base and the absence of a required ROE reduction, as stipulated in the PURA 2014 rate case decision, and higher generation earnings.

Our electric transmission segment earnings increased \$66.3 million in 2016, as compared to 2015, due primarily to a higher transmission rate base as a result of increased investments in our transmission infrastructure, the FERC-allowed recovery of certain merger-related costs in 2016 (\$16.5 million), and the absence in 2016 of reserve charges in 2015 associated with the FERC ROE complaint proceedings (\$12.4 million).

Our natural gas distribution segment earnings increased \$5.3 million in 2016, as compared to 2015, due primarily to the impact of the NSTAR Gas base distribution rate increase effective January 1, 2016, the higher return earned on the NSTAR Gas System Enhancement Program ("GSEP") capital tracker mechanism effective in 2016, and lower operations and maintenance expense. These favorable earnings impacts were partially offset by lower non-decoupled firm natural gas sales volumes driven by the warmer than normal weather in the first quarter of 2016, as compared to the much colder than normal weather in the first quarter of 2015, higher property tax expense, and higher interest expense.

*Eversource Parent and Other Companies:* Eversource parent and other companies had earnings of \$31.0 million in 2016, compared with a net loss of \$5.5 million in 2015. The earnings increase was due primarily to lower income tax expense as a result of recognizing tax benefits from executive deferred compensation payments, which resulted from the adoption of a new accounting standard, and the absence in 2016 of integration costs, partially offset by higher interest expense.

## LIQUIDITY

Cash flows provided by operating activities totaled \$2.2 billion in 2016, compared with \$1.4 billion in 2015. The increase in operating cash flows was due primarily to the absence in 2016 of \$302 million in payments made in 2015 to fully satisfy the obligation with the DOE for costs associated with the disposal of spent nuclear fuel and high-level radioactive waste at previously owned generation facilities. In addition, there was an increase of \$226.0 million in regulatory recoveries, primarily at NSTAR Electric, due to \$98.1 million of collections from customers in excess of purchased power costs, the favorable impact associated with the December 2015 legislation that extended tax bonus depreciation, which resulted in a \$145.8 million decrease in income tax payments in 2016, as compared to 2015, and an increase of \$55.2 million of the Yankee Companies' DOE Damages and other proceeds received in 2016, as compared to 2015. Partially offsetting these favorable impacts was the timing of collections and payments related to our working capital items.

## RESULTS OF OPERATIONS – THE CONNECTICUT LIGHT AND POWER COMPANY

The following provides the amounts and variances in operating revenues and expense line items in the statements of income for CL&P for the years ended December 31, 2016 and 2015 included in this Annual Report on Form 10-K:

<i>(Millions of Dollars)</i>	For the Years Ended December 31,			
	2016	2015	Increase/(Decrease)	Percent
Operating Revenues	\$ 2,806.0	\$ 2,802.7	\$ 3.3	0.1 %
Operating Expenses:				
Purchased Power and Transmission	919.7	1,054.3	(134.6)	(12.8)
Operations and Maintenance	490.1	487.3	2.8	0.6
Depreciation	230.5	215.3	15.2	7.1
Amortization of Regulatory Assets, Net	38.8	12.3	26.5	(a)
Energy Efficiency Programs	154.0	153.7	0.3	0.2
Taxes Other Than Income Taxes	299.7	268.7	31.0	11.5
Total Operating Expenses	2,132.8	2,191.6	(58.8)	(2.7)
Operating Income	673.2	611.1	62.1	10.2
Interest Expense	144.1	145.8	(1.7)	(1.2)
Other Income, Net	13.5	11.5	2.0	17.4
Income Before Income Tax Expense	542.6	476.8	65.8	13.8
Income Tax Expense	208.3	177.4	30.9	17.4
Net Income	\$ 334.3	\$ 299.4	\$ 34.9	11.7 %

(a) Percent greater than 100 not shown as it is not meaningful.

### Operating Revenues

CL&P's retail sales volumes were as follows:

	For the Years Ended December 31,			
	2016	2015	Decrease	Percent
Retail Sales Volumes in GWh	21,617	22,071	(454)	(2.1)%

CL&P's Operating Revenues, which consist of base distribution revenues and tracked revenues further described below, increased by \$3.3 million in 2016, as compared to 2015.

Base distribution revenues increased by \$30.1 million due to a higher rate base resulting from the 2015 PURA ADIT settlement agreement that is being collected from customers in distribution rates (\$26.1 million) and the absence of a required ROE reduction, as stipulated in the PURA 2014 rate case decision, recorded in 2015 (\$4 million). This increase was partially offset by the absence of the benefit recognized in 2015 in Operating Revenues due to the PURA ADIT settlement agreement.

Fluctuations in CL&P's sales volumes do not impact the level of base distribution revenue realized or earnings due to the PURA approved revenue decoupling mechanism. CL&P's revenue decoupling mechanism permits recovery of a base amount of distribution revenues (\$1.059 billion annually) and breaks the relationship between sales volumes and revenues recognized. The revenue decoupling mechanism results in the recovery of approved base distribution revenue requirements.

Fluctuations in the overall level of operating revenues are primarily related to tracked revenues. Tracked revenues consist of certain costs that are recovered from customers in rates through PURA-approved cost tracking mechanisms and therefore have no impact on earnings. Costs recovered through cost tracking mechanisms include energy supply procurement and other energy-related costs, retail transmission charges, energy efficiency program costs and restructuring and stranded cost recovery revenues. In addition, tracked revenues include certain incentives earned and carrying charges. Tracked distribution revenues decreased primarily as a result of a decrease in energy supply costs (\$222.4 million) driven by decreased average retail rates and lower sales volumes. Partially offsetting this decrease was an increase in federally mandated congestion charges (\$103.0 million) and an increase in competitive transition assessment charges (\$31.7 million). In addition, as a result of a change to the amounts collected in the system benefits charge, CL&P's calculated rate base increased, providing an increase to distribution revenues that impacted earnings of \$23.2 million.

Transmission revenues increased by \$62.7 million due primarily to higher revenue requirements associated with ongoing investments in our transmission infrastructure and the absence in 2016 of a \$12.5 million reserve charge recorded in 2015 associated with the March 2015 FERC ROE order.

**Purchased Power and Transmission** expense includes costs associated with purchasing electricity on behalf of CL&P's customers. These energy supply costs are recovered from customers in PURA-approved cost tracking mechanisms, which have no impact on earnings (tracked costs). Purchased Power and Transmission expense decreased in 2016, as compared to 2015, due primarily to the following:

<i>(Millions of Dollars)</i>	<b>(Decrease)/Increase</b>
Purchased Power Costs	\$ (173.1)
Transmission Costs	38.5
Total Purchased Power and Transmission	\$ (134.6)

Included in purchased power costs are the costs associated with CL&P's GSC and deferred energy supply costs. The GSC recovers energy-related costs incurred as a result of providing electric generation service supply to all customers who have not migrated to third party suppliers. The decrease in purchased power costs in 2016, compared to 2015, was due primarily to a decrease in the price of standard offer supply, as well as lower sales volumes. The increase in transmission costs was primarily the result of an increase in costs billed by ISO-NE that support regional grid investment.

**Operations and Maintenance** expense increased in 2016, as compared to 2015, driven by a \$9.2 million increase in tracked costs, which have no earnings impact, that was primarily attributable to higher transmission expenses, partially offset by a \$6.4 million decrease in non-tracked costs, which was primarily attributable to lower employee-related expenses, partially offset by higher storm restoration costs and the write-off of software design costs.

**Depreciation** increased in 2016, as compared to 2015, due primarily to higher utility plant in service balances.

**Amortization of Regulatory Assets, Net** expense includes the deferral of energy supply and energy-related costs and the amortization of storm and other costs. Amortization of Regulatory Assets, Net increased in 2016, as compared to 2015, due primarily to the deferral adjustment of energy supply and energy-related costs, which can fluctuate from period to period based on the timing of costs incurred and related rate changes to recover these costs. The deferral adjusts expense to match the corresponding revenues. Energy supply and energy-related costs, which are the primary drivers of amortization, are recovered from customers in rates and have no impact on earnings.

**Taxes Other Than Income Taxes** expense increased in 2016, as compared to 2015, due primarily to an increase in property taxes as a result of both an increase in utility plant balances and an increase in gross earnings taxes. Gross earnings taxes are recovered from customers in rates and have no impact on earnings.

**Interest Expense** decreased in 2016, as compared to 2015, due primarily to lower deferred regulatory interest expense (\$5.0 million) and a decrease in interest expense related to deposits (\$1.3 million), partially offset by an increase in interest on long-term debt (\$5.1 million).

**Income Tax Expense** increased in 2016, as compared to 2015, due primarily to higher pre-tax earnings (\$23.2 million), higher state taxes (\$1.5 million), and items that impact our tax rate as a result of regulatory treatment (flow-through items) and permanent differences (\$7.7 million), partially offset by the excess tax benefit due to the adoption of new accounting guidance related to share-based payment transactions (\$0.9 million), and the true-up of the return to provision impacts and a lower tax benefit from a reduction in tax reserves (\$0.5 million).

## EARNINGS SUMMARY

CL&P's earnings increased \$34.9 million in 2016, as compared to 2015, due primarily to an increase in transmission earnings driven by a higher transmission rate base, as well as the absence in 2016 of the 2015 FERC ROE complaint proceedings reserve charge, higher distribution revenues as a result of higher rate base and the absence of a required ROE reduction, as stipulated in the PURA 2014 rate case decision, and lower operations and maintenance expense. These favorable earnings impacts were partially offset by higher property and other tax expense, a higher effective tax rate and higher depreciation expense.

## LIQUIDITY

Cash totaled \$6.6 million as of December 31, 2016, compared with \$1.1 million as of December 31, 2015.

Eversource parent has a \$1.45 billion commercial paper program allowing Eversource parent to issue commercial paper as a form of short-term debt, with intercompany loans to certain subsidiaries, including CL&P. The weighted-average interest rate on the commercial paper borrowings as of December 31, 2016 and 2015 was 0.88 percent and 0.72 percent, respectively. As of December 31, 2016 and 2015, there were intercompany loans from Eversource parent to CL&P of \$80.1 million and \$277.4 million, respectively.

Eversource parent, and certain of its subsidiaries, including CL&P, are parties to a five-year \$1.45 billion revolving credit facility. Effective September 26, 2016, the revolving credit facility's termination date was extended for one additional year to September 4, 2021. There were no borrowings outstanding on the revolving credit facility as of December 31, 2016 or 2015.

In 2016, CL&P had cash flows provided by operating activities of \$811.5 million, compared with \$298.3 million in 2015. The increase in operating cash flows was due primarily to the absence in 2016 of \$244.6 million in payments made in 2015 to fully satisfy the pre-1983 spent nuclear fuel obligation with the DOE, and the favorable impact associated with the December 2015 legislation that extended tax bonus depreciation, which resulted in income tax refunds of \$73.9 million received in 2016, as compared to income tax payments of \$55.2 million made in 2015. Also contributing to the favorable impact was an increase in distribution rates due to higher rate base and the timing of collections and payments related to our working capital items, including accounts receivable and accounts payable. Partially offsetting these impacts was the timing of regulatory recoveries primarily related to energy efficiency program costs.

Investments in Property, Plant and Equipment on the statements of cash flows do not include amounts incurred on capital projects but not yet paid, cost of removal, AFUDC related to equity funds, and the capitalized portions of pension expense. CL&P's investments totaled \$612.0 million in 2016, compared with \$523.8 million in 2015.

Financing activities in 2016 included \$199.6 million in common stock dividends paid to Eversource parent.

## Item 7A. Quantitative and Qualitative Disclosures about Market Risk

### Market Risk Information

*Commodity Price Risk Management:* Our regulated companies enter into energy contracts to serve our customers and the economic impacts of those contracts are passed on to our customers. Accordingly, the regulated companies have no exposure to loss of future earnings or fair values due to these market risk-sensitive instruments. Eversource's Energy Supply Risk Committee, comprised of senior officers, reviews and approves all large-scale energy related transactions entered into by its regulated companies.

### Other Risk Management Activities

We have an Enterprise Risk Management (ERM) program for identifying the principal risks of the Company. Our ERM program involves the application of a well-defined, enterprise-wide methodology designed to allow our Risk Committee, comprised of our senior officers and directors of the Company, to identify, categorize, prioritize, and mitigate the principal risks to the Company. The ERM program is integrated with other assurance functions throughout the Company including Compliance, Auditing, and Insurance to ensure appropriate coverage of risks that could impact the Company. In addition to known risks, ERM identifies emerging risks to the Company, through participation in industry groups, discussions with management and in consultation with outside advisers. Our management then analyzes risks to determine materiality, likelihood and impact, and develops mitigation strategies. Management broadly considers our business model, the utility industry, the global economy and the current environment to identify risks. The Finance Committee of the Board of Trustees is responsible for oversight of the Company's ERM program and enterprise-wide risks as well as specific risks associated with insurance, credit, financing, investments, pensions and overall system security including cyber security. The findings of the ERM process are periodically discussed with the Finance Committee of our Board of Trustees, as well as with other Board Committees or the full Board of Trustees, as appropriate, including reporting on how these issues are being measured and managed. However, there can be no assurances that the Enterprise Risk Management process will identify or manage every risk or event that could impact our financial position, results of operations or cash flows.

*Interest Rate Risk Management:* We manage our interest rate risk exposure in accordance with our written policies and procedures by maintaining a mix of fixed and variable rate long-term debt. As of December 31, 2017, approximately 98 percent of our long-term debt, including fees and interest due for CYAPC's spent nuclear fuel disposal costs, was at a fixed interest rate. The remaining long-term debt is at variable interest rates and is subject to interest rate risk that could result in earnings volatility. Assuming a one percentage point increase in our variable interest rates, annual interest expense would have increased by a pre-tax amount of \$2.7 million.

*Credit Risk Management:* Credit risk relates to the risk of loss that we would incur as a result of non-performance by counterparties pursuant to the terms of our contractual obligations. We serve a wide variety of customers and transact with suppliers that include IPPs, industrial companies, natural gas and electric utilities, oil and gas producers, financial institutions, and other energy marketers. Margin accounts exist within this diverse group, and we realize interest receipts and payments related to balances outstanding in these margin accounts. This wide customer and supplier mix generates a need for a variety of contractual structures, products and terms that, in turn, require us to manage the portfolio of market risk inherent in those transactions in a manner consistent with the parameters established by our risk management process.

Our regulated companies are subject to credit risk from certain long-term or high-volume supply contracts with energy marketing companies. Our regulated companies manage the credit risk with these counterparties in accordance with established credit risk practices and monitor contracting risks, including credit risk. As of December 31, 2017, our regulated companies did not hold collateral (letters of credit) from counterparties related to our standard service contracts. As of December 31, 2017, Eversource had \$24.5 million of cash posted with ISO-NE related to energy transactions.

For further information on cash collateral deposited and posted with counterparties, see Note 1H, "Summary of Significant Accounting Policies - Deposits," to the financial statements.

If the respective unsecured debt ratings of Eversource or its subsidiaries were reduced to below investment grade by either Moody's or S&P, certain of Eversource's contracts would require additional collateral in the form of cash to be provided to counterparties and independent system operators. Eversource would have been and remains able to provide that collateral.

**Item 8. Financial Statements and Supplementary Data**

Eversource

Company Report on Internal Controls Over Financial Reporting  
Report of Independent Registered Public Accounting Firm  
Consolidated Financial Statements

CL&P

Company Report on Internal Controls Over Financial Reporting  
Report of Independent Registered Public Accounting Firm  
Financial Statements

NSTAR Electric

Company Report on Internal Controls Over Financial Reporting  
Report of Independent Registered Public Accounting Firm  
Consolidated Financial Statements

PSNH

Company Report on Internal Controls Over Financial Reporting  
Report of Independent Registered Public Accounting Firm  
Consolidated Financial Statements

## Company Report on Internal Controls Over Financial Reporting

### Eversource Energy

Management is responsible for the preparation, integrity, and fair presentation of the accompanying consolidated financial statements of Eversource Energy and subsidiaries (Eversource or the Company) and of other sections of this annual report. Eversource's internal controls over financial reporting were audited by Deloitte & Touche LLP.

Management is responsible for establishing and maintaining adequate internal controls over financial reporting. The Company's internal control framework and processes have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. There are inherent limitations of internal controls over financial reporting that could allow material misstatements due to error or fraud to occur and not be prevented or detected on a timely basis by employees during the normal course of business. Additionally, internal controls over financial reporting may become inadequate in the future due to changes in the business environment.

Under the supervision and with the participation of the principal executive officer and principal financial officer, Eversource conducted an evaluation of the effectiveness of internal controls over financial reporting based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation under the framework in COSO, management concluded that internal controls over financial reporting were effective as of December 31, 2017.

Management has excluded from our assessment of and conclusion on the effectiveness of internal controls over financial reporting the internal controls of Eversource Aquarion Holdings, Inc. (formerly Macquarie Utilities Inc.), acquired on December 4, 2017, which is included in the consolidated financial statements of the Company as of and for the year ended December 31, 2017, constituting 4.31% and 2.37% of total and net assets, respectively, as of December 31, 2017, and 0.20% of revenues for the year ended December 31, 2017.

February 23, 2018

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Trustees and Shareholders of Eversource Energy:

### Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Eversource Energy and subsidiaries (the "Company") as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, common shareholders' equity, and cash flows, for each of the three years in the period ended December 31, 2017, and the related notes and the schedules listed in the Index at Item 15 of Part IV (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, the Company acquired Macquarie Utilities Inc. on December 4, 2017.

Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

As described in Company Report on Internal Controls Over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Eversource Aquarion Holdings, Inc. (formerly Macquarie Utilities Inc.) which was acquired on December 4, 2017 and whose financial statements constitute 2.37% and 4.31% of net and total assets, respectively, and 0.20% of revenues of the consolidated financial statement amounts as of and for the year ended December 31, 2017. Accordingly, our audit did not include the internal control over financial reporting at Eversource Aquarion Holdings, Inc.

### Basis for Opinions

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

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

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

### Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

/s/ Deloitte & Touche LLP

Hartford, Connecticut  
February 23, 2018

We have served as the Company's auditor since 2002.

EVERSOURCE ENERGY AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

As of December 31,

(Thousands of Dollars)

2017 2016

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 38,165	\$ 30,251
Receivables, Net	925,083	847,301
Unbilled Revenues	201,361	168,490
Fuel, Materials, Supplies and Inventory	223,063	328,721
Regulatory Assets	741,868	887,625
Prepayments and Other Current Assets	138,009	215,284
Assets Held for Sale	219,550	—

<b>Total Current Assets</b>	<b>2,487,099</b>	<b>2,477,672</b>
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Property, Plant and Equipment, Net	23,617,463	21,350,510
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Deferred Debits and Other Assets:

Regulatory Assets	4,497,447	3,638,688
Goodwill	4,427,266	3,519,401
Marketable Securities	585,419	544,642
Other Long-Term Assets	605,692	522,260

<b>Total Deferred Debits and Other Assets</b>	<b>10,115,824</b>	<b>8,224,991</b>
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<b>Total Assets</b>	<b>\$ 36,220,386</b>	<b>\$ 32,053,173</b>
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LIABILITIES AND CAPITALIZATION

Current Liabilities:

Notes Payable	\$ 1,088,087	\$ 1,148,500
Long-Term Debt – Current Portion	549,631	773,883
Accounts Payable	1,085,034	884,521
Regulatory Liabilities	128,071	146,787
Other Current Liabilities	738,222	684,914

<b>Total Current Liabilities</b>	<b>3,589,045</b>	<b>3,638,605</b>
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Deferred Credits and Other Liabilities:

Accumulated Deferred Income Taxes	3,297,518	5,607,207
Regulatory Liabilities	3,637,273	702,255
Derivative Liabilities	377,257	413,676
Accrued Pension, SERP and PBOP	1,228,091	1,141,514
Other Long-Term Liabilities	1,073,501	853,260

<b>Total Deferred Credits and Other Liabilities</b>	<b>9,613,640</b>	<b>8,717,912</b>
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Capitalization:

Long-Term Debt	11,775,889	8,829,354
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Noncontrolling Interest - Preferred Stock of Subsidiaries	155,570	155,568
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Equity:

Common Shareholders' Equity:

Common Shares	1,669,392	1,669,392
Capital Surplus, Paid In	6,239,940	6,250,224
Retained Earnings	3,561,084	3,175,171
Accumulated Other Comprehensive Loss	(66,403)	(65,282)
Treasury Stock	(317,771)	(317,771)

<b>Common Shareholders' Equity</b>	<b>11,086,242</b>	<b>10,711,734</b>
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<b>Total Capitalization</b>	<b>23,017,701</b>	<b>19,696,656</b>
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Commitments and Contingencies (Note 11)

Total Liabilities and Capitalization	\$ 36,220,386	\$ 32,053,173
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The accompanying notes are an integral part of these consolidated financial statements.

EVERSOURCE ENERGY AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME

(Thousands of Dollars, Except Share Information)	For the Years Ended December 31,		
	2017	2016	2015
Operating Revenues	\$ 7,751,952	\$ 7,639,129	\$ 7,954,827
Operating Expenses:			
Purchased Power, Fuel and Transmission	2,535,271	2,500,828	3,086,905
Operations and Maintenance	1,277,147	1,323,549	1,329,289
Depreciation	773,802	715,466	665,856
Amortization of Regulatory Assets, Net	89,986	71,696	22,339
Energy Efficiency Programs	480,835	533,659	495,701
Taxes Other Than Income Taxes	676,757	634,072	590,573
Total Operating Expenses	5,833,798	5,779,270	6,190,663
Operating Income	1,918,154	1,859,859	1,764,164
Interest Expense	421,755	400,961	372,420
Other Income, Net	78,008	45,920	34,227
Income Before Income Tax Expense	1,574,407	1,504,818	1,425,971
Income Tax Expense	578,892	554,997	539,967
Net Income	995,515	949,821	886,004
Net Income Attributable to Noncontrolling Interests	7,519	7,519	7,519
Net Income Attributable to Common Shareholders	\$ 987,996	\$ 942,302	\$ 878,485
Basic Earnings Per Common Share	\$ 3.11	\$ 2.97	\$ 2.77
Diluted Earnings Per Common Share	\$ 3.11	\$ 2.96	\$ 2.76
Weighted Average Common Shares Outstanding:			
Basic	317,411,097	317,650,180	317,336,881
Diluted	318,031,580	318,454,239	318,432,687

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Thousands of Dollars, Except Share Information)	For the Years Ended December 31,		
	2017	2016	2015
Net Income	\$ 995,515	\$ 949,821	\$ 886,004
Other Comprehensive (Loss)/Income, Net of Tax:			
Qualified Cash Flow Hedging Instruments	1,974	2,137	2,079
Changes in Unrealized (Losses)/Gains on Marketable Securities	(350)	2,294	(2,588)
Changes in Funded Status of Pension, SERP and PBOP Benefit Plans	(2,745)	(2,869)	7,674
Other Comprehensive (Loss)/Income, Net of Tax	(1,121)	1,562	7,165
Comprehensive Income Attributable to Noncontrolling Interests	(7,519)	(7,519)	(7,519)
Comprehensive Income Attributable to Common Shareholders	\$ 986,875	\$ 943,864	\$ 885,650

The accompanying notes are an integral part of these consolidated financial statements.

EVERSOURCE ENERGY AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMMON SHAREHOLDERS' EQUITY

(Thousands of Dollars, Except Share Information)	Common Shares		Capital Surplus, Paid In	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Common Shareholders' Equity
	Shares	Amount					
Balance as of January 1, 2015	316,983,337	\$ 1,666,796	\$ 6,235,834	\$ 2,448,661	\$ (74,009)	\$ (300,467)	\$ 9,976,815
Net Income				886,004			886,004
Dividends on Common Shares - \$1.67 Per Share				(529,791)			(529,791)
Dividends on Preferred Stock				(7,519)			(7,519)
Issuance of Common Shares, \$5 Par Value	503,443	2,517	6,951				9,468
Long-Term Incentive Plan Activity			(6,140)				(6,140)
Increase in Treasury Shares	(295,531)		22,070			(9,510)	12,560
Other Changes in Shareholders' Equity			3,653				3,653
Other Comprehensive Income					7,165		7,165
Balance as of December 31, 2015	317,191,249	1,669,313	6,262,368	2,797,355	(66,844)	(309,977)	10,352,215
Net Income				949,821			949,821
Dividends on Common Shares - \$1.78 Per Share				(564,486)			(564,486)
Dividends on Preferred Stock				(7,519)			(7,519)
Issuance of Common Shares, \$5 Par Value	15,787	79	(5,639)				(5,560)
Long-Term Incentive Plan Activity			(6,056)				(6,056)
Increase in Treasury Shares	(321,228)					(7,794)	(7,794)
Other Changes in Shareholders' Equity			(449)				(449)
Other Comprehensive Income					1,562		1,562
Balance as of December 31, 2016	316,885,808	1,669,392	6,250,224	3,175,171	(65,282)	(317,771)	10,711,734
Net Income				995,515			995,515
Dividends on Common Shares - \$1.90 Per Share				(602,083)			(602,083)
Dividends on Preferred Stock				(7,519)			(7,519)
Long-Term Incentive Plan Activity			(10,834)				(10,834)
Other Changes in Shareholders' Equity			550				550
Other Comprehensive Loss					(1,121)		(1,121)
Balance as of December 31, 2017	316,885,808	\$ 1,669,392	\$ 6,239,940	\$ 3,561,084	\$ (66,403)	\$ (317,771)	\$ 11,086,242

The accompanying notes are an integral part of these consolidated financial statements.

EVERSOURCE ENERGY AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31,

(Thousands of Dollars)	2017	2016	2015
<b>Operating Activities:</b>			
Net Income	\$ 995,515	\$ 949,821	\$ 886,004
Adjustments to Reconcile Net Income to Net Cash Flows			
Provided by Operating Activities:			
Depreciation	773,802	715,466	665,856
Deferred Income Taxes	491,630	466,463	491,736
Pension, SERP and PBOP Expense	22,454	39,912	96,017
Pension and PBOP Contributions	(242,800)	(158,741)	(162,452)
Regulatory (Under)/Over Recoveries, Net	(47,935)	13,340	(163,287)
Amortization of Regulatory Assets, Net	89,986	71,696	22,339
Refunds/(Payments) Related to Spent Nuclear Fuel, Net	—	59,804	(297,253)
Other	(148,429)	(77,294)	(82,219)
Changes in Current Assets and Liabilities:			
Receivables and Unbilled Revenues, Net	(117,155)	(142,699)	(39,797)
Fuel, Materials, Supplies and Inventory	(9,223)	7,755	34,112
Taxes Receivable/Accrued, Net	52,284	234,543	30,282
Accounts Payable	56,067	(14,126)	(91,618)
Other Current Assets and Liabilities, Net	88,738	9,112	44,031
Net Cash Flows Provided by Operating Activities	<u>2,004,934</u>	<u>2,175,052</u>	<u>1,433,751</u>
<b>Investing Activities:</b>			
Investments in Property, Plant and Equipment	(2,348,105)	(1,976,867)	(1,724,139)
Proceeds from Sales of Marketable Securities	832,903	659,338	799,165
Purchases of Marketable Securities	(810,507)	(681,272)	(717,114)
Acquisition of Aquarion	(877,652)	—	—
Payments to Acquire Investments	(32,634)	(188,958)	(23,353)
Other Investing Activities	25,521	36,951	6,291
Net Cash Flows Used in Investing Activities	<u>(3,210,474)</u>	<u>(2,150,808)</u>	<u>(1,659,150)</u>
<b>Financing Activities:</b>			
Cash Dividends on Common Shares	(602,083)	(564,486)	(529,791)
Cash Dividends on Preferred Stock	(7,519)	(7,519)	(7,519)
Increase/(Decrease) in Notes Payable	72,810	(12,453)	(242,122)
Issuance of Long-Term Debt	2,500,000	800,000	1,225,000
Retirements of Long-Term Debt	(745,000)	(200,000)	(216,700)
Other Financing Activities	(4,754)	(33,482)	(18,225)
Net Cash Flows Provided by/(Used in) Financing Activities	<u>1,213,454</u>	<u>(17,940)</u>	<u>210,643</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	7,914	6,304	(14,756)
Cash and Cash Equivalents - Beginning of Year	30,251	23,947	38,703
Cash and Cash Equivalents - End of Year	<u>\$ 38,165</u>	<u>\$ 30,251</u>	<u>\$ 23,947</u>

The accompanying notes are an integral part of these consolidated financial statements.

## **Company Report on Internal Controls Over Financial Reporting**

### **The Connecticut Light and Power Company**

Management is responsible for the preparation, integrity, and fair presentation of the accompanying financial statements of The Connecticut Light and Power Company (CL&P or the Company) and of other sections of this annual report.

Management is responsible for establishing and maintaining adequate internal controls over financial reporting. The Company's internal control framework and processes have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. There are inherent limitations of internal controls over financial reporting that could allow material misstatements due to error or fraud to occur and not be prevented or detected on a timely basis by employees during the normal course of business. Additionally, internal controls over financial reporting may become inadequate in the future due to changes in the business environment.

Under the supervision and with the participation of the principal executive officer and principal financial officer, CL&P conducted an evaluation of the effectiveness of internal controls over financial reporting based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation under the framework in COSO, management concluded that internal controls over financial reporting were effective as of December 31, 2017.

February 23, 2018

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholder of The Connecticut Light and Power Company:

### Opinion on the Financial Statements

We have audited the accompanying balance sheets of The Connecticut Light and Power Company (the "Company") as of December 31, 2017 and 2016, the related statements of income, comprehensive income, common stockholder's equity, and cash flows, for each of the three years in the period ended December 31, 2017, and the related notes and the schedule listed in the Index at Item 15 of Part IV (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Hartford, Connecticut  
February 23, 2018

We have served as the Company's auditor since 2002.

THE CONNECTICUT LIGHT AND POWER COMPANY  
BALANCE SHEETS

	As of December 31,	
(Thousands of Dollars)	2017	2016
<b>ASSETS</b>		
Current Assets:		
Cash	\$ 6,028	\$ 6,579
Receivables, Net	370,676	359,132
Accounts Receivable from Affiliated Companies	28,181	16,851
Unbilled Revenues	54,154	50,373
Materials, Supplies and Inventory	48,438	52,050
Regulatory Assets	200,281	335,526
Prepayments and Other Current Assets	46,926	52,670
Total Current Assets	<u>754,684</u>	<u>873,181</u>
Property, Plant and Equipment, Net	<u>8,271,030</u>	<u>7,632,392</u>
Deferred Debits and Other Assets:		
Regulatory Assets	1,444,935	1,391,564
Other Long-Term Assets	159,597	137,907
Total Deferred Debits and Other Assets	<u>1,604,532</u>	<u>1,529,471</u>
Total Assets	<u>\$ 10,630,246</u>	<u>\$ 10,035,044</u>
<b>LIABILITIES AND CAPITALIZATION</b>		
Current Liabilities:		
Notes Payable to Eversource Parent	\$ 69,500	\$ 80,100
Long-Term Debt – Current Portion	300,000	250,000
Accounts Payable	367,605	289,532
Accounts Payable to Affiliated Companies	82,201	88,075
Obligations to Third Party Suppliers	52,860	55,520
Regulatory Liabilities	38,967	47,055
Derivative Liabilities	54,392	77,765
Other Current Liabilities	127,234	120,399
Total Current Liabilities	<u>1,092,759</u>	<u>1,008,446</u>
Deferred Credits and Other Liabilities:		
Accumulated Deferred Income Taxes	1,103,367	1,987,661
Regulatory Liabilities	1,112,136	100,138
Derivative Liabilities	376,918	412,750
Accrued Pension, SERP and PBOP	354,469	300,208
Other Long-Term Liabilities	128,135	123,244
Total Deferred Credits and Other Liabilities	<u>3,075,025</u>	<u>2,924,001</u>
Capitalization:		
Long-Term Debt	<u>2,759,135</u>	<u>2,516,010</u>
Preferred Stock Not Subject to Mandatory Redemption	<u>116,200</u>	<u>116,200</u>
Common Stockholder's Equity:		
Common Stock	60,352	60,352
Capital Surplus, Paid In	2,110,765	2,110,714
Retained Earnings	1,415,741	1,299,374
Accumulated Other Comprehensive Income/(Loss)	269	(53)
Common Stockholder's Equity	<u>3,587,127</u>	<u>3,470,387</u>
Total Capitalization	<u>6,462,462</u>	<u>6,102,597</u>

Commitments and Contingencies (Note 11)

Total Liabilities and Capitalization	<u>\$ 10,630,246</u>	<u>\$ 10,035,044</u>
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The accompanying notes are an integral part of these financial statements.

THE CONNECTICUT LIGHT AND POWER COMPANY  
STATEMENTS OF INCOME

(Thousands of Dollars)	For the Years Ended December 31,		
	2017	2016	2015
Operating Revenues	\$ 2,887,359	\$ 2,805,955	\$ 2,802,675
Operating Expenses:			
Purchased Power and Transmission	930,780	919,723	1,054,313
Operations and Maintenance	500,358	490,069	487,281
Depreciation	249,352	230,489	215,289
Amortization of Regulatory Assets, Net	83,166	38,765	12,318
Energy Efficiency Programs	114,713	154,015	153,725
Taxes Other Than Income Taxes	323,887	299,719	268,688
Total Operating Expenses	2,202,256	2,132,780	2,191,614
Operating Income	685,103	673,175	611,061
Interest Expense	142,973	144,110	145,795
Other Income, Net	21,242	13,497	11,490
Income Before Income Tax Expense	563,372	542,562	476,756
Income Tax Expense	186,646	208,308	177,396
Net Income	\$ 376,726	\$ 334,254	\$ 299,360

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

STATEMENTS OF COMPREHENSIVE INCOME

(Thousands of Dollars)	For the Years Ended December 31,		
	2017	2016	2015
Net Income	\$ 376,726	\$ 334,254	\$ 299,360
Other Comprehensive Income, Net of Tax:			
Qualified Cash Flow Hedging Instruments	334	444	444
Changes in Unrealized (Losses)/Gains on Marketable Securities	(12)	79	(89)
Other Comprehensive Income, Net of Tax	322	523	355
Comprehensive Income	\$ 377,048	\$ 334,777	\$ 299,715

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

THE CONNECTICUT LIGHT AND POWER COMPANY  
STATEMENTS OF COMMON STOCKHOLDER'S EQUITY

(Thousands of Dollars, Except Stock Information)	Common Stock		Capital Surplus, Paid In	Retained Earnings	Accumulated Other Comprehensive (Loss)/Income	Total Common Stockholder's Equity
	Stock	Amount				
Balance as of January 1, 2015	6,035,205	\$ 60,352	\$ 1,804,869	\$ 1,072,477	\$ (931)	\$ 2,936,767
Net Income				299,360		299,360
Dividends on Preferred Stock				(5,559)		(5,559)
Dividends on Common Stock				(196,000)		(196,000)
Allocation of Benefits - ESOP			743			743
Capital Stock Expenses, Net			51			51
Capital Contributions from Eversource Parent			105,000			105,000
Other Comprehensive Income					355	355
Balance as of December 31, 2015	6,035,205	60,352	1,910,663	1,170,278	(576)	3,140,717
Net Income				334,254		334,254
Dividends on Preferred Stock				(5,559)		(5,559)
Dividends on Common Stock				(199,599)		(199,599)
Capital Stock Expenses, Net			51			51
Capital Contributions from Eversource Parent			200,000			200,000
Other Comprehensive Income					523	523
Balance as of December 31, 2016	6,035,205	60,352	2,110,714	1,299,374	(53)	3,470,387
Net Income				376,726		376,726
Dividends on Preferred Stock				(5,559)		(5,559)
Dividends on Common Stock				(254,800)		(254,800)
Capital Stock Expenses, Net			51			51
Other Comprehensive Income					322	322
Balance as of December 31, 2017	6,035,205	\$ 60,352	\$ 2,110,765	\$ 1,415,741	\$ 269	\$ 3,587,127

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

THE CONNECTICUT LIGHT AND POWER COMPANY  
STATEMENTS OF CASH FLOWS

For the Years Ended December 31,

(Thousands of Dollars)

2017

2016

2015

Operating Activities:

Net Income	\$	376,726	\$	334,254	\$	299,360
Adjustments to Reconcile Net Income to Net Cash Flows						
Provided by Operating Activities:						
Depreciation		249,352		230,489		215,289
Deferred Income Taxes		119,295		168,919		135,994
Pension, SERP and PBOP Expense, Net of Pension Contributions		7,409		6,948		14,091
Regulatory Underrecoveries, Net		(8,017)		(68,730)		(53,781)
Amortization of Regulatory Assets, Net		83,166		38,765		12,318
Refunds/(Payments) Related to Spent Nuclear Fuel, Net		—		13,568		(242,231)
Other		(37,648)		(32,212)		(36,385)
Changes in Current Assets and Liabilities:						
Receivables and Unbilled Revenues, Net		(47,768)		3,229		(29,195)
Materials and Supplies		3,612		(8,926)		22,810
Taxes Receivable/Accrued, Net		(9,688)		123,692		(13,517)
Accounts Payable		48,032		3,252		(16,910)
Other Current Assets and Liabilities, Net		20,080		(1,770)		(9,514)
Net Cash Flows Provided by Operating Activities		804,551		811,478		298,329

Investing Activities:

Investments in Property, Plant and Equipment		(824,383)		(611,984)		(523,849)
Proceeds from the Sale of Property, Plant and Equipment		—		9,047		—
Other Investing Activities		236		296		(716)
Net Cash Flows Used in Investing Activities		(824,147)		(602,641)		(524,565)

Financing Activities:

Cash Dividends on Common Stock		(254,800)		(199,599)		(196,000)
Cash Dividends on Preferred Stock		(5,559)		(5,559)		(5,559)
(Decrease)/Increase in Notes Payable to Eversource Parent		(10,600)		(197,300)		144,000
Issuance of Long-Term Debt		525,000		—		350,000
Retirements of Long-Term Debt		(250,000)		—		(162,000)
Capital Contributions from Eversource Parent		—		200,000		105,000
Other Financing Activities		15,004		(857)		(10,504)
Net Cash Flows Provided by/(Used in) Financing Activities		19,045		(203,315)		224,937
Net (Decrease)/Increase in Cash		(551)		5,522		(1,299)
Cash - Beginning of Year		6,579		1,057		2,356
Cash - End of Year	\$	6,028	\$	6,579	\$	1,057

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

## **Company Report on Internal Controls Over Financial Reporting**

### **NSTAR Electric Company**

Management is responsible for the preparation, integrity, and fair presentation of the accompanying consolidated financial statements of NSTAR Electric Company and subsidiary (NSTAR Electric or the Company) and of other sections of this annual report.

Management is responsible for establishing and maintaining adequate internal controls over financial reporting. The Company's internal control framework and processes have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. There are inherent limitations of internal controls over financial reporting that could allow material misstatements due to error or fraud to occur and not be prevented or detected on a timely basis by employees during the normal course of business. Additionally, internal controls over financial reporting may become inadequate in the future due to changes in the business environment.

Under the supervision and with the participation of the principal executive officer and principal financial officer, NSTAR Electric conducted an evaluation of the effectiveness of internal controls over financial reporting based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation under the framework in COSO, management concluded that internal controls over financial reporting were effective as of December 31, 2017.

February 23, 2018

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholder of NSTAR Electric Company:

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of NSTAR Electric Company and subsidiary (the "Company") as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, common stockholder's equity, and cash flows, for each of the three years in the period ended December 31, 2017, and the related notes and the schedule listed in the Index at Item 15 of Part IV (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

### Emphasis of a Matter

As discussed in Note 1 to the financial statements, the Company merged with Western Massachusetts Electric Company on December 31, 2017 and financial information is presented as combined and consolidated for all periods presented.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Hartford, Connecticut  
February 23, 2018

We have served as the Company's auditor since 2012.

NSTAR ELECTRIC COMPANY AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS

As of December 31,

(Thousands of Dollars)

2017 2016

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 1,763	\$ 3,494
Receivables, Net	341,341	312,497
Accounts Receivable from Affiliated Companies	40,723	17,771
Unbilled Revenues	49,865	46,961
Materials, Supplies and Inventory	95,517	70,907
Regulatory Assets	333,882	353,522
Prepayments and Other Current Assets	24,499	56,066
<b>Total Current Assets</b>	<b>887,590</b>	<b>861,218</b>

Property, Plant and Equipment, Net	8,246,494	7,730,096
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Deferred Debits and Other Assets:

Regulatory Assets	1,190,575	1,185,037
Prepaid PBOP	126,948	91,607
Other Long-Term Assets	84,766	89,635
<b>Total Deferred Debits and Other Assets</b>	<b>1,402,289</b>	<b>1,366,279</b>

<b>Total Assets</b>	<b>\$ 10,536,373</b>	<b>\$ 9,957,593</b>
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LIABILITIES AND CAPITALIZATION

Current Liabilities:

Notes Payable	\$ 234,000	\$ 126,500
Notes Payable to Eversource Parent	—	51,000
Long-Term Debt – Current Portion	—	400,000
Accounts Payable	340,115	288,634
Accounts Payable to Affiliated Companies	91,260	105,775
Obligations to Third Party Suppliers	88,721	66,371
Renewable Portfolio Standards Compliance Obligations	111,524	95,954
Regulatory Liabilities	79,562	78,541
Other Current Liabilities	79,916	84,933
<b>Total Current Liabilities</b>	<b>1,025,098</b>	<b>1,297,708</b>

Deferred Credits and Other Liabilities:

Accumulated Deferred Income Taxes	1,275,814	2,327,085
Regulatory Liabilities	1,514,451	409,050
Accrued Pension and SERP	89,995	128,751
Other Long-Term Liabilities	198,176	164,503
<b>Total Deferred Credits and Other Liabilities</b>	<b>3,078,436</b>	<b>3,029,389</b>

Capitalization:

Long-Term Debt	2,943,759	2,244,653
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Preferred Stock Not Subject to Mandatory Redemption	43,000	43,000
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Common Stockholder's Equity:

Common Stock	—	—
Capital Surplus, Paid In	1,502,942	1,500,642
Retained Earnings	1,944,961	1,844,195
Accumulated Other Comprehensive Loss	(1,823)	(1,994)
<b>Common Stockholder's Equity</b>	<b>3,446,080</b>	<b>3,342,843</b>

Total Capitalization	<u>6,432,839</u>	<u>5,630,496</u>
Commitments and Contingencies (Note 11)		
Total Liabilities and Capitalization	<u>\$ 10,536,373</u>	<u>\$ 9,957,593</u>

The accompanying notes are an integral part of these consolidated financial statements.

NSTAR ELECTRIC COMPANY AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF INCOME

(Thousands of Dollars)	For the Years Ended December 31,		
	2017	2016	2015
Operating Revenues	\$ 2,980,629	\$ 3,041,588	\$ 3,198,887
Operating Expenses:			
Purchased Power and Transmission	1,025,414	1,084,324	1,366,779
Operations and Maintenance	463,737	489,882	392,888
Depreciation	274,008	259,262	240,132
Amortization of Regulatory Assets, Net	33,831	34,332	1,556
Energy Efficiency Programs	294,053	321,787	267,622
Taxes Other Than Income Taxes	181,959	177,837	171,563
Total Operating Expenses	2,273,002	2,367,424	2,440,540
Operating Income	707,627	674,164	758,347
Interest Expense	105,729	108,428	100,139
Other Income, Net	14,913	10,830	7,854
Income Before Income Tax Expense	616,811	576,566	666,062
Income Tax Expense	242,085	225,789	265,014
Net Income	\$ 374,726	\$ 350,777	\$ 401,048

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Thousands of Dollars)	For the Years Ended December 31,		
	2017	2016	2015
Net Income	\$ 374,726	\$ 350,777	\$ 401,048
Other Comprehensive Income, Net of Tax:			
Changes in Funded Status of SERP Benefit Plan	(264)	(177)	103
Qualified Cash Flow Hedging Instruments	438	437	380
Changes in Unrealized (Losses)/Gains on Marketable Securities	(3)	22	(25)
Other Comprehensive Income, Net of Tax	171	282	458
Comprehensive Income	\$ 374,897	\$ 351,059	\$ 401,506

The accompanying notes are an integral part of these consolidated financial statements.

NSTAR ELECTRIC COMPANY AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDER'S EQUITY

(Thousands of Dollars, Except Stock Information)	Common Stock		Capital Surplus, Paid In	Retained Earnings	Accumulated Other Comprehensive Loss	Total Common Stockholder's Equity
	Stock	Amount				
Balance as of January 1, 2015	200	\$ —	\$ 1,396,252	\$ 1,647,790	\$ (2,734)	\$ 3,041,308
Net Income				401,048		401,048
Dividends on Preferred Stock				(1,960)		(1,960)
Dividends on Common Stock				(235,200)		(235,200)
Other Changes in Stockholder's Equity			1,390			1,390
Other Comprehensive Income					458	458
Balance as of December 31, 2015	200	—	1,397,642	1,811,678	(2,276)	3,207,044
Net Income				350,777		350,777
Dividends on Preferred Stock				(1,960)		(1,960)
Dividends on Common Stock				(316,300)		(316,300)
Capital Contributions from Eversource Parent			103,000			103,000
Other Comprehensive Income					282	282
Balance as of December 31, 2016	200	—	1,500,642	1,844,195	(1,994)	3,342,843
Net Income				374,726		374,726
Dividends on Preferred Stock				(1,960)		(1,960)
Dividends on Common Stock				(272,000)		(272,000)
Capital Contributions from Eversource Parent			2,300			2,300
Other Comprehensive Income					171	171
Balance as of December 31, 2017	200	\$ —	\$ 1,502,942	\$ 1,944,961	\$ (1,823)	\$ 3,446,080

The accompanying notes are an integral part of these consolidated financial statements.

NSTAR ELECTRIC COMPANY AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31,

(Thousands of Dollars)

2017

2016

2015

Operating Activities:

Net Income	\$	374,726	\$	350,777	\$	401,048
Adjustments to Reconcile Net Income to Net Cash Flows						
Provided by Operating Activities:						
Depreciation		274,008		259,262		240,132
Deferred Income Taxes		110,499		101,698		212,583
Pension, SERP and PBOP (Income)/Expense, Net		(9,509)		(771)		11,639
Pension and PBOP Contributions		(90,721)		(37,305)		(9,886)
Regulatory (Under)/Over Recoveries, Net		(20,009)		118,385		(141,824)
Amortization of Regulatory Assets, Net		33,831		34,332		1,556
Bad Debt Expense		21,252		31,728		19,168
Refunds/(Payments) Related to Spent Nuclear Fuel		—		8,536		(56,001)
Other		(24,868)		(59,359)		(68,275)
Changes in Current Assets and Liabilities:						
Receivables and Unbilled Revenues, Net		(50,896)		(70,302)		(17,028)
Materials, Supplies and Inventory		(24,610)		10,571		19
Taxes Receivable/Accrued, Net		39,205		60,774		62,148
Accounts Payable		(20,421)		18,000		(5,510)
Other Current Assets and Liabilities, Net		25,913		(17,607)		50,283
Net Cash Flows Provided by Operating Activities		638,400		808,719		700,052

Investing Activities:

Investments in Property, Plant and Equipment		(719,623)		(664,932)		(604,018)
Proceeds from Sales of Marketable Securities		3,934		2,479		186,444
Purchases of Marketable Securities		(3,869)		(2,426)		(128,861)
Other Investing Activities		(3,617)		—		—
Net Cash Flows Used in Investing Activities		(723,175)		(664,879)		(546,435)

Financing Activities:

Cash Dividends on Common Stock		(272,000)		(316,300)		(235,200)
Cash Dividends on Preferred Stock		(1,960)		(1,960)		(1,960)
Increase/(Decrease) in Short-Term Debt		56,500		(28,400)		(117,500)
Capital Contributions from Eversource Parent		2,300		103,000		—
Issuance of Long-Term Debt		700,000		300,000		250,000
Retirements of Long-Term Debt		(400,000)		(200,000)		(54,700)
Other Financing Activities		(1,796)		(866)		(2,850)
Net Cash Flows Provided by/(Used in) Financing Activities		83,044		(144,526)		(162,210)
Net Decrease in Cash and Cash Equivalents		(1,731)		(686)		(8,593)
Cash and Cash Equivalents - Beginning of Year		3,494		4,180		12,773
Cash and Cash Equivalents - End of Year	\$	1,763	\$	3,494	\$	4,180

The accompanying notes are an integral part of these consolidated financial statements.

## **Company Report on Internal Controls Over Financial Reporting**

### **Public Service Company of New Hampshire**

Management is responsible for the preparation, integrity, and fair presentation of the accompanying consolidated financial statements of Public Service Company of New Hampshire and subsidiary (PSNH or the Company) and of other sections of this annual report.

Management is responsible for establishing and maintaining adequate internal controls over financial reporting. The Company's internal control framework and processes have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. There are inherent limitations of internal controls over financial reporting that could allow material misstatements due to error or fraud to occur and not be prevented or detected on a timely basis by employees during the normal course of business. Additionally, internal controls over financial reporting may become inadequate in the future due to changes in the business environment.

Under the supervision and with the participation of the principal executive officer and principal financial officer, PSNH conducted an evaluation of the effectiveness of internal controls over financial reporting based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation under the framework in COSO, management concluded that internal controls over financial reporting were effective as of December 31, 2017.

February 23, 2018

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholder of Public Service Company of New Hampshire:

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Public Service Company of New Hampshire and subsidiary (the "Company") as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, common stockholder's equity, and cash flows, for each of the three years in the period ended December 31, 2017, and the related notes and the schedule listed in the Index at Item 15 of Part IV (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Hartford, Connecticut  
February 23, 2018

We have served as the Company's auditor since 2002.

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS

As of December 31,

(Thousands of Dollars)

2017 2016

ASSETS

Current Assets:

Cash	\$ 900	\$ 4,646
Receivables, Net	92,774	84,450
Accounts Receivable from Affiliated Companies	5,297	4,185
Unbilled Revenues	49,448	41,004
Fuel, Materials, Supplies and Inventory	40,285	162,354
Regulatory Assets	130,134	117,240
Prepayments and Other Current Assets	28,931	28,908
Assets Held for Sale	219,550	—
<b>Total Current Assets</b>	<b>567,319</b>	<b>442,787</b>

Property, Plant and Equipment, Net	2,642,274	3,039,313
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Deferred Debits and Other Assets:

Regulatory Assets	810,677	245,525
Other Long-Term Assets	42,391	37,720
<b>Total Deferred Debits and Other Assets</b>	<b>853,068</b>	<b>283,245</b>

<b>Total Assets</b>	<b>\$ 4,062,661</b>	<b>\$ 3,765,345</b>
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LIABILITIES AND CAPITALIZATION

Current Liabilities:

Notes Payable to Eversource Parent	\$ 262,900	\$ 160,900
Long-Term Debt – Current Portion	110,000	70,000
Accounts Payable	128,685	85,716
Accounts Payable to Affiliated Companies	24,676	29,154
Dividends Payable to Eversource Parent	150,000	—
Regulatory Liabilities	6,251	12,659
Other Current Liabilities	67,924	43,253
<b>Total Current Liabilities</b>	<b>750,436</b>	<b>401,682</b>

Deferred Credits and Other Liabilities:

Accumulated Deferred Income Taxes	443,468	785,385
Regulatory Liabilities	444,397	44,779
Accrued Pension, SERP and PBOP	124,639	94,652
Other Long-Term Liabilities	56,689	49,442
<b>Total Deferred Credits and Other Liabilities</b>	<b>1,069,193</b>	<b>974,258</b>

Capitalization:

Long-Term Debt	892,438	1,002,048
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Common Stockholder's Equity:

Common Stock	—	—
Capital Surplus, Paid In	843,134	843,134
Retained Earnings	511,382	549,286
Accumulated Other Comprehensive Loss	(3,922)	(5,063)
<b>Common Stockholder's Equity</b>	<b>1,350,594</b>	<b>1,387,357</b>
<b>Total Capitalization</b>	<b>2,243,032</b>	<b>2,389,405</b>

Commitments and Contingencies (Note 11)

<b>Total Liabilities and Capitalization</b>	<b>\$ 4,062,661</b>	<b>\$ 3,765,345</b>
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The accompanying notes are an integral part of these consolidated financial statements.

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF INCOME

(Thousands of Dollars)	For the Years Ended December 31,		
	2017	2016	2015
Operating Revenues	\$ 981,624	\$ 959,482	\$ 972,203
Operating Expenses:			
Purchased Power, Fuel and Transmission	237,478	210,786	247,721
Operations and Maintenance	257,185	260,779	276,554
Depreciation	128,192	116,519	105,372
Amortization of Regulatory (Liabilities)/Assets, Net	(16,577)	11,170	16,276
Energy Efficiency Programs	13,788	14,204	14,324
Taxes Other Than Income Taxes	89,760	82,964	81,779
Total Operating Expenses	709,826	696,422	742,026
Operating Income	271,798	263,060	230,177
Interest Expense	51,007	50,040	45,990
Other Income, Net	3,880	1,329	3,315
Income Before Income Tax Expense	224,671	214,349	187,502
Income Tax Expense	88,675	82,364	73,060
Net Income	\$ 135,996	\$ 131,985	\$ 114,442

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Thousands of Dollars)	For the Years Ended December 31,		
	2017	2016	2015
Net Income	\$ 135,996	\$ 131,985	\$ 114,442
Other Comprehensive Income, Net of Tax:			
Qualified Cash Flow Hedging Instruments	1,162	1,162	1,162
Changes in Unrealized (Losses)/Gains on Marketable Securities	(21)	136	(154)
Other Comprehensive Income, Net of Tax	1,141	1,298	1,008
Comprehensive Income	\$ 137,137	\$ 133,283	\$ 115,450

The accompanying notes are an integral part of these consolidated financial statements.

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDER'S EQUITY

(Thousands of Dollars, Except Stock Information)	Common Stock		Capital Surplus, Paid In	Retained Earnings	Accumulated Other Comprehensive Loss	Total Common Stockholder's Equity
	Stock	Amount				
Balance as of January 1, 2015	301	\$ —	\$ 748,240	\$ 486,459	\$ (7,369)	\$ 1,227,330
Net Income				114,442		114,442
Dividends on Common Stock				(106,000)		(106,000)
Allocation of Benefits - ESOP			394			394
Other Comprehensive Income					1,008	1,008
Balance as of December 31, 2015	301	—	748,634	494,901	(6,361)	1,237,174
Net Income				131,985		131,985
Dividends on Common Stock				(77,600)		(77,600)
Capital Contributions from Eversource Parent			94,500			94,500
Other Comprehensive Income					1,298	1,298
Balance as of December 31, 2016	301	—	843,134	549,286	(5,063)	1,387,357
Net Income				135,996		135,996
Dividends on Common Stock				(173,900)		(173,900)
Other Comprehensive Income					1,141	1,141
Balance as of December 31, 2017	301	\$ —	\$ 843,134	\$ 511,382	\$ (3,922)	\$ 1,350,594

The accompanying notes are an integral part of these consolidated financial statements.

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31,

(Thousands of Dollars)	2017	2016	2015
<b>Operating Activities:</b>			
Net Income	\$ 135,996	\$ 131,985	\$ 114,442
Adjustments to Reconcile Net Income to Net Cash Flows			
Provided by Operating Activities:			
Depreciation	128,192	116,519	105,372
Deferred Income Taxes	63,883	87,345	83,776
Pension, SERP and PBOP Expense	1,368	875	4,580
Pension Contributions	(800)	(17,078)	(982)
Regulatory (Under)/Over Recoveries, Net	(30,788)	(4,491)	41
Amortization of Regulatory (Liabilities)/Assets, Net	(16,577)	11,170	16,276
Refunds Related to Spent Nuclear Fuel	—	3,926	979
Other	(10,088)	6,521	8,677
Changes in Current Assets and Liabilities:			
Receivables and Unbilled Revenues, Net	(22,055)	(18,822)	(4,750)
Fuel, Materials, Supplies and Inventory	5,519	(5,485)	(8,729)
Taxes Receivable/Accrued, Net	339	32,303	(23,909)
Accounts Payable	29,453	11,353	(22,203)
Other Current Assets and Liabilities, Net	16,458	5,651	953
<b>Net Cash Flows Provided by Operating Activities</b>	<b>300,900</b>	<b>361,772</b>	<b>274,523</b>
<b>Investing Activities:</b>			
Investments in Property, Plant and Equipment	(312,720)	(305,430)	(308,036)
Other Investing Activities	199	326	306
<b>Net Cash Flows Used in Investing Activities</b>	<b>(312,521)</b>	<b>(305,104)</b>	<b>(307,730)</b>
<b>Financing Activities:</b>			
Cash Dividends on Common Stock	(23,900)	(77,600)	(106,000)
Increase/(Decrease) in Notes Payable to Eversource Parent	102,000	(70,400)	140,800
Retirements of Long-Term Debt	(70,000)	—	—
Capital Contributions from Eversource Parent	—	94,500	—
Other Financing Activities	(225)	(255)	(349)
<b>Net Cash Flows Provided by/(Used in) Financing Activities</b>	<b>7,875</b>	<b>(53,755)</b>	<b>34,451</b>
Net (Decrease)/Increase in Cash	(3,746)	2,913	1,244
Cash - Beginning of Year	4,646	1,733	489
Cash - End of Year	<u>\$ 900</u>	<u>\$ 4,646</u>	<u>\$ 1,733</u>

The accompanying notes are an integral part of these consolidated financial statements.

**EVERSOURCE ENERGY AND SUBSIDIARIES  
THE CONNECTICUT LIGHT AND POWER COMPANY  
NSTAR ELECTRIC COMPANY AND SUBSIDIARY  
PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE AND SUBSIDIARY**

**COMBINED NOTES TO FINANCIAL STATEMENTS**

Refer to the Glossary of Terms included in this combined Annual Report on Form 10-K for abbreviations and acronyms used throughout the combined notes to the financial statements.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. About Eversource, CL&P, NSTAR Electric and PSNH**

Eversource Energy is a public utility holding company primarily engaged, through its wholly-owned regulated utility subsidiaries, in the energy delivery business. Eversource Energy's wholly-owned regulated utility subsidiaries consist of CL&P, NSTAR Electric and PSNH (electric utilities), Yankee Gas and NSTAR Gas (natural gas utilities) and Aquarion (water utilities). Eversource provides energy delivery and/or water service to approximately 4 million electric, natural gas and water customers through eight regulated utilities in Connecticut, Massachusetts and New Hampshire.

On December 4, 2017, Eversource completed the acquisition of Aquarion (formerly Macquarie Utilities Inc.) from Macquarie Infrastructure Partners for \$1.675 billion, consisting of approximately \$880 million in cash and \$795 million of assumed Aquarion debt. Aquarion became an indirect wholly-owned subsidiary of Eversource. Aquarion is a holding company primarily engaged, through its three separate regulated water utility subsidiaries, in the water collection, treatment and distribution business. Eversource's consolidated financial information includes Aquarion and its subsidiaries' activity from December 4, 2017 through December 31, 2017. See Note 22A, "Acquisition of Aquarion and Goodwill - Acquisition of Aquarion," for further information.

On December 31, 2017, Western Massachusetts Electric Company ("WMECO") was merged into NSTAR Electric. In accordance with accounting guidance on combinations between entities under common control, the net assets, results of operations and cash flows of WMECO are reflected in the NSTAR Electric financial statements. NSTAR Electric's financial statements for all periods presented in this combined Annual Report on Form 10-K have been retrospectively recast as if the merger occurred on the first day of the earliest reporting period. All contracts and operations of WMECO are now part of NSTAR Electric. Balance sheet and income statement adjustments were made for consistent presentation between WMECO's and NSTAR Electric's financial statements, including the elimination of intercompany transactions and a merger-related transaction for common equity. Balance sheet adjustments included the elimination of intercompany accounts receivable and payable between NSTAR Electric and WMECO. Income statement adjustments included the elimination of intercompany revenues and expenses between NSTAR Electric and WMECO.

Eversource, CL&P, NSTAR Electric and PSNH are reporting companies under the Securities Exchange Act of 1934. Eversource Energy is a public utility holding company under the Public Utility Holding Company Act of 2005. Arrangements among the regulated electric companies and other Eversource companies, outside agencies and other utilities covering interconnections, interchange of electric power and sales of utility property are subject to regulation by the FERC. Eversource's regulated companies are subject to regulation of rates, accounting and other matters by the FERC and/or applicable state regulatory commissions (the PURA for CL&P and Yankee Gas, the DPU for NSTAR Electric and NSTAR Gas, the NHPUC for PSNH, and the PURA, the DPU and the NHPUC for Aquarion).

CL&P, NSTAR Electric and PSNH furnish franchised retail electric service in Connecticut, Massachusetts and New Hampshire. Yankee Gas and NSTAR Gas are engaged in the distribution and sale of natural gas to customers within Connecticut and Massachusetts, respectively. Aquarion is engaged in the collection, treatment and distribution of water in Connecticut, Massachusetts and New Hampshire. CL&P, NSTAR Electric and PSNH's results include the operations of their respective distribution and transmission businesses. The distribution business also included the results of PSNH's generation facilities and NSTAR Electric's solar power facilities. Eversource also has a regulated subsidiary, NPT, which was formed to construct, own and operate the Northern Pass line, a HVDC transmission line from Québec to New Hampshire under development that will interconnect with a new HVDC transmission line being developed by a transmission subsidiary of HQ.

On January 10, 2018, Eversource and PSNH completed the sale of PSNH's thermal generation assets. See Note 12, "Assets Held for Sale," for further information.

Eversource Service, Eversource's service company, and several wholly-owned real estate subsidiaries of Eversource, provide support services to Eversource, including its regulated companies. Eversource holds several equity ownership interests, which are accounted for under the equity method. Eversource also consolidates the operations of CYAPC and YAEC, both of which are inactive regional nuclear generation companies engaged in the long-term storage of their spent nuclear fuel.

## **B. Basis of Presentation**

The consolidated financial statements of Eversource, NSTAR Electric and PSNH include the accounts of each of their respective subsidiaries. Intercompany transactions have been eliminated in consolidation. The accompanying consolidated financial statements of Eversource, NSTAR Electric and PSNH and the financial statements of CL&P are herein collectively referred to as the "financial statements."

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Eversource consolidates CYAPC and YAEC because CL&P's, NSTAR Electric's and PSNH's combined ownership interest in each of these entities is greater than 50 percent. Intercompany transactions between CL&P, NSTAR Electric and PSNH and the CYAPC and YAEC companies have been eliminated in consolidation of the Eversource financial statements.

Eversource's utility subsidiaries' electric and natural gas distribution (including generation assets), transmission and water businesses are subject to rate regulation that is based on cost recovery and meets the criteria for application of accounting guidance for entities with rate-regulated operations, which considers the effect of regulation on the differences in the timing of the recognition of certain revenues and expenses from those of other businesses and industries. See Note 2, "Regulatory Accounting," for further information.

Certain reclassifications of prior year data were made in the accompanying financial statements to conform to the current year presentation.

In accordance with accounting guidance on noncontrolling interests in consolidated financial statements, the Preferred Stock of CL&P and the Preferred Stock of NSTAR Electric, which are not owned by Eversource or its consolidated subsidiaries and are not subject to mandatory redemption, have been presented as noncontrolling interests in the financial statements of Eversource. The Preferred Stock of CL&P and the Preferred Stock of NSTAR Electric are considered to be temporary equity and have been classified between liabilities and permanent shareholders' equity on the balance sheets of Eversource, CL&P and NSTAR Electric due to a provision in the preferred stock agreements of both CL&P and NSTAR Electric that grant preferred stockholders the right to elect a majority of the CL&P and NSTAR Electric Boards of Directors, respectively, should certain conditions exist, such as if preferred dividends are in arrears for a specified amount of time. The Net Income reported in the statements of income and cash flows represents net income prior to apportionment to noncontrolling interests, which is represented by dividends on preferred stock of CL&P and NSTAR Electric.

As of December 31, 2017 and 2016, Eversource's carrying amount of goodwill was approximately \$4.4 billion and \$3.5 billion, respectively. Eversource performs an assessment for possible impairment of its goodwill at least annually. Eversource completed its annual goodwill impairment test for each of its reporting units as of October 1, 2017 and determined that no impairment exists. See Note 22B, "Acquisition of Aquarion and Goodwill - Goodwill," for further information.

## **C. Northern Pass**

Northern Pass is Eversource's planned 1,090 MW HVDC transmission line that will interconnect from the Québec-New Hampshire border to Franklin, New Hampshire and an associated alternating current radial transmission line between Franklin and Deerfield, New Hampshire.

On February 1, 2018, the New Hampshire Site Evaluation Committee ("NHSEC") voted to deny Northern Pass' siting application. On February 14, 2018, pursuant to the NHSEC's decision, the Massachusetts EDCs, in coordination with the DOER and an independent evaluator, notified NPT that the EDCs will continue contract negotiations, with the option of discontinuing discussions and terminating its conditional selection by March 27, 2018.

Consistent with Eversource's and HQ's long-term relationship to bring clean energy into New England, Eversource and HQ continue to support Northern Pass and the many benefits this project will bring to our customers and region. Eversource intends to seek reconsideration of the NHSEC's decision and to review all options for moving this critical clean energy project forward.

As of December 31, 2017, Eversource has approximately \$277 million in capitalized costs associated with Northern Pass. The Company continues to believe that the Northern Pass project is probable of being placed in service. If in the future, events and changes in circumstances indicate that the Northern Pass project's capitalized costs may not be fully recoverable, the Company will then evaluate those costs for impairment. Should the Company conclude that these capitalized costs are impaired, this would have a significant negative impact on Eversource's financial position, results of operations, and cash flows.

## **D. Accounting Standards**

*Accounting Standards Issued but Not Yet Effective:* In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*, which amends existing revenue recognition guidance and is required to be applied either fully retrospectively (to each reporting period presented) or under a modified retrospective method (cumulatively at the date of initial application). The FASB deferred implementation of ASU 2014-09 in ASU 2015-14, *Revenue from Contracts with Customers (Topic: 606): Deferral of the Effective Date*. The new accounting guidance is effective for interim and annual periods beginning in 2018 with early adoption permitted. The Company implemented the standard in the first quarter of 2018 using the modified retrospective method of adoption. Under this method of adoption, prior year reported results are not restated.

Under the new standard, an entity must identify the performance obligations in a contract, determine the transaction price and allocate the price to specific performance obligations to recognize the revenue when the obligation is completed. The amendments in this ASU also require disclosure of sufficient information to allow users to understand the nature, amount, timing and uncertainty of revenue and cash flow arising from contracts.

The Company has reviewed and performed accounting analyses of its revenue streams under contracts with customers. These accounting analyses included reviewing representative contracts and tariffs for each material revenue stream and evaluating them under the new guidance. The majority of the Company's sales are derived from tariffs to provide electric and natural gas to customers. For such tariffs, the Company expects that the revenue from contracts with customers under ASU 2014-09 will be equivalent to revenue from electricity and natural gas supplied and billed in that period (including estimated unbilled revenues), which is consistent with current practice.

Based on our assessments, the Company has identified one item that will be accounted for differently under the new revenue guidance as compared to current guidance. As a result of applying guidance on the unit of account under the new standard, purchases and sales of power from and to ISO-New England will be accounted for net by the hour, rather than net by the month, with no impact on net income.

After taking into consideration this identified change, the Company has concluded that the new guidance will not have a material impact on the amounts or timing of revenue recognition. Implementation of the ASU will not have a material effect on the results of operations, financial position or cash flows of Eversource, CL&P, NSTAR Electric or PSNH. Significant additional disclosures of the nature, amount, timing and uncertainty of revenues and cash flows arising from contracts with customers will be presented beginning in the first quarter of 2018.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Liabilities*, which is required to be implemented in the first quarter of 2018. The ASU will remove the available-for-sale designation for equity securities, whereby changes in fair value are recorded in accumulated other comprehensive income within shareholders' equity, and will require changes in fair value of all equity securities to be recorded in earnings beginning on January 1, 2018, with the unrealized gain or loss on available-for-sale equity securities as of that date reclassified to retained earnings as a cumulative effect of adoption. The fair value of available-for-sale equity securities subject to this guidance as of December 31, 2017 was approximately \$51 million with an unrealized loss of \$0.1 million. The unrealized loss recorded in AOCI will be recorded as an adjustment to the opening balance of retained earnings as of January 1, 2018. The remaining available-for-sale equity securities included in marketable securities on the balance sheet are held in nuclear decommissioning trusts and are subject to regulatory accounting treatment and will not be impacted by this guidance. Implementation of the ASU for other financial instruments is not expected to have a material impact on the financial statements of Eversource, CL&P, NSTAR Electric or PSNH.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which changes existing lease accounting guidance and is required to be applied in the first quarter of 2019, with earlier application permitted. The ASU lease criteria are required to be applied to leases and lease renewals entered into effective January 1, 2019, and leases entered into before that date are required to be recognized and measured using a modified retrospective approach. The Company is reviewing the requirements of ASU 2016-02, including balance sheet recognition of leases previously deemed to be operating leases, and expects to implement the ASU in the first quarter of 2019.

In March 2017, the FASB issued ASU 2017-07, *Compensation - Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, required to be implemented in the first quarter of 2018. The ASU requires separate presentation of service cost from other components of net pension and PBOP costs, with the other components presented as non-operating income and not subject to capitalization. The ASU is required to be applied retrospectively for the separate presentation in the income statement of service costs and other components and prospectively in the balance sheet for the capitalization of only the service cost component. The implementation of the ASU will not have an impact on the net income of Eversource, CL&P, NSTAR Electric or PSNH.

#### **E. Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand and short-term cash investments that are highly liquid in nature and have original maturities of three months or less. At the end of each reporting period, any overdraft amounts are reclassified from Cash and Cash Equivalents to Accounts Payable on the balance sheets.

#### **F. Provision for Uncollectible Accounts**

Eversource, including CL&P, NSTAR Electric and PSNH, presents its receivables at estimated net realizable value by maintaining a provision for uncollectible accounts. This provision is determined based upon a variety of judgments and factors, including the application of an estimated uncollectible percentage to each receivable aging category. The estimate is based upon historical collection and write-off experience and management's assessment of collectability from customers. Management continuously assesses the collectability of receivables and adjusts collectability estimates based on actual experience. Receivable balances are written off against the provision for uncollectible accounts when the customer accounts are terminated and these balances are deemed to be uncollectible.

The PURA allows CL&P and Yankee Gas to accelerate the recovery of accounts receivable balances attributable to qualified customers under financial or medical duress (uncollectible hardship accounts receivable) outstanding for greater than 180 days and 90 days, respectively. The DPU allows NSTAR Electric and NSTAR Gas to recover in rates, amounts associated with certain uncollectible hardship accounts receivable. These uncollectible hardship customer account balances are included in Regulatory Assets or Other Long-Term Assets on the balance sheets.

The total provision for both uncollectible accounts and for uncollectible hardship accounts (the uncollectible hardship balance is included in the total provision) is included in Receivables, Net on the balance sheets, and was as follows:

<i>(Millions of Dollars)</i>	Total Provision for Uncollectible Accounts				Uncollectible Hardship			
	As of December 31,				As of December 31,			
	2017		2016		2017		2016	
Eversource	\$	195.7	\$	200.6	\$	122.5	\$	119.9
CL&P		78.9		86.4		65.5		67.7
NSTAR Electric		69.7		70.3		40.3		36.1
PSNH		10.5		9.9		—		—

#### G. Fuel, Materials, Supplies and Inventory

Fuel, Materials, Supplies and Inventory include natural gas, coal, biomass and oil inventories, materials and supplies purchased primarily for construction or operation and maintenance purposes, RECs and emission allowances. Inventory is valued at the lower of cost or net realizable value. RECs are purchased from suppliers of renewable sources of generation and are used to meet state mandated Renewable Portfolio Standards requirements.

PSNH is subject to federal and state laws and regulations that regulate emissions of air pollutants, including SO<sub>2</sub>, CO<sub>2</sub>, and NO<sub>x</sub> related to its regulated generation units, and used SO<sub>2</sub>, CO<sub>2</sub>, and NO<sub>x</sub> emissions allowances. SO<sub>2</sub>, CO<sub>2</sub>, and NO<sub>x</sub> emissions allowances were charged to expense based on their average cost as they were utilized against emissions volumes at PSNH's generating units.

On October 11, 2017, PSNH entered into two Purchase and Sale Agreements ("Agreements") to sell its thermal and hydroelectric generation assets. The NHPUC approved the Agreements in late November 2017 and on January 10, 2018, PSNH completed the sale of its thermal generation assets. As of December 31, 2017, PSNH has classified its generation assets, which included coal, biomass and oil inventories and emission allowances, as held for sale. As of December 31, 2016, these inventories were recorded within Fuel, Materials, Supplies and Inventory on the balance sheet. See Note 12, "Assets Held for Sale," for further information.

The carrying amounts of fuel, materials and supplies, RECs, and emission allowances were as follows:

<i>(Millions of Dollars)</i>	As of December 31,									
	2017				2016					
	Eversource	CL&P	NSTAR Electric	PSNH	Eversource	CL&P	NSTAR Electric	PSNH		
<u>Current:</u>										
Fuel	\$	29.7	\$	—	\$	—	\$	—	\$	99.9
Materials and Supplies		117.1		44.4		45.1		18.5		142.7
RECs		76.3		4.0		50.4		21.8		47.9
Emission Allowances		—		—		—		—		2.4
<u>Long-Term:</u>										
Emission Allowances		—		—		—		—		17.5

#### H. Deposits

As of December 31, 2017, Eversource, CL&P, NSTAR Electric and PSNH had \$24.5 million, \$3.1 million, \$12.8 million and \$0.5 million, respectively, of cash collateral posted not subject to master netting agreements, with ISO-NE related to energy transactions, which was included in Prepayments and Other Current Assets on the balance sheets. As of December 31, 2016, these amounts were \$21.7 million, \$1.4 million, \$11.8 million and \$0.5 million for Eversource, CL&P, NSTAR Electric and PSNH, respectively.

#### I. Fair Value Measurements

Fair value measurement guidance is applied to derivative contracts that are not elected or designated as "normal purchases" or "normal sales" ("normal") and to the marketable securities held in trusts. Fair value measurement guidance is also applied to valuations of the investments used to calculate the funded status of pension and PBOP plans, the nonrecurring fair value measurements of nonfinancial assets such as goodwill and AROs, and the estimated fair value of preferred stock and long-term debt.

*Fair Value Hierarchy:* In measuring fair value, Eversource uses observable market data when available in order to minimize the use of unobservable inputs. Inputs used in fair value measurements are categorized into three fair value hierarchy levels for disclosure purposes. The entire fair value measurement is categorized based on the lowest level of input that is significant to the fair value measurement. Eversource evaluates the classification of assets and liabilities measured at fair value on a quarterly basis, and Eversource's policy is to recognize transfers between levels of the fair value hierarchy as of the end of the reporting period. The three levels of the fair value hierarchy are described below:

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - Inputs are quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which all significant inputs are observable.

Level 3 - Quoted market prices are not available. Fair value is derived from valuation techniques in which one or more significant inputs or assumptions are unobservable. Where possible, valuation techniques incorporate observable market inputs that can be validated to external sources such as industry exchanges, including prices of energy and energy-related products.

*Determination of Fair Value:* The valuation techniques and inputs used in Eversource's fair value measurements are described in Note 4, "Derivative Instruments," Note 5, "Marketable Securities," Note 6, "Asset Retirement Obligations," Note 9A, "Employee Benefits – Pension Benefits and Postretirement Benefits Other Than Pensions," and Note 14, "Fair Value of Financial Instruments" to the financial statements.

#### **J. Derivative Accounting**

Many of the electric and natural gas companies' contracts for the purchase and sale of energy or energy-related products are derivatives. The accounting treatment for energy contracts entered into varies and depends on the intended use of the particular contract and on whether or not the contract is a derivative. For the regulated companies, regulatory assets or regulatory liabilities are recorded to offset the fair values of derivative contracts related to energy and energy-related products, as contract settlements are recovered from, or refunded to, customers in future rates.

The application of derivative accounting is complex and requires management judgment in the following respects: identification of derivatives and embedded derivatives, election and designation of a contract as normal, and determination of the fair value of derivative contracts. All of these judgments can have a significant impact on the financial statements.

The judgment applied in the election of a contract as normal (and resulting accrual accounting) includes the conclusion that it is probable at the inception of the contract and throughout its term that it will result in physical delivery of the underlying product and that the quantities will be used or sold by the business in the normal course of business. If facts and circumstances change and management can no longer support this conclusion, then a contract cannot be considered normal and accrual accounting is terminated, and fair value accounting is applied prospectively.

The fair value of derivative contracts is based upon the contract terms and conditions and the underlying market price or fair value per unit. When quantities are not specified in the contract, the Company determines whether the contract has a determinable quantity by using amounts referenced in default provisions and other relevant sections of the contract. The fair value of derivative assets and liabilities with the same counterparty are offset and recorded as a net derivative asset or liability on the balance sheets.

All changes in the fair value of derivative contracts are recorded as regulatory assets or liabilities and do not impact net income.

For further information regarding derivative contracts, see Note 4, "Derivative Instruments," to the financial statements.

#### **K. Investments**

Investments are included in Other Long-Term Assets on the balance sheets and earnings impacts from equity investments are included in Other Income, Net on the statements of income.

*Strategic, Infrastructure and Other Investments:* As of December 31, 2017 and 2016, Eversource had investments totaling \$277.6 million and \$236.9 million, respectively. As of December 31, 2017 and 2016, Eversource's investments included a 15 percent ownership interest in a FERC-regulated natural gas transmission business of \$159.6 million and \$154.6 million, respectively, a 40 percent ownership interest in Access Northeast of \$31.3 million and \$30.9 million, respectively, a 37.2 percent (14.5 percent of which related to NSTAR Electric) ownership interest in two companies that transmit hydro-electricity imported from the Hydro-Quebec system in Canada of \$17.7 million and \$7.7 million, respectively, and other investments totaling \$69.0 million and \$43.7 million, respectively. NSTAR Electric's investments totaled \$6.9 million and \$3.0 million, respectively, as of December 31, 2017 and 2016.

*Regional Decommissioned Nuclear Companies:* CL&P, NSTAR Electric and PSNH own common stock in three regional nuclear generation companies (CYAPC, YAEC and MYAPC, collectively referred to as the "Yankee Companies"), each of which owned a single nuclear generating facility that has been decommissioned. For CL&P, NSTAR Electric and PSNH, the respective investments in CYAPC, YAEC and MYAPC are accounted for under the equity method and are included in Other Long-Term Assets on their respective balance sheets. Eversource consolidates CYAPC and YAEC because CL&P's, NSTAR Electric's and PSNH's combined ownership interest in each of these entities is greater than 50 percent. For further information on the Yankee Companies, see Note 11C, "Commitments and Contingencies – Spent Nuclear Fuel Obligations – Yankee Companies," to the financial statements.

*Equity in Earnings and Dividends from Equity Investments:* For the years ended December 31, 2017, 2016 and 2015, Eversource had equity in earnings of \$27.4 million, \$0.2 million, and \$0.9 million, respectively. Eversource received dividends from its equity method investees of \$20.0 million and \$0.1 million, respectively, for the years ended December 31, 2017 and 2016.

## L. Revenues

*Retail Revenues:* Retail revenues are based on rates approved by respective state regulatory commissions. In general, rates can only be changed through formal proceedings with the state regulatory commissions. These rates are designed to recover the costs to provide service to customers, and include a return on investment. Regulatory commission-approved tracking mechanisms are also used to recover certain costs on a fully-reconciling basis. These tracking mechanisms require rates to be changed periodically to ensure recovery of actual costs incurred.

Certain Eversource electric, natural gas and water companies, including CL&P and NSTAR Electric (for a portion of its customers), have a regulatory commission approved revenue decoupling mechanism ("decoupled companies"). Distribution revenues are decoupled from customer sales volumes, where applicable, which breaks the relationship between sales volumes and revenues recognized. The decoupled companies reconcile their annual base distribution rate recovery to pre-established levels of baseline distribution delivery service revenues. Any difference between the allowed level of distribution revenue and the actual amount realized is adjusted through rates in a subsequent period.

A significant portion of the electric and natural gas companies' retail revenues relate to the recovery of costs incurred for the sale of electricity and natural gas purchased on behalf of customers. These energy supply costs are recovered from customers in rates through cost tracking mechanisms. Energy purchases are recorded in Purchased Power, Fuel and Transmission, and the sales of energy associated with these purchases are recorded in Operating Revenues on the statements of income.

*Unbilled Revenues:* Because customers are billed throughout the month based on pre-determined cycles rather than on a calendar month basis, an estimate of electricity, natural gas or water delivered to customers for which the customers have not yet been billed is calculated as of the balance sheet date. Unbilled revenues are included in Operating Revenues on the statements of income and in Current Assets on the balance sheets. Actual amounts billed to customers when meter readings become available may vary from the estimated amount.

Unbilled revenues are recognized by allocating estimated unbilled sales volumes to the respective customer classes, and then applying an estimated rate by customer class to those sales volumes. Unbilled revenues can vary significantly from period to period as a result of seasonality, weather, customer usage patterns, customer rates in effect for customer classes, and the timing of customer billing. The estimate of unbilled revenues can significantly impact the amount of revenues recorded at the companies that do not have a revenue decoupling mechanism. Companies that do have a decoupling mechanism record a regulatory deferral to reflect the actual allowed amount of revenue associated with their respective decoupled distribution rate design.

*Transmission Revenues - Wholesale Rates:* The Eversource electric transmission-owning companies have a combination of FERC-approved regional and local formula rates that work in tandem to recover all their transmission costs. These rates are part of the ISO-NE Tariff. Regional rates recover the costs of higher voltage transmission facilities that benefit the region, and are collected from all New England transmission customers, including the Eversource distribution businesses. Eversource and NSTAR Electric each have two sets of local rates that recover the companies' total transmission revenue requirements, less revenues received from regional rates and other sources, and are collected from Eversource's distribution businesses and other transmission customers. The distribution businesses of Eversource, in turn, recover the FERC-approved charges from retail customers through annual or semiannual tracking mechanisms. The transmission formula rates provide for the annual reconciliation and recovery or refund of estimated costs to actual costs. The financial impacts of differences between actual and estimated costs are deferred for future recovery from, or refund to, transmission customers. See Note 11E, "Commitments and Contingencies – FERC ROE Complaints," for complaints filed at the FERC relating to Eversource's ROE.

*Transmission Revenues - Retail Rates:* A significant portion of the Eversource electric transmission segment revenue comes from ISO-NE charges to the distribution businesses of CL&P, NSTAR Electric, and PSNH, each of which recovers these costs through rates charged to their retail customers. CL&P, NSTAR Electric and PSNH each have a retail transmission cost tracking mechanism as part of their rates, which allows the electric distribution companies to charge their retail customers for transmission costs on a timely basis.

## M. Operating Expenses

Costs related to fuel and natural gas included in Purchased Power, Fuel and Transmission on the statements of income were as follows:

(Millions of Dollars)	For the Years Ended December 31,		
	2017	2016	2015
Eversource - Natural Gas and Fuel	\$ 432.5	\$ 372.2	\$ 516.7
PSNH - Fuel	43.4	45.0	85.4

## N. Allowance for Funds Used During Construction

AFUDC represents the cost of borrowed and equity funds used to finance construction and is included in the cost of the electric, natural gas and water companies' utility plant on the balance sheet. The portion of AFUDC attributable to borrowed funds is recorded as a reduction of Interest Expense, and the AFUDC related to equity funds is recorded as Other Income, Net on the statements of income. AFUDC costs are recovered from customers over the service life of the related plant in the form of increased revenue collected as a result of higher depreciation expense.

The average AFUDC rate is based on a FERC-prescribed formula using the cost of a company's short-term financings and capitalization (preferred stock, long-term debt and common equity), as appropriate. The average rate is applied to average eligible CWIP amounts to calculate AFUDC.

AFUDC costs and the weighted-average AFUDC rates were as follows:

Eversource (Millions of Dollars, except percentages)	For the Years Ended December 31,								
	2017			2016			2015		
Borrowed Funds	\$	12.5	\$	10.8	\$	7.2			
Equity Funds		34.4		26.2		18.8			
Total AFUDC	\$	46.9	\$	37.0	\$	26.0			
Average AFUDC Rate		5.1%		4.4%		3.9%			

Eversource (Millions of Dollars, except percentages)	For the Years Ended December 31,								
	2017			2016			2015		
	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH
Borrowed Funds	\$ 5.1	\$ 4.8	\$ 0.7	\$ 3.3	\$ 5.3	\$ 0.8	\$ 2.6	\$ 3.0	\$ 1.0
Equity Funds	12.1	10.2	—	6.3	10.2	0.3	5.2	6.0	1.2
Total AFUDC	\$ 17.2	\$ 15.0	\$ 0.7	\$ 9.6	\$ 15.5	\$ 1.1	\$ 7.8	\$ 9.0	\$ 2.2
Average AFUDC Rate	6.2%	5.0%	0.7%	4.7%	3.2%	1.0%	5.5%	3.5%	1.8%

#### O. Other Income, Net

Items included within Other Income, Net on the statements of income primarily consist of investment income/(loss) related to debt and equity securities held in trust, market value changes related to deferred compensation plans, interest income, AFUDC related to equity funds, and income/(loss) related to equity method investees. For further information on gains/(losses) related to debt and equity securities, see Note 5, "Marketable Securities," to the financial statements. For further information on AFUDC related to equity funds, see Note 1N, "Summary of Significant Accounting Policies – Allowance for Funds Used During Construction," to the financial statements. For further information on equity in earnings, see Note 1K, "Summary of Significant Accounting Policies – Investments," to the financial statements.

#### P. Other Taxes

Eversource's companies that serve customers in Connecticut collect gross receipts taxes levied by the state of Connecticut from their customers. These gross receipts taxes are shown separately with collections in Operating Revenues and with payments in Taxes Other Than Income Taxes on the statements of income as follows:

Eversource (Millions of Dollars)	For the Years Ended December 31,		
	2017	2016	2015
Eversource	\$ 157.4	\$ 162.7	\$ 147.2
CL&P	137.5	145.2	128.5

As agents for state and local governments, Eversource's companies that serve customers in Connecticut and Massachusetts collect certain sales taxes that are recorded on a net basis with no impact on the statements of income.

Separately from the amounts above are \$25.4 million of expense recorded as Taxes Other than Income Taxes in 2017 related to the future remittance of energy efficiency funds collected from customers in Operating Revenues to the State of Connecticut. These amounts are shown separately with collections in Operating Revenues and expenses in Taxes Other than Income Taxes on the Eversource and CL&P statements of income.

#### Q. Supplemental Cash Flow Information

Eversource (Millions of Dollars)	As of and For the Years Ended December 31,								
	2017			2016			2015		
Cash Paid/(Received) During the Year for:									
Interest, Net of Amounts Capitalized	\$	419.1	\$	398.1	\$	365.9			
Income Taxes		30.8		(135.5)		10.3			
Non-Cash Investing Activities:									
Plant Additions Included in Accounts Payable (As of)		379.5		301.5		216.6			

Eversource (Millions of Dollars)	As of and For the Years Ended December 31,								
	2017			2016			2015		
	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH
Cash Paid/(Received) During the Year for:									
Interest, Net of Amounts Capitalized	\$ 144.6	\$ 124.6	\$ 45.9	\$ 143.3	\$ 112.9	\$ 46.5	\$ 144.4	\$ 102.4	\$ 42.3
Income Taxes	68.8	95.5	26.1	(73.9)	66.0	(36.0)	55.2	(5.1)	14.4
Non-Cash Investing Activities:									
Plant Additions Included in Accounts Payable (As of)	132.5	116.5	44.4	116.2	87.0	37.9	76.0	50.5	46.5

In 2016, as a result of damages awarded to the Yankee Companies for spent nuclear fuel lawsuits against the DOE described in Note 11C, "Commitments and Contingencies – Spent Nuclear Fuel Obligations – Yankee Companies," CYAPC and YAEC received total proceeds of \$52.2 million, which were classified as operating activities on the Eversource consolidated statements of cash flows. CYAPC returned \$6.8 million of these proceeds to its non-affiliated member companies. In addition, CL&P, NSTAR Electric and PSNH received a total distribution of \$14.4 million from MYAPC as a result of DOE Phase III proceeds and a distribution from its spent nuclear fuel trust.

The 2015 cash paid for interest excludes interest payments made by CL&P and NSTAR Electric in connection with the full satisfaction of their respective obligations to the DOE for the disposal of spent nuclear fuel and high-level radioactive waste for all periods prior to 1983 from their previous ownership interest in the Millstone nuclear power stations. CL&P and NSTAR Electric divested their ownership interest in Millstone in 2001. In late 2015, CL&P and NSTAR Electric made payments of \$244.6 million and \$57.4 million, respectively, to satisfy their pre-1983 spent nuclear fuel obligations to the DOE in full, which included accumulated interest of \$178 million and \$41.8 million, respectively.

## R. Related Parties

Eversource Service, Eversource's service company, provides centralized accounting, administrative, engineering, financial, information technology, legal, operational, planning, purchasing, and other services to Eversource's companies. The Rocky River Realty Company, Renewable Properties, Inc. and Properties, Inc., three other Eversource subsidiaries, construct, acquire or lease some of the property and facilities used by Eversource's companies.

As of both December 31, 2017 and 2016, CL&P, NSTAR Electric and PSNH had long-term receivables from Eversource Service in the amounts of \$25.0 million, \$3.8 million and \$5.5 million, respectively, which were included in Other Long-Term Assets on the balance sheets. These amounts related to the funding of investments held in trust by Eversource Service in connection with certain postretirement benefits for CL&P, NSTAR Electric and PSNH employees and have been eliminated in consolidation on the Eversource financial statements.

Included in the CL&P, NSTAR Electric and PSNH balance sheets as of December 31, 2017 and 2016 were Accounts Receivable from Affiliated Companies and Accounts Payable to Affiliated Companies relating to transactions between CL&P, NSTAR Electric and PSNH and other subsidiaries that are wholly-owned by Eversource. These amounts have been eliminated in consolidation on the Eversource financial statements.

## 2. REGULATORY ACCOUNTING

Eversource's utility companies are subject to rate regulation that is based on cost recovery and meets the criteria for application of accounting guidance for rate-regulated operations, which considers the effect of regulation on the timing of the recognition of certain revenues and expenses. The regulated companies' financial statements reflect the effects of the rate-making process. The rates charged to the customers of Eversource's regulated companies are designed to collect each company's costs to provide service, including a return on investment.

Management believes it is probable that each of the regulated companies will recover its respective investments in long-lived assets, including regulatory assets. If management were to determine that it could no longer apply the accounting guidance applicable to rate-regulated enterprises to any of the regulated companies' operations, or if management could not conclude it is probable that costs would be recovered from customers in future rates, the costs would be charged to net income in the period in which the determination is made.

*Regulatory Assets:* The components of regulatory assets were as follows:

Eversource (Millions of Dollars)	As of December 31,	
	2017	2016
Benefit Costs	\$ 2,068.8	\$ 1,817.8
Deferred Costs from Generation Asset Sale	516.1	—
Derivative Liabilities	367.2	423.3
Income Taxes, Net	768.9	644.5
Storm Restoration Costs	404.8	385.3
Goodwill-related	365.2	464.4
Regulatory Tracker Mechanisms	509.9	576.6
Asset Retirement Obligations	101.0	99.3
Other Regulatory Assets	137.4	115.1
Total Regulatory Assets	5,239.3	4,526.3
Less: Current Portion	741.9	887.6
Total Long-Term Regulatory Assets	\$ 4,497.4	\$ 3,638.7

As of December 31,

	2017			2016		
	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH
<i>(Millions of Dollars)</i>						
Benefit Costs	\$ 469.2	\$ 560.7	\$ 212.3	\$ 429.3	\$ 525.3	\$ 184.2
Deferred Costs from Generation Asset Sale	—	—	516.1	—	—	—
Derivative Liabilities	362.3	—	—	420.5	2.8	—
Income Taxes, Net	453.8	113.2	21.7	437.0	120.5	24.2
Storm Restoration Costs	216.7	146.6	41.5	239.8	128.4	17.1
Goodwill-related	—	313.6	—	—	398.7	—
Regulatory Tracker Mechanisms	85.3	273.0	116.4	123.9	304.0	104.5
Asset Retirement Obligations	30.3	39.0	17.0	33.2	36.1	16.2
Other Regulatory Assets	27.6	78.4	15.8	43.4	22.7	16.5
Total Regulatory Assets	1,645.2	1,524.5	940.8	1,727.1	1,538.5	362.7
Less: Current Portion	200.3	333.9	130.1	335.5	353.5	117.2
Total Long-Term Regulatory Assets	\$ 1,444.9	\$ 1,190.6	\$ 810.7	\$ 1,391.6	\$ 1,185.0	\$ 245.5

**Benefit Costs:** Eversource's Pension, SERP and PBOP Plans are accounted for in accordance with accounting guidance on defined benefit pension and other PBOP plans. The liability (or asset) recorded by the regulated companies to recognize the funded status of their retiree benefit plans is offset by a regulatory asset (or offset by a regulatory liability in the case of a benefit plan asset) in lieu of a charge to Accumulated Other Comprehensive Income/(Loss), reflecting ultimate recovery from customers through rates. The regulatory asset (or regulatory liability) is amortized as the actuarial gains and losses and prior service cost are amortized to net periodic benefit cost for the pension and PBOP plans. All amounts are remeasured annually. Regulatory accounting is also applied to the portions of Eversource's service company costs that support the regulated companies, as these amounts are also recoverable. As these regulatory assets or regulatory liabilities do not represent a cash outlay for the regulated companies, no carrying charge is recovered from customers.

CL&P, NSTAR Electric and PSNH recover benefit costs related to their distribution and transmission operations from customers in rates as allowed by their applicable regulatory commissions. NSTAR Electric recovers qualified pension and PBOP expenses related to its distribution operations through a rate reconciling mechanism that fully tracks the change in net pension and PBOP expenses each year.

**Deferred Costs from Generation Asset Sale:** Represents PSNH's \$516.1 million of deferred costs associated with the sale of PSNH's generation assets that are expected to be recovered. These deferred costs were the difference between the carrying value and the fair value less costs to sell of the thermal generation assets that were classified as held for sale as of December 31, 2017. Full recovery of PSNH's generation assets (including these deferred costs and the results of the sale of the hydro generation assets) are expected to occur through a combination of cash flows during the remaining operating period, sales proceeds, and recovery of stranded costs via the issuance of bonds that will be secured by a non-bypassable charge or through recoveries in future rates billed to PSNH's customers. For further information, see Note 12, "Assets Held for Sale."

**Derivative Liabilities:** Regulatory assets are recorded as an offset to derivative liabilities and relate to the fair value of contracts used to purchase energy and energy-related products that will be recovered from customers in future rates. These assets are excluded from rate base and are being recovered as the actual settlements occur over the duration of the contracts. See Note 4, "Derivative Instruments," to the financial statements for further information on these contracts.

**Income Taxes, Net:** The tax effect of temporary book-tax differences (differences between the periods in which transactions affect income in the financial statements and the periods in which they affect the determination of taxable income, including those differences relating to uncertain tax positions) is accounted for in accordance with the rate-making treatment of the applicable regulatory commissions and accounting guidance for income taxes. Differences in income taxes between the accounting guidance and the rate-making treatment of the applicable regulatory commissions are recorded as regulatory assets. As these assets are offset by deferred income tax liabilities, no carrying charge is collected. The amortization period of these assets varies depending on the nature and/or remaining life of the underlying assets and liabilities. For further information regarding income taxes, see Note 10, "Income Taxes," to the financial statements.

**Storm Restoration Costs:** The storm restoration cost deferrals relate to costs incurred for major storm events at CL&P, NSTAR Electric and PSNH that each company expects to recover from customers. A storm must meet certain criteria to qualify as a major storm with the criteria specific to each state jurisdiction and utility company. Once a storm qualifies as a major storm, all qualifying expenses incurred during storm restoration efforts are deferred and recovered from customers. In addition to storm restoration costs, CL&P and PSNH are each allowed to recover pre-staging storm costs. Management believes the storm restoration costs were prudent and meet the criteria for specific cost recovery in Connecticut, Massachusetts and New Hampshire, and that recovery from customers is probable through the applicable regulatory recovery process. Each electric utility has sought, or is seeking, recovery of its deferred storm restoration costs through its applicable regulatory recovery process. Each electric utility company either recovers a carrying charge on its deferred storm restoration cost regulatory asset balance or the regulatory asset balance is included in rate base.

**Goodwill-related:** The goodwill regulatory asset originated from a 1999 transaction, and the DPU allowed its recovery in NSTAR Electric and NSTAR Gas rates. This regulatory asset is currently being amortized and recovered from customers in rates without a carrying charge over a 40-year period, and, as of December 31, 2017, there were 22 years of amortization remaining.

**Regulatory Tracker Mechanisms:** The regulated companies' approved rates are designed to recover costs incurred to provide service to customers. The regulated companies recover certain of their costs on a fully-reconciling basis through regulatory commission-approved tracking mechanisms. The differences between the costs incurred (or the rate recovery allowed) and the actual revenues are recorded as regulatory assets (for undercollections) or as regulatory liabilities (for overcollections) to be included in future customer rates each year. Carrying charges are recovered in rates on all material regulatory tracker mechanisms.

CL&P, NSTAR Electric and PSNH each recover, on a fully reconciling basis, the costs associated with the procurement of energy, transmission related costs from FERC-approved transmission tariffs, energy efficiency programs, low income assistance programs, certain uncollectible accounts receivable for hardship customers, and restructuring and stranded costs as a result of deregulation. Energy procurement costs at PSNH include the costs related to its generation facilities and at NSTAR Electric include the costs related to its solar power facilities.

CL&P, NSTAR Electric (for their western Massachusetts customer rates) and NSTAR Gas each have a regulatory commission approved revenue decoupling mechanism. Distribution revenues are decoupled from customer sales volumes, where applicable, which breaks the relationship between sales volumes and revenues recognized. In 2017 and 2016, NSTAR Electric operated under two different rate structures based on its service territory geography. For customers that were served in eastern Massachusetts, including metropolitan Boston, Cape Cod and Martha's Vineyard, NSTAR Electric operated using traditional rates. For customers that were served in western Massachusetts, including the metropolitan Springfield region, NSTAR Electric operated using decoupled rates. Effective February 1, 2018, all of NSTAR Electric's distribution revenues were decoupled as a result of the DPU-approved rate decision. CL&P and NSTAR Electric reconciled their annual base distribution rate recovery amounts to their pre-established levels of baseline distribution delivery service revenues of \$1.059 billion and \$132.4 million, respectively, through December 31, 2017. Effective February 1, 2018, NSTAR Electric, operating entirely under decoupled rates, will reconcile its annual base distribution rate recovery to its new baseline of \$974.8 million. Any difference between the allowed level of distribution revenue and the actual amount realized during a 12-month period is adjusted through rates in the following period.

**Asset Retirement Obligations:** The costs associated with the depreciation of the regulated companies' ARO assets and accretion of the ARO liabilities are recorded as regulatory assets in accordance with regulatory accounting guidance. The regulated companies' ARO assets, regulatory assets and liabilities offset and are excluded from rate base. These costs are being recovered over the life of the underlying property, plant and equipment.

**Other Regulatory Assets:** Other Regulatory Assets primarily include contractual obligations associated with the remaining nuclear fuel storage costs of the CYAPC, YAEC and MYAPC nuclear facilities, environmental remediation costs, losses associated with the reacquisition or redemption of long-term debt, certain uncollectible accounts receivable for hardship customers, certain merger-related costs allowed for recovery, water tank painting costs, and various other items.

**Regulatory Costs in Long-Term Assets:** Eversource's regulated companies had \$105.8 million (including \$18.2 million for CL&P, \$42.7 million for NSTAR Electric and \$27.2 million for PSNH) and \$86.3 million (including \$5.9 million for CL&P, \$55.1 million for NSTAR Electric and \$8.2 million for PSNH) of additional regulatory costs as of December 31, 2017 and 2016, respectively, that were included in long-term assets on the balance sheets. These amounts represent incurred costs for which recovery has not yet been specifically approved by the applicable regulatory agency. However, based on regulatory policies or past precedent on similar costs, management believes it is probable that these costs will ultimately be approved and recovered from customers in rates.

**Equity Return on Regulatory Assets:** For rate-making purposes, the regulated companies recover the carrying costs related to their regulatory assets. For certain regulatory assets, the carrying cost recovered includes an equity return component. This equity return, which is not recorded on the balance sheets, totaled \$1.0 million and \$1.2 million for CL&P as of December 31, 2017 and 2016, respectively. These carrying costs will be recovered from customers in future rates. As of December 31, 2017 and 2016, this equity return, which is not recorded on the balance sheets, totaled \$42.0 million and \$44.9 million, respectively, for PSNH. These amounts include \$25 million of equity return on the Clean Air Project costs that PSNH has agreed not to bill customers as part of a generation divestiture settlement agreement.

**Regulatory Liabilities:** The components of regulatory liabilities were as follows:

Eversource (Millions of Dollars)	As of December 31,	
	2017	2016
Cost of Removal	\$ 502.1	\$ 459.7
Benefit Costs	132.3	136.2
Regulatory Tracker Mechanisms	136.7	145.3
AFUDC - Transmission	67.1	65.8
Other Regulatory Liabilities	45.2	42.1
Total Regulatory Liabilities <sup>(1)</sup>	883.4	849.1
Less: Current Portion	128.1	146.8
Total Long-Term Regulatory Liabilities <sup>(1)</sup>	\$ 755.3	\$ 702.3

## As of December 31,

(Millions of Dollars)	2017			2016		
	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH
Cost of Removal	\$ 23.2	\$ 293.8	\$ 37.9	\$ 38.8	\$ 280.2	\$ 44.1
Benefit Costs	—	112.6	—	—	113.1	—
Regulatory Tracker Mechanisms	34.6	77.8	5.0	37.2	78.4	10.7
AFUDC - Transmission	48.8	18.3	—	50.2	15.6	—
Other Regulatory Liabilities	12.9	3.7	2.7	21.0	0.3	2.7
Total Regulatory Liabilities <sup>(1)</sup>	119.5	506.2	45.6	147.2	487.6	57.5
Less: Current Portion	39.0	79.6	6.3	47.1	78.5	12.7
Total Long-Term Regulatory Liabilities <sup>(1)</sup>	\$ 80.5	\$ 426.6	\$ 39.3	\$ 100.1	\$ 409.1	\$ 44.8

<sup>(1)</sup> The amounts above do not include the impacts associated with the "Tax Cuts and Jobs Act" (the "Act"), which became law on December 22, 2017. Pursuant to the enacted law, Eversource remeasured its existing deferred federal income tax balances as of December 31, 2017 to reflect the decrease in the U.S. federal corporate income tax rate from 35 percent to 21 percent. The remeasurement resulted in provisional regulated excess accumulated deferred income tax (ADIT) liabilities that we expect to benefit our customers in future periods, which were estimated to be approximately \$2.9 billion (approximately \$1.0 billion at CL&P, \$1.1 billion at NSTAR Electric and \$0.4 billion at PSNH) as of December 31, 2017 and recognized as regulatory liabilities on the balance sheet. We estimate that about 85 percent of the provisional regulated excess ADIT liabilities relate to property, plant, and equipment with remaining useful lives estimated to be in excess of 20 years. These amounts are subject to IRS normalization rules and would be returned to customers using the same timing as the remaining useful lives of the underlying assets that gave rise to the ADIT liabilities. The Eversource regulated companies are currently working with the state regulatory commissions, who have opened investigations to examine the impact of the Act on customer rates. For further information, see Note 10, "Income Taxes," to the financial statements.

**Cost of Removal:** Eversource's regulated companies currently recover amounts in rates for future costs of removal of plant assets over the lives of the assets. The estimated cost to remove utility assets from service is recognized as a component of depreciation expense, and the cumulative amount collected from customers but not yet expended is recognized as a regulatory liability.

**AFUDC - Transmission:** Regulatory liabilities were recorded by CL&P and NSTAR Electric for AFUDC accrued on certain reliability-related transmission projects to reflect local rate base recovery. These regulatory liabilities will be amortized over the depreciable life of the related transmission assets.

**FERC ROE Complaints:** As of December 31, 2017, Eversource has a reserve established for the first and second ROE complaints in the pending FERC ROE complaint proceedings, which was recorded as a regulatory liability. The cumulative pre-tax reserve (excluding interest) as of December 31, 2017, which includes the impact of refunds given to customers, totaled \$39.1 million for Eversource (including \$21.4 million for CL&P, \$14.6 million for NSTAR Electric and \$3.1 million for PSNH). See Note 11E, "Commitments and Contingencies – FERC ROE Complaints," for further information on developments in the pending ROE complaint proceedings.

**Recent Regulatory Developments:**

**NSTAR Electric Distribution Rate Case Decision:** On November 30, 2017, the DPU issued its decision in the NSTAR Electric distribution rate case, which approved an annual distribution rate increase of \$37 million, with rates effective February 1, 2018. On January 3, 2018, NSTAR Electric filed a motion to reflect a revenue requirement reduction of \$56 million (due to the decrease in the federal corporate income tax rate, as part of the "Tax Cuts and Jobs Act"), resulting in an annual net decrease in rates of \$19 million.

In addition to its decision regarding rates, the DPU approved an authorized regulatory ROE of 10 percent, the establishment of a revenue decoupling rate mechanism for the portion of the NSTAR Electric business that did not previously have a decoupling mechanism, and the implementation of an inflation-based adjustment mechanism with a five-year stay-out until January 1, 2023.

Among other items, the DPU approved the recovery of previously expensed merger-related costs (which were incurred by Eversource parent in prior years) over a 10-year period and the recovery of previously deferred storm costs with carrying charges at the prime rate, but disallowed certain property taxes. The rate case decision resulted in the recognition of an aggregate \$44.1 million pre-tax benefit recorded in 2017 (\$14.1 million at NSTAR Electric).

**CL&P Rate Case Settlement:** On January 11, 2018, CL&P filed a distribution rate case settlement agreement for approval by PURA, which included, among other things, rate increases of \$97.1 million, \$32.7 million and \$24.7 million, effective May 1, 2018, 2019, and 2020, respectively, an authorized regulatory ROE of 9.25 percent, 53 percent common equity in CL&P's capital structure, and a new capital tracker through 2020 for capital additions, system resiliency, and grid modernization. The rate increases associated with the settlement agreement will be reduced by the impact of the decrease in the federal corporate income tax rate, as part of the "Tax Cuts and Jobs Act," while amounts related to ADIT will be addressed in a separate manner. CL&P expects to receive final approval from PURA in the second quarter of 2018. No actions arose from this settlement that had an impact on previously deferred costs.

### 3. PROPERTY, PLANT AND EQUIPMENT AND ACCUMULATED DEPRECIATION

Utility property, plant and equipment is recorded at original cost. Original cost includes materials, labor, construction overheads and AFUDC for regulated property. The cost of repairs and maintenance, including planned major maintenance activities, is charged to Operations and Maintenance expense as incurred.

The following tables summarize property, plant and equipment by asset category:

Eversource <i>(Millions of Dollars)</i>	As of December 31,	
	2017	2016
Distribution - Electric	\$ 14,410.5	\$ 13,716.9
Distribution - Natural Gas	3,244.2	3,010.4
Transmission - Electric	9,270.9	8,517.4
Water <sup>(1)</sup>	1,558.4	—
Generation and Solar <sup>(2)</sup>	36.2	1,224.2
Utility	28,520.2	26,468.9
Other <sup>(3)</sup>	693.7	591.6
Property, Plant and Equipment, Gross	29,213.9	27,060.5
Less: Accumulated Depreciation		
Utility	(6,846.9)	(6,480.4)
Other	(286.9)	(242.0)
Total Accumulated Depreciation	(7,133.8)	(6,722.4)
Property, Plant and Equipment, Net	22,080.1	20,338.1
Construction Work in Progress	1,537.4	1,012.4
Total Property, Plant and Equipment, Net	\$ 23,617.5	\$ 21,350.5

<i>(Millions of Dollars)</i>	As of December 31,					
	2017			2016		
	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH
Distribution	\$ 5,888.3	\$ 6,479.0	\$ 2,083.4	\$ 5,562.9	\$ 6,244.2	\$ 1,949.8
Transmission	4,239.9	3,821.2	1,161.3	3,912.9	3,496.9	1,059.3
Generation and Solar <sup>(2)</sup>	—	36.2	—	—	36.0	1,188.2
Property, Plant and Equipment, Gross	10,128.2	10,336.4	3,244.7	9,475.8	9,777.1	4,197.3
Less: Accumulated Depreciation	(2,239.0)	(2,550.2)	(751.8)	(2,082.4)	(2,364.2)	(1,254.7)
Property, Plant and Equipment, Net	7,889.2	7,786.2	2,492.9	7,393.4	7,412.9	2,942.6
Construction Work in Progress	381.8	460.3	149.4	239.0	317.2	96.7
Total Property, Plant and Equipment, Net	\$ 8,271.0	\$ 8,246.5	\$ 2,642.3	\$ 7,632.4	\$ 7,730.1	\$ 3,039.3

<sup>(1)</sup> On December 4, 2017, Eversource completed the acquisition of Aquarion. See Note 22A, "Acquisition of Aquarion and Goodwill - Acquisition of Aquarion," for further information.

<sup>(2)</sup> On October 11, 2017, PSNH entered into two Purchase and Sale Agreements ("Agreements") to sell its thermal and hydroelectric generation assets. As of December 31, 2017, PSNH has classified its generation assets as held for sale. As of December 31, 2016, these plant balances were recorded within Property, Plant and Equipment, Net on the balance sheet. See Note 12, "Assets Held for Sale," for further information.

<sup>(3)</sup> These assets are primarily comprised of building improvements, computer software, hardware and equipment at Eversource Service.

Depreciation of utility assets is calculated on a straight-line basis using composite rates based on the estimated remaining useful lives of the various classes of property (estimated useful life for PSNH distribution and the water utilities). The composite rates, which are subject to approval by the appropriate state regulatory agency, include a cost of removal component, which is collected from customers over the lives of the plant assets and is recognized as a regulatory liability. Depreciation rates are applied to property from the time it is placed in service.

Upon retirement from service, the cost of the utility asset is charged to the accumulated provision for depreciation. The actual incurred removal costs are applied against the related regulatory liability.

The depreciation rates for the various classes of utility property, plant and equipment aggregate to composite rates as follows:

<i>(Percent)</i>	2017	2016	2015
Eversource	3.0%	3.0%	2.9%
CL&P	2.8%	2.7%	2.7%
NSTAR Electric	2.9%	2.9%	2.9%
PSNH	3.1%	3.1%	3.2%

The following table summarizes average remaining useful lives of depreciable assets:

(Years)	As of December 31, 2017			
	Eversource	CL&P	NSTAR Electric	PSNH
Distribution	34.6	35.8	31.7	31.3
Transmission	40.9	37.2	44.7	43.5
Water	32.0	—	—	—
Solar	25.0	—	25.0	—
Other	12.7	—	—	—

#### 4. DERIVATIVE INSTRUMENTS

The electric and natural gas companies purchase and procure energy and energy-related products, which are subject to price volatility, for their customers. The costs associated with supplying energy to customers are recoverable from customers in future rates. These regulated companies manage the risks associated with the price volatility of energy and energy-related products through the use of derivative and non-derivative contracts.

Many of the derivative contracts meet the definition of, and are designated as, normal and qualify for accrual accounting under the applicable accounting guidance. The costs and benefits of derivative contracts that meet the definition of normal are recognized in Operating Expenses or Operating Revenues on the statements of income, as applicable, as electricity or natural gas is delivered.

Derivative contracts that are not designated as normal are recorded at fair value as current or long-term Derivative Assets or Derivative Liabilities on the balance sheets. For the electric and natural gas companies, regulatory assets or regulatory liabilities are recorded to offset the fair values of derivatives, as contract settlement amounts are recovered from, or refunded to, customers in their respective energy supply rates.

The gross fair values of derivative assets and liabilities with the same counterparty are offset and reported as net Derivative Assets or Derivative Liabilities, with current and long-term portions, on the balance sheets. The following table presents the gross fair values of contracts, categorized by risk type, and the net amounts recorded as current or long-term derivative assets or liabilities:

(Millions of Dollars)	As of December 31,					
	2017			2016		
	Commodity Supply and Price Risk Management	Netting <sup>(1)</sup>	Net Amount Recorded as a Derivative	Commodity Supply and Price Risk Management	Netting <sup>(1)</sup>	Net Amount Recorded as a Derivative
<u>Current Derivative Assets:</u>						
Level 2:						
Eversource	\$ —	\$ —	\$ —	\$ 6.0	\$ —	\$ 6.0
Level 3:						
CL&P	9.5	(7.1)	2.4	13.9	(9.4)	4.5
<u>Long-Term Derivative Assets:</u>						
Level 2:						
Eversource	\$ —	\$ —	\$ —	\$ 0.3	\$ (0.1)	\$ 0.2
Level 3:						
CL&P	71.9	(5.3)	66.6	77.3	(11.7)	65.6
<u>Current Derivative Liabilities:</u>						
Level 2:						
Eversource	\$ (4.5)	\$ —	\$ (4.5)	\$ —	\$ —	\$ —
Level 3:						
Eversource	(54.4)	—	(54.4)	(79.7)	—	(79.7)
CL&P	(54.4)	—	(54.4)	(77.8)	—	(77.8)
<u>Long-Term Derivative Liabilities:</u>						
Level 2:						
Eversource	\$ (0.4)	\$ —	\$ (0.4)	\$ —	\$ —	\$ —
Level 3:						
Eversource	(376.9)	—	(376.9)	(413.7)	—	(413.7)
CL&P	(376.9)	—	(376.9)	(412.8)	—	(412.8)

(1) Amounts represent derivative assets and liabilities that Eversource elected to record net on the balance sheets. These amounts are subject to master netting agreements or similar agreements for which the right of offset exists.

The business activities that result in the recognition of derivative assets also create exposure to various counterparties. As of December 31, 2017, CL&P's derivative assets were exposed to counterparty credit risk. Of CL&P's derivative assets, \$69.0 million was contracted with investment grade entities.

For further information on the fair value of derivative contracts, see Note 1I, "Summary of Significant Accounting Policies – Fair Value Measurements," and Note 1J, "Summary of Significant Accounting Policies – Derivative Accounting," to the financial statements.

Derivative Contracts at Fair Value with Offsetting Regulatory Amounts

*Commodity Supply and Price Risk Management:* As required by regulation, CL&P, along with UI, has capacity-related contracts with generation facilities. CL&P has a sharing agreement with UI, with 80 percent of the costs or benefits of each contract borne by or allocated to CL&P and 20 percent borne by or allocated to UI. The combined capacity of these contracts is 787 MW. The capacity contracts extend through 2026 and obligate both CL&P and UI to make or receive payments on a monthly basis to or from the generation facilities based on the difference between a set capacity price and the capacity market price received in the ISO-NE capacity markets. In addition, CL&P has a contract to purchase 0.1 million MWh of energy per year through 2020.

As of December 31, 2017 and 2016, Eversource had NYMEX financial contracts for natural gas futures in order to reduce variability associated with the purchase price of 9.5 million and 9.2 million MMBtu of natural gas, respectively.

For the years ended December 31, 2017, 2016 and 2015, there were losses of \$29.0 million, \$125.5 million and \$60.2 million, respectively, deferred as regulatory costs, which reflect the change in fair value associated with Eversource's derivative contracts.

Credit Risk

Certain of Eversource's derivative contracts contain credit risk contingent provisions. These provisions require Eversource to maintain investment grade credit ratings from the major rating agencies and to post collateral for contracts in a net liability position over specified credit limits. As of December 31, 2017, Eversource had \$3.4 million of derivative contracts in a net liability position that were subject to credit risk contingent provisions and would have been required to post additional collateral of \$3.7 million if Eversource's unsecured debt credit ratings had been downgraded to below investment grade. As of December 31, 2016, Eversource had no derivative contracts in a net liability position that were subject to credit risk contingent provisions.

Fair Value Measurements of Derivative Instruments

Derivative contracts classified as Level 2 in the fair value hierarchy relate to the financial contracts for natural gas futures. Prices are obtained from broker quotes and are based on actual market activity. The contracts are valued using NYMEX natural gas prices. Valuations of these contracts also incorporate discount rates using the yield curve approach.

The fair value of derivative contracts classified as Level 3 utilizes significant unobservable inputs. The fair value is modeled using income techniques, such as discounted cash flow valuations adjusted for assumptions related to exit price. Significant observable inputs for valuations of these contracts include energy and energy-related product prices in future years for which quoted prices in an active market exist. Fair value measurements categorized in Level 3 of the fair value hierarchy are prepared by individuals with expertise in valuation techniques, pricing of energy and energy-related products, and accounting requirements. The future power and capacity prices for periods that are not quoted in an active market or established at auction are based on available market data and are escalated based on estimates of inflation in order to address the full term of the contract.

Valuations of derivative contracts using a discounted cash flow methodology include assumptions regarding the timing and likelihood of scheduled payments and also reflect non-performance risk, including credit, using the default probability approach based on the counterparty's credit rating for assets and the Company's credit rating for liabilities.

Valuations incorporate estimates of premiums or discounts that would be required by a market participant to arrive at an exit price, using historical market transactions adjusted for the terms of the contract.

The following is a summary of CL&P's Level 3 derivative contracts and the range of the significant unobservable inputs utilized in the valuations over the duration of the contracts:

CL&P	As of December 31,									
	2017					2016				
	Range		Period Covered			Range		Period Covered		
Capacity Prices	\$ 5.00	— 8.70	per kW-Month	2021 - 2026	\$ 5.50	— 8.70	per kW-Month	2020 - 2026		
Forward Reserve	1.00	— 2.00	per kW-Month	2018 - 2024	1.40	— 2.00	per kW-Month	2017 - 2024		

Exit price premiums of 6 percent through 18 percent are also applied on these contracts and reflect the uncertainty and illiquidity premiums that would be required based on the most recent market activity available for similar type contracts.

*Valuations using significant unobservable inputs:* The following table presents changes in the Level 3 category of derivative assets and derivative liabilities measured at fair value on a recurring basis. The derivative assets and liabilities are presented on a net basis.

<i>(Millions of Dollars)</i>	Eversource	CL&P
<b>Derivatives, Net:</b>		
Fair Value as of January 1, 2016	\$ (380.9)	\$ (380.8)
Net Realized/Unrealized Losses Included in Regulatory Assets and Liabilities	(130.7)	(122.7)
Settlements	88.3	83.0
Fair Value as of December 31, 2016	\$ (423.3)	\$ (420.5)
Transfer out of Level 3	1.2	—
Net Realized/Unrealized Losses Included in Regulatory Assets and Liabilities	(11.4)	(9.5)
Settlements	71.2	67.7
Fair Value as of December 31, 2017	\$ (362.3)	\$ (362.3)

Significant increases or decreases in future energy or capacity prices in isolation would decrease or increase, respectively, the fair value of the derivative liability. Any increases in risk premiums would increase the fair value of the derivative liability. Changes in these fair values are recorded as a regulatory asset or liability and do not impact net income.

## 5. MARKETABLE SECURITIES

Eversource maintains trusts that hold marketable securities to fund certain non-qualified executive benefits. These trusts are not subject to regulatory oversight by state or federal agencies. CYAPC and YAEC maintain legally restricted trusts, each of which holds marketable securities, to fund the spent nuclear fuel removal obligations of their nuclear fuel storage facilities.

*Trading Securities:* Eversource has elected to record certain equity securities as trading securities, with the changes in fair values recorded in Other Income, Net on the statements of income. As of December 31, 2016, these securities were classified as Level 1 in the fair value hierarchy and totaled \$9.6 million. These securities were sold during 2017 and were no longer held as of December 31, 2017. For the years ended December 31, 2016 and 2015, net gains on these securities of \$0.6 million and \$2.0 million, respectively, were recorded in Other Income, Net on the statements of income. Dividend income is recorded in Other Income, Net when dividends are declared.

*Available-for-Sale Securities:* The following is a summary of available-for-sale securities, which are recorded at fair value and are included in current and long-term Marketable Securities on the balance sheets.

<i>Eversource (Millions of Dollars)</i>	As of December 31,							
	2017				2016			
	Amortized Cost	Pre-Tax Unrealized Gains	Pre-Tax Unrealized Losses	Fair Value	Amortized Cost	Pre-Tax Unrealized Gains	Pre-Tax Unrealized Losses	Fair Value
Debt Securities	\$ 284.9	\$ 3.2	\$ (1.1)	\$ 287.0	\$ 296.2	\$ 1.1	\$ (2.1)	\$ 295.2
Equity Securities	216.1	97.8	(0.1)	313.8	203.3	62.3	(1.2)	264.4

Eversource's debt and equity securities include CYAPC's and YAEC's marketable securities held in nuclear decommissioning trusts in the amounts of \$503.6 million and \$466.7 million as of December 31, 2017 and 2016, respectively. Unrealized gains and losses for these nuclear decommissioning trusts are recorded in Marketable Securities with the corresponding offset to Other Long-Term Liabilities on the balance sheets, with no impact on the statements of income.

*Unrealized Losses and Other-than-Temporary Impairment:* There have been no significant unrealized losses, other-than-temporary impairments or credit losses in 2017 or 2016. Factors considered in determining whether a credit loss exists include the duration and severity of the impairment, adverse conditions specifically affecting the issuer, and the payment history, ratings and rating changes of the security. For asset-backed debt securities, underlying collateral and expected future cash flows are also evaluated.

*Realized Gains and Losses:* Realized gains and losses on available-for-sale securities are recorded in Other Income, Net for Eversource's benefit trust and are offset in Other Long-Term Liabilities for CYAPC and YAEC. Eversource utilizes the specific identification basis method for the Eversource benefit trust, and the average cost basis method for the CYAPC and YAEC nuclear decommissioning trusts to compute the realized gains and losses on the sale of available-for-sale securities. For the year ended December 31, 2017, Eversource recognized net realized gains of \$9.8 million on the sales of available-for-sale securities held in the benefit trust. The proceeds of the sales were re-invested in the Eversource benefit trust.

*Contractual Maturities:* As of December 31, 2017, the contractual maturities of available-for-sale debt securities were as follows:

<b>Eversource</b> <i>(Millions of Dollars)</i>	<b>Amortized Cost</b>	<b>Fair Value</b>
Less than one year <sup>(1)</sup>	\$ 40.2	\$ 40.1
One to five years	46.7	47.5
Six to ten years	64.7	65.6
Greater than ten years	133.3	133.8
<b>Total Debt Securities</b>	<b>\$ 284.9</b>	<b>\$ 287.0</b>

(1) Amounts in the Less than one year category include securities in the CYAPC and YAEC nuclear decommissioning trusts, which are restricted and are classified in long-term Marketable Securities on the balance sheets.

*Fair Value Measurements:* The following table presents the marketable securities recorded at fair value on a recurring basis by the level in which they are classified within the fair value hierarchy:

<b>Eversource</b> <i>(Millions of Dollars)</i>	<b>As of December 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Level 1:</b>		
Mutual Funds and Equities	\$ 313.8	\$ 274.0
Money Market Funds	23.3	54.8
<b>Total Level 1</b>	<b>\$ 337.1</b>	<b>\$ 328.8</b>
<b>Level 2:</b>		
U.S. Government Issued Debt Securities (Agency and Treasury)	\$ 70.2	\$ 63.0
Corporate Debt Securities	50.9	41.1
Asset-Backed Debt Securities	21.2	18.5
Municipal Bonds	110.7	107.5
Other Fixed Income Securities	10.7	10.3
<b>Total Level 2</b>	<b>\$ 263.7</b>	<b>\$ 240.4</b>
<b>Total Marketable Securities</b>	<b>\$ 600.8</b>	<b>\$ 569.2</b>

U.S. government issued debt securities are valued using market approaches that incorporate transactions for the same or similar bonds and adjustments for yields and maturity dates. Corporate debt securities are valued using a market approach, utilizing recent trades of the same or similar instruments and also incorporating yield curves, credit spreads and specific bond terms and conditions. Asset-backed debt securities include collateralized mortgage obligations, commercial mortgage backed securities, and securities collateralized by auto loans, credit card loans or receivables. Asset-backed debt securities are valued using recent trades of similar instruments, prepayment assumptions, yield curves, issuance and maturity dates, and tranche information. Municipal bonds are valued using a market approach that incorporates reported trades and benchmark yields. Other fixed income securities are valued using pricing models, quoted prices of securities with similar characteristics, and discounted cash flows.

## 6. ASSET RETIREMENT OBLIGATIONS

Eversource, including CL&P, NSTAR Electric and PSNH, recognizes a liability for the fair value of an ARO on the obligation date if the liability's fair value can be reasonably estimated, even if it is conditional on a future event. Settlement dates and future costs are reasonably estimated when sufficient information becomes available. Management has identified various categories of AROs, primarily certain assets containing asbestos and hazardous contamination, and has performed fair value calculations reflecting expected probabilities for settlement scenarios.

The fair value of an ARO is recorded as a liability in Other Long-Term Liabilities with a corresponding amount included in Property, Plant and Equipment, Net on the balance sheets. The ARO assets are depreciated, and the ARO liabilities are accreted over the estimated life of the obligation and the corresponding credits are recorded as accumulated depreciation and ARO liabilities, respectively. As the electric and natural gas companies are rate-regulated on a cost-of-service basis, these companies apply regulatory accounting guidance and both the depreciation and accretion costs associated with these companies' AROs are recorded as increases to Regulatory Assets on the balance sheets.

A reconciliation of the beginning and ending carrying amounts of ARO liabilities are as follows:

<b>Eversource</b> <i>(Millions of Dollars)</i>	<b>As of December 31,</b>	
	<b>2017</b>	<b>2016</b>
Balance as of Beginning of Year	\$ 426.4	\$ 430.1
Liabilities Incurred During the Year	0.2	1.3
Liabilities Settled During the Year	(19.3)	(19.0)
Accretion	26.3	22.9
Revisions in Estimated Cash Flows	(14.5)	(8.9)
<b>Balance as of End of Year</b>	<b>\$ 419.1</b>	<b>\$ 426.4</b>

	As of December 31,					
	2017			2016		
	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH
(Millions of Dollars)						
Balance as of Beginning of Year	\$ 36.0	\$ 42.6	\$ 23.5	\$ 33.8	\$ 41.0	\$ 21.6
Liabilities Incurred During the Year	0.1	0.1	—	—	—	0.5
Liabilities Settled During the Year	(1.0)	(0.2)	—	—	(0.4)	—
Accretion	2.3	2.1	1.5	2.2	2.0	1.4
Revisions in Estimated Cash Flows	(5.9)	—	—	—	—	—
Balance as of End of Year	\$ 31.5	\$ 44.6	\$ 25.0	\$ 36.0	\$ 42.6	\$ 23.5

Eversource's amounts include CYAPC and YAEC's AROs of \$301.5 million and \$308.6 million as of December 31, 2017 and 2016, respectively. The fair value of the ARO for CYAPC and YAEC includes uncertainties of the fuel off-load dates related to the DOE's timing of performance regarding its obligation to dispose of the spent nuclear fuel and high level waste. The incremental asset recorded as an offset to the ARO liability was fully depreciated since the plants have no remaining useful life. Any changes in the assumptions used to calculate the fair value of the ARO liability are recorded with a corresponding offset to the related regulatory asset. The assets held in the CYAPC and YAEC nuclear decommissioning trusts are restricted for settling the ARO and all other decommissioning obligations. For further information on the assets held in the nuclear decommissioning trusts, see Note 5, "Marketable Securities," to the financial statements.

## 7. SHORT-TERM DEBT

*Short-Term Debt Borrowing Limits:* The amount of short-term borrowings that may be incurred by CL&P, NSTAR Electric and NPT is subject to periodic approval by the FERC. Because the NHPUC has jurisdiction over PSNH's short-term debt, PSNH is not currently required to obtain FERC approval for its short-term borrowings. On November 30, 2017, the FERC granted authorization that allows CL&P to issue total short-term borrowings in an aggregate principal amount not to exceed \$600 million outstanding at any one time, through December 31, 2019. On November 30, 2017, the FERC granted authorization that allows NSTAR Electric to issue total short-term borrowings in an aggregate principal amount not to exceed \$655 million outstanding at any one time, through December 30, 2019. On November 3, 2016, FERC authorized NPT to issue up to an aggregate of \$800 million in short-term debt and long-term debt through December 31, 2018.

PSNH is authorized by regulation of the NHPUC to incur short-term borrowings up to 10 percent of net fixed plant plus an additional \$60 million until further ordered by the NHPUC. As of December 31, 2017, PSNH's short-term debt authorization under the 10 percent of net fixed plant test plus \$60 million totaled approximately \$364 million.

CL&P's certificate of incorporation contains preferred stock provisions restricting the amount of unsecured debt that CL&P may incur, including limiting unsecured indebtedness with a maturity of less than 10 years to 10 percent of total capitalization. As of December 31, 2017, CL&P had \$607.4 million of unsecured debt capacity available under this authorization.

Yankee Gas and NSTAR Gas are not required to obtain approval from any state or federal authority to incur short-term debt.

*Commercial Paper Programs and Credit Agreements:* Eversource parent has a \$1.45 billion commercial paper program allowing Eversource parent to issue commercial paper as a form of short-term debt. Eversource parent, CL&P, PSNH, NSTAR Gas and Yankee Gas are also parties to a five-year \$1.45 billion revolving credit facility. On December 8, 2017, Eversource parent amended and restated the revolving credit facility. The amended and restated credit facility terminates on December 8, 2022 and serves to backstop Eversource parent's \$1.45 billion commercial paper program. There were no borrowings outstanding on the revolving credit facility as of December 31, 2017 or 2016.

NSTAR Electric has a \$650 million commercial paper program allowing NSTAR Electric to issue commercial paper as a form of short-term debt. On December 8, 2017, NSTAR Electric increased its commercial paper program from \$450 million to \$650 million. NSTAR Electric is also a party to a five-year \$650 million revolving credit facility. On December 8, 2017, NSTAR Electric amended and restated the revolving credit facility, increasing it from \$450 million to \$650 million. The amended and restated credit facility terminates on December 8, 2022 and serves to backstop NSTAR Electric's \$650 million commercial paper program. There were no borrowings outstanding on the revolving credit facility as of December 31, 2017 or 2016.

The amount of borrowings outstanding and available under the commercial paper programs and revolving credit facility was as follows:

	Borrowings Outstanding as of December 31,		Available Borrowing Capacity as of December 31,		Weighted-Average Interest Rate as of December 31,	
	2017	2016	2017	2016	2017	2016
	(Millions of Dollars)					
Eversource Parent Commercial Paper Program	\$ 979.3	\$ 1,022.0	\$ 470.7	\$ 428.0	1.86%	0.88%
NSTAR Electric Commercial Paper Program	234.0	126.5	416.0	323.5	1.55%	0.71%
Revolving Credit Facility <sup>(1)</sup>	76.0	N/A	24.0	N/A	2.66%	N/A

<sup>(1)</sup> Aquarion has a \$100.0 million revolving credit facility, which expires on August 19, 2019.

Amounts outstanding under the commercial paper programs and revolving credit facility are included in Notes Payable for Eversource and NSTAR Electric and are classified in current liabilities on the balance sheets as all borrowings are outstanding for no more than 364 days at one time. As a result of the Eversource parent long-term debt issuances on January 8, 2018, the net proceeds of which were used to repay short-term borrowings outstanding under its commercial paper program, \$201.2 million of commercial paper borrowings under the Eversource parent commercial paper program were reclassified as Long-Term Debt as of December 31, 2017.

As of December 31, 2017, there were intercompany loans from Eversource parent of \$69.5 million to CL&P and \$262.9 million to PSNH. As of December 31, 2016, there were intercompany loans from Eversource parent of \$80.1 million to CL&P, \$160.9 million to PSNH and \$51.0 million to NSTAR Electric. These intercompany loans from Eversource parent are included in Notes Payable to Eversource Parent and are classified in current liabilities on the respective subsidiary's balance sheets. Intercompany loans from Eversource parent are eliminated in consolidation on Eversource's balance sheets.

Under the credit facilities described above, Eversource and its subsidiaries must comply with certain financial and non-financial covenants, including a consolidated debt to total capitalization ratio. As of December 31, 2017 and 2016, Eversource and its subsidiaries were in compliance with these covenants. If Eversource or its subsidiaries were not in compliance with these covenants, an event of default would occur requiring all outstanding borrowings by such borrower to be repaid, and additional borrowings by such borrower would not be permitted under its respective credit facility.

## 8. LONG-TERM DEBT

Details of long-term debt outstanding are as follows:

CL&P (Millions of Dollars)	As of December 31,	
	2017	2016
First Mortgage Bonds:		
7.875% 1994 Series D due 2024	\$ 139.8	\$ 139.8
5.750% 2004 Series B due 2034	130.0	130.0
5.625% 2005 Series B due 2035	100.0	100.0
6.350% 2006 Series A due 2036	250.0	250.0
5.375% 2007 Series A due 2017	—	150.0
5.750% 2007 Series B due 2037	150.0	150.0
5.750% 2007 Series C due 2017	—	100.0
6.375% 2007 Series D due 2037	100.0	100.0
5.650% 2008 Series A due 2018	300.0	300.0
5.500% 2009 Series A due 2019	250.0	250.0
2.500% 2013 Series A due 2023	400.0	400.0
4.300% 2014 Series A due 2044	475.0	250.0
4.150% 2015 Series A due 2045	350.0	350.0
3.200% 2017 Series A due 2027	300.0	—
<b>Total First Mortgage Bonds</b>	<b>2,944.8</b>	<b>2,669.8</b>
Pollution Control Revenue Bonds:		
4.375% Fixed Rate Tax Exempt due 2028	120.5	120.5
Less Amounts due Within One Year	(300.0)	(250.0)
Unamortized Premiums and Discounts, Net	11.5	(10.0)
Unamortized Debt Issuance Costs	(17.7)	(14.3)
<b>CL&amp;P Long-Term Debt</b>	<b>\$ 2,759.1</b>	<b>\$ 2,516.0</b>

NSTAR Electric (Millions of Dollars)	As of December 31,	
	2017	2016
<b>Debentures:</b>		
5.750% due 2036	\$ 200.0	\$ 200.0
5.625% due 2017	—	400.0
5.500% due 2040	300.0	300.0
2.375% due 2022	400.0	400.0
4.400% due 2044	300.0	300.0
3.250% due 2025	250.0	250.0
2.700% due 2026	250.0	250.0
3.200% due 2027	700.0	—
<b>Total Debentures</b>	<b>2,400.0</b>	<b>2,100.0</b>
<b>Notes:</b>		
5.900% Senior Notes Series B due 2034	50.0	50.0
6.700% Senior Notes Series D due 2037	40.0	40.0
5.100% Senior Notes Series E due 2020	95.0	95.0
3.500% Senior Notes Series F due 2021	250.0	250.0
3.880% Senior Notes Series G due 2023	80.0	80.0
2.750% Senior Notes Series H due 2026	50.0	50.0
<b>Total Notes</b>	<b>565.0</b>	<b>565.0</b>
Less Amounts due Within One Year	—	(400.0)
Unamortized Premiums and Discounts, Net	(1.8)	(4.9)
Unamortized Debt Issuance Costs	(19.4)	(15.5)
<b>NSTAR Electric Long-Term Debt</b>	<b>\$ 2,943.8</b>	<b>\$ 2,244.6</b>

PSNH (Millions of Dollars)	As of December 31,	
	2017	2016
<b>First Mortgage Bonds:</b>		
5.600% Series M due 2035	\$ 50.0	\$ 50.0
6.150% Series N due 2017	—	70.0
6.000% Series O due 2018	110.0	110.0
4.500% Series P due 2019	150.0	150.0
4.050% Series Q due 2021	122.0	122.0
3.200% Series R due 2021	160.0	160.0
3.500% Series S due 2023	325.0	325.0
<b>Total First Mortgage Bonds</b>	<b>917.0</b>	<b>987.0</b>
<b>Pollution Control Revenue Bonds:</b>		
Adjustable Rate Tax Exempt Series A due 2021 (2.048% and 1.138% as of December 31, 2017 and 2016, respectively)	89.3	89.3
Less Amounts due Within One Year	(110.0)	(70.0)
Unamortized Premiums and Discounts, Net	0.2	0.1
Unamortized Debt Issuance Costs	(4.1)	(4.4)
<b>PSNH Long-Term Debt</b>	<b>\$ 892.4</b>	<b>\$ 1,002.0</b>

OTHER (Millions of Dollars)	As of December 31,	
	2017	2016
Yankee Gas - First Mortgage Bonds: 3.020% - 8.480% due 2018 - 2044	\$ 520.0	\$ 445.0
NSTAR Gas - First Mortgage Bonds: 4.350% - 9.950% due 2020 - 2045	285.0	310.0
Eversource Parent and Other - Notes and Debentures:		
4.500% Debentures due 2019	350.0	350.0
1.450% - 4.000% Senior Notes due 2018 - 2026	3,260.0	1,700.0
Notes Payable Unsecured 3.57% - 6.430% due 2021 - 2037	290.9	—
Notes Payable Secured 4.10% - 9.64% due 2021 - 2035	70.4	—
Pre-1983 Spent Nuclear Fuel Obligation (CYAPC)	181.4	180.0
Fair Value Adjustment <sup>(1)</sup>	172.6	144.6
Less Fair Value Adjustment - Current Portion <sup>(1)</sup>	(35.4)	(28.9)
Less Amounts due in One Year	(104.2)	(25.0)
Commercial Paper Classified as Long-Term Debt	201.2	—
Unamortized Premiums and Discounts, Net	1.5	(1.8)
Unamortized Debt Issuance Costs	(12.8)	(7.1)
Total Other Long-Term Debt	5,180.6	\$ 3,066.8
Total Eversource Long-Term Debt	11,775.9	\$ 8,829.4

(1) The fair value adjustment amount is the purchase price adjustments, net of amortization, required to record the NSTAR long-term debt at fair value on the date of the 2012 merger and to record the Aquarion long-term debt at fair value as of December 4, 2017.

*Long-Term Debt Issuances and Repayments:* The following table summarizes long-term debt issuances and repayments:

<i>(Millions of Dollars)</i>	<u>Issue Date</u>	<u>Issuances/(Repayments)</u>	<u>Maturity Date</u>	<u>Use of Proceeds</u>
<b>CL&amp;P:</b>				
3.20% 2017 Series A First Mortgage Bonds	March 2017	\$ 300.0	2027	Repay short-term debt borrowings
4.30% 2014 Series A First Mortgage Bonds <sup>(1)</sup>	August 2017	225.0	2044	Refinance short-term debt and fund working capital and capital expenditures
5.375% 2007 Series A First Mortgage Bonds	March 2007	(150.0)	2017	N/A
5.75% 2007 Series C First Mortgage Bonds	September 2007	(100.0)	2017	N/A
<b>NSTAR Electric:</b>				
3.20% Debentures	May 2017	350.0	2027	Repay short-term borrowings and fund capital expenditures and working capital
3.20% Debentures <sup>(2)</sup>	October 2017	350.0	2027	Redeem long-term debt that matured in 2017
5.625% Debentures	November 2007	(400.0)	2017	N/A
<b>PSNH:</b>				
6.15% Series N First Mortgage Bonds	September 2007	(70.0)	2017	N/A
<b>Other:</b>				
Yankee Gas 3.02% Series N First Mortgage Bonds	September 2017	75.0	2027	Repay short-term borrowings
NSTAR Gas 7.04% Series M First Mortgage Bonds	September 1997	(25.0)	2017	N/A
Eversource Parent 2.75% Series K Senior Notes	March 2017	300.0	2022	Repay short-term borrowings
Eversource Parent 2.75% Series K Senior Notes <sup>(3)</sup>	October 2017	450.0	2022	Repay short-term borrowings
Eversource Parent 2.90% Series L Senior Notes	October 2017	450.0	2024	Repay short-term borrowings
Eversource Parent 2.50% Series I Senior Notes <sup>(4)</sup>	January 2018	200.0	2021	Repay long-term debt due to mature in 2018 and repay short-term borrowings
Eversource Parent 3.30% Series M Senior Notes	January 2018	450.0	2028	Repay long-term debt due to mature in 2018
Eversource Parent 1.60% Series G Senior Notes <sup>(5)</sup>	January 2015	(150.0)	2018	N/A

(1) These bonds are part of the existing series initially issued by CL&P in 2014. The aggregate outstanding principal amount for these bonds is now \$475 million.

(2) These debentures are part of the same series initially issued by NSTAR Electric in May 2017. The aggregate outstanding principal amount for these debentures is now \$700 million.

(3) These notes are part of the same series issued by Eversource parent in March 2017. The aggregate outstanding principal amount for these notes is now \$750 million.

(4) These notes are part of the same series issued by Eversource parent in March 2016. The aggregate outstanding principal amount for these notes is now \$450 million.

(5) Represents a repayment at maturity on January, 15 2018.

As a result of the Eversource parent debt issuances in January 2018, \$446.8 million of current portion of long-term debt related to two Eversource parent issuances maturing in 2018 and \$201.2 million of commercial paper borrowings were reclassified to Long-Term Debt as of December 31, 2017.

*Long-Term Debt Issuance Authorizations:* On January 4, 2017, PURA approved CL&P's request for authorization to issue up to \$1.325 billion in long-term debt through December 31, 2020. On March 30, 2017, the DPU approved NSTAR Electric's request for authorization to issue up to \$700 million in long-term debt through December 31, 2018. On December 20, 2017, PURA approved Yankee Gas' request to extend the authorization period for issuance of up to \$50 million in long-term debt from December 31, 2017 to December 31, 2018.

*Long-Term Debt Provisions:* The utility plant of CL&P, PSNH, Yankee Gas and NSTAR Gas is subject to the lien of each company's respective first mortgage bond indenture. The Eversource parent and NSTAR Electric debt is unsecured. Additionally, the long-term debt agreements provide that Eversource and certain of its subsidiaries must comply with certain covenants as are customarily included in such agreements, including equity requirements for NSTAR Electric and NSTAR Gas. Under the equity requirements, NSTAR Electric's senior notes must maintain a certain consolidated indebtedness to capitalization ratio as of the end of any fiscal quarter and NSTAR Gas' outstanding long-term debt must not exceed equity.

CL&P's obligation to repay the PCRBs is secured by first mortgage bonds. The first mortgage bonds contain similar terms and provisions as the applicable series of PCRBs. If CL&P fails to meet its obligations under the first mortgage bonds, then the holder of the first mortgage bonds (the issuer of the PCRBs) would have rights under the first mortgage bonds. CL&P's tax-exempt PCRBs will be subject to redemption at par on or after September 1, 2021. All other long-term debt securities are subject to make-whole provisions.

PSNH's obligation to repay the PCRBs is secured by first mortgage bonds and bond insurance. The first mortgage bonds contain similar terms and provisions as the PCRBs. If PSNH fails to meet its obligations under the first mortgage bonds, then the holder of the first mortgage bonds (the issuer of the PCRBs) would have rights under the first mortgage bonds. The PSNH Series A tax-exempt PCRBs are currently callable at 100 percent of par. The PCRBs bear interest at a rate that is periodically set pursuant to auctions. PSNH is not obligated to purchase these PCRBs, which mature in 2021, from the remarketing agent.

Certain secured and unsecured notes payable are callable at redemption price and are subject to make-whole provisions.

Eversource, NSTAR Electric and Yankee Gas have certain long-term debt agreements that contain cross-default provisions. No other debt issuances contain cross-default provisions as of December 31, 2017.

*Pre-1983 Spent Nuclear Fuel Obligation:* Under the Nuclear Waste Policy Act of 1982, the DOE is responsible for the selection and development of repositories for, and the disposal of, spent nuclear fuel and high-level radioactive waste. CYAPC is obligated to pay the DOE for the costs to dispose of spent nuclear fuel and high-level radioactive waste generated prior to April 7, 1983 (pre-1983 Spent Nuclear Fuel) and recorded an accrual for the full liability thereof to the DOE. This liability accrues interest costs at the 3-month Treasury bill yield rate. For nuclear fuel used to generate electricity prior to April 7, 1983, payment may be made any time prior to the first delivery of spent fuel to the DOE. Fees for disposal of nuclear fuel burned on or after April 7, 1983 were billed to member companies and paid to the DOE.

As of December 31, 2017 and 2016, as a result of consolidating CYAPC, Eversource has consolidated \$181.4 million and \$180.0 million, respectively, in pre-1983 spent nuclear fuel obligations to the DOE. These obligations include accumulated interest costs of \$132.6 million and \$131.2 million as of December 31, 2017 and 2016, respectively. CYAPC maintains a trust to fund amounts due to the DOE for the disposal of pre-1983 spent nuclear fuel. For further information, see Note 5, "Marketable Securities," to the financial statements.

*Long-Term Debt Maturities:* Long-term debt maturities on debt outstanding for the years 2018 through 2022 and thereafter are shown below. These amounts exclude the CYAPC pre-1983 spent nuclear fuel obligation, net unamortized premiums, discounts and debt issuance costs, and other fair value adjustments as of December 31, 2017:

<i>(Millions of Dollars)</i>	Eversource		CL&P		NSTAR Electric		PSNH	
2018	\$	961.0	\$	300.0	\$	—	\$	110.0
2019		801.0		250.0		—		150.0
2020		296.1		—		95.0		—
2021		922.8		—		250.0		371.3
2022		1,188.9		—		400.0		—
Thereafter		7,643.1		2,515.3		2,220.0		375.0
<b>Total</b>	<b>\$</b>	<b>11,812.9</b>	<b>\$</b>	<b>3,065.3</b>	<b>\$</b>	<b>2,965.0</b>	<b>\$</b>	<b>1,006.3</b>

## 9. EMPLOYEE BENEFITS

### A. Pension Benefits and Postretirement Benefits Other Than Pensions

Eversource provides defined benefit plans (the "Pension Plans") that cover eligible employees, including, among others, employees of CL&P, NSTAR Electric and PSNH. The Pension Plans are subject to the provisions of ERISA, as amended by the PPA of 2006. Eversource's policy is to annually fund the Pension Plans in an amount at least equal to an amount that will satisfy all federal funding requirements. In addition to the Pension Plans, Eversource maintains SERP Plans which provide benefits in excess of Internal Revenue Code limitations to eligible participants consisting of current and retired employees.

Eversource also provides defined benefit postretirement plans (the "PBOP Plans") that provided certain benefits, primarily medical, dental and life insurance to eligible employees that met certain age and service eligibility requirements. In August 2016, Eversource Service amended its PBOP Plan, which standardized separate benefit structures that existed within the plan and made other benefit changes. The new plan provides life insurance and a health reimbursement arrangement created for the purpose of reimbursing retirees and dependents for health insurance premiums and certain medical expenses. The benefits provided under the PBOP Plans are not vested, and the Company has the right to modify any benefit provision subject to applicable laws at that time. Eversource annually funds postretirement costs through tax deductible contributions to external trusts.

Because the regulated companies recover the retiree benefit costs from customers through rates, regulatory assets are recorded in lieu of recording an adjustment to Accumulated Other Comprehensive Income/(Loss) for the funded status of the Pension, SERP and PBOP Plans. Regulatory accounting is also applied to the portions of the Eversource Service costs that support the regulated companies, as these costs are also recovered from customers. Adjustments to the Pension and PBOP Plans funded status for the unregulated companies are recorded on an after-tax basis to Accumulated Other Comprehensive Income/(Loss). For further information, see Note 2, "Regulatory Accounting," and Note 15, "Accumulated Other Comprehensive Income/(Loss)," to the financial statements.

The difference between the actual return and calculated expected return on plan assets for the Pension and PBOP Plans is reflected as a component of unrecognized actuarial gains or losses, which are recorded in Regulatory Assets or Accumulated Other Comprehensive Income/(Loss). Unrecognized actuarial gains or losses are amortized as a component of pension and PBOP expense over the estimated average future employee service period.

*Pension and SERP Plans:* The Pension and SERP Plans are accounted for under the multiple-employer approach, with each operating company's balance sheet reflecting its share of the funded status of the plans. Although Eversource maintains marketable securities in a benefit trust, the SERP Plans do not contain any assets. For further information, see Note 5, "Marketable Securities," to the financial statements. The following table provides information on the Pension and SERP Plan benefit obligations, fair values of Pension Plan assets, and funded status:

	Pension and SERP							
	As of December 31, 2017				As of December 31, 2016			
	Eversource	CL&P	NSTAR Electric	PSNH	Eversource	CL&P	NSTAR Electric	PSNH
<i>(Millions of Dollars)</i>								
<b>Change in Benefit Obligation:</b>								
Benefit Obligation as of Beginning of Year	\$ (5,242.3)	\$ (1,170.2)	\$ (1,217.3)	\$ (572.2)	\$ (5,080.1)	\$ (1,157.6)	\$ (1,187.3)	\$ (547.6)
Plan Amendment	—	—	—	—	(9.0)	—	(2.8)	—
Employee Transfers	—	8.2	5.5	(0.7)	—	8.8	1.3	2.4
Service Cost	(71.3)	(18.5)	(15.5)	(9.7)	(75.0)	(18.8)	(16.3)	(9.9)
Interest Cost	(188.0)	(41.6)	(42.7)	(21.2)	(185.5)	(41.6)	(42.2)	(20.7)
Actuarial Loss	(548.7)	(116.9)	(143.5)	(65.1)	(151.8)	(23.9)	(37.2)	(21.5)
Benefits Paid - Pension	243.7	63.5	55.4	26.4	254.0	62.6	67.0	24.9
Benefits Paid - Lump Sum	18.4	—	6.8	—	—	—	—	—
Benefits Paid - SERP	20.4	0.3	0.3	0.3	5.1	0.3	0.2	0.2
Increase due to acquisition of Aquarion	(168.7)	—	—	—	—	—	—	—
Benefit Obligation as of End of Year	\$ (5,936.5)	\$ (1,275.2)	\$ (1,351.0)	\$ (642.2)	\$ (5,242.3)	\$ (1,170.2)	\$ (1,217.3)	\$ (572.2)
<b>Change in Pension Plan Assets:</b>								
Fair Value of Pension Plan Assets as of Beginning of Year	\$ 4,076.0	\$ 905.5	\$ 1,088.3	\$ 494.0	\$ 3,905.4	\$ 913.5	\$ 1,053.7	\$ 470.5
Employee Transfers	—	(8.2)	(5.5)	0.7	—	(8.8)	(1.3)	(2.4)
Employer Contributions	235.2	2.5	85.4	0.8	146.2	0.4	28.4	17.1
Actual Return on Pension Plan Assets	589.7	126.7	154.8	70.4	278.4	63.0	74.5	33.7
Benefits Paid	(243.7)	(63.5)	(55.4)	(26.4)	(254.0)	(62.6)	(67.0)	(24.9)
Benefits Paid - Lump Sum	(18.4)	—	(6.8)	—	—	—	—	—
Increase due to acquisition of Aquarion	100.7	—	—	—	—	—	—	—
Fair Value of Pension Plan Assets as of End of Year	\$ 4,739.5	\$ 963.0	\$ 1,260.8	\$ 539.5	\$ 4,076.0	\$ 905.5	\$ 1,088.3	\$ 494.0
Funded Status as of December 31st	\$ (1,197.0)	\$ (312.2)	\$ (90.2)	\$ (102.7)	\$ (1,166.3)	\$ (264.7)	\$ (129.0)	\$ (78.2)

In 2017, there was a decrease to the discount rate used to calculate the funded status of the Eversource pension liability, which resulted in an increase to Eversource's pension liability of approximately \$390 million as of December 31, 2017.

In 2016, there was a decrease in the discount rate used to calculate the funded status of the Eversource pension liability, which resulted in an increase to Eversource's pension liability of approximately \$177 million, partially offset by a revised scale for the mortality table resulting in a decrease to Eversource's pension liability of approximately \$32 million as of December 31, 2016. In December 2016, Eversource amended its pension plan to adjust the calculation of lump sum payments or annuity payments for certain employees. This amendment resulted in an increase to the liability of \$9 million as of December 31, 2016.

The pension and SERP Plans' funded status includes the current portion of the SERP liability totaling \$8.4 million and \$24.8 million as of December 31, 2017 and 2016, respectively, which is included in Other Current Liabilities on the balance sheets.

As of December 31, 2017 and 2016, the accumulated benefit obligation for the Pension and SERP Plans is as follows:

	Eversource	CL&P	NSTAR Electric	PSNH
2017	\$ 5,583.6	\$ 1,179.2	\$ 1,260.1	\$ 597.2
2016	4,829.6	1,065.2	1,124.8	518.9

The following actuarial assumptions were used in calculating the Pension and SERP Plans' year end funded status:

	Pension and SERP			
	As of December 31,			
	2017		2016	
Discount Rate	3.43%	3.75%	4.01%	4.33%
Compensation/Progression Rate	3.50%	4.00%	3.50%	

*Pension and SERP Expense:* Eversource charges net periodic pension expense to its subsidiaries based on the actual participant demographic data for each subsidiary's participants. The actual investment return in the trust is allocated to each of the subsidiaries annually in proportion to the investment return expected to be earned during the year.

Effective January 1, 2016, the Company refined its method of estimating the discount rate for the service and interest cost components of Pension expense from the yield-curve approach to the spot rate methodology, which provides a more precise measurement by matching projected cash flows to the corresponding spot rates on the yield curve. Historically, these components were estimated using the same weighted-average discount rate as for the funded status. The total pre-tax benefit of this change on Pension expense, prior to the capitalized portion and amounts deferred and recovered through rate reconciliation mechanisms, for the year ended December 31, 2016 was approximately \$46 million.

The components of net periodic benefit expense for the Pension and SERP Plans are shown below. The net periodic benefit expense and the intercompany allocations, less the capitalized portions of pension and SERP amounts, are included in Operations and Maintenance expense on the statements of income. Capitalized amounts relate to employees working on capital projects and are included in Property, Plant and Equipment, Net on the balance sheets. Pension and SERP expense reflected in the statements of cash flows for CL&P, NSTAR Electric and PSNH does not include the intercompany allocations or the corresponding capitalized portion, as these amounts are cash settled on a short-term basis.

	<b>Pension and SERP</b>			
	<b>For the Year Ended December 31, 2017</b>			
<i>(Millions of Dollars)</i>	<b>Eversource</b>	<b>CL&amp;P</b>	<b>NSTAR Electric</b>	<b>PSNH</b>
Service Cost	\$ 71.3	\$ 18.5	\$ 15.5	\$ 9.7
Interest Cost	188.0	41.6	42.7	21.2
Expected Return on Pension Plan Assets	(334.1)	(71.7)	(87.6)	(40.0)
Actuarial Loss	135.2	27.7	41.1	11.6
Prior Service Cost	4.5	1.5	0.6	0.5
Total Net Periodic Benefit Expense	\$ 64.9	\$ 17.6	\$ 12.3	\$ 3.0
Intercompany Allocations	N/A	\$ 9.8	\$ 9.1	\$ 3.3
Capitalized Pension Expense	\$ 22.0	\$ 9.7	\$ 7.6	\$ 1.5

	<b>Pension and SERP</b>			
	<b>For the Year Ended December 31, 2016</b>			
<i>(Millions of Dollars)</i>	<b>Eversource</b>	<b>CL&amp;P</b>	<b>NSTAR Electric</b>	<b>PSNH</b>
Service Cost	\$ 75.0	\$ 18.8	\$ 16.3	\$ 9.9
Interest Cost	185.5	41.6	42.2	20.7
Expected Return on Pension Plan Assets	(317.9)	(72.1)	(85.1)	(38.6)
Actuarial Loss	125.7	25.4	39.9	9.9
Prior Service Cost	3.6	1.5	0.3	0.5
Total Net Periodic Benefit Expense	\$ 71.9	\$ 15.2	\$ 13.6	\$ 2.4
Intercompany Allocations	N/A	\$ 13.8	\$ 11.4	\$ 4.0
Capitalized Pension Expense	\$ 22.1	\$ 9.3	\$ 8.0	\$ 1.4

	<b>Pension and SERP</b>			
	<b>For the Year Ended December 31, 2015</b>			
<i>(Millions of Dollars)</i>	<b>Eversource <sup>(1)</sup></b>	<b>CL&amp;P</b>	<b>NSTAR Electric</b>	<b>PSNH <sup>(1)</sup></b>
Service Cost	\$ 91.4	\$ 24.7	\$ 19.2	\$ 12.1
Interest Cost	227.0	51.1	50.6	24.3
Expected Return on Pension Plan Assets	(335.9)	(78.9)	(88.9)	(40.4)
Actuarial Loss	148.5	32.2	42.2	11.6
Prior Service Cost	3.7	1.5	0.2	0.5
Total Net Periodic Benefit Expense	\$ 134.7	\$ 30.6	\$ 23.3	\$ 8.1
Intercompany Allocations	N/A	\$ 22.5	\$ 18.0	\$ 6.7
Capitalized Pension Expense	\$ 41.0	\$ 18.8	\$ 13.3	\$ 3.5

<sup>(1)</sup> Amounts exclude \$3.2 million for the year ended December 31, 2015 that represent amounts included in other deferred debits.

The following actuarial assumptions were used to calculate Pension and SERP expense amounts:

Pension and SERP						
For the Years Ended December 31,						
	2017		2016		2015	
Discount Rate	3.20%	—	3.90%	3.27%	—	4.20%
Expected Long-Term Rate of Return	8.25%		8.25%		8.25%	
Compensation/Progression Rate	3.50%		3.50%		3.50%	

The following is a summary of the changes in plan assets and benefit obligations recognized in Regulatory Assets and Other Comprehensive Income ("OCI") as well as amounts in Regulatory Assets and OCI that were reclassified as net periodic benefit expense during the years presented:

(Millions of Dollars)	Regulatory Assets				OCI			
	For the Years Ended December 31,							
	2017		2016		2016			
Actuarial Losses Arising During the Year	\$	333.0	\$	184.6	\$	9.3	\$	6.8
Actuarial Losses Reclassified as Net Periodic Benefit Expense		(129.5)		(119.9)		(5.7)		(5.8)
Prior Service Cost/(Credit) Arising During the Year		1.0		7.1		(0.4)		1.9
Prior Service Cost Reclassified as Net Periodic Benefit Expense		(4.1)		(3.4)		(0.4)		(0.2)

The following is a summary of the remaining Regulatory Assets and Accumulated Other Comprehensive Loss amounts that have not been recognized as components of net periodic benefit expense as of December 31, 2017 and 2016, as well as the amounts that are expected to be recognized as components in 2018:

(Millions of Dollars)	Regulatory Assets as of December 31,			AOCL as of December 31,								
	2017	2016	Expected 2018 Expense	2017	2016	Expected 2018 Expense						
	Actuarial Loss	\$	1,935.8	\$	1,732.3	\$	141.8	\$	85.7	\$	82.1	\$
Prior Service Cost		10.3		13.4		4.2		1.5		2.3		0.3

**PBOP Plans:** The PBOP Plans are accounted for under the multiple-employer approach, with each operating company's balance sheet reflecting its share of the funded status of the plans. The following table provides information on the PBOP Plan benefit obligations, fair values of plan assets, and funded status:

(Millions of Dollars)	PBOP															
	As of December 31,															
	2017				2016											
	Eversource	CL&P	NSTAR Electric	PSNH	Eversource	CL&P	NSTAR Electric	PSNH								
<b>Change in Benefit Obligation:</b>																
Benefit Obligation as of Beginning of Year	\$	(810.0)	\$	(165.0)	\$	(270.0)	\$	(89.7)	\$	(1,051.4)	\$	(164.0)	\$	(447.2)	\$	(88.5)
Plan Amendment		—		—		—		—		244.0		(12.5)		193.6		(6.7)
Employee Transfers		—		2.4		1.5		0.2		—		1.3		0.5		0.3
Service Cost		(9.5)		(1.9)		(1.7)		(1.3)		(12.2)		(2.0)		(3.4)		(1.3)
Interest Cost		(27.1)		(5.3)		(8.7)		(3.0)		(32.9)		(5.3)		(13.3)		(2.9)
Actuarial Gain/(Loss)		(81.8)		(18.5)		(13.2)		(11.9)		(17.7)		3.6		(23.5)		3.6
Benefits Paid		41.5		9.9		13.5		4.6		60.2		13.9		23.3		5.8
Increase due to acquisition of Aquarion		(61.7)		—		—		—		—		—		—		—
Benefit Obligation as of End of Year	\$	(948.6)	\$	(178.4)	\$	(278.6)	\$	(101.1)	\$	(810.0)	\$	(165.0)	\$	(270.0)	\$	(89.7)
<b>Change in Plan Assets:</b>																
Fair Value of Plan Assets as of Beginning of Year	\$	815.8	\$	129.2	\$	361.6	\$	73.2	\$	812.2	\$	136.7	\$	352.0	\$	75.8
Employee Transfers		—		(1.5)		(0.8)		—		—		(0.8)		(0.6)		(0.2)
Actual Return on Plan Assets		118.0		18.1		52.9		10.4		51.3		7.2		24.6		3.4
Employer Contributions		7.6		—		5.3		—		12.5		—		8.9		—
Benefits Paid		(41.5)		(9.9)		(13.5)		(4.6)		(60.2)		(13.9)		(23.3)		(5.8)
Increase due to acquisition of Aquarion		22.3		—		—		—		—		—		—		—
Fair Value of Plan Assets as of End of Year	\$	922.2	\$	135.9	\$	405.5	\$	79.0	\$	815.8	\$	129.2	\$	361.6	\$	73.2
Funded Status as of December 31st	\$	(26.4)	\$	(42.5)	\$	126.9	\$	(22.1)	\$	5.8	\$	(35.8)	\$	91.6	\$	(16.5)

The Eversource funded status includes a prepaid asset of \$13.1 million recorded in Other Long-Term Assets and a liability of \$39.5 million included in Accrued Pension, SERP and PBOP on the balance sheet.

As of December 31, 2017, there was a decrease in the discount rate used to calculate the funded status, as compared to the discount rate as of December 31, 2016, resulting in an increase to the Eversource PBOP liability of approximately \$64 million.



The August 2016 PBOP plan amendment resulted in a reduction to Eversource's accumulated benefit liability of approximately \$244 million. As of December 31, 2016, there was a decrease in the discount rate used to calculate the funded status, as compared to the discount rate as of December 31, 2015, resulting in an increase to the Eversource liability of approximately \$75 million, which was partially offset by a decrease of approximately \$52 million from changes in mortality and other assumptions.

The following actuarial assumptions were used in calculating the PBOP Plans' year end funded status:

<b>PBOP</b>			
<b>As of December 31,</b>			
	<b>2017</b>		<b>2016</b>
Discount Rate	3.55%	—	3.70%
			4.21%

For the Eversource Service PBOP Plan, effective with the plan amendment that standardized plan designs and made benefit changes in August 2016, the health care cost trend rate is no longer applicable.

*PBOP Expense:* Eversource charges net periodic postretirement benefits expense to its subsidiaries based on the actual participant demographic data for each subsidiary's participants. The actual investment return in the trust each year is allocated to each of the subsidiaries annually in proportion to the investment return expected to be earned during the year.

Effective January 1, 2016, the Company refined its method of estimating the discount rate for the service and interest cost components of PBOP expense from the yield-curve methodology to the spot rate methodology, which provides a more precise measurement by matching projected cash flows to the corresponding spot rates on the yield curve. Historically these components were estimated using the same weighted-average discount rate as for the funded status. The total pre-tax benefit of this change on PBOP expense, prior to the capitalized portion and amounts deferred and recovered through rate reconciliation mechanisms, for the year ended December 31, 2016 was approximately \$10 million.

The August 2016 PBOP Plan amendment resulted in a remeasurement of the benefit obligation and annual expense using assumptions at that point in time, including updated discount rates and asset values. The remeasurement resulted in a decrease in net periodic benefit costs for PBOP benefits, prior to the capitalized portion and amounts deferred and recovered through rate reconciliation mechanisms, of approximately \$10 million, which was recorded in 2016, and most of this amount will be deferred for future refund to customers.

The components of net periodic benefit expense for the PBOP Plans are shown below. The net periodic benefit expense and the intercompany allocations, less the capitalized portion of PBOP, are included in Operations and Maintenance expense on the statements of income. Capitalized PBOP amounts relate to employees working on capital projects and are included in Property, Plant and Equipment, Net on the balance sheets. PBOP expense reflected in the statements of cash flows for CL&P, NSTAR Electric and PSNH does not include the intercompany allocations or the corresponding capitalized portion, as these amounts are cash settled on a short-term basis.

<b>PBOP</b>					
<b>For the Year Ended December 31, 2017</b>					
<i>(Millions of Dollars)</i>	<b>Eversource</b>	<b>CL&amp;P</b>	<b>NSTAR Electric</b>	<b>PSNH</b>	
Service Cost	\$ 9.5	\$ 1.9	\$ 1.7	\$ 1.3	
Interest Cost	27.1	5.3	8.7	3.0	
Expected Return on Plan Assets	(63.7)	(9.7)	(28.6)	(5.5)	
Actuarial Loss	9.1	1.0	3.4	0.6	
Prior Service (Credit)/Cost	(21.6)	1.1	(17.0)	0.6	
Total Net Periodic Benefit Expense/(Income)	\$ (39.6)	\$ (0.4)	\$ (31.8)	\$ —	
Intercompany Allocations	N/A	\$ (0.7)	\$ (1.1)	\$ (0.5)	
Capitalized PBOP Expense/(Income)	\$ (19.1)	\$ (0.5)	\$ (16.2)	\$ 0.2	

<b>PBOP</b>					
<b>For the Year Ended December 31, 2016</b>					
<i>(Millions of Dollars)</i>	<b>Eversource</b>	<b>CL&amp;P</b>	<b>NSTAR Electric</b>	<b>PSNH</b>	
Service Cost	\$ 12.2	\$ 2.0	\$ 3.4	\$ 1.3	
Interest Cost	32.9	5.3	13.3	2.9	
Expected Return on Plan Assets	(62.9)	(10.1)	(28.1)	(5.5)	
Actuarial Loss	9.0	1.5	3.3	0.7	
Prior Service (Credit)/Cost	(9.1)	0.5	(7.1)	0.2	
Total Net Periodic Benefit Income	\$ (17.9)	\$ (0.8)	\$ (15.2)	\$ (0.4)	
Intercompany Allocations	N/A	\$ 0.3	\$ (0.1)	\$ (0.1)	
Capitalized PBOP Expense/(Income)	\$ (8.0)	\$ (0.5)	\$ (6.7)	\$ 0.1	

<i>(Millions of Dollars)</i>	<b>PBOP</b>			
	<b>For the Year Ended December 31, 2015</b>			
	<b>Eversource</b>	<b>CL&amp;P</b>	<b>NSTAR Electric</b>	<b>PSNH</b>
Service Cost	\$ 16.3	\$ 2.1	\$ 5.8	\$ 1.4
Interest Cost	47.2	7.2	20.5	3.9
Expected Return on Plan Assets	(67.4)	(11.1)	(29.8)	(6.0)
Actuarial Loss	6.8	0.7	2.3	0.5
Prior Service Credit	(0.5)	—	(0.2)	—
Total Net Periodic Benefit Expense/(Income)	\$ 2.4	\$ (1.1)	\$ (1.4)	\$ (0.2)
Intercompany Allocations	N/A	\$ 1.9	\$ 1.1	\$ 0.4
Capitalized PBOP Expense/(Income)	\$ 0.1	\$ (0.2)	\$ (0.4)	\$ 0.2

The following actuarial assumptions were used to calculate PBOP expense amounts:

	<b>PBOP</b>			
	<b>For the Years Ended December 31,</b>			
	<b>2017</b>	<b>2016</b>	<b>2016</b>	<b>2015</b>
Discount Rate	3.48%	— 4.64%	2.88%	— 4.09%
Expected Long-Term Rate of Return	8.25%	8.25%	8.25%	8.25%

The health care cost trend rate assumption used to calculate the PBOP expense amount for the Eversource PBOP Plan was 6.25 percent and 6.5 percent for the years ended December 31, 2016 and 2015, respectively. Effective January 1, 2017, the health care trend rate no longer has an impact on the PBOP expense on the Eversource Service PBOP Plan due to the benefit design changes effective with the 2016 plan amendment.

The following is a summary of the changes in plan assets and benefit obligations recognized in Regulatory Assets and OCI as well as amounts recognized in Regulatory Assets and OCI that were reclassified as net periodic benefit (expense)/income during the years presented:

<i>(Millions of Dollars)</i>	<b>Regulatory Assets</b>		<b>OCI</b>	
	<b>For the Years Ended December 31,</b>			
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Actuarial Losses/(Gains) Arising During the Year	\$ 44.8	\$ 32.4	\$ 2.6	\$ (2.0)
Actuarial (Losses)/Gains Reclassified as Net Periodic Benefit (Expense)/Income	(8.6)	(9.2)	(0.5)	0.2
Prior Service (Credit)/Cost Arising During the Year	(4.0)	(247.9)	(0.1)	4.0
Prior Service Credit/(Cost) Reclassified as Net Periodic Benefit Income/(Expense)	22.3	9.7	(0.7)	(0.6)

The following is a summary of the remaining Regulatory Assets and Accumulated Other Comprehensive Loss amounts that have not been recognized as components of net periodic benefit expense as of December 31, 2017 and 2016, as well as the amounts that are expected to be recognized as components in 2018:

<i>(Millions of Dollars)</i>	<b>Regulatory Assets as of December 31,</b>			<b>AOCL as of December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>Expected 2018 Expense</b>	<b>2017</b>	<b>2016</b>	<b>Expected 2018 Expense</b>
	Actuarial Loss	\$ 211.6	\$ 175.4	\$ 8.8	\$ 6.6	\$ 4.5
Prior Service (Credit)/Cost	(221.2)	(239.5)	(21.7)	2.6	3.4	0.2

*Estimated Future Benefit Payments:* The following benefit payments, which reflect expected future service, are expected to be paid by the Pension, SERP and PBOP Plans:

<i>(Millions of Dollars)</i>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023 - 2027</b>
Pension and SERP	\$ 296.5	\$ 304.7	\$ 311.1	\$ 320.8	\$ 329.4	\$ 1,739.7
PBOP	56.8	57.1	57.3	57.5	57.4	279.3

*Eversource Contributions:* Based on the current status of the Pension Plans and federal pension funding requirements, Eversource currently expects to make contributions of approximately \$180 million in 2018, of which approximately \$82 million and \$6 million, will be contributed by CL&P and PSNH, respectively. The remaining \$92 million is expected to be contributed by other Eversource subsidiaries, primarily Eversource Service. Eversource expects to make approximately \$10 million in contributions to the PBOP Plan in 2018, of which approximately \$5 million will be contributed by NSTAR Electric.

*Fair Value of Pension and PBOP Plan Assets:* Pension and PBOP funds are held in external trusts. Trust assets, including accumulated earnings, must be used exclusively for Pension and PBOP payments. Eversource's investment strategy for its Pension and PBOP Plans is to maximize the long-term rates of return on these plans' assets within an acceptable level of risk. The investment strategy for each asset category includes a diversification of asset types, fund strategies and fund managers and it establishes target asset allocations that are routinely reviewed and periodically rebalanced. PBOP assets are comprised of assets held in the PBOP Plan, as well as specific assets within the Pension Plan trust (401(h) assets). The investment policy and strategy of the 401(h) assets is consistent with that of the defined benefit pension plan. Eversource's expected long-term rates of return on Pension and PBOP Plan assets are based on target asset allocation assumptions and related expected long-term rates of return. In developing its expected long-term rate of return assumptions for the Pension and PBOP Plans, Eversource evaluated input from consultants, as well as long-term inflation assumptions and historical returns. For the year ended December 31, 2017, management has assumed long-term rates of return of 8.25 percent for the Eversource Pension and PBOP Plan assets. These long-term rates of return are based on the assumed rates of return for the target asset allocations as follows:

	As of December 31,			
	2017		2016	
	Eversource Pension Plan and Tax-Exempt Assets Within PBOP Plan		Eversource Pension Plan and Tax-Exempt Assets Within PBOP Plan	
	Target Asset Allocation	Assumed Rate of Return	Target Asset Allocation	Assumed Rate of Return
<b>Equity Securities:</b>				
United States	21.5%	8.5%	22.0%	8.5%
International	11.0%	8.5%	13.0%	8.5%
Emerging Markets	4.5%	10.0%	5.0%	10.0%
Private Equity	15.0%	12.0%	12.0%	12.0%
<b>Debt Securities:</b>				
Fixed Income	11.0%	4.0%	12.0%	4.5%
Public High Yield Fixed Income	4.0%	6.5%	3.0%	7.0%
Private Debt	15.0%	9.0%	10.0%	9.0%
Emerging Markets Debt	2.0%	6.5%	5.0%	7.5%
Real Estate and Other Assets	12.0%	7.5%	10.0%	7.5%
Hedge Funds	4.0%	6.0%	8.0%	7.0%

The taxable assets within the Eversource PBOP Plan have a target asset allocation of 70 percent equity securities and 30 percent fixed income securities.

The following table presents, by asset category, the Pension and PBOP Plan assets recorded at fair value on a recurring basis by the level in which they are classified within the fair value hierarchy:

	Pension Plan							
	Fair Value Measurements as of December 31,							
	2017				2016			
Asset Category:	Level 1	Level 2	Uncategorized	Total	Level 1	Level 2	Uncategorized	Total
Equity Securities <sup>(1)</sup>	\$ 535.4	\$ —	\$ 1,653.3	\$ 2,188.7	\$ 455.5	\$ —	\$ 1,279.7	\$ 1,735.2
Private Equity	11.2	—	641.8	653.0	6.0	—	518.4	524.4
Fixed Income <sup>(2)</sup>	56.6	215.9	1,218.3	1,490.8	—	183.0	1,099.4	1,282.4
Real Estate and Other Assets	101.6	—	374.4	476.0	77.2	—	325.9	403.1
Hedge Funds	—	—	165.5	165.5	—	—	335.0	335.0
Total	\$ 704.8	\$ 215.9	\$ 4,053.3	\$ 4,974.0	\$ 538.7	\$ 183.0	\$ 3,558.4	\$ 4,280.1
Less: 401(h) PBOP Assets <sup>(3)</sup>				(234.5)				(204.1)
Total Pension Assets				\$ 4,739.5				\$ 4,076.0

	PBOP Plan							
	Fair Value Measurements as of December 31,							
	2017				2016			
Asset Category:	Level 1	Level 2	Uncategorized	Total	Level 1	Level 2	Uncategorized	Total
Equity Securities <sup>(1)</sup>	\$ 115.3	\$ —	\$ 241.9	\$ 357.2	\$ 88.6	\$ —	\$ 214.1	\$ 302.7
Private Equity	—	—	31.3	31.3	—	—	32.2	32.2
Fixed Income <sup>(2)</sup>	23.4	44.0	133.9	201.3	9.5	44.8	132.3	186.6
Real Estate and Other Assets	22.4	—	29.0	51.4	15.5	—	27.5	43.0
Hedge Funds	—	—	46.5	46.5	—	—	47.2	47.2
Total	\$ 161.1	\$ 44.0	\$ 482.6	\$ 687.7	\$ 113.6	\$ 44.8	\$ 453.3	\$ 611.7
Add: 401(h) PBOP Assets <sup>(3)</sup>				234.5				204.1
Total PBOP Assets				\$ 922.2				\$ 815.8

- (1) United States, International and Emerging Markets equity securities that are uncategorized include investments in commingled funds and hedge funds that are overlaid with equity index swaps and futures contracts.
- (2) Fixed Income investments that are uncategorized include investments in commingled funds, fixed income funds that invest in a variety of opportunistic fixed income strategies, and hedge funds that are overlaid with fixed income futures.
- (3) The assets of the Pension Plan include a 401(h) account that has been allocated to provide health and welfare postretirement benefits under the PBOP Plan.

The Company values assets based on observable inputs when available. Equity securities, exchange traded funds and futures contracts classified as Level 1 in the fair value hierarchy are priced based on the closing price on the primary exchange as of the balance sheet date.

Fixed income securities, such as government issued securities, corporate bonds and high yield bond funds, are included in Level 2 and are valued using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. The pricing models utilize observable inputs such as recent trades for the same or similar instruments, yield curves, discount margins and bond structures. Swaps are valued using pricing models that incorporate interest rates and equity and fixed income index closing prices to determine a net present value of the cash flows.

Certain investments, such as commingled funds, private equity investments, real estate funds and hedge funds are valued using the NAV as a practical expedient. These investments are structured as investment companies offering shares or units to multiple investors for the purpose of providing a return. Commingled funds are recorded at NAV provided by the asset manager, which is based on the market prices of the underlying equity securities. Hedge Funds are recorded at NAV based on the values of the underlying assets. Private Equity investments, Fixed Income partnership funds and Real Estate and Other Assets are valued using the NAV provided by the partnerships, which are based on discounted cash flows of the underlying investments, real estate appraisals or public market comparables of the underlying investments. The Company has retrospectively adopted new accounting guidance that eliminates the requirement to classify assets valued at NAV, as a practical expedient, within the fair value hierarchy. Prior to the adoption of this guidance, these investments were classified as Level 2 or Level 3 in the fair value hierarchy. The adoption of this guidance changes fair value measurement disclosures, but does not impact the methodology for valuing the investments or financial statement results.

#### B. Defined Contribution Plan

Eversource maintains defined contribution plans on behalf of eligible participants. The Eversource 401k Plan provides for employee and employer contributions up to statutory limits. For eligible employees, the Eversource 401k Plan provides employer matching contributions of either 100 percent up to a maximum of three percent of eligible compensation or 50 percent up to a maximum of eight percent of eligible compensation. For newly hired employees, the Eversource 401k Plan provides employer matching contributions of 100 percent up to a maximum of three percent of eligible compensation.

The Eversource 401k Plan also contains a K-Vantage feature for the benefit of eligible participants, which provides an additional annual employer contribution based on age and years of service. K-Vantage participants are not eligible to actively participate in the Eversource Pension Plan.

The total defined Eversource 401k Plan employer matching contributions, including the K-Vantage contributions, were as follows:

<i>(Millions of Dollars)</i>	Eversource		CL&P		NSTAR Electric		PSNH	
2017	\$	34.5	\$	4.6	\$	8.5	\$	3.7
2016		31.8		4.5		8.1		3.4
2015		30.4		4.8		7.3		3.4

#### C. Share-Based Payments

Share-based compensation awards are recorded using a fair-value based method at the date of grant. Eversource, CL&P, NSTAR Electric and PSNH record compensation expense related to these awards, as applicable, for shares issued or sold to their respective employees and officers, as well as for the allocation of costs associated with shares issued or sold to Eversource's service company employees and officers that support CL&P, NSTAR Electric and PSNH.

*Eversource Incentive Plans:* Eversource maintains long-term equity-based incentive plans in which Eversource, CL&P, NSTAR Electric and PSNH employees, officers and board members are eligible to participate. The incentive plans authorize Eversource to grant up to 8,000,000 new shares for various types of awards, including RSUs and performance shares, to eligible employees, officers, and board members. As of December 31, 2017 and 2016, Eversource had 2,445,110 and 2,692,350 common shares, respectively, available for issuance under these plans.

Eversource accounts for its various share-based plans as follows:

- RSUs - Eversource records compensation expense, net of estimated forfeitures, on a straight-line basis over the requisite service period based upon the fair value of Eversource's common shares at the date of grant. The par value of RSUs is reclassified to Common Stock from APIC as RSUs become issued as common shares.

- Performance Shares - Eversource records compensation expense, net of estimated forfeitures, on a straight-line basis over the requisite service period. Performance shares vest based upon the extent to which Company goals are achieved. Vesting of outstanding performance shares is based upon both the Company's EPS growth over the requisite service period and the total shareholder return as compared to the Edison Electric Institute ("EEl") Index during the requisite service period. The fair value of performance shares is determined at the date of grant using a lattice model.
- Stock Options - All outstanding stock options were exercised during 2017.

*RSUs:* Eversource granted RSUs under the annual long-term incentive programs that are subject to three-year graded vesting schedules for employees, and one-year graded vesting schedules, or immediate vesting, for board members. RSUs are paid in shares, reduced by amounts sufficient to satisfy withholdings for income taxes, subsequent to vesting. A summary of RSU transactions is as follows:

	RSUs (Units)	Weighted Average Grant-Date Fair Value
Outstanding as of December 31, 2016	724,270	\$ 47.86
Granted	299,285	\$ 55.97
Shares Issued	(289,635)	\$ 52.26
Forfeited	(16,881)	\$ 55.60
Outstanding as of December 31, 2017	717,039	\$ 49.29

The weighted average grant-date fair value of RSUs granted for the years ended December 31, 2017, 2016 and 2015 was \$55.97, \$54.67 and \$54.57, respectively. As of December 31, 2017 and 2016, the number and weighted average grant-date fair value of unvested RSUs was 388,269 and \$56.15 per share, and 322,158 and \$53.47 per share, respectively. During 2017, there were 306,087 RSUs at a weighted average grant-date fair value of \$52.75 per share that vested during the year and were either paid or deferred. As of December 31, 2017, 328,770 RSUs were fully vested and deferred and an additional 368,856 are expected to vest.

*Performance Shares:* Eversource granted performance shares under the annual long-term incentive programs that vest based upon the extent to which Company goals are achieved at the end of three-year performance measurement periods. Performance shares are paid in shares, after the performance measurement period. A summary of performance share transactions is as follows:

	Performance Shares (Units)	Weighted Average Grant-Date Fair Value
Outstanding as of December 31, 2016	522,934	\$ 51.09
Granted	180,032	\$ 55.70
Shares Issued	(173,914)	\$ 43.48
Forfeited	(18,487)	\$ 47.06
Outstanding as of December 31, 2017	510,565	\$ 55.45

The weighted average grant-date fair value of performance shares granted for the years ended December 31, 2017, 2016 and 2015 was \$55.70, \$53.64 and \$55.04, respectively. As of December 31, 2017 and 2016, the number and weighted average grant-date fair value of unvested performance shares was 331,207 and \$55.79 per share, and 301,363 and \$51.52 per share, respectively. During 2017, there were 131,308 performance shares at a weighted average grant-date fair value of \$47.12 per share that vested during the year and were either paid or deferred. As of December 31, 2017, 179,358 performance shares were fully vested and deferred.

*Compensation Expense:* The total compensation expense and associated future income tax benefits recognized by Eversource, CL&P, NSTAR Electric and PSNH for share-based compensation awards were as follows:

Eversource (Millions of Dollars)	For the Years Ended December 31,		
	2017	2016	2015
Compensation Expense	\$ 19.7	\$ 23.6	\$ 23.1
Future Income Tax Benefit	8.0	9.6	9.4

(Millions of Dollars)	For the Years Ended December 31,								
	2017			2016			2015		
	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH
Compensation Expense	\$ 7.0	\$ 7.0	\$ 3.2	\$ 9.1	\$ 8.2	\$ 3.5	\$ 9.3	\$ 7.5	\$ 3.2
Future Income Tax Benefit	2.9	2.8	1.3	3.7	3.3	1.4	3.8	3.1	1.3

As of December 31, 2017, there was \$20.1 million of total unrecognized compensation expense related to nonvested share-based awards for Eversource, including \$7.3 million for CL&P, \$7.1 million for NSTAR Electric and \$3.1 million for PSNH. This cost is expected to be recognized ratably over a weighted-average period of 1.83 years for Eversource and NSTAR Electric, 1.84 years for CL&P and 1.82 years for PSNH.

An income tax rate of 40 percent was used to estimate the tax effect on total share-based payments determined under the fair-value based method for all awards. The Company generally settles fully vested RSUs and performance shares with the issuance of common shares purchased in the open market.

In 2016, the Company adopted new accounting guidance, which prospectively changed the accounting for excess tax benefits associated with the distribution of stock compensation awards and also changed the presentation of excess tax benefits on the statement of cash flows from a financing activity to an operating activity. For the years ended December 31, 2017 and 2016, the impact of the ASU was to reduce income tax expense by \$2.9 million and \$19.1 million, respectively, which increased cash flows from operating activities on the statement of cash flows. For the year ended December 31, 2015, changes in excess tax benefits totaling \$9.5 million increased cash flows from financing activities.

*Stock Options:* All remaining outstanding stock options under the NSTAR Incentive Plan were exercised during 2017. A summary of stock option transactions is as follows:

	Options	Weighted Average Exercise Price	Intrinsic Value (Millions)
Outstanding and Exercisable - December 31, 2016	124,640	\$ 25.84	\$ 3.7
Exercised	(124,640)	\$ 25.84	\$ 4.4
Outstanding and Exercisable - December 31, 2017	—	\$ —	\$ —

Cash received for options exercised during the year ended December 31, 2017 totaled \$3.2 million. The tax benefit realized from stock options exercised totaled \$1.8 million for the year ended December 31, 2017.

#### D. Other Retirement Benefits

Eversource provides retirement and other benefits for certain current and past company officers. These benefits are accounted for on an accrual basis and expensed over a period equal to the service lives of the employees. The actuarially-determined liability for these benefits, which is included in Other Long-Term Liabilities on the balance sheets, as well as the related expense included in Operations and Maintenance Expense on the income statements, are as follows:

Eversource (Millions of Dollars)	As of and For the Years Ended December 31,		
	2017	2016	2015
Actuarially-Determined Liability	\$ 53.4	\$ 54.2	\$ 55.2
Other Retirement Benefits Expense	2.8	2.9	3.9

(Millions of Dollars)	As of and For the Years Ended December 31,								
	2017			2016			2015		
	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH
Actuarially-Determined Liability	\$ 0.3	\$ 0.1	\$ 1.9	\$ 0.3	\$ 0.1	\$ 2.0	\$ 0.4	\$ 0.2	\$ 2.4
Other Retirement Benefits Expense	1.0	1.0	0.5	1.1	0.9	0.6	1.5	1.3	0.7

## 10. INCOME TAXES

The components of income tax expense are as follows:

Eversource (Millions of Dollars)	For the Years Ended December 31,		
	2017	2016	2015
Current Income Taxes:			
Federal	\$ 58.9	\$ 38.9	\$ 6.2
State	31.6	53.0	45.7
Total Current	90.5	91.9	51.9
Deferred Income Taxes, Net:			
Federal	433.0	427.9	436.1
State	58.6	38.6	55.6
Total Deferred	491.6	466.5	491.7
Investment Tax Credits, Net	(3.2)	(3.4)	(3.6)
Income Tax Expense	\$ 578.9	\$ 555.0	\$ 540.0

(Millions of Dollars)	For the Years Ended December 31,								
	2017			2016			2015		
	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH
Current Income Taxes:									
Federal	\$ 50.9	\$ 107.8	\$ 18.6	\$ 27.3	\$ 86.4	\$ (13.7)	\$ 26.9	\$ 32.8	\$ (16.7)
State	17.4	25.6	6.2	13.3	39.5	8.8	15.8	21.4	6.0
Total Current	68.3	133.4	24.8	40.6	125.9	(4.9)	42.7	54.2	(10.7)
Deferred Income Taxes, Net:									
Federal	123.9	88.1	52.7	157.6	96.6	79.5	135.8	180.9	74.5
State	(4.6)	22.4	11.2	11.3	5.1	7.8	0.2	31.7	9.3
Total Deferred	119.3	110.5	63.9	168.9	101.7	87.3	136.0	212.6	83.8
Investment Tax Credits, Net	(1.0)	(1.8)	—	(1.2)	(1.8)	—	(1.3)	(1.8)	—
Income Tax Expense	\$ 186.6	\$ 242.1	\$ 88.7	\$ 208.3	\$ 225.8	\$ 82.4	\$ 177.4	\$ 265.0	\$ 73.1

A reconciliation between income tax expense and the expected tax expense at the statutory rate is as follows:

Eversource (Millions of Dollars, except percentages)	For the Years Ended December 31,		
	2017	2016	2015
Income Before Income Tax Expense	\$ 1,574.4	\$ 1,504.8	\$ 1,425.9
Statutory Federal Income Tax Expense at 35%	551.0	526.7	499.1
Tax Effect of Differences:			
Depreciation	(10.8)	(3.4)	(4.6)
Investment Tax Credit Amortization	(3.2)	(3.4)	(3.6)
Other Federal Tax Credits	—	(3.5)	(3.8)
State Income Taxes, Net of Federal Impact	47.7	56.2	61.1
Dividends on ESOP	(8.4)	(8.4)	(8.1)
Tax Asset Valuation Allowance/Reserve Adjustments	7.0	3.3	4.7
Excess Stock Benefit <sup>(1)</sup>	(2.9)	(19.1)	—
Other, Net	(1.5)	6.6	(4.8)
Income Tax Expense	\$ 578.9	\$ 555.0	\$ 540.0
Effective Tax Rate	36.8%	36.9%	37.9%

(Millions of Dollars, except percentages)	For the Years Ended December 31,								
	2017			2016			2015		
	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH
Income Before Income Tax Expense	\$ 563.4	\$ 616.8	\$ 224.7	\$ 542.6	\$ 576.6	\$ 214.3	\$ 476.8	\$ 666.1	\$ 187.5
Statutory Federal Income Tax Expense at 35%	197.2	215.9	78.6	189.9	201.8	75.0	166.9	233.1	65.6
Tax Effect of Differences:									
Depreciation	(5.2)	(3.0)	1.1	1.6	(3.1)	1.0	(1.7)	(1.7)	0.5
Investment Tax Credit Amortization	(1.0)	(1.8)	—	(1.2)	(1.8)	—	(1.3)	(1.8)	—
Other Federal Tax Credits	—	—	—	—	—	(3.5)	—	—	(3.8)
State Income Taxes, Net of Federal Impact	4.5	31.2	11.3	14.5	29.0	10.8	9.2	34.5	9.9
Tax Asset Valuation Allowance/Reserve Adjustments	(9.5)	—	—	1.5	—	—	1.2	—	—
Excess Stock Benefit <sup>(1)</sup>	(0.7)	(0.7)	(0.3)	(0.9)	(1.2)	(0.4)	—	—	—
Other, Net	1.3	0.5	(2.0)	2.9	1.1	(0.5)	3.1	0.9	0.9
Income Tax Expense	\$ 186.6	\$ 242.1	\$ 88.7	\$ 208.3	\$ 225.8	\$ 82.4	\$ 177.4	\$ 265.0	\$ 73.1
Effective Tax Rate	33.1%	39.2%	39.5%	38.4%	39.2%	38.4%	37.2%	39.8%	39.0%

<sup>(1)</sup> In 2016, the Company adopted new accounting guidance, which prospectively changed the accounting for excess tax benefits associated with the distribution of stock compensation awards, previously recognized in Capital Surplus, Paid In within Common Shareholders' Equity on the balance sheet, to recognition within income tax expense in the income statement. See Note 1D, "Summary of Significant Accounting Policies - Accounting Standards," for further information.



Eversource, CL&P, NSTAR Electric and PSNH file a consolidated federal income tax return and unitary, combined and separate state income tax returns. These entities are also parties to a tax allocation agreement under which taxable subsidiaries do not pay any more taxes than they would have otherwise paid had they filed a separate company tax return, and subsidiaries generating tax losses, if any, are paid for their losses when utilized.

Deferred tax assets and liabilities are recognized for the future tax effects of temporary differences between the carrying amounts and the tax basis of assets and liabilities. The tax effect of temporary differences is accounted for in accordance with the rate-making treatment of the applicable regulatory commissions and relevant accounting authoritative literature. The tax effects of temporary differences that give rise to the net accumulated deferred income tax obligations are as follows:

Eversource (Millions of Dollars)	As of December 31,	
	2017	2016
Deferred Tax Assets:		
Employee Benefits	\$ 442.1	\$ 640.6
Derivative Liabilities	111.8	192.6
Regulatory Deferrals - Liabilities	205.6	290.9
Allowance for Uncollectible Accounts	50.1	76.6
Tax Effect - Tax Regulatory Liabilities	832.6	11.8
Federal Net Operating Loss Carryforwards	47.8	—
Purchase Accounting Adjustment	69.9	112.2
Other	149.5	170.5
Total Deferred Tax Assets	1,909.4	1,495.2
Less: Valuation Allowance	14.6	5.1
Net Deferred Tax Assets	\$ 1,894.8	\$ 1,490.1
Deferred Tax Liabilities:		
Accelerated Depreciation and Other Plant-Related Differences	\$ 3,562.0	\$ 5,001.2
Property Tax Accruals	56.7	81.9
Regulatory Amounts:		
Regulatory Deferrals - Assets	924.9	1,321.8
Tax Effect - Tax Regulatory Assets	243.1	252.6
Goodwill Regulatory Asset - 1999 Merger	99.8	186.7
Derivative Assets	17.4	29.5
Other	288.4	223.6
Total Deferred Tax Liabilities	\$ 5,192.3	\$ 7,097.3

(Millions of Dollars)	As of December 31,					
	2017			2016		
	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH
Deferred Tax Assets:						
Employee Benefits	\$ 112.3	\$ 34.0	\$ 38.0	\$ 138.8	\$ 69.5	\$ 46.5
Derivative Liabilities	110.5	0.3	—	191.5	1.1	—
Regulatory Deferrals - Liabilities	12.0	139.8	17.9	6.3	194.9	36.7
Allowance for Uncollectible Accounts	20.6	17.3	2.9	33.0	25.7	4.1
Tax Effect - Tax Regulatory Liabilities	337.2	281.2	116.8	4.9	3.3	2.6
Other	70.7	4.9	49.6	59.4	6.6	56.4
Total Deferred Tax Assets	663.3	477.5	225.2	433.9	301.1	146.3
Less: Valuation Allowance	6.3	—	—	4.5	—	—
Net Deferred Tax Assets	\$ 657.0	\$ 477.5	\$ 225.2	\$ 429.4	\$ 301.1	\$ 146.3
Deferred Tax Liabilities:						
Accelerated Depreciation and Other Plant-Related Differences	\$ 1,224.9	\$ 1,229.2	\$ 502.5	\$ 1,700.3	\$ 1,901.9	\$ 726.3
Property Tax Accruals	20.7	24.2	5.5	29.7	36.8	8.0
Regulatory Amounts:						
Regulatory Deferrals - Assets	310.6	267.1	103.6	473.4	381.7	142.1
Tax Effect - Tax Regulatory Assets	173.1	9.8	11.4	170.4	44.8	12.2
Goodwill Regulatory Asset - 1999 Merger	—	85.7	—	—	160.3	—
Derivative Assets	17.4	—	—	27.0	—	—
Other	13.7	137.3	45.7	16.3	102.7	43.1
Total Deferred Tax Liabilities	\$ 1,760.4	\$ 1,753.3	\$ 668.7	\$ 2,417.1	\$ 2,628.2	\$ 931.7

*2017 Federal Legislation:* On December 22, 2017, the "Tax Cuts and Jobs Act" (the "Act") became law, which amended existing federal tax rules and included numerous provisions that impacted corporations. In particular, the Act reduced the U.S. federal corporate income tax rate from 35 percent to 21 percent effective January 1, 2018. In terms of the impacts to the regulated companies, the most significant changes will be (1) the benefit of incurring a lower federal income tax expense, which we expect to be passed back to customers, and (2) the provisional regulated excess ADIT liabilities that we expect to benefit customers in future periods, which were estimated to be approximately \$2.9 billion (approximately \$1.0 billion at CL&P, \$1.1 billion at NSTAR Electric and \$0.4 billion at PSNH) as of December 31, 2017 and recognized as regulatory liabilities on the balance sheet.

The Eversource regulated companies are currently working with their applicable state regulatory commissions, who have opened investigations to examine the impact of the Act on customer rates. FERC has yet to address how the Act would impact transmission rates. Eversource, CL&P, NSTAR Electric, and PSNH will continue to evaluate the impacts of the Act, which will vary depending on the ultimate amount and timing of when certain income tax benefits will benefit customers, and will vary by jurisdiction.

Although the impacts could not be finalized upon the issuance of this combined Annual Report on Form 10-K, reasonable provisional estimates were recognized as of December 31, 2017. In accordance with SEC Staff Accounting Bulletin No. 118 ("SAB 118"), additional re-measurement may occur based on final analysis, computations, technical corrections, or other forms of guidance issued from regulatory agencies or commissions. While the Company believes the impacts of the Act were appropriately accounted for in accordance with the applicable authoritative guidance, the ultimate outcome may be different from the provisional estimates recorded, and those differences may materially impact its future statement of financial position, results of operations, and cash flows.

*Carryforwards:* The following tables provide the amounts and expiration dates of state tax credit and loss carryforwards and federal tax credit and net operating loss carryforwards:

<b>As of December 31, 2017</b>					
<i>(Millions of Dollars)</i>	<b>Eversource</b>	<b>CL&amp;P</b>	<b>NSTAR Electric</b>	<b>PSNH</b>	<b>Expiration Range</b>
Federal Net Operating Loss	\$ 197.3	\$ —	\$ —	\$ —	2027-2037
Federal Charitable Contribution	18.7	—	—	—	2017-2022
State Net Operating Loss	82.8	—	—	—	2028-2037
State Tax Credit	139.0	94.5	—	—	2017-2022
State Charitable Contribution	31.4	—	—	—	2017-2022

<b>As of December 31, 2016</b>					
<i>(Millions of Dollars)</i>	<b>Eversource</b>	<b>CL&amp;P</b>	<b>NSTAR Electric</b>	<b>PSNH</b>	<b>Expiration Range</b>
Federal Tax Credit	8.6	—	—	—	—
Federal Charitable Contribution	27.8	—	—	—	2016 - 2019
State Tax Credit	111.1	80.5	—	—	2016 - 2021
State Charitable Contribution	36.5	—	—	—	2016 - 2020

In 2017, the company increased its valuation allowance reserve for state credits by \$9.9 million (\$1.8 million for CL&P), net of tax, to reflect and update for expired tax credits. In 2016, the Company increased its valuation allowance reserve for state credits by \$1.3 million (\$1.3 million for CL&P), net of tax, to reflect an update for expired tax credits.

For 2017 and 2016, state credit and state loss carryforwards have been partially reserved by a valuation allowance of \$14.4 million and \$4.5 million (net of tax), respectively.

*Unrecognized Tax Benefits:* A reconciliation of the activity in unrecognized tax benefits, all of which would impact the effective tax rate if recognized, is as follows:

<i>(Millions of Dollars)</i>	Eversource	CL&P
Balance as of January 1, 2015	\$ 46.2	\$ 14.3
Gross Increases - Current Year	9.9	2.6
Gross Increases - Prior Year	0.1	—
Lapse of Statute of Limitations	(8.2)	(3.4)
Balance as of December 31, 2015	48.0	13.5
Gross Increases - Current Year	9.9	3.9
Gross Increases - Prior Year	0.2	0.2
Lapse of Statute of Limitations	(9.7)	(2.3)
Balance as of December 31, 2016	48.4	15.3
Gross Increases - Current Year	11.4	4.7
Gross Decreases - Prior Year	(0.9)	(0.5)
Lapse of Statute of Limitations	(7.2)	(1.4)
Balance as of December 31, 2017	\$ 51.7	\$ 18.1

*Interest and Penalties:* Interest on uncertain tax positions is recorded and generally classified as a component of Other Interest Expense on the statements of income. However, when resolution of uncertainties results in the Company receiving interest income, any related interest benefit is recorded in Other Income, Net on the statements of income. No penalties have been recorded. The amount of interest expense/(income) on uncertain tax positions recognized and the related accrued interest payable/(receivable) are as follows:

<i>(Millions of Dollars)</i>	Other Interest Expense/(Income)			Accrued Interest Expense	
	For the Years Ended December 31,			As of December 31,	
	2017	2016	2015	2017	2016
Eversource	\$ —	\$ (0.2)	\$ 0.1	\$ 1.8	\$ 1.8

*Tax Positions:* During 2017 and 2016, Eversource did not resolve any of its uncertain tax positions.

*Open Tax Years:* The following table summarizes Eversource, CL&P, NSTAR Electric and PSNH's tax years that remain subject to examination by major tax jurisdictions as of December 31, 2017:

Description	Tax Years
Federal	2017
Connecticut	2014 - 2017
Massachusetts	2014 - 2017
New Hampshire	2015 - 2017

Eversource estimates that during the next twelve months, differences of a non-timing nature could be resolved, resulting in a zero to \$2.2 million decrease in unrecognized tax benefits by Eversource. These estimated changes are not expected to have a material impact on the earnings of Eversource. Other companies' impacts are not expected to be material.

## 11. COMMITMENTS AND CONTINGENCIES

### A. Environmental Matters

*General:* Eversource, CL&P, NSTAR Electric and PSNH are subject to environmental laws and regulations intended to mitigate or remove the effect of past operations and improve or maintain the quality of the environment. These laws and regulations require the removal or the remedy of the effect on the environment of the disposal or release of certain specified hazardous substances at current and former operating sites. Eversource, CL&P, NSTAR Electric and PSNH have an active environmental auditing and training program and each believes it is substantially in compliance with all enacted laws and regulations.

Environmental reserves are accrued when assessments indicate it is probable that a liability has been incurred and an amount can be reasonably estimated. The approach used estimates the liability based on the most likely action plan from a variety of available remediation options, including no action required or several different remedies ranging from establishing institutional controls to full site remediation and monitoring. These liabilities are estimated on an undiscounted basis and do not assume that the amounts are recoverable from insurance companies or other third parties. The environmental reserves include sites at different stages of discovery and remediation and do not include any unasserted claims.

These reserve estimates are subjective in nature as they take into consideration several different remediation options at each specific site. The reliability and precision of these estimates can be affected by several factors, including new information concerning either the level of contamination at the site, the extent of Eversource's, CL&P's, NSTAR Electric's and PSNH's responsibility for remediation or the extent of remediation required, recently enacted laws and regulations or changes in cost estimates due to certain economic factors. It is possible that new information or future developments could require a reassessment of the potential exposure to related environmental matters. As this information becomes available, management will continue to assess the potential exposure and adjust the reserves accordingly.

The amounts recorded as environmental reserves are included in Other Current Liabilities and Other Long-Term Liabilities on the balance sheets and represent management's best estimate of the liability for environmental costs, and take into consideration site assessment, remediation and long-term monitoring costs. The environmental reserves also take into account recurring costs of managing hazardous substances and pollutants, mandated expenditures to remediate contaminated sites and any other infrequent and non-recurring clean-up costs. A reconciliation of the activity in the environmental reserves is as follows:

<i>(Millions of Dollars)</i>	<u>Eversource</u>	<u>CL&amp;P</u>	<u>NSTAR Electric</u>	<u>PSNH</u>
Balance as of January 1, 2016	\$ 51.1	\$ 4.6	\$ 3.0	\$ 4.5
Additions	20.6	0.6	1.8	1.2
Payments/Reductions	(5.9)	(0.3)	(1.0)	(0.4)
Balance as of December 31, 2016	65.8	4.9	3.8	5.3
Additions	6.2	0.5	1.8	1.0
Payments/Reductions	(17.1)	(0.7)	(2.9)	(0.6)
Balance as of December 31, 2017	\$ 54.9	\$ 4.7	\$ 2.7	\$ 5.7

The number of environmental sites and related reserves for which remediation or long-term monitoring, preliminary site work or site assessment is being performed are as follows:

	<u>As of December 31, 2017</u>		<u>As of December 31, 2016</u>	
	<u>Number of Sites</u>	<u>Reserve (in millions)</u>	<u>Number of Sites</u>	<u>Reserve (in millions)</u>
Eversource	59	\$ 54.9	61	\$ 65.8
CL&P	14	4.7	14	4.9
NSTAR Electric	15	2.7	17	3.8
PSNH	10	5.7	11	5.3

Included in the Eversource number of sites and reserve amounts above are former MGP sites that were operated several decades ago and manufactured gas from coal and other processes, which resulted in certain by-products remaining in the environment that may pose a potential risk to human health and the environment, for which Eversource may have potential liability. The reserve balances related to these former MGP sites were \$49.0 million and \$59.0 million as of December 31, 2017 and 2016, respectively, and related primarily to the natural gas business segment. The reduction in the reserve balance at the MGP sites was primarily due to a change in cost estimates at one site where actual contamination was less than originally estimated.

As of December 31, 2017, for 8 environmental sites (3 for CL&P, 1 for NSTAR Electric) that are included in the Company's reserve for environmental costs, the information known and the nature of the remediation options allow for the Company to estimate the range of losses for environmental costs. As of December 31, 2017, \$25.4 million (including \$1.8 million for CL&P and \$0.3 million for NSTAR Electric) had been accrued as a liability for these sites, which represents the low end of the range of the liabilities for environmental costs. Management believes that additional losses of up to approximately \$20 million (\$1 million at CL&P) may be incurred in executing current remediation plans for these sites.

As of December 31, 2017, for 10 environmental sites (3 for CL&P) that are included in the Company's reserve for environmental costs, management cannot reasonably estimate the exposure to loss in excess of the reserve, or range of loss, as these sites are under investigation and/or there is significant uncertainty as to what remedial actions, if any, the Company may be required to undertake. As of December 31, 2017, \$12.3 million (including \$1.8 million for CL&P) had been accrued as a liability for these sites. As of December 31, 2017, for the remaining 41 environmental sites (including 8 for CL&P, 14 for NSTAR Electric and 10 for PSNH) that are included in the Company's reserve for environmental costs, the \$17.2 million accrual (including \$1.1 million for CL&P, \$2.4 million for NSTAR Electric and \$5.7 million for PSNH) represents management's best estimate of the probable liability and no additional loss is anticipated at this time.

**CERCLA:** Of the total environmental sites, nine sites (four for NSTAR Electric and three for PSNH) are superfund sites under the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA) and its amendments or state equivalents for which the Company has been notified that it is a potentially responsible party but for which the site assessment and remediation are not being managed by the Company. As of December 31, 2017, a liability of \$0.9 million accrued on these sites represents management's best estimate of its potential remediation costs with respect to these superfund sites.

**Environmental Rate Recovery:** PSNH, NSTAR Gas and Yankee Gas have rate recovery mechanisms for MGP related environmental costs, therefore, changes in their respective environmental reserves do not impact Net Income. CL&P recovers a certain level of environmental costs currently in rates. CL&P and NSTAR Electric do not have a separate environmental cost recovery regulatory mechanism.

## B. Long-Term Contractual Arrangements

Estimated Future Annual Costs: The estimated future annual costs of significant long-term contractual arrangements as of December 31, 2017 are as follows:

### Eversource

(Millions of Dollars)	2018	2019	2020	2021	2022	Thereafter	Total
Supply and Stranded Cost	\$ 81.7	\$ 69.3	\$ 74.6	\$ 68.8	\$ 63.7	\$ 144.3	\$ 502.4
Renewable Energy	242.9	242.5	241.7	232.2	224.5	1,665.7	2,849.5
Peaker CfDs	26.1	24.2	34.0	32.3	23.4	53.3	193.3
Natural Gas Procurement	225.5	219.2	169.3	148.7	131.4	989.6	1,883.7
Transmission Support Commitments	22.8	23.0	23.2	15.2	16.5	16.5	117.2
Total	\$ 599.0	\$ 578.2	\$ 542.8	\$ 497.2	\$ 459.5	\$ 2,869.4	\$ 5,546.1

### CL&P

(Millions of Dollars)	2018	2019	2020	2021	2022	Thereafter	Total
Supply and Stranded Cost	\$ 58.7	\$ 56.7	\$ 69.5	\$ 63.7	\$ 59.1	\$ 121.6	\$ 429.3
Renewable Energy	84.1	85.4	85.5	85.8	86.6	655.5	1,082.9
Peaker CfDs	26.1	24.2	34.0	32.3	23.4	53.3	193.3
Transmission Support Commitments	9.0	9.1	9.2	6.0	6.5	6.5	46.3
Total	\$ 177.9	\$ 175.4	\$ 198.2	\$ 187.8	\$ 175.6	\$ 836.9	\$ 1,751.8

### NSTAR Electric

(Millions of Dollars)	2018	2019	2020	2021	2022	Thereafter	Total
Supply and Stranded Cost	\$ 5.5	\$ 5.5	\$ 3.1	\$ 3.1	\$ 3.1	\$ 22.0	\$ 42.3
Renewable Energy	96.1	94.3	92.6	88.2	88.4	489.4	949.0
Transmission Support Commitments	9.0	9.0	9.1	6.0	6.5	6.5	46.1
Total	\$ 110.6	\$ 108.8	\$ 104.8	\$ 97.3	\$ 98.0	\$ 517.9	\$ 1,037.4

### PSNH

(Millions of Dollars)	2018	2019	2020	2021	2022	Thereafter	Total
Supply and Stranded Cost	\$ 17.5	\$ 7.1	\$ 2.0	\$ 2.0	\$ 1.5	\$ 0.7	\$ 30.8
Renewable Energy	62.7	62.8	63.6	58.2	49.5	520.8	817.6
Transmission Support Commitments	4.8	4.9	4.9	3.2	3.5	3.5	24.8
Total	\$ 85.0	\$ 74.8	\$ 70.5	\$ 63.4	\$ 54.5	\$ 525.0	\$ 873.2

*Supply and Stranded Cost:* CL&P, NSTAR Electric and PSNH have various IPP contracts or purchase obligations for electricity, including payment obligations resulting from the buydown of electricity purchase contracts. Such contracts extend through 2024 for CL&P, 2031 for NSTAR Electric and 2023 for PSNH.

In addition, CL&P, along with UI, has four capacity CfDs for a total of approximately 787 MW of capacity consisting of three generation units and one demand response project.

The capacity CfDs extend through 2026 and obligate both CL&P and UI to make or receive payments on a monthly basis to or from the generation facilities based on the difference between a set contractual capacity price and the capacity market prices received by the generation facilities in the ISO-NE capacity markets. CL&P has a sharing agreement with UI, whereby UI shares 20 percent of the costs and benefits of these contracts. CL&P's portion of the costs and benefits of these contracts will be paid by or refunded to CL&P's customers.

The contractual obligations table above does not include CL&P's or NSTAR Electric's default service contracts, the amounts of which vary with customers' energy needs. The contractual obligations table also does not include PSNH's short-term power supply management.

*Renewable Energy:* Renewable energy contracts include non-cancellable commitments under contracts of CL&P, NSTAR Electric and PSNH for the purchase of energy and capacity from renewable energy facilities. Such contracts extend through 2038 for CL&P, 2031 for NSTAR Electric and 2033 for PSNH.

The contractual obligations table above does not include long-term commitments signed by CL&P and NSTAR Electric, as required by the PURA and DPU, for the purchase of renewable energy and related products that are contingent on the future construction of energy facilities.

*Peaker CfDs:* In 2008, CL&P entered into three CfDs with developers of peaking generation units approved by PURA (Peaker CfDs). These units have a total of approximately 500 MW of peaking capacity. As directed by PURA, CL&P and UI have entered into a sharing agreement, whereby CL&P is responsible for 80 percent and UI for 20 percent of the net costs or benefits of these CfDs. The Peaker CfDs pay the generation facility owner the difference between capacity, forward reserve and energy market revenues and a cost-of-service payment stream for 30 years. The ultimate cost or benefit to CL&P under these contracts will depend on the costs of plant operation and the prices that the projects receive for capacity and other products in the ISO-NE markets. CL&P's portion of the amounts paid or received under the Peaker CfDs will be recoverable from or refunded to CL&P's customers.

*Natural Gas Procurement:* In the normal course of business, Eversource's natural gas distribution businesses have long-term contracts for the purchase, transportation and storage of natural gas as part of its portfolio of supplies. These contracts extend through 2032.

*Coal, Wood and Other:* PSNH has entered into various arrangements for the purchase of coal, wood and the transportation services for fuel supply for its electric generating assets. On January 10, 2018, Eversource and PSNH completed the sale of PSNH's thermal generation assets, at which time, remaining future contractual obligations were transferred to the buyer. See Note 12, "Assets Held for Sale," for further information.

*Transmission Support Commitments:* Along with other New England utilities, CL&P, NSTAR Electric and PSNH entered into agreements in 1985 to support transmission and terminal facilities that were built to import electricity from the Hydro-Québec system in Canada. CL&P, NSTAR Electric and PSNH are obligated to pay, over a 30-year period ending in 2020, their proportionate shares of the annual operation and maintenance expenses and capital costs of those facilities.

The total costs incurred under these agreements were as follows:

Eversource (Millions of Dollars)	For the Years Ended December 31,		
	2017	2016	2015
Supply and Stranded Cost	\$ 103.9	\$ 152.5	\$ 147.6
Renewable Energy	235.5	210.9	144.3
Peaker CfDs	38.7	47.7	42.7
Natural Gas Procurement	377.0	323.9	428.6
Coal, Wood and Other	47.7	55.7	95.9
Transmission Support Commitments	19.8	15.9	25.3

(Millions of Dollars)	For the Years Ended December 31,								
	2017			2016			2015		
	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH
Supply and Stranded Cost	\$ 81.0	\$ 4.0	\$ 18.9	\$ 132.7	\$ 0.7	\$ 19.1	\$ 120.3	\$ 6.5	\$ 20.8
Renewable Energy	51.0	123.7	60.8	42.1	101.1	67.7	20.0	87.1	37.2
Peaker CfDs	38.7	—	—	47.7	—	—	42.7	—	—
Coal, Wood and Other	—	—	47.7	—	—	55.7	—	—	95.9
Transmission Support Commitments	7.8	7.8	4.2	6.3	6.2	3.4	10.0	9.9	5.4

### C. Spent Nuclear Fuel Obligations - Yankee Companies

CL&P, NSTAR Electric and PSNH have plant closure and fuel storage cost obligations to the Yankee Companies, which have each completed the physical decommissioning of their respective nuclear facilities and are now engaged in the long-term storage of their spent fuel. The Yankee Companies collect these costs through wholesale, FERC-approved rates charged under power purchase agreements with several New England utilities, including CL&P, NSTAR Electric and PSNH. These companies in turn recover these costs from their customers through state regulatory commission-approved retail rates. The Yankee Companies have collected or are currently collecting amounts that management believes are adequate to recover the remaining plant closure and fuel storage cost estimates for the respective plants. Management believes CL&P and NSTAR Electric will recover their shares of these obligations from their customers. PSNH has recovered its total share of these costs from its customers.

#### *Spent Nuclear Fuel Litigation:*

The Yankee Companies have filed complaints against the DOE in the Court of Federal Claims seeking monetary damages resulting from the DOE's failure to provide for a permanent facility to store spent nuclear fuel pursuant to the terms of the 1983 spent fuel and high level waste disposal contracts between the Yankee Companies and the DOE. The court had previously awarded the Yankee Companies damages for Phase I, II and III of litigation resulting from the DOE's failure to meet its contractual obligations. These Phases covered damages incurred in the years 1998 through 2012, and the awarded damages have been received by the Yankee Companies with certain amounts of the damages refunded to their customers.

*DOE Phase III Damages* - In August 2013, the Yankee Companies each filed subsequent lawsuits against the DOE seeking recovery of actual damages incurred in the years 2009 through 2012 ("DOE Phase III"). On March 25, 2016, the court issued its decision and awarded CYAPC, YAEC and MYAPC damages of \$32.6 million, \$19.6 million and \$24.6 million, respectively. In total, the Yankee Companies were awarded \$76.8 million of the \$77.9 million in damages sought in DOE Phase III. The decision became final on July 18, 2016, and the Yankee Companies received the awards from the DOE on October 14, 2016. The Yankee Companies received FERC approval of their proposed distribution of certain amounts of the awarded damages proceeds to member companies, including CL&P, NSTAR Electric and PSNH, which CYAPC and MYAPC made in December 2016. MYAPC also refunded \$56.5 million from its spent nuclear fuel trust, a portion of which was also refunded to the Eversource utility subsidiaries. In total, Eversource received \$26.1 million, of which CL&P, NSTAR Electric and PSNH received \$13.6 million, \$8.6 million and \$3.9 million, respectively. These amounts have been refunded to the customers of the respective Eversource utility subsidiaries.

*DOE Phase IV Damages* - On May 22, 2017, each of the Yankee Companies filed subsequent lawsuits against the DOE in the Court of Federal Claims seeking monetary damages totaling approximately \$100 million for CYAPC, YAEC and MYAPC, resulting from the DOE's failure to begin accepting spent nuclear fuel for disposal covering the years from 2013 to 2016 ("DOE Phase IV"). The DOE Phase IV trial is expected to begin in 2018.

#### D. Guarantees and Indemnifications

In the normal course of business, Eversource parent provides credit assurances on behalf of its subsidiaries, including CL&P, NSTAR Electric and PSNH, in the form of guarantees.

Eversource parent issued a guaranty on behalf of its subsidiary, NPT, under which, beginning at the time the Northern Pass Transmission line goes into commercial operation, Eversource parent will guarantee the financial obligations of NPT under the TSA with HQ in an amount not to exceed \$25 million. Eversource parent's obligations under the guaranty expire upon the full, final and indefeasible payment of the guaranteed obligations. Eversource parent has also entered into a guaranty on behalf of NPT under which Eversource parent will guarantee NPT's obligations under a facility with a financial institution pursuant to which NPT may request letters of credit in an aggregate amount of up to approximately \$14 million.

Eversource parent has also guaranteed certain indemnification and other obligations as a result of the sales of former unregulated subsidiaries and the termination of an unregulated business, with maximum exposures either not specified or not material.

Management does not anticipate a material impact to net income or cash flows as a result of these various guarantees and indemnifications. The following table summarizes Eversource parent's exposure to guarantees and indemnifications of its subsidiaries to external parties, as of December 31, 2017:

Company	Description	Maximum Exposure (in millions)	Expiration Dates
<u>On behalf of subsidiaries:</u>			
Eversource Gas Transmission LLC	Access Northeast Project Capital Contributions Guaranty <sup>(1)</sup>	\$ 185.1	2021
Various	Surety Bonds <sup>(2)</sup>	40.4	2018
Eversource Service and Rocky River Realty Company	Lease Payments for Vehicles and Real Estate	7.8	2019 - 2024

(1) Eversource parent issued a declining balance guaranty on behalf of its subsidiary, Eversource Gas Transmission LLC, to guarantee the payment of the subsidiary's capital contributions for its investment in the Access Northeast project. The guaranty decreases as capital contributions are made. The guaranty will expire upon the earlier of the full performance of the guaranteed obligations or December 31, 2021.

(2) Surety bond expiration dates reflect termination dates, the majority of which will be renewed or extended. Certain surety bonds contain credit ratings triggers that would require Eversource parent to post collateral in the event that the unsecured debt credit ratings of Eversource parent are downgraded.

Aquarion has a \$0.9 million letter of credit relating to an insurance program, which expires on December 31, 2018 and includes annual automatic renewals. As of December 31, 2017, and 2016, there were no amounts outstanding under the letter of credit. Aquarion also guarantees surety bonds with a maximum exposure of \$1.2 million related to ongoing operations with expiration dates ranging through 2018, the majority of which will be renewed or extended.

#### E. FERC ROE Complaints

Four separate complaints have been filed at the FERC by combinations of New England state attorneys general, state regulatory commissions, consumer advocates, consumer groups, municipal parties and other parties (collectively the "Complainants"). In each of the first three complaints, the Complainants challenged the NETOs' base ROE of 11.14 percent that had been utilized since 2005 and sought an order to reduce it prospectively from the date of the final FERC order and for the separate 15-month complaint periods. In the fourth complaint, filed April 29, 2016, the Complainants challenged the NETOs' base ROE of 10.57 percent and the maximum ROE for transmission incentive ("incentive cap") of 11.74 percent, asserting that these ROEs were unjust and unreasonable.

In response to appeals of the FERC decision in the first complaint filed by the NETOs and the Complainants, the U.S. Court of Appeals for the D.C. Circuit (the "Court") issued a decision on April 14, 2017 vacating and remanding the FERC's decision. The Court found that the FERC failed to make an explicit finding that the 11.14 percent base ROE was unjust and unreasonable, as required under Section 206 of the Federal Power Act, before it set a new base ROE. The Court also found that the FERC did not provide a rational connection between the record evidence and its decision to select the midpoint of the upper half of the zone of reasonableness for the new base ROE.

Hearings on the fourth complaint were held in December 2017 before the Administrative Law Judge ("ALJ"), who is expected to issue an initial decision in March 2018.

A summary of the four separate complaints and the base ROEs pertinent to those complaints are as follows:

Complaint	15-Month Time Period of Complaint (Beginning as of Complaint Filing Date)	Original Base ROE Authorized by FERC at Time of Complaint Filing Date <sup>(1)</sup>	Base ROE Subsequently Authorized by FERC for First Complaint Period and also Effective from October 16, 2014 through April 14, 2017 <sup>(1)</sup>	Reserve (Pre-Tax and Excluding Interest) as of December 31, 2017 (in millions)	FERC ALJ Recommendation of Base ROE on Second and Third Complaints (Issued March 22, 2016)
First	10/1/2011 - 12/31/2012	11.14%	10.57%	\$— <sup>(2)</sup>	N/A
Second	12/27/2012 - 3/26/2014	11.14%	N/A	39.1 <sup>(3)</sup>	9.59%
Third	7/31/2014 - 10/30/2015	11.14%	10.57%	—	10.90%
Fourth	4/29/2016 - 7/28/2017	10.57%	10.57%	—	N/A

<sup>(1)</sup> The ROE billed during the period October 1, 2011 through October 15, 2014 consisted of a base ROE of 11.14 percent and incentives up to 13.1 percent. On October 16, 2014, the FERC set the base ROE at 10.57 percent and an incentive cap at 11.74 percent for the first complaint period and also effective from the date of the FERC order on October 16, 2014. This FERC order was vacated on April 14, 2017.

<sup>(2)</sup> CL&P, NSTAR Electric and PSNH have refunded all amounts associated with the first complaint period, totaling \$38.9 million (pre-tax and excluding interest) at Eversource (consisting of \$22.4 million at CL&P, \$13.7 million at NSTAR Electric and \$2.8 million at PSNH), reflecting both the base ROE and incentive cap prescribed by the FERC order.

<sup>(3)</sup> The reserve represents the difference between the billed rates during the second complaint period and a 10.57 percent base ROE and 11.74 percent incentive cap. The reserve consisted of \$21.4 million for CL&P, \$14.6 million for NSTAR Electric and \$3.1 million for PSNH as of December 31, 2017.

On June 5, 2017, the NETOs, including Eversource, submitted a filing to the FERC to reinstate the base ROE of 11.14 percent with an associated ROE incentive cap of 13.5 percent effective June 8, 2017, as these were the last ROEs lawfully in effect for transmission billing purposes prior to the FERC order vacated by the Court on April 14, 2017. On October 6, 2017, the FERC did not accept the NETOs filing, temporarily leaving in place the ROEs (10.57 percent base ROE with an 11.74 percent incentive cap ROE) set in the first complaint proceeding until the FERC addresses the Court's decision. On November 6, 2017, the NETOs submitted a request for rehearing of the FERC's October 6, 2017 Order rejecting the compliance filing.

On October 5, 2017, the NETOs filed a series of motions, requesting that the FERC dismiss the four complaint proceedings. Alternatively, if the FERC does not dismiss the proceedings, the NETOs requested that the FERC consolidate all four complaint proceedings for expeditious resolution and/or stay the trial in the fourth complaint proceeding and resolve it based on the standards set in the April 14, 2017 Court decision.

At this time, the Company cannot reasonably estimate a range of gain or loss for the complaint proceedings. No events in 2017 provided a reasonable basis for a change to the reserve balance of \$39.1 million (pre-tax, excluding interest) for the second complaint period, and the Company has not changed its reserve or recognized ROEs for any of the complaint periods.

Management cannot at this time predict the ultimate effect of the Court decision or future FERC action on any of the complaint periods or the estimated impacts on the financial position, results of operations or cash flows of Eversource, CL&P, NSTAR Electric or PSNH.

The average impact of a 10 basis point change to the base ROE for each of the 15-month complaint periods would affect Eversource's after-tax earnings by approximately \$3 million.

#### F. Eversource and NSTAR Electric Boston Harbor Civil Action

On July 15, 2016, the United States Attorney on behalf of the United States Army Corps of Engineers filed a civil action in the United States District Court for the District of Massachusetts under provisions of the Rivers and Harbors Act of 1899 and the Clean Water Act against NSTAR Electric, Harbor Electric Energy Company, a wholly-owned subsidiary of NSTAR Electric ("HEEC"), and the Massachusetts Water Resources Authority (together with NSTAR Electric and HEEC, the "Defendants"). The action alleged that the Defendants failed to comply with certain permitting requirements related to the placement of the HEEC-owned electric distribution cable beneath Boston Harbor. The action sought an order to compel HEEC to comply with cable depth requirements in the United States Army Corps of Engineers' permit or alternatively to remove the electric distribution cable and cease unauthorized work in U.S. waterways. The action also sought civil penalties and other costs.

The parties reached a settlement pursuant to which HEEC agreed to install a new 115kV distribution cable across Boston Harbor to Deer Island, utilizing a different route, and remove portions of the existing cable. Upon the installation and completion of the new cable and the removal of the portions of the existing cable, all issues surrounding the current permit from the United States Army Corps of Engineers are expected to be resolved, and such litigation is expected to be dismissed with prejudice.

In 2017, as a result of the settlement, NSTAR Electric expensed \$4.9 million (pre-tax) of previously incurred capitalized costs associated with engineering work performed on the existing cable that will no longer be used. In addition, NSTAR Electric agreed to provide a rate base credit of \$17.5 million to the Massachusetts Water Resources Authority for the new cable. This negotiated credit will result in the initial \$17.5 million of construction costs on the new cable to be expensed as incurred. Of this amount, NSTAR Electric expensed \$11.1 million (pre-tax) of costs incurred on the new cable in 2017. Construction of the new cable is expected to be completed in 2019.

## G. Litigation and Legal Proceedings

Eversource, including CL&P, NSTAR Electric and PSNH, are involved in legal, tax and regulatory proceedings regarding matters arising in the ordinary course of business, which involve management's assessment to determine the probability of whether a loss will occur and, if probable, its best estimate of probable loss. The Company records and discloses losses when these losses are probable and reasonably estimable, and discloses matters when losses are probable but not estimable or when losses are reasonably possible. Legal costs related to the defense of loss contingencies are expensed as incurred.

## 12. ASSETS HELD FOR SALE

In June 2015, Eversource and PSNH entered into the 2015 Public Service Company of New Hampshire Restructuring and Rate Stabilization Agreement, under the terms of which PSNH agreed to divest its generation assets, subject to NHPUC approval. The NHPUC approval for this agreement, as well as NHPUC approval of the final divestiture plan and auction process, were received in the second half of 2016. In October 2017, PSNH entered into two Purchase and Sale Agreements ("Agreements") to sell its thermal and hydroelectric generation assets to private investors at purchase prices of \$175 million and \$83 million, respectively, subject to adjustments as set forth in the Agreements. The NHPUC approved the Agreements in late November 2017, at which time the Company classified these assets as held for sale.

On January 10, 2018, PSNH completed the sale of its thermal generation assets, pursuant to the Agreement dated October 11, 2017. In accordance with the Purchase and Sale Agreement, the original purchase price of \$175 million was adjusted to reflect working capital adjustments, closing date adjustments and proration of taxes and fees prior to closing, totaling \$40.9 million, resulting in net proceeds of \$134.1 million. As of December 31, 2017, the thermal generation assets classified as assets held for sale are stated at fair value less costs to sell. Deferred costs of \$516.1 million were included in Regulatory Assets on the Eversource and PSNH Balance Sheets, and represent the difference between the carrying value and the fair value less costs to sell of the thermal generation assets as of December 31, 2017. The hydroelectric generation assets are targeted to be sold in the first quarter of 2018 at an amount above net carrying value, and are therefore stated at carrying value. As of December 31, 2017, the difference between the carrying value of the hydroelectric generation assets and the expected proceeds from the sale was approximately \$25 million, which will be recognized as a reduction to the stranded costs upon completion of the sale.

Upon completion of the divestiture, full recovery of PSNH's generation assets and transaction-related costs are expected to occur through a combination of cash flows during the remaining operating period, sales proceeds, and recovery of stranded costs via the issuance of bonds that will be secured by a non-bypassable charge or through recoveries in future rates billed to PSNH's customers. On January 30, 2018, the NHPUC approved the issuance of rate reduction bonds up to \$690 million to recover stranded costs, subject to an audit by the NHPUC Audit Staff. This order is subject to an appeal period of 30 days.

For the years ended December 31, 2017, 2016 and 2015, pre-tax income associated with the assets held for sale was \$60.0 million, \$65.3 million and \$56.9 million, respectively.

As of December 31, 2017, PSNH's generation assets held for sale, which are included in current assets on the Eversource and PSNH balance sheets, and are part of the Electric Distribution reportable segment, were as follows (liabilities held for sale were \$1.2 million as of December 31, 2017):

*(Millions of Dollars)*

Thermal Gross Plant	\$	1,091.4
Hydroelectric Gross Plant		83.0
Accumulated Depreciation		(575.4)
Net Plant		599.0
Fuel and Inventory		87.7
Materials and Supplies		27.3
Emission Allowances		19.1
Other Assets		2.6
Deferred Costs from Generation Asset Sale		(516.1)
Total Generation Assets Held for Sale	\$	219.6

As of December 31, 2017, the difference between the carrying value of the generation assets and the amounts recognized as assets held for sale represented the deferred costs on the thermal generation asset sale and were calculated as follows:

*(Millions of Dollars)*

Generation Assets to be Sold (Carrying Value)	\$	735.7
Less: Generation Assets Held for Sale:		
Thermal Generation Assets (Fair Value less Cost to Sell)		(161.7)
Hydroelectric Generation (Carrying Value)		(57.9)
Generation Assets Held for Sale		(219.6)
Deferred Costs from Generation Asset Sale	\$	516.1

### 13. LEASES

Eversource, including CL&P, NSTAR Electric and PSNH, has entered into lease agreements, some of which are capital leases, for the use of data processing and office equipment, vehicles, service centers, land and office space. In addition, CL&P, NSTAR Electric and PSNH incur costs associated with leases entered into by other Eversource subsidiaries, which include Eversource Service and Rocky River Realty Company, and are included below in their respective operating lease rental expenses and future minimum rental payments. These intercompany lease amounts are eliminated on an Eversource consolidated basis. The provisions of the Eversource, CL&P, NSTAR Electric and PSNH lease agreements generally contain renewal options. Certain lease agreements contain payments impacted by the commercial paper rate plus a credit spread or the consumer price index.

Operating lease rental payments charged to expense are as follows:

<i>(Millions of Dollars)</i>	Eversource	CL&P	NSTAR Electric	PSNH
2017	\$ 10.5	\$ 11.7	\$ 11.3	\$ 3.3
2016	12.1	12.5	11.4	2.9
2015	12.1	12.5	11.8	2.8

Future minimum rental payments, excluding executory costs, such as property taxes, state use taxes, insurance, and maintenance, under long-term noncancelable leases, as of December 31, 2017 are as follows:

<i>(Millions of Dollars)</i>	Eversource	CL&P	NSTAR Electric	PSNH
2018	\$ 13.2	\$ 1.8	\$ 7.9	\$ 1.0
2019	11.4	1.5	6.9	1.0
2020	10.0	1.3	6.1	0.9
2021	8.9	1.1	5.5	0.8
2022	7.4	1.0	4.5	0.6
Thereafter	19.7	1.0	15.4	2.0
Future minimum lease payments	\$ 70.6	\$ 7.7	\$ 46.3	\$ 6.3

<i>(Millions of Dollars)</i>	Eversource	CL&P	NSTAR Electric	PSNH
2018	\$ 2.9	\$ 2.0	\$ 0.5	\$ 0.1
2019	3.3	2.0	0.6	—
2020	3.3	2.0	0.5	—
2021	2.8	1.4	0.6	—
2022	1.3	—	0.6	—
Thereafter	2.5	—	2.5	—
Future minimum lease payments	16.1	7.4	5.3	0.1
Less amount representing interest	3.1	1.7	1.2	—
Present value of future minimum lease payments	\$ 13.0	\$ 5.7	\$ 4.1	\$ 0.1

CL&P entered into certain contracts for the purchase of energy that qualify as leases. These contracts do not have minimum lease payments and therefore are not included in the tables above. However, such contracts have been included in the contractual obligations table in Note 11B, "Commitments and Contingencies - Long-Term Contractual Arrangements," to the financial statements.

### 14. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each of the following financial instruments:

*Preferred Stock and Long-Term Debt:* The fair value of CL&P's and NSTAR Electric's preferred stock is based upon pricing models that incorporate interest rates and other market factors, valuations or trades of similar securities and cash flow projections. The fair value of long-term debt securities is based upon pricing models that incorporate quoted market prices for those issues or similar issues adjusted for market conditions, credit ratings of the respective companies and treasury benchmark yields. The fair values provided in the tables below are classified as Level 2 within the fair value hierarchy. Carrying amounts and estimated fair values are as follows:

<i>(Millions of Dollars)</i>	As of December 31,			
	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Preferred Stock Not Subject to Mandatory Redemption	\$ 155.6	\$ 160.8	\$ 155.6	\$ 158.3
Long-Term Debt	12,325.5	12,877.1	9,603.2	9,980.5

	CL&P		NSTAR Electric		PSNH	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<i>(Millions of Dollars)</i>						
<b>As of December 31, 2017:</b>						
Preferred Stock Not Subject to Mandatory Redemption	\$ 116.2	\$ 116.5	\$ 43.0	\$ 44.3	\$ —	\$ —
Long-Term Debt	3,059.1	3,430.5	2,943.8	3,156.5	1,002.4	1,038.2
<b>As of December 31, 2016:</b>						
Preferred Stock Not Subject to Mandatory Redemption	\$ 116.2	\$ 114.7	\$ 43.0	\$ 43.6	\$ —	\$ —
Long-Term Debt	2,766.0	3,049.6	2,644.6	2,790.6	1,072.0	1,109.7

*Derivative Instruments and Marketable Securities:* Derivative instruments and investments in marketable securities are carried at fair value. For further information, see Note 4, "Derivative Instruments," and Note 5, "Marketable Securities," to the financial statements.

See Note 11, "Summary of Significant Accounting Policies – Fair Value Measurements," for the fair value measurement policy and the fair value hierarchy.

## 15. ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)

The changes in accumulated other comprehensive income/(loss) by component, net of tax, is as follows:

<i>Eversource</i> <i>(Millions of Dollars)</i>	For the Year Ended December 31, 2017				For the Year Ended December 31, 2016			
	Qualified Cash Flow Hedging Instruments	Unrealized Gains/(Losses) on Marketable Securities	Defined Benefit Plans	Total	Qualified Cash Flow Hedging Instruments	Unrealized Gains/(Losses) on Marketable Securities	Defined Benefit Plans	Total
Balance as of January 1st	\$ (8.2)	\$ 0.4	\$ (57.5)	\$ (65.3)	\$ (10.3)	\$ (1.9)	\$ (54.6)	\$ (66.8)
OCI Before Reclassifications	—	(0.4)	(7.2)	(7.6)	—	2.3	(6.8)	(4.5)
Amounts Reclassified from AOCL	2.0	—	4.5	6.5	2.1	—	3.9	6.0
Net OCI	2.0	(0.4)	(2.7)	(1.1)	2.1	2.3	(2.9)	1.5
Balance as of December 31st	\$ (6.2)	\$ —	\$ (60.2)	\$ (66.4)	\$ (8.2)	\$ 0.4	\$ (57.5)	\$ (65.3)

Eversource's qualified cash flow hedging instruments represent interest rate swap agreements on debt issuances that were settled in prior years. The settlement amount was recorded in AOCL and is being amortized into Net Income over the term of the underlying debt instrument. CL&P, NSTAR Electric and PSNH continue to amortize interest rate swaps settled in prior years from AOCL into Interest Expense over the remaining life of the associated long-term debt. Such interest rate swaps are not material to their respective financial statements.

Defined benefit plan OCI amounts before reclassifications relate to actuarial gains and losses and prior service costs that arose during the year and were recognized in AOCL. The related tax effects recognized in AOCL were net deferred tax assets of \$4.1 million and \$4.0 million in 2017 and 2016, respectively, and were net deferred tax liabilities of \$2.0 million in 2015. The unamortized actuarial gains and losses and prior service costs on the defined benefit plans are amortized from AOCL into Operations and Maintenance expense over the average future employee service period, and are reflected in amounts reclassified from AOCL.

The following table sets forth the amounts reclassified from AOCL by component and the impacted line item on the statements of income:

<i>Eversource</i> <i>(Millions of Dollars)</i>	Amounts Reclassified from AOCL			Statements of Income Line Item Impacted
	For the Years Ended December 31,			
	2017	2016	2015	
Qualified Cash Flow Hedging Instruments	\$ (3.3)	\$ (3.5)	\$ (3.5)	Interest Expense
Tax Effect	1.3	1.4	1.4	Income Tax Expense
Qualified Cash Flow Hedging Instruments, Net of Tax	\$ (2.0)	\$ (2.1)	\$ (2.1)	
Defined Benefit Plan Costs:				
Amortization of Actuarial Losses	\$ (6.2)	\$ (5.6)	\$ (6.6)	Operations and Maintenance Expense <sup>(1)</sup>
Amortization of Prior Service Cost	(1.1)	(0.8)	(0.2)	Operations and Maintenance Expense <sup>(1)</sup>
Total Defined Benefit Plan Costs	(7.3)	(6.4)	(6.8)	
Tax Effect	2.8	2.5	2.6	Income Tax Expense
Defined Benefit Plan Costs, Net of Tax	\$ (4.5)	\$ (3.9)	\$ (4.2)	
Total Amounts Reclassified from AOCL, Net of Tax	\$ (6.5)	\$ (6.0)	\$ (6.3)	

(1) These amounts are included in the computation of net periodic Pension, SERP and PBOP costs. See Note 9A, "Employee Benefits – Pension Benefits and Postretirement Benefits Other Than Pensions," for further information.

As of December 31, 2017, it is estimated that a pre-tax amount of \$2.8 million (including \$0.1 million for CL&P, \$0.7 million for NSTAR Electric and \$1.9 million for PSNH) will be reclassified from AOCL as a decrease to Net Income over the next 12 months as a result of the amortization of the interest rate swap agreements which have been settled. In addition, it is estimated that a pre-tax amount of \$6.6 million will be reclassified from AOCL as a decrease to Net Income over the next 12 months as a result of the amortization of Pension, SERP and PBOP costs.

## 16. DIVIDEND RESTRICTIONS

Eversource parent's ability to pay dividends may be affected by certain state statutes, the ability of its subsidiaries to pay common dividends and the leverage restriction tied to its consolidated total debt to total capitalization ratio requirement in its revolving credit agreement. Pursuant to the joint revolving credit agreement of Eversource, CL&P, PSNH, Yankee Gas and NSTAR Gas, and to the NSTAR Electric revolving credit agreement, each company is required to maintain consolidated total indebtedness to total capitalization ratio of no greater than 65 percent at the end of each fiscal quarter. As of December 31, 2017, all companies were in compliance with such covenant. Eversource, CL&P, NSTAR Electric, PSNH, Yankee Gas and NSTAR Gas were in compliance with all such provisions of the revolving credit agreements that may restrict the payment of dividends as of December 31, 2017.

The Retained Earnings balances subject to dividend restrictions were \$3.6 billion for Eversource, \$1.4 billion for CL&P, \$1.9 billion for NSTAR Electric and \$511.4 million for PSNH as of December 31, 2017. PSNH is further required to reserve an additional amount under its FERC hydroelectric license conditions. As of December 31, 2017, \$14.3 million of PSNH's Retained Earnings was subject to restriction under its FERC hydroelectric license conditions and PSNH was in compliance with this provision.

CL&P, NSTAR Electric and PSNH are subject to Section 305 of the Federal Power Act that makes it unlawful for a public utility to make or pay a dividend from any funds "properly included in its capital account." Management believes that this Federal Power Act restriction, as applied to CL&P, NSTAR Electric and PSNH, would not be construed or applied by the FERC to prohibit the payment of dividends from retained earnings for lawful and legitimate business purposes. In addition, certain state statutes may impose additional limitations on such companies and on Yankee Gas and NSTAR Gas. Such state law restrictions do not restrict the payment of dividends from retained earnings or net income.

## 17. COMMON SHARES

The following table sets forth the Eversource parent common shares and the shares of common stock of CL&P, NSTAR Electric and PSNH that were authorized and issued, as well as the respective per share par values:

	Shares			
	Par Value	Authorized as of December 31, 2017 and 2016	Issued as of December 31,	
			2017	2016
Eversource	\$ 5	380,000,000	333,878,402	333,878,402
CL&P	\$ 10	24,500,000	6,035,205	6,035,205
NSTAR Electric	\$ 1	100,000,000	200	200
PSNH	\$ 1	100,000,000	301	301

On December 31, 2017, as a result of the WMECO merger with and into NSTAR Electric, WMECO's common stock was converted into 100 shares of NSTAR Electric common stock. In accordance with accounting guidance on combinations between entities under common control, NSTAR Electric's common stock has been retrospectively adjusted as if the merger occurred on January 1, 2015.

As of both December 31, 2017 and 2016, there were 16,992,594 Eversource common shares held as treasury shares. As of both December 31, 2017 and 2016, Eversource common shares outstanding were 316,885,808.

In 2016, the Company converted 321,228 Eversource common shares at a share price of \$52.56 to Treasury Stock on the consolidated balance sheet at their weighted average original average cost of \$24.26 per share.

## 18. PREFERRED STOCK NOT SUBJECT TO MANDATORY REDEMPTION

The CL&P and NSTAR Electric preferred stock is not subject to mandatory redemption and is presented as a noncontrolling interest of a subsidiary in Eversource's financial statements.

CL&P is authorized to issue up to 9,000,000 shares of preferred stock, par value \$50 per share, and NSTAR Electric is authorized to issue 2,890,000 shares of preferred stock, par value \$100 per share. Holders of preferred stock of CL&P and NSTAR Electric are entitled to receive cumulative dividends in preference to any payment of dividends on the common stock. Upon liquidation, holders of preferred stock of CL&P and NSTAR Electric are entitled to receive a liquidation preference before any distribution to holders of common stock in an amount equal to the par value of the preferred stock plus accrued and unpaid dividends. If the net assets were to be insufficient to pay the liquidation preference in full, then the net assets would be distributed ratably to all holders of preferred stock. The preferred stock of CL&P and NSTAR Electric is subject to optional redemption by the CL&P and NSTAR Electric Board of Directors at any time.

Details of preferred stock not subject to mandatory redemption are as follows (in millions, except in redemption price and shares):

Series	Redemption Price Per Share	Shares Outstanding as of December 31,		As of December 31,	
		2017	2016	2017	2016
<b>CL&amp;P</b>					
\$1.90 Series of 1947	\$ 52.50	163,912	163,912	\$ 8.2	\$ 8.2
\$2.00 Series of 1947	\$ 54.00	336,088	336,088	16.8	16.8
\$2.04 Series of 1949	\$ 52.00	100,000	100,000	5.0	5.0
\$2.20 Series of 1949	\$ 52.50	200,000	200,000	10.0	10.0
3.90% Series of 1949	\$ 50.50	160,000	160,000	8.0	8.0
\$2.06 Series E of 1954	\$ 51.00	200,000	200,000	10.0	10.0
\$2.09 Series F of 1955	\$ 51.00	100,000	100,000	5.0	5.0
4.50% Series of 1956	\$ 50.75	104,000	104,000	5.2	5.2
4.96% Series of 1958	\$ 50.50	100,000	100,000	5.0	5.0
4.50% Series of 1963	\$ 50.50	160,000	160,000	8.0	8.0
5.28% Series of 1967	\$ 51.43	200,000	200,000	10.0	10.0
\$3.24 Series G of 1968	\$ 51.84	300,000	300,000	15.0	15.0
6.56% Series of 1968	\$ 51.44	200,000	200,000	10.0	10.0
Total CL&P		2,324,000	2,324,000	\$ 116.2	\$ 116.2
<b>NSTAR Electric</b>					
4.25% Series of 1956	\$ 103.625	180,000	180,000	\$ 18.0	\$ 18.0
4.78% Series of 1958	\$ 102.80	250,000	250,000	25.0	25.0
Total NSTAR Electric		430,000	430,000	\$ 43.0	\$ 43.0
Fair Value Adjustment due to Merger with NSTAR				(3.6)	(3.6)
<b>Other</b>					
6.00% Series of 1958	\$ 100.00	23	—	\$ —	\$ —
<b>Total Eversource - Preferred Stock of Subsidiaries</b>				<b>\$ 155.6</b>	<b>\$ 155.6</b>

## 19. COMMON SHAREHOLDERS' EQUITY AND NONCONTROLLING INTERESTS

Dividends on the preferred stock of CL&P and NSTAR Electric totaled \$7.5 million for each of the years ended December 31, 2017, 2016 and 2015. These dividends were presented as Net Income Attributable to Noncontrolling Interests on the Eversource statements of income. Noncontrolling Interest – Preferred Stock of Subsidiaries on the Eversource balance sheets totaled \$155.6 million as of December 31, 2017 and 2016. On the Eversource balance sheets, Common Shareholders' Equity was fully attributable to the parent and Noncontrolling Interest – Preferred Stock of Subsidiaries was fully attributable to the noncontrolling interest.

For the years ended December 31, 2017, 2016 and 2015, there was no change in ownership of the common equity of CL&P and NSTAR Electric.

## 20. EARNINGS PER SHARE

Basic EPS is computed based upon the weighted average number of common shares outstanding during each period. Diluted EPS is computed on the basis of the weighted average number of common shares outstanding plus the potential dilutive effect of certain share-based compensation awards as if they were converted into common shares. The dilutive effect of unvested RSU and performance share awards is calculated using the treasury stock method. RSU and performance share awards are included in basic weighted average common shares outstanding as of the date that all necessary vesting conditions have been satisfied. For the years ended December 31, 2017 and 2016, there were no antidilutive share awards excluded from the diluted EPS computation. For the year ended December 31, 2015, there were 1,474 antidilutive share awards excluded from the computation of diluted EPS.

The following table sets forth the components of basic and diluted EPS:

Eversource (Millions of Dollars, except share information)	For the Years Ended December 31,		
	2017	2016	2015
Net Income Attributable to Common Shareholders	\$ 988.0	\$ 942.3	\$ 878.5
Weighted Average Common Shares Outstanding:			
Basic	317,411,097	317,650,180	317,336,881
Dilutive Effect	620,483	804,059	1,095,806
Diluted	318,031,580	318,454,239	318,432,687
Basic EPS	\$ 3.11	\$ 2.97	\$ 2.77
Diluted EPS	\$ 3.11	\$ 2.96	\$ 2.76

## 21. SEGMENT INFORMATION

*Presentation:* Eversource is organized among the Electric Distribution, Electric Transmission and Natural Gas Distribution reportable segments and Other based on a combination of factors, including the characteristics of each segments' services, the sources of operating revenues and expenses and the regulatory environment in which each segment operates.

These reportable segments represent substantially all of Eversource's total consolidated revenues. Revenues from the sale of electricity and natural gas primarily are derived from residential, commercial and industrial customers and are not dependent on any single customer. The Electric Distribution reportable segment includes the results of PSNH's generation facilities and NSTAR Electric's solar power facilities. Eversource's reportable segments are determined based upon the level at which Eversource's chief operating decision maker assesses performance and makes decisions about the allocation of company resources. On December 4, 2017, Eversource acquired Aquarion, which was considered to be a new operating segment, water. Financial statement results, however, were not considered material as a result of a short period of ownership by Eversource, and were not reported separately. Therefore, the results of the water operating segment have been included in Other for the year ended December 31, 2017.

The remainder of Eversource's operations is presented as Other in the tables below and primarily consists of 1) the equity in earnings of Eversource parent from its subsidiaries and intercompany interest income, both of which are eliminated in consolidation, and interest expense related to the debt of Eversource parent, 2) the revenues and expenses of Eversource Service, most of which are eliminated in consolidation, 3) the operations of CYAPC and YAEC, 4) the results of Aquarion's water business from the date of the acquisition on December 4, 2017 through December 31, 2017; and 5) the results of other unregulated subsidiaries, which are not part of its core business. In addition, Other in the tables below includes Eversource parent's equity ownership interests in certain natural gas pipeline projects owned by Enbridge, Inc., the Bay State Wind project, a renewable energy investment fund, and two companies that transmit hydroelectricity imported from the Hydro-Quebec system in Canada. In the ordinary course of business, Yankee Gas and NSTAR Gas purchase natural gas transmission services from the Enbridge, Inc. natural gas pipeline projects described above. These affiliate transaction costs total approximately \$62.5 million annually and are classified as Purchased Power, Fuel and Transmission on the Eversource statements of income.

Each of Eversource's subsidiaries, including CL&P, NSTAR Electric and PSNH, has one reportable segment.

The Electric Transmission segment includes a reduction to Operations and Maintenance expense of \$27.5 million in 2016 for costs incurred in previous years that was recovered in transmission rates over the period June 1, 2016 through May 31, 2017. These costs were associated with the merger of Northeast Utilities and NSTAR.

Cash flows used for investments in plant included in the segment information below are cash capital expenditures that do not include amounts incurred but not paid, cost of removal, AFUDC related to equity funds, and the capitalized portions of pension expense.

Eversource's segment information is as follows:

Eversource (Millions of Dollars)	For the Year Ended December 31, 2017					
	Electric Distribution	Natural Gas Distribution	Electric Transmission	Other	Eliminations	Total
Operating Revenues	\$ 5,542.9	\$ 947.3	\$ 1,301.7	\$ 946.9	\$ (986.8)	\$ 7,752.0
Depreciation and Amortization	(542.6)	(72.9)	(209.4)	(41.1)	2.2	(863.8)
Other Operating Expenses	(4,046.0)	(713.5)	(382.6)	(814.6)	986.7	(4,970.0)
Operating Income	954.3	160.9	709.7	91.2	2.1	1,918.2
Interest Expense	(186.3)	(43.1)	(115.1)	(93.1)	15.8	(421.8)
Interest Income	7.3	0.1	1.8	15.8	(16.7)	8.3
Other Income, Net	15.0	0.9	27.1	1,112.7	(1,086.0)	69.7
Income Tax Expense	(288.3)	(44.2)	(228.7)	(17.6)	(0.1)	(578.9)
Net Income	502.0	74.6	394.8	1,109.0	(1,084.9)	995.5
Net Income Attributable to Noncontrolling Interests	(4.6)	—	(2.9)	—	—	(7.5)
Net Income Attributable to Common Shareholders	\$ 497.4	\$ 74.6	\$ 391.9	\$ 1,109.0	\$ (1,084.9)	\$ 988.0
Total Assets (as of)	\$ 19,250.4	\$ 3,595.2	\$ 9,401.2	\$ 18,403.8	\$ (14,430.2)	\$ 36,220.4
Cash Flows Used for Investments in Plant	\$ 1,020.7	\$ 298.2	\$ 867.6	\$ 161.6	\$ —	\$ 2,348.1

**For the Year Ended December 31, 2016**

<b>Eversource</b> <i>(Millions of Dollars)</i>	<b>Electric Distribution</b>	<b>Natural Gas Distribution</b>	<b>Electric Transmission</b>	<b>Other</b>	<b>Eliminations</b>	<b>Total</b>
Operating Revenues	\$ 5,594.3	\$ 857.7	\$ 1,210.0	\$ 870.4	\$ (893.3)	\$ 7,639.1
Depreciation and Amortization	(504.7)	(65.3)	(185.8)	(33.5)	2.2	(787.1)
Other Operating Expenses	(4,155.1)	(628.9)	(321.8)	(778.1)	891.8	(4,992.1)
Operating Income	934.5	163.5	702.4	58.8	0.7	1,859.9
Interest Expense	(193.1)	(41.3)	(110.0)	(63.5)	6.9	(401.0)
Interest Income	10.0	0.1	1.2	7.0	(7.3)	11.0
Other Income, Net	4.8	0.6	18.3	1,020.1	(1,008.9)	34.9
Income Tax (Expense)/Benefit	(288.8)	(45.2)	(238.2)	16.5	0.7	(555.0)
Net Income	467.4	77.7	373.7	1,038.9	(1,007.9)	949.8
Net Income Attributable to Noncontrolling Interests	(4.6)	—	(2.9)	—	—	(7.5)
Net Income Attributable to Common Shareholders	\$ 462.8	\$ 77.7	\$ 370.8	\$ 1,038.9	\$ (1,007.9)	\$ 942.3
Total Assets (as of)	\$ 18,367.5	\$ 3,303.8	\$ 8,751.5	\$ 14,493.1	\$ (12,862.7)	\$ 32,053.2
Cash Flows Used for Investments in Plant	\$ 812.6	\$ 255.3	\$ 801.0	\$ 108.0	\$ —	\$ 1,976.9

**For the Year Ended December 31, 2015**

<b>Eversource</b> <i>(Millions of Dollars)</i>	<b>Electric Distribution</b>	<b>Natural Gas Distribution</b>	<b>Electric Transmission</b>	<b>Other</b>	<b>Eliminations</b>	<b>Total</b>
Operating Revenues	\$ 5,903.6	\$ 995.5	\$ 1,069.1	\$ 863.6	\$ (877.0)	\$ 7,954.8
Depreciation and Amortization	(425.2)	(70.5)	(165.6)	(29.0)	2.1	(688.2)
Other Operating Expenses	(4,470.2)	(776.7)	(314.9)	(817.9)	877.3	(5,502.4)
Operating Income	1,008.2	148.3	588.6	16.7	2.4	1,764.2
Interest Expense	(186.3)	(36.9)	(105.8)	(48.0)	4.6	(372.4)
Interest Income	5.7	0.1	1.6	4.4	(5.1)	6.7
Other Income, Net	7.2	0.8	14.5	977.8	(972.8)	27.5
Income Tax (Expense)/Benefit	(322.8)	(40.1)	(191.6)	14.5	—	(540.0)
Net Income	512.0	72.2	307.3	965.4	(970.9)	886.0
Net Income Attributable to Noncontrolling Interests	(4.7)	—	(2.8)	—	—	(7.5)
Net Income Attributable to Common Shareholders	\$ 507.3	\$ 72.2	\$ 304.5	\$ 965.4	\$ (970.9)	\$ 878.5
Cash Flows Used for Investments in Plant	\$ 718.9	\$ 182.2	\$ 749.1	\$ 73.9	\$ —	\$ 1,724.1

## 22. ACQUISITION OF AQUARION AND GOODWILL

### A. Acquisition of Aquarion

On December 4, 2017, Eversource acquired Aquarion from Macquarie Infrastructure Partners for \$1.675 billion, consisting of approximately \$880 million in cash purchase price and \$795 million of assumed Aquarion debt. Aquarion is a holding company primarily engaged, through its three separate regulated water utility subsidiaries, in the water collection, treatment and distribution business, and operates in Connecticut, Massachusetts and New Hampshire. These regulated utilities collect, treat and distribute water to residential, commercial and industrial customers, to other utilities for resale, and for private and municipal fire protection. With the acquisition of Aquarion, Eversource is now the only U.S.-based electric utility to also own a water utility. The transaction was approved by PURA, the DPU, the NHPUC, the Maine PUC, and the Federal Communications Commission. Aquarion and its subsidiaries became wholly-owned subsidiaries of Eversource, and Eversource's consolidated financial information includes Aquarion and its subsidiaries' activity from December 4, 2017 through December 31, 2017.

The approximate \$880 million cash purchase price includes the \$745 million equity purchase price and a \$135 million shareholder loan, paid at closing.

*Purchase Price Allocation:* The allocation of the total purchase price to the estimated fair values of the assets acquired and liabilities assumed has been determined based on the accounting guidance for fair value measurements, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The allocation of the total purchase price includes adjustments to record the fair value of unregulated and regulated long-term debt, non-utility land and buildings, regulatory assets not earning a return, and Aquarion's Homeowners Safety Valve unregulated business.

The fair values of Aquarion's assets and liabilities were determined based on significant estimates and assumptions, including Level 3 inputs, that are judgmental in nature. These estimates and assumptions include the timing and amounts of projected future cash flows and discount rates reflecting risk inherent in future cash flows. The excess of the purchase price over the estimated fair values of the assets acquired and liabilities assumed was recognized as goodwill.

The preliminary allocation of the cash purchase price is as follows:

(Millions of Dollars)

Current Assets	\$	41.2
PP&E		1,034.9
Goodwill		907.9
Other Noncurrent Assets, excluding Goodwill		207.6
Current Liabilities		(121.1)
Noncurrent Liabilities		(421.6)
Long-Term Debt		(771.2)
Total Cash Purchase Price	\$	877.7

*Pro Forma Financial Information:* The following unaudited pro forma financial information reflects the pro forma combined results of operations of Eversource and Aquarion and reflects the amortization of purchase price adjustments assuming the acquisition had taken place on January 1, 2016. The unaudited pro forma financial information has been presented for illustrative purposes only and is not necessarily indicative of the consolidated results of operations that would have been achieved or the future consolidated results of operations of Eversource.

(Pro forma amounts in millions, except share amounts)

	For the Years Ended December 31,			
	2017		2016	
Operating Revenues	\$	7,947.7	\$	7,849.0
Net Income Attributable to Common Shareholders		1,019.1		969.3
Basic EPS		3.21		3.05
Diluted EPS		3.20		3.04

*Aquarion Revenues and Pre-Tax Income:* The impact of Aquarion on Eversource's accompanying consolidated statement of income includes operating revenues of \$15.9 million and pre-tax income of \$1.1 million for the year ended December 31, 2017.

## B. Goodwill

In a business combination, the excess of the purchase price over the estimated fair values of the assets acquired and liabilities assumed is recognized as goodwill. Goodwill is evaluated for impairment at least annually and more frequently if indicators of impairment arise. In accordance with the accounting standards, if the fair value of a reporting unit is less than its carrying value (including goodwill), the goodwill is tested for impairment. Goodwill is not subject to amortization, however is subject to a fair value based assessment for impairment at least annually and whenever facts or circumstances indicate that there may be an impairment. A resulting write-down, if any, would be charged to Operating Expenses.

Eversource completed the acquisition of Aquarion on December 4, 2017, resulting in the addition of \$0.9 billion of goodwill. Upon completion of the acquisition, Eversource determined that the reporting units for the purpose of testing goodwill are Electric Distribution, Electric Transmission, Natural Gas Distribution and Water. The goodwill resulting from the Aquarion acquisition has been entirely allocated to the Water reporting unit. These reporting units are consistent with the operating segments underlying the reportable segments identified in Note 21, "Segment Information," to the financial statements.

Eversource completed its annual goodwill impairment test for Electric Distribution, Electric Transmission and Natural Gas Distribution reporting units as of October 1, 2017 and determined that no impairment existed. There were no events subsequent to October 1, 2017 that indicated impairment of goodwill. The annual goodwill assessment included an evaluation of the Company's share price and credit ratings, analyst reports, financial performance, cost and risk factors, long-term strategy, growth and future projections, as well as macroeconomic, industry and market conditions. This evaluation required the consideration of several factors that impact the fair value of the reporting units, including conditions and assumptions that affect the future cash flows of the reporting units. Key considerations include discount rates, utility sector market performance and merger transaction multiples, and internal estimates of future cash flows and net income.

The following table presents goodwill by reportable segment:

(Billions of Dollars)

	Electric Distribution	Electric Transmission	Natural Gas Distribution	Parent and Other	Total
Balance as of January 1, 2017	\$ 2.5	\$ 0.6	\$ 0.4	\$ —	\$ 3.5
Acquisition of Aquarion	—	—	—	0.9	0.9
Balance as of December 31, 2017	\$ 2.5	\$ 0.6	\$ 0.4	\$ 0.9	\$ 4.4

## 23. VARIABLE INTEREST ENTITIES

The Company's variable interests outside of the consolidated group include contracts that are required by regulation and provide for regulatory recovery of contract costs and benefits through customer rates. Eversource, CL&P and NSTAR Electric hold variable interests in variable interest entities (VIEs) through agreements with certain entities that own single renewable energy or peaking generation power plants, with other independent power producers and with transmission businesses. Eversource, CL&P and NSTAR Electric do not control the activities that are economically significant to these VIEs or provide financial or other support to these VIEs. Therefore, Eversource, CL&P and NSTAR Electric do not consolidate these VIEs.

## 24. QUARTERLY FINANCIAL DATA (UNAUDITED)

Eversource (Millions of Dollars, except per share information)	Quarter Ended							
	2017				2016			
	March 31,	June 30,	September 30,	December 31,	March 31,	June 30,	September 30,	December 31,
Operating Revenues	\$ 2,105.1	\$ 1,762.8	\$ 1,988.5	\$ 1,895.6	\$ 2,055.6	\$ 1,767.2	\$ 2,039.7	\$ 1,776.6
Operating Income	509.0	455.7	502.6	450.9	488.5	423.4	509.9	438.1
Net Income	261.3	232.6	262.2	239.4	246.0	205.5	267.2	231.1
Net Income Attributable to Common Shareholders	259.5	230.7	260.4	237.4	244.2	203.6	265.3	229.2
Basic EPS <sup>(1)</sup>	\$ 0.82	\$ 0.73	\$ 0.82	\$ 0.75	\$ 0.77	\$ 0.64	\$ 0.83	\$ 0.72
Diluted EPS <sup>(1)</sup>	\$ 0.82	\$ 0.73	\$ 0.82	\$ 0.75	\$ 0.77	\$ 0.64	\$ 0.83	\$ 0.72

(1) The summation of quarterly EPS data may not equal annual data due to rounding.

(Millions of Dollars)	Quarter Ended							
	2017				2016			
	March 31,	June 30,	September 30,	December 31,	March 31,	June 30,	September 30,	December 31,
<b>CL&amp;P</b>								
Operating Revenues	\$ 732.3	\$ 666.6	\$ 774.8	\$ 713.7	\$ 735.3	\$ 679.8	\$ 760.0	\$ 630.9
Operating Income	176.0	176.0	177.5	155.6	171.5	162.1	176.1	163.5
Net Income	90.2	91.3	96.1	99.1	87.0	82.9	86.6	77.8
<b>NSTAR Electric</b>								
Operating Revenues	\$ 733.8	\$ 704.7	\$ 851.9	\$ 690.2	\$ 742.2	\$ 707.6	\$ 904.4	\$ 687.4
Operating Income	161.6	182.7	234.4	128.9	142.9	159.7	240.8	130.8
Net Income	83.4	95.0	125.8	70.5	71.3	81.4	133.2	64.9
<b>PSNH</b>								
Operating Revenues	\$ 253.2	\$ 230.4	\$ 250.0	\$ 248.0	\$ 242.3	\$ 218.5	\$ 266.9	\$ 231.8
Operating Income	68.3	64.9	67.4	71.2	70.7	63.1	74.7	54.6
Net Income	34.3	31.6	33.7	36.4	36.1	31.3	38.5	26.1

## **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

No events that would be described in response to this item have occurred with respect to Eversource, CL&P, NSTAR Electric or PSNH.

### **Item 9A. Controls and Procedures**

Management, on behalf of Eversource, CL&P, NSTAR Electric and PSNH, is responsible for the preparation, integrity, and fair presentation of the accompanying Financial Statements and other sections of this combined Annual Report on Form 10-K. Eversource's internal controls over financial reporting were audited by Deloitte & Touche LLP.

Management, on behalf of Eversource, CL&P, NSTAR Electric and PSNH, is responsible for establishing and maintaining adequate internal controls over financial reporting. The internal control framework and processes have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. There are inherent limitations of internal controls over financial reporting that could allow material misstatements due to error or fraud to occur and not be prevented or detected on a timely basis by employees during the normal course of business. Additionally, internal controls over financial reporting may become inadequate in the future due to changes in the business environment. Under the supervision and with the participation of the principal executive officer and principal financial officer, an evaluation of the effectiveness of internal controls over financial reporting was conducted based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation under the framework in COSO, management concluded that internal controls over financial reporting at Eversource, CL&P, NSTAR Electric and PSNH were effective as of December 31, 2017.

Management, on behalf of Eversource, CL&P, NSTAR Electric and PSNH, evaluated the design and operation of the disclosure controls and procedures as of December 31, 2017 to determine whether they are effective in ensuring that the disclosure of required information is made timely and in accordance with the Securities Exchange Act of 1934 and the rules and regulations of the SEC. This evaluation was made under management's supervision and with management's participation, including the principal executive officer and principal financial officer as of the end of the period covered by this Annual Report on Form 10-K. There are inherent limitations of disclosure controls and procedures, including the possibility of human error and the circumventing or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. The principal executive officer and principal financial officer have concluded, based on their review, that the disclosure controls and procedures of Eversource, CL&P, NSTAR Electric and PSNH are effective to ensure that information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 (i) is recorded, processed, summarized, and reported within the time periods specified in SEC rules and regulations and (ii) is accumulated and communicated to management, including the principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

On December 4, 2017, Eversource completed the acquisition of Eversource Aquarion Holdings, Inc. (formerly Macquarie Utilities Inc.). Eversource Aquarion Holdings Inc. is the parent company that holds the operating companies of the Aquarion water business (collectively, "Aquarion"). As of December 31, 2017, Eversource management has excluded Aquarion from its evaluation of disclosure controls and procedures and management's report on internal controls over financial reporting.

There have been no changes in internal controls over financial reporting for Eversource, CL&P, NSTAR Electric and PSNH during the quarter ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, internal controls over financial reporting.

### **Item 9B. Other Information**

No information is required to be disclosed under this item as of December 31, 2017, as this information has been previously disclosed in applicable reports on Form 8-K during the fourth quarter of 2017.

## PART III

### Item 10. Directors, Executive Officers and Corporate Governance

The information in Item 10 is provided as of February 23, 2018, except where otherwise indicated.

Certain information required by this Item 10 is omitted for NSTAR Electric and PSNH pursuant to Instruction I(2)(c) to Form 10-K, Omission of Information by Certain Wholly Owned Subsidiaries.

#### Eversource Energy

In addition to the information provided below concerning the executive officers of Eversource Energy, incorporated herein by reference is the information to be contained in the sections captioned “Election of Trustees,” “Governance of Eversource Energy” and the related subsections, “Selection of Trustees,” and “Section 16(a) Beneficial Ownership Reporting Compliance” of Eversource Energy’s definitive proxy statement for solicitation of proxies, expected to be filed with the SEC on or about March 23, 2018.

#### Eversource Energy and CL&P

Each member of CL&P’s Board of Directors is an employee of Eversource Energy Service Company. Directors are elected annually to serve for one year until their successors are elected and qualified.

Set forth below is certain information concerning CL&P’s Directors and Eversource Energy’s and CL&P’s executive officers:

Name	Age	Title
James J. Judge	62	Chairman of the Board, President and Chief Executive Officer and a Trustee of Eversource Energy; Chairman, President and Chief Executive Officer and a Director of Eversource Service and Chairman; a Director of the electric and natural gas regulated companies, including CL&P
Philip J. Lembo	62	Executive Vice President and Chief Financial Officer of Eversource Energy; Executive Vice President and Chief Financial Officer; a Director of Eversource Service and the electric and natural gas regulated companies, including CL&P
Gregory B. Butler	60	Executive Vice President and General Counsel of Eversource Energy; Executive Vice President and General Counsel and a Director of Eversource Service and the electric and natural gas regulated companies, including CL&P
Christine M. Carmody <sup>1</sup>	55	Executive Vice President-Human Resources and Information Technology of Eversource Energy and Eversource Service; a Director of Eversource Service
Joseph R. Nolan, Jr. <sup>1</sup>	54	Executive Vice President-Customer and Corporate Relations of Eversource Energy and Eversource Service; a Director of Eversource Service
Leon J. Olivier	70	Executive Vice President-Enterprise Energy Strategy and Business Development of Eversource Energy and Eversource Service; a Director of Eversource Service
Werner J. Schweiger	58	Executive Vice President and Chief Operating Officer of Eversource Energy; Executive Vice President and Chief Operating Officer and a Director of Eversource Service; Chief Executive Officer and a Director of the electric and natural gas regulated companies, including CL&P
Jay S. Buth	48	Vice President, Controller and Chief Accounting Officer of Eversource Energy, Eversource Service and the electric and natural gas regulated companies, including CL&P

<sup>1</sup> Deemed an executive officer of CL&P pursuant to Rule 3b-7 under the Securities Exchange Act of 1934.

*James J. Judge.* Mr. Judge has served as Chairman of the Board, President and Chief Executive Officer of Eversource Energy since May 3, 2017; as a Trustee of Eversource Energy and as Chairman of CL&P, NSTAR Electric and PSNH since May 4, 2016; and as Chairman, President and Chief Executive Officer of Eversource Service and Chairman of NSTAR Gas and Yankee Gas since May 9, 2016. Mr. Judge has served as a Director of CL&P, PSNH, Yankee Gas and Eversource Service since April 10, 2012; and of NSTAR Electric and NSTAR Gas since September 27, 1999. Previously, Mr. Judge served as President and Chief Executive Officer of Eversource Energy from May 4, 2016 until May 3, 2017; as Chairman of WMECO from May 4, 2016 until December 31, 2017; as a Director of WMECO from April 10, 2012 until December 31, 2017; and as Executive Vice President and Chief Financial Officer of Eversource Energy, CL&P, NSTAR Electric, PSNH and WMECO from April 10, 2012 until May 4, 2016; of NSTAR Gas, Yankee Gas and Eversource Service from April 10, 2012 until May 9, 2016. Mr. Judge has served as Chairman of the Board of Eversource Energy Foundation, Inc. since May 9, 2016; and as a Director since April 10, 2012. He previously served as Treasurer of the Eversource Energy Foundation, Inc. from May 10, 2012 until May 9, 2016. He has served as a Trustee of the NSTAR Foundation since December 12, 1995.

*Philip J. Lembo.* Mr. Lembo has served as Executive Vice President and Chief Financial Officer of Eversource Energy since May 3, 2017; and of CL&P, NSTAR Electric, NSTAR Gas, PSNH, Yankee Gas and Eversource Service since March 31, 2017. Mr. Lembo has served as a Director of CL&P, NSTAR Electric and PSNH since May 4, 2016; and of NSTAR Gas, Yankee Gas and Eversource Service since May 9, 2016. Mr. Lembo previously served as Executive Vice President and Chief Financial Officer of WMECO from May 3, 2017 until December 31, 2017; as a Director of WMECO from May 4, 2016 until December 31, 2017; as Executive Vice President, Chief Financial Officer and Treasurer of Eversource Energy

from August 8, 2016 until May 3, 2017; of CL&P, NSTAR Electric, PSNH, WMECO, NSTAR Gas, Yankee Gas and Eversource Service from August 8, 2016 until March 31, 2017; as Senior Vice President, Chief Financial Officer and Treasurer of Eversource Energy, CL&P, NSTAR Electric, PSNH and WMECO from May 4, 2016 until August 8, 2016; and of NSTAR Gas, Yankee Gas and Eversource Service from May 9, 2016 until August 8, 2016; as Vice President and Treasurer of Eversource Energy, CL&P, PSNH and WMECO from April 10, 2012 until May 4, 2016; and of Yankee Gas and Eversource Service from April 10, 2012 until May 9, 2016. Mr. Lembo served as Vice President and Treasurer of NSTAR Electric and NSTAR Gas from March 29, 2006 until May 4, 2016. Mr. Lembo has served as a Director of Eversource Energy Foundation, Inc. since May 9, 2016. He previously served as Treasurer of Eversource Energy Foundation, Inc. from May 9, 2016 until March 31, 2017. He has served as a Trustee of the NSTAR Foundation since May 9, 2016.

*Gregory B. Butler.* Mr. Butler has served as Executive Vice President and General Counsel of Eversource Energy, CL&P, NSTAR Electric, NSTAR Gas, PSNH, Yankee Gas and Eversource Service since August 8, 2016. Mr. Butler has served as a Director of NSTAR Electric and NSTAR Gas since April 10, 2012; of Eversource Service since November 27, 2012; and of CL&P, PSNH and Yankee Gas since April 22, 2009. Mr. Butler previously served as Executive Vice President and General Counsel of WMECO from August 8, 2016 until December 31, 2017; as a Director of WMECO from April 22, 2009 until December 31, 2017; as Senior Vice President and General Counsel of Eversource Energy from May 1, 2014 until August 8, 2016; of NSTAR Electric and NSTAR Gas from April 10, 2012 until August 8, 2016; of CL&P, PSNH, WMECO, Yankee Gas and Eversource Service from March 9, 2006 until August 8, 2016; and as Senior Vice President, General Counsel and Secretary of Eversource Energy from April 10, 2012 until May 1, 2014. He has served as a Director of Eversource Energy Foundation, Inc. since December 1, 2002. He has been a Trustee of the NSTAR Foundation since April 10, 2012.

*Christine M. Carmody.* Ms. Carmody has served as Executive Vice President-Human Resources and Information Technology of Eversource Energy and Eversource Service since August 8, 2016. Ms. Carmody has served as a Director of Eversource Service since November 27, 2012. Previously Ms. Carmody served as Senior Vice President-Human Resources of Eversource Energy from May 4, 2016 until August 8, 2016; of Eversource Service from April 10, 2012 until August 8, 2016; as Senior Vice President-Human Resources of CL&P, PSNH, WMECO and Yankee Gas from November 27, 2012 until September 29, 2014; of NSTAR Electric and NSTAR Gas from August 1, 2008 until September 29, 2014; and as a Director of CL&P, PSNH, WMECO and Yankee Gas from April 10, 2012 until September 29, 2014; and of NSTAR Electric and NSTAR Gas from November 27, 2012 until September 29, 2014. Ms. Carmody has served as a Director of Eversource Energy Foundation, Inc. since April 10, 2012. She has served as a Trustee of the NSTAR Foundation since August 1, 2008.

*Joseph R. Nolan, Jr.* Mr. Nolan has served as Executive Vice President-Customer and Corporate Relations of Eversource Energy and Eversource Service since August 8, 2016. Mr. Nolan has served as a Director of Eversource Service since November 27, 2012. Previously Mr. Nolan served as Senior Vice President-Corporate Relations of Eversource Energy from May 4, 2016 until August 8, 2016; of Eversource Service from April 10, 2012 to August 8, 2016; of NSTAR Electric and NSTAR Gas from April 10, 2012 until September 29, 2014; and of CL&P, PSNH, WMECO and Yankee Gas from November 27, 2012 until September 29, 2014. Mr. Nolan previously served as a Director of CL&P, PSNH, WMECO and Yankee Gas from April 10, 2012 until September 29, 2014; and of NSTAR Electric and NSTAR Gas from November 27, 2012 until September 29, 2014. Mr. Nolan has served as a Director of Eversource Energy Foundation, Inc. since April 10, 2012, and as Executive Director of Eversource Energy Foundation, Inc. since October 15, 2013. He has served as a Trustee of the NSTAR Foundation since October 1, 2000.

*Leon J. Olivier.* Mr. Olivier has served as Executive Vice President-Enterprise Energy Strategy and Business Development of Eversource Energy since September 2, 2014; and of Eversource Service since August 11, 2014. Mr. Olivier has served as a Director of Eversource Service since January 17, 2005. Mr. Olivier previously served as Executive Vice President and Chief Operating Officer of Eversource Energy from May 13, 2008 until September 2, 2014; of Eversource Service from May 13, 2008 until August 11, 2008; as Chief Executive Officer of NSTAR Electric and NSTAR Gas from April 10, 2012 until August 11, 2014; of CL&P, PSNH, WMECO and Yankee Gas from January 15, 2007 until August 11, 2014; and of CL&P from September 10, 2001 until September 29, 2014; as a Director of NSTAR Electric and NSTAR Gas from November 27, 2012 until September 29, 2014; of PSNH, WMECO and Yankee Gas from January 17, 2005 until September 29, 2014; and of CL&P from September 10, 2001 until September 29, 2014. He has served as a Director of Eversource Energy Foundation, Inc. since April 1, 2006. Mr. Olivier has served as a Trustee of the NSTAR Foundation since April 10, 2012.

*Werner J. Schweiger.* Mr. Schweiger has served as Executive Vice President and Chief Operating Officer of Eversource Energy since September 2, 2014; of Eversource Service since August 11, 2014; and as Chief Executive Officer of CL&P, NSTAR Electric, NSTAR Gas, PSNH and Yankee Gas since August 11, 2014. Mr. Schweiger has served as a Director of Eversource Service, NSTAR Gas and Yankee Gas since September 29, 2014; and of CL&P, PSNH and NSTAR Electric since May 28, 2013. He previously served as Chief Executive Officer of WMECO from August 11, 2014 until December 31, 2017; as a Director of WMECO from May 28, 2013 until December 31, 2017; as President of CL&P from June 2, 2015 until June 27, 2016; as President of NSTAR Gas and Yankee Gas from September 29, 2014 until November 10, 2014; as President-Electric Distribution of Eversource Service from January 16, 2013 until August 11, 2014; as President of NSTAR Electric from April 10, 2012 until January 16, 2013; and as a Director of NSTAR Electric from November 27, 2012 until January 16, 2013. Mr. Schweiger has served as a Director of Eversource Energy Foundation, Inc. since September 29, 2014. He has served as a Trustee of the NSTAR Foundation since September 29, 2014.

*Jay S. Buth.* Mr. Buth has served as Vice President, Contoller and Chief Accounting Officer of Eversource Energy, CL&P, NSTAR Electric, NSTAR Gas, PSNH, Yankee Gas and Eversource Service since April 10, 2012. Previously, Mr. Buth served as Vice President, Contoller and Chief Accounting Officer of WMECO from April 10, 2012 until December 31, 2017; and as Vice President-Accounting and Contoller of Eversource Energy, CL&P, PSNH, WMECO, Yankee Gas and Eversource Service from June 9, 2009 until April 10, 2012.

There are no family relationships between any director or executive officer and any other trustee, director or executive officer of Eversource Energy or CL&P and none of the above executive officers or directors serves as an executive officer or director pursuant to any agreement or understanding with any other person. Our executive officers hold the offices set forth opposite their names until the next annual meeting of the Board of Trustees, in the case of Eversource Energy, and the Board of Directors, in the case of CL&P, and until their successors have been elected and qualified.

CL&P obtains audit services from the independent registered public accounting firm engaged by the Audit Committee of Eversource Energy's Board of Trustees. CL&P does not have its own audit committee or, accordingly, an audit committee financial expert. CL&P relies on Eversource Energy's audit committee and the audit committee financial expert.

#### CODE OF ETHICS AND CODE OF BUSINESS CONDUCT

Each of Eversource Energy, CL&P, NSTAR Electric, and PSNH has adopted a Code of Ethics for Senior Financial Officers (Chief Executive Officer, Chief Financial Officer and Controller) and the Code of Business Conduct, which are applicable to all Trustees, directors, officers, employees, contractors and agents of Eversource Energy, CL&P, NSTAR Electric and PSNH. The Code of Ethics and the Code of Business Conduct have both been posted on the Eversource Energy web site and are available at [www.eversource.com/Content/general/about/investors/corporate-governance](http://www.eversource.com/Content/general/about/investors/corporate-governance) on the Internet. Any amendments to or waivers from the Code of Ethics and Code of Business Conduct for executive officers, directors or Trustees will be posted on the website. Any such amendment or waiver would require the prior consent of the Board of Trustees or an applicable committee thereof.

Printed copies of the Code of Ethics and the Code of Business Conduct are also available to any shareholder without charge upon written request mailed to:

Richard J. Morrison  
Secretary  
Eversource Energy  
800 Boylston Street, 17th Floor  
Boston, Massachusetts 02199-7050

## Item 11. Executive Compensation

### Eversource Energy

The information required by this Item 11 for Eversource Energy is incorporated herein by reference to certain information contained in Eversource Energy's definitive proxy statement for solicitation of proxies, which is expected to be filed with the SEC on or about March 23, 2018, under the sections captioned "Compensation Discussion and Analysis," plus related subsections, and "Compensation Committee Report," plus related subsections following such Report.

### NSTAR ELECTRIC and PSNH

Certain information required by this Item 11 has been omitted for NSTAR Electric and PSNH pursuant to Instruction I(2)(c) to Form 10-K, Omission of Information by Certain Wholly-Owned Subsidiaries.

### CL&P

The information in this Item 11 relates solely to CL&P.

### COMPENSATION DISCUSSION AND ANALYSIS

CL&P is a wholly-owned subsidiary of Eversource Energy. Its board of directors consists entirely of executive officers of Eversource Energy system companies. CL&P does not have a compensation committee, and the Compensation Committee of Eversource Energy's Board of Trustees determines compensation for the executive officers of CL&P, including their salaries, annual incentive awards and long-term incentive awards. All of CL&P's "Named Executive Officers," as defined below, also serve as officers of Eversource Energy and one or more other subsidiaries of Eversource Energy. Compensation set by the Compensation Committee of Eversource Energy (the "Committee") and set forth herein is for services rendered to Eversource Energy and its subsidiaries by such officers in all capacities.

This Compensation Discussion and Analysis ("CD&A") provides information about the principles behind Eversource Energy's compensation objectives, plans, policies and actions for the Named Executive Officers. The discussion describes the specific components of Eversource Energy's compensation program, how Eversource Energy measures performance, and how the compensation principles were applied to compensation awards and decisions that were made by the Compensation Committee for the Named Executive Officers, as presented in the tables and narratives that follow. While this discussion focuses primarily on 2017 information, it also addresses decisions that were made in prior periods to the extent that these decisions are relevant to the full understanding of the compensation program and the specific awards that were made for performance through 2017. The CD&A also contains a summary of 2017 performance, an assessment of the performance and the compensation awards made by the Compensation Committee, and other information relating to Eversource's compensation program, including:

- Pay for Performance Philosophy
- Executive Compensation Governance
- The Named Executive Officers
- Overview of the Compensation Program
- Market Analysis
- Elements of 2017 Compensation
- 2017 Annual Incentive Program
- 2017 Assessment of Financial and Operational Performance
- Performance Goal Assessment Matrix
- Description of the Long-Term Incentive Program, Grants and Performance Plan Results
- Disclosure of the:
  - Clawback and No Hedging and No Pledging Policies
  - Share Ownership Guidelines
  - Other Benefits
- Contractual Agreements
- Tax and Accounting Considerations
- Equity Grant Practices

#### *Summary of 2017 Performance*

In 2017, Eversource Energy achieved very positive overall financial and operational performance results. The following is a summary of some of the most important accomplishments in 2017:

#### *2017 Financial Accomplishments*

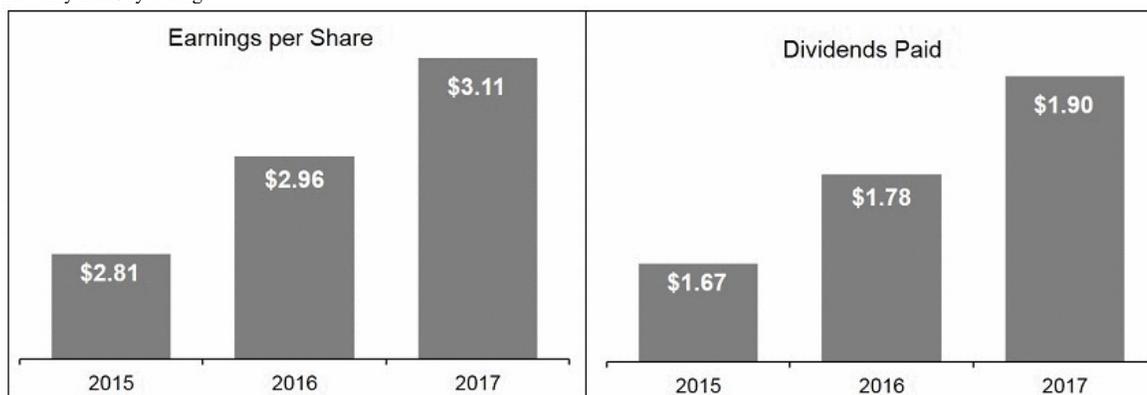
- Eversource's earnings grew by 5.1 percent in 2017, exceeding the established goal. 2017 earnings were \$3.11 per share.
- Eversource's total shareholder return in 2017 was 18 percent, comparing favorably to the industry return of 11.7 percent, and over the longer term, Eversource's stock performance continued to outperform the industry. This marks the eighth time in nine years that Eversource achieved a double-digit total shareholder return. Only two other companies within the Edison Electric Institute ("EEI") index of 43 utility companies have accomplished this.
- Eversource increased its 2017 dividend to \$1.90 per share, a 6.7 percent increase over 2016, continuing to significantly outperform the dividend growth rate of the EEI Index companies.

- Standard & Poor's ("S&P") raised Eversource's credit rating from A to A+. It remains the highest holding company S&P credit rating in the industry, by two credit notches.
- Eversource continued to successfully achieve operations and maintenance expense reductions in 2017, and total utility operations and maintenance expenses were \$14 million under budget.
- Eversource became the only electric utility in the country to add a water utility as an additional line of business through the purchase of Aquarion Water Company. Participating in a highly competitive auction process, Eversource negotiated a purchase agreement, received regulatory approvals in three states within five months, and closed the transaction in early December 2017, creating a new, complementary, growth-oriented business line.

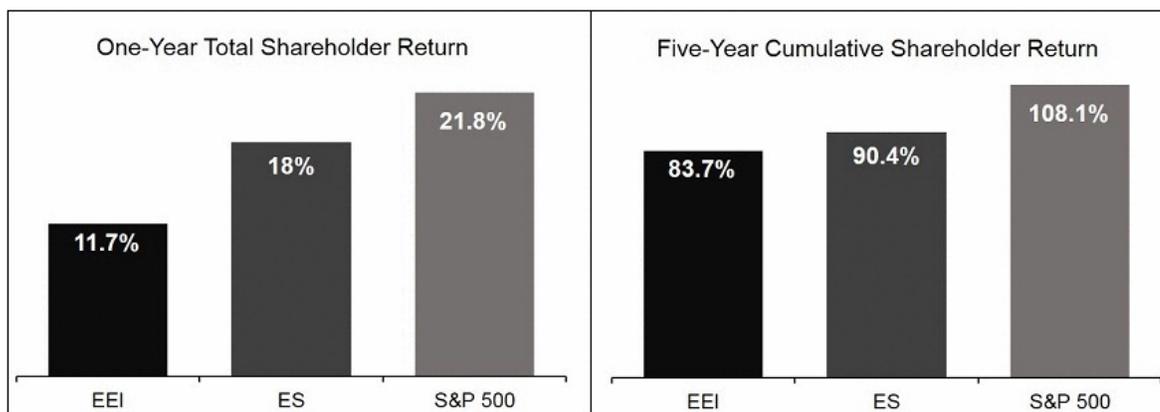
Set forth below is information relating to key financial metrics over the past three to five years.

**Earnings Growth.** Eversource's 2015 - 2017 recurring earnings per share have grown 5.5 percent on average, consistent with long-term earnings guidance and above the utility industry average. Recurring earnings per share, presented below for 2015 exclude merger-related costs. A reconciliation between reported 2015 earnings per share and the recurring earnings per share presented below appears under the caption entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview" in this Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

**Dividend Growth.** As a result of continuing strong earnings growth, Eversource's Board of Trustees increased the annual dividend rate by 6.7 percent for 2017 to \$1.90 per share, which exceeds the EEI Index companies' median dividend growth rate of 4.8 percent. The dividend growth rate for the period 2015 - 2017 has averaged 6.6 percent, well ahead of the utility industry average.



**Total Shareholder Return.** Eversource's Total Shareholder Return in 2017 was 18 percent, compared to the 11.7 percent growth of the EEI Index companies and 21.8 percent for the S&P 500. Eversource also outperformed the EEI Index companies over 2013 - 2017. An investment of \$1,000 in Eversource common shares at the beginning of the five-year period beginning January 1, 2013 was worth \$1,904 on December 31, 2017. The following charts represent the comparative one- and five-year total shareholder returns for the periods ending December 31, 2017, respectively:



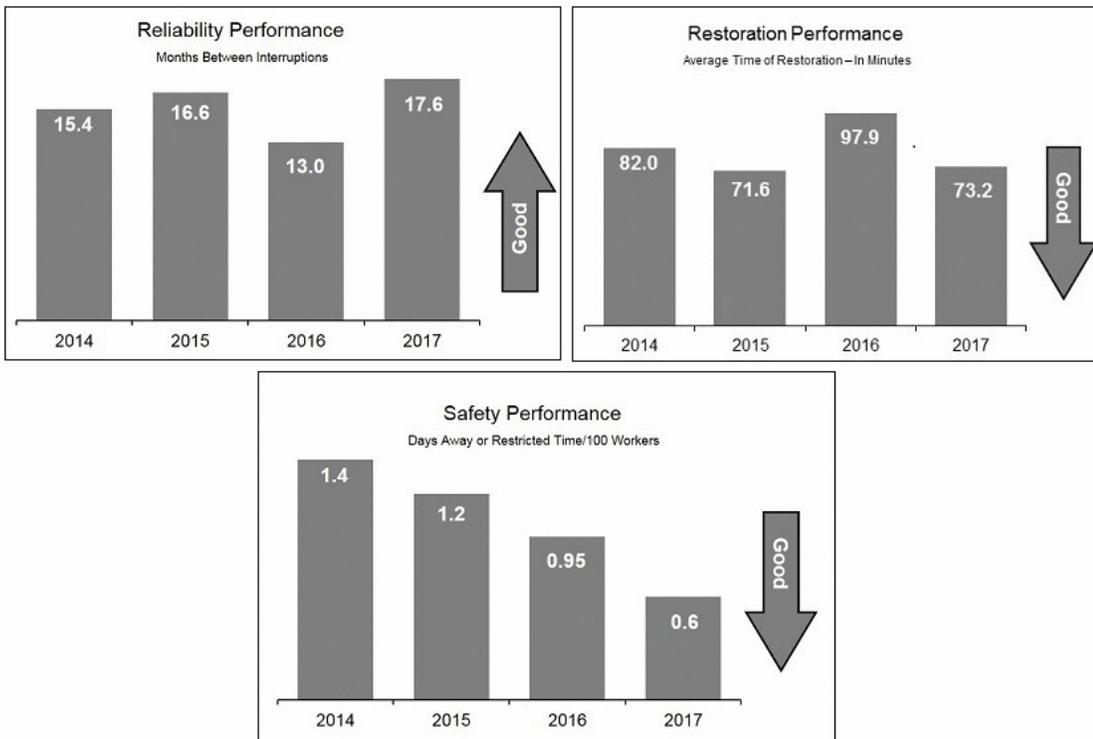
**2017 Operational Accomplishments**

- Eversource's overall electric system reliability performance in 2017 was its best ever; on average, customer power interruptions were 17.6 months apart, and average restoration time was 73.2 minutes. Eversource's performance ranks in the first quartile of the industry.
- Eversource's Massachusetts electric and gas distribution companies each met or exceeded Service Quality Index performance targets established by regulators in Massachusetts, which is the only state in Eversource's service territory that has such performance targets.
- Eversource exceeded its established targets in safety performance and response to gas service calls. Eversource's safety performance, which is measured by Days Away or Restricted Time ("DART"), was its best ever, and in the first quartile of the industry.
- Eversource added more than 10,000 new gas customers for the fifth consecutive year, exceeded its gas emergency response rate target, and received its highest satisfaction rating (93 percent) for new customer connections.
- Eversource exceeded the target of having 37 percent of new hires and promotions within the supervisor and above management group be women or persons of color.
- Eversource achieved very constructive regulatory outcomes, including the sale of its New Hampshire fossil generation assets, receiving a constructive rate order for its Massachusetts electric companies, and successfully resolving a complex and significant dispute regarding an underwater electric cable with federal agencies and the Massachusetts Water Resources Authority.
- Eversource continues to operate its electric and gas systems well. This is the result of the continuing implementation of best practices, focusing on investments in reliability improvements to reduce the number and length of outages, and performing work safely each and every day.

Set forth below is information relating to key operational metrics over the past four years.

**Reliability.** Electric System Reliability, which is measured by months between interruptions and average time to restore power, was in the first quartile of the industry, with its best results ever for the lowest number and frequency of interruptions.

**Safety.** Safety performance, measured by DART per 100 workers, improved significantly; performance was in the first quartile and the best ever performance for Eversource.



Achievement of the 2017 performance goals, additional accomplishments and the Compensation Committee's assessment of the performance of Eversource and its executives are more fully described in the section titled "2016 Annual Incentive Program." Specific decisions regarding executive compensation based upon the Committee's assessment of the performance of Eversource and its executives and market data are also described below.

### *Pay for Performance*

The Committee links the Named Executive Officers' compensation to performance that will ultimately benefit Eversource's customers and shareholders. Eversource's compensation program is intended to attract and retain the best executive talent in the industry, motivate its executives to meet or exceed specific stretch financial and operational goals each year, and compensate its executives in a manner that aligns compensation directly with performance. Eversource strives to provide executives with base salary, performance-based annual incentive compensation, and performance-based long-term incentive compensation opportunities that are competitive with market practices and that reward excellent performance.

### *Executive Compensation Governance*

#### **What Eversource DOES:**

- ✓ Pay for Performance
- ✓ Share ownership and holding guidelines
- ✓ Clawback policy of incentive compensation for willful non-compliance by any employee
- ✓ Double-trigger change in control vesting provisions
- ✓ Independent compensation consultant
- ✓ Annual Say-on-Pay Vote

#### **What Eversource DOESN'T do:**

- ✗ No tax gross-ups in any new or materially amended executive compensation agreements
- ✗ No hedging, pledging or similar transactions by Eversource executives and Trustees
- ✗ No repricing of options
- ✗ No liberal share recycling in the Incentive Plan

- Eversource's executive and Trustee share ownership and holding guidelines noted in this CD&A emphasize the importance of aligning management and governance with shareholders. Under the share ownership guidelines, which require Eversource's Chief Executive Officer to hold shares equal to six times base salary, Eversource requires its executives to hold 100 percent of the shares awarded under the stock compensation program until the share ownership guidelines have been met.
- Eversource's new Incentive Plan includes a clawback provision that requires its executives and other participants to reimburse Eversource for incentive compensation received, not only if earnings were subsequently required to be restated as a result of noncompliance with accounting rules caused by fraud or misconduct, but also if there had been a material violation of the Code of Business Conduct or material breach of a covenant in an employment agreement. The Plan also imposes limits on awards and on Eversource Trustee compensation, and prohibits repricing of awards and liberal share recycling.
- Eversource has discontinued the use of "gross-ups" in all new or materially amended executive compensation agreements.
- Eversource has a "no hedging and no pledging" policy that prohibits Eversource Trustees and executives from purchasing financial instruments or otherwise entering into any transactions that are designed to have the effect of hedging or offsetting any decrease in the market value of Eversource common shares. This policy also prohibits all pledges, derivative transactions or short sales involving Eversource common shares or the holding of any Eversource common shares in a margin account.
- Employment agreements with executives and the Incentive Plan provide for "double-trigger" change in control acceleration of compensation.
- The Compensation Committee annually assesses the independence of its compensation consultant, Pay Governance LLC ("Pay Governance"), which is retained directly by the Committee. Pay Governance performs no other consulting nor provides services for Eversource, and has no relationship with Eversource that could result in a conflict of interest. At its February 7, 2018 meeting, the Committee concluded that Pay Governance is independent and that no conflict of interest exists between Pay Governance and Eversource.

## Named Executive Officers

The executive officers of CL&P listed in the Summary Compensation Table and whose compensation is discussed in this Item 11 are referred to as the "Named Executive Officers" or "NEOs" under SEC regulations. For 2017, CL&P's Named Executive Officers are:

- James J. Judge, Chairman, President and Chief Executive Officer of Eversource Energy and Chairman of the Board of CL&P
- Philip J. Lembo, Executive Vice President and Chief Financial Officer of Eversource Energy and CL&P
- Werner J. Schweiger, Executive Vice President and Chief Operating Officer of Eversource Energy and Chief Executive Officer of CL&P
- Gregory B. Butler, Executive Vice President and General Counsel of Eversource Energy and CL&P
- Joseph R. Nolan, Jr., Executive Vice President - Customer and Corporate Relations of Eversource Energy and Eversource Service

## Overview of the Compensation Program

**The Role of the Compensation Committee.** The Eversource Board of Trustees has delegated to the Compensation Committee overall responsibility for establishing the compensation program for those senior executive officers, who are referred to in this CD&A as "executives" and whom are deemed to be "officers" under the SEC's regulations that determine the persons whose compensation is subject to disclosure. In this role, the Committee sets compensation policy and compensation levels, reviews and approves performance goals and evaluates executive performance. Although this discussion and analysis refers principally to compensation for the Named Executive Officers, the same compensation principles and practices apply to all executives. The compensation of Eversource's Chief Executive Officer is subject to the further review and approval of the independent Eversource Trustees.

**Elements of Compensation.** Total direct compensation consists of three elements: base salary, annual cash incentive awards and long-term equity-based incentive awards. Indirect compensation is provided through certain retirement, perquisite, severance, and health and welfare benefit programs.

**Eversource's Compensation Objectives.** The objectives of Eversource's compensation program are to attract and retain superior executive talent, motivate executives to achieve annual and long-term performance goals set each year, and provide total compensation opportunities that are competitive with market practices. With respect to incentive compensation, the Committee believes it is important to balance short-term goals, such as producing earnings, with longer-term goals, such as long-term value creation and maintaining a strong balance sheet. The Committee also places great emphasis on system reliability and good customer service. Eversource's compensation program utilizes performance-based incentive compensation to reward individual and corporate performance and to align the interests of executives with Eversource's customers and shareholders. The Committee continually increases expectations to motivate executives and employees to achieve continuous improvement in carrying out their responsibilities to customers to deliver energy reliably, safely, with respect for the environment and employees, and at a reasonable cost, while providing an above-average total shareholder return to Eversource shareholders.

**Setting Compensation Levels.** To ensure that Eversource achieves its goal of providing market-based compensation levels to attract and retain top quality management, the Committee provides executives with target compensation opportunities approximately equal to median compensation levels for executive officers of companies in the utility industry comparable to Eversource in size. To achieve that goal, the Committee and its independent compensation consultant work together to determine the market values of executive direct compensation elements (base salaries, annual incentives and long-term incentives), as well as total compensation, by using competitive market compensation data. The Committee reviews competitive compensation data obtained from utility and general industry surveys and a specific group of peer utility companies. Levels may be lower than median for those executives who are new to their roles, while long-tenured, high performing executives may be compensated above median. The review by Pay Governance performed in late 2017 indicated that Eversource's aggregate executive compensation levels were aligned with median market rates.

**Role of the Compensation Consultant.** The Committee has retained Pay Governance as its independent compensation consultant. Pay Governance reports directly to the Committee and does not provide any other services to Eversource. With the consent of the Committee, Pay Governance works cooperatively with Eversource's management to develop analyses and proposals for presentation to the Committee. The Committee generally relies on Pay Governance for peer group market data and information as to market practices and trends to assess the competitiveness of the compensation Eversource pays to its executives and to review the Committee's proposed compensation decisions.

**Pay Governance Independence.** In February 2018, the Committee assessed the independence of Pay Governance pursuant to SEC and NYSE rules, and concluded that it is independent and that no conflict of interest exists that would prevent Pay Governance from independently advising the Committee. In making this assessment, the Committee considered the independence factors enumerated in Rule 10C-1(b) under the Securities Exchange Act of 1934, including the written representations of Pay Governance that Pay Governance does not provide any other services to Eversource, the level of fees received from Eversource as a percentage of Pay Governance's total revenues, the policies and procedures employed by Pay Governance to prevent conflicts of interest, and whether the individual Pay Governance advisers with whom the Committee consulted own any Eversource common shares or have any business or personal relationships with members of the Committee or the Eversource executives.

**Role of Management.** The role of Eversource's management, and specifically the roles of Eversource's Chief Executive Officer and the Executive Vice President of Human Resources and Information Technology, are to provide current compensation information to the compensation consultant and analyses and recommendations on executive compensation to the Committee based on the market value of the position, individual performance, experience and internal pay equity. Eversource's Chief Executive Officer also provides recommendations on

the compensation for the other Named Executive Officers. None of the executives makes recommendations that affect his or her individual compensation.

## MARKET ANALYSIS

The Compensation Committee seeks to provide executives with target compensation opportunities using a range that is approximately equal to the median compensation levels for executive officers of utility companies comparable to Eversource. Set forth below is a description of the sources of the compensation data used by the Committee when reviewing 2017 compensation:

- **Utility and general industry compensation survey data.** The Committee reviews compensation information obtained from surveys of diverse groups of utility and general industry companies that represent Eversource's market for executive officer talent. Utility industry data serve as the primary reference point for benchmarking officer compensation and are based on a defined peer set, as discussed below, while general industry data is derived from compensation consultant surveys and serves as a secondary reference point. General industry data are used for staff positions and are size-adjusted to ensure a close correlation between the market data and Eversource's scope of operations. The Committee used this information, which it obtained from Pay Governance, to evaluate and determine base salaries and incentive opportunities.
- **Peer group data.** In support of executive pay decisions during 2017 and early 2018, the Committee consulted with Pay Governance, which provided the Committee with a competitive assessment analysis of Eversource's executive compensation levels, as compared to the 20 peer group companies listed in the table below. This peer group was chosen because these companies are and continue to be similar to Eversource Energy in terms of size, business model and long-term strategies.

Alliant Energy Corporation	DTE Energy Company	PPL Corporation
Ameren Corporation	Edison International	Public Service Enterprise Group, Inc.
American Electric Power Co., Inc.	Entergy Corporation	SCANA Corp.
CenterPoint Energy, Inc.	FirstEnergy Corp.	Sempra Energy
CMS Energy Corp.	NiSource Inc.	WEC Energy Group, Inc.
Consolidated Edison, Inc.	PG&E Corporation	Xcel Energy Inc.
Dominion Resources, Inc.	Pinnacle West Capital Corporation	

The Committee reviews the appropriateness of the peer group periodically and adjusts the target percentages of annual and long-term incentives based on the survey data and recommendations from Eversource's CEO, after discussion with the compensation consultant to ensure that they are approximately equal to competitive median levels.

The Committee also determines perquisites to the extent they serve business purposes, and sets supplemental benefits at levels that provide appropriate compensation opportunities to the executives. The Committee periodically reviews the general market for supplemental benefits and perquisites using utility and general industry survey data, including data obtained from companies in the peer group.

**Mix of Compensation Elements.** Eversource targets the mix of compensation for its Chief Executive Officer and the other Named Executive Officers so that the percentages of each compensation element are approximately equal to the competitive median market mix. The mix is heavily weighted toward incentive compensation, and incentive compensation is heavily weighted toward long-term compensation. Since the most senior positions have the greatest responsibility for implementing the long-term business plans and strategies, a greater proportion of total compensation is based on performance with a long-term focus.

The Committee determines the compensation for each executive based on the relative authority, duties and responsibilities of the executive. Eversource's Chief Executive Officer's responsibilities for the strategic direction and daily operations and management of Eversource are greater than the duties and responsibilities of the other executives. As a result, Eversource's Chief Executive Officer's compensation is higher than the compensation of these other executives. Assisted by the compensation consultant, the Committee regularly reviews market compensation data for executive officer positions similar to those held by Eversource's executives, including its Chief Executive Officer.

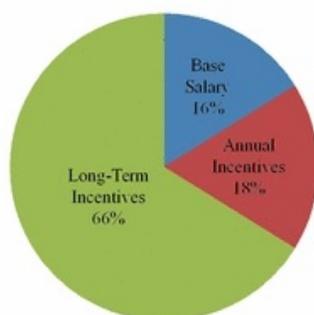
The following table sets forth the contribution to 2017 Total Direct Compensation ("TDC") of each element of compensation at target, reflected as a percentage of TDC, for the Named Executive Officers. The percentages shown in this table are at target and therefore do not correspond to the amounts appearing in the Summary Compensation Table.

Named Executive Officer	Percentage of TDC at Target				TDC
	Base Salary	Annual Incentive <sup>(1)</sup>	Long-Term Incentives		
			Performance Shares <sup>(1)</sup>	RSUs <sup>(2)</sup>	
James J. Judge	16	18	33	33	100
Philip J. Lembo	26	20	27	27	100
Werner J. Schweiger	26	20	27	27	100
Gregory B. Butler	30	20	25	25	100
Joseph R. Nolan, Jr.	30	20	25	25	100
NEO average, excluding CEO	28	20	26	26	100

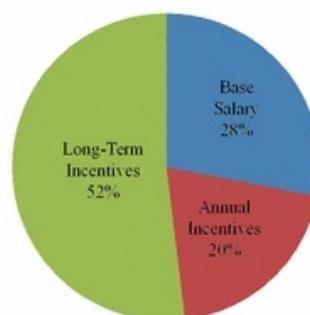
(1) The annual incentive compensation element and performance shares under the long-term incentive compensation element are performance-based.

(2) Restricted Share Units (RSUs) vest over three years contingent upon continued employment.

**Total Direct Compensation - CEO**



**Total Direct Compensation - All other NEO's**



**Risk Analysis of Executive Compensation Program.** The overall compensation program includes a mix of compensation elements ranging from a fixed base salary that is not at risk, to annual and long-term incentive compensation programs intended to motivate officers and eligible employees to achieve individual and corporate performance goals that reflect an appropriate level of risk. The fundamental objective of the compensation program is to foster the continued growth and success of Eversource's business. The design and implementation of the overall compensation program provides the Committee with opportunities throughout the year to assess risks within the compensation program that may have a material effect on the Eversource and its shareholders.

The Compensation Committee assesses the risks associated with the executive compensation program on an on-going basis by reviewing the various elements of incentive compensation. The annual incentive program was designed to ensure an appropriate balance between individual and corporate goals, which were deemed appropriate and supportive of Eversource's annual business plan. Similarly, the long-term incentive program was designed to ensure that the performance metrics were properly weighted and supportive of Eversource's strategic plan. The Committee reviewed the overall compensation program in the context of the annual operating and strategic plans, which were both previously subject to review by Eversource's Enterprise Risk Management and Risk Committees.

The annual and long-term incentive programs were designed to include mechanisms to mitigate risk. These mechanisms include realistic goal setting and discretion with respect to actual payments, in addition to:

- A mix of annual and long-term performance awards to provide an appropriate balance of short- and long-term risk and reward horizon;
- A variety of performance metrics, including financial, operational, customer service, diversity and safety goals and other strategic initiatives for annual performance awards to avoid excessive focus on a single measure of performance;
- Metrics in the Eversource's long-term incentive compensation program that use earnings per share and total shareholder return, which are both robust measures of shareholder value and which reduce the risk that employees might be encouraged to pursue other objectives that increase risk or reduce financial performance;

- The provisions of Eversource's annual and long-term incentive programs, which cap awards at 200 percent of target;
- Clawback provisions on incentive compensation; and
- Stock ownership requirements for all executives, including the Named Executive Officers, and prohibitions on hedging, pledging and other derivative transactions related to Eversource common shares.

Based on these factors, the Compensation Committee and Eversource's Board of Trustees believe the overall compensation program risks are mitigated to reduce overall compensation risk.

**Results of Eversource's 2017 Say-on-Pay Vote.** Eversource provides its shareholders with the required opportunity to cast the annual advisory vote on executive compensation (a "Say-on-Pay" proposal). At the Eversource Annual Meeting of Shareholders held on May 3, 2017, 89 percent of the votes cast on the Say-on-Pay proposal were voted to approve the 2016 compensation of the Named Executive Officers, as described in Eversource's 2017 proxy statement. Eversource's Say-on-Pay results, along with utility and general industry peers, are reviewed with the Committee annually to help assess whether Eversource shareholders continue to deem the executive compensation to be appropriate. The Committee has and will continue to consider the outcome of Eversource's Say-on-Pay votes when making future compensation decisions for the Named Executive Officers.

## **ELEMENTS OF 2017 COMPENSATION**

### **Base Salary**

Base salary is designed to attract and retain key executives by providing an element of total compensation at levels competitive with those of other executives employed by companies of similar size and complexity in the utility and general industries. In establishing base salary, the Compensation Committee relies on compensation data obtained from independent third-party surveys of companies and from an industry peer group to ensure that the compensation opportunities Eversource offers are capable of attracting and retaining executives with the experience and talent required to achieve its strategic objectives. Adjustments to base salaries are made on an annual basis except in instances of promotions.

When setting or adjusting base salaries, the Committee considers annual executive performance appraisals; market pay movement across industries (determined through market analysis); targeted market pay positioning for each executive; individual experience; strategic importance of a position; recommendations of Eversource's Chief Executive Officer; and internal equity.

### **Incentive Compensation**

Annual incentive and long-term incentive compensation are provided under Eversource's Incentive Plan. The annual incentive program provides cash compensation intended to reward performance under Eversource's annual operating plan. The long-term stock-based incentive program is designed to reward demonstrated performance and leadership, motivate future performance, align the interests of the executives with those of shareholders, and retain the executives during the term of grants. The annual and long-term programs are designed to strike a balance between Eversource's short- and long-term objectives so that the programs work in tandem.

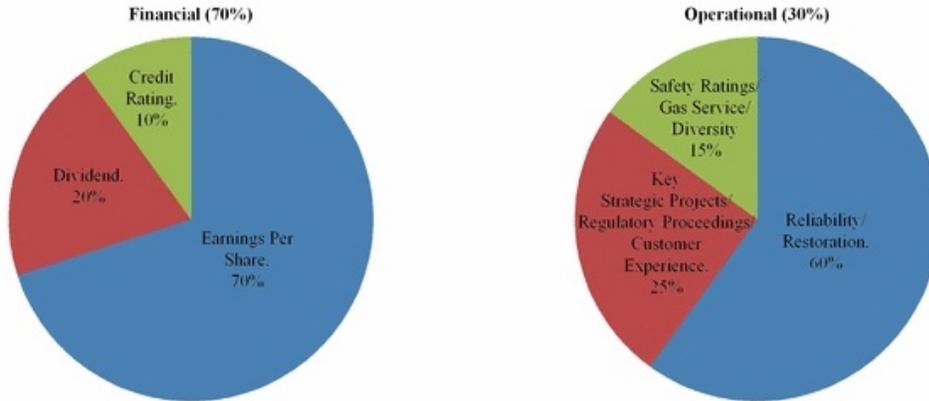
In addition to the specific performance goals, the Committee assesses other factors as well as the executives' roles and individual performance and then makes annual incentive program awards at the levels and amounts disclosed in this Item 11.

## **2017 ANNUAL INCENTIVE PROGRAM**

In February 2017, the Committee established the terms of the 2017 Annual Incentive Program. As part of the overall program, and after consulting with Pay Governance, the Committee set target award levels for each of the Named Executive Officers that ranged from 65 percent to 115 percent of base salary.

At the February 2017 meeting, the Committee determined that for 2017 it would continue to base 70 percent of the annual incentive performance goals on Eversource's overall financial performance and 30 percent of the annual performance goals on Eversource's overall operational performance. The Committee also determined the specific goals that would be used to assess performance, with potential ratings on each goal ranging from 0 percent to 200 percent of target. The Committee assigned weightings to each of these specific goals. For the financial component, the following goals were used: earnings per share, weighted at 70 percent, dividend growth goal, weighted at 20 percent, and credit rating, weighted at 10 percent. For the operational component, the Committee used the following goals: combined service reliability and restoration goals, weighted at 60 percent; combined key strategic regional energy projects, success in regulatory outcomes and improvement of the customer experience goals, weighted at 25 percent; and combined safety ratings, gas service response and diversity promotions and hires of leadership employee positions goals, weighted at 15 percent.

## 2017 Performance Goals



At the December 2017 meeting of the Committee, management provided an initial review of Eversource's 2017 performance, followed in February 2018 by a full assessment of the performance goals, the additional accomplishments noted below under the caption "Additional Factors" and the overall performance of Eversource and the executives. In addition to these meetings, the Committee and the Eversource Board were continuously provided updates during 2017 on corporate performance. At the February 2018 meeting, the Committee determined, based on its assessment of the financial and operational performance goals, to set the level of achievement of combined financial and operational performance goals results at 160 percent of target, reflecting the overall strong performance of Eversource and the executive team. In arriving at this determination, the Committee determined that the financial performance goals result was 161 percent of target and the operational performance goals result was 155 percent of target. The individual financial and operational performance goals results are as set forth below. Eversource's Chief Executive Officer recommended to the Committee payout levels for the executives (other than himself) based on his assessment of each executive's individual performance towards achievement of the performance goals and the additional accomplishments of Eversource, together with each executive's contributions to the overall performance of Eversource. The awards determined by the Committee were also based on the same three-component criteria.

### *Financial Performance Goals Assessment*

- Eversource Energy's earnings per share in 2017 increased by 5.1 percent over 2016 and exceeded the established goal of \$3.10; 2017 earnings equaled \$3.11 per share. Eversource exceeded the earnings goal despite several significant challenges, including higher than anticipated storm costs and lower sales in 2017, which resulted in significantly lower than expected revenues of nearly \$40 million. In a demanding operating environment, Eversource reduced costs to mitigate these challenges. The Committee determined the earnings per share goal to have attained a 155 percent performance result.
- Eversource Energy increased its dividend to \$1.90 per share, a 6.7 percent increase from the prior year, compared to the utility industry's median dividend growth of 4.8 percent. The Committee determined this goal to have attained a 160 percent performance.
- S&P raised Eversource's credit rating in December 2017 to A+. This rating represents the highest S&P holding company credit rating in the utility industry, and continues to provide the foundation for favorable financing opportunities. The industry average credit rating at S&P is "BBB+." The Committee determined this goal to have attained a 200 percent performance result.

### *Operational Performance Goals Assessment*

- Eversource's total electric system reliability performance exceeded targeted performance and was its best ever. Average months between interruptions equaled 17.6 months, near the highest end of the performance zone established by the Committee of 15 to 18 months and in the first quartile of industry peers. System average restoration duration time equaled 73.2 minutes, well within the performance zone established by the Committee of 76 to 63 minutes and also in the first quartile of industry peers. The Committee determined these goals to have each attained a 175 percent performance result.
- Eversource exceeded the safety performance goal of between 0.9 - 1.2 DART per 1,000 employees; DART equaled 0.6 in 2017, the best performance in Eversource's history and also industry first quartile performance. The Committee determined this goal to have attained a 200 percent performance result.
- On-time response to gas customer emergency calls was 99.6 percent, which exceeded the goal of 99.1 percent and was also first quartile versus industry peers. The Committee determined this goal to have attained a 125 percent performance result.

- In 2017, 37.5 percent of new hires and promotions into leadership roles were women or people of color, slightly ahead of the goal of 37 percent. The Committee determined this goal to have attained a 100 percent performance result.
- Eversource successfully expanded the functionality of its customer website and outage communication systems and strengthened media outreach efforts. The Committee determined this goal to have attained a 75 percent performance result.
- Eversource achieved several constructive regulatory outcomes in each of the three states in which it provides service. These included the sale of the New Hampshire fossil generation assets, a constructive Massachusetts rate case approval, and a settlement agreement to for approval with the Connecticut Public Utility Authority in connection with a previous filed rate review. The Committee determined this goal to have attained a 200 percent performance result.
- While Eversource made substantial progress on its major ongoing strategic projects in 2017, it encountered a significant setback on its Northern Pass Transmission project in early 2018, when the New Hampshire Site Evaluation Committee rejected the project. Eversource continues to work on a path forward. Bay State Wind received approval of a Site Assessment Plan from the U.S. government, the first off-shore wind project to do so. Eversource is awaiting a decision on Bay State Wind's off-shore wind proposal bid to the Massachusetts Clean Energy request for proposal. The Access Northeast gas pipeline project received an adverse court decision in 2017 relating to the ability to secure supply contracts. Eversource is reconfiguring the project in light of this decision. Eversource is the only electric utility in the country to add a water utility as an additional line of business through the purchase of Aquarion Water Company. Participating in a highly competitive auction process, Eversource negotiated a purchase agreement, received regulatory approvals in three states within five months, and completed the acquisition in December, adding a new, complementary and growth-oriented business line. The Committee determined this goal to have attained a 75 percent performance result.

#### Financial Performance Goals

Category	2017 Goal	Eversource Performance	Indicative Assessment
Earnings Per Share	\$3.10 per share	Exceeded: \$3.11 per share, a 5.1% increase over 2016, significantly outperforming industry average growth of nearly 4%	155%
Dividend Growth	Increase dividend \$0.12 to \$1.90 per share	Achieved: Increased to \$1.90 per share, a \$0.12 increase and 6.7% growth, significantly exceeding the industry median of 4.8%	160%
Credit Rating	Maintain Eversource's top tier Standard & Poor's (S&P) "A" credit rating	Exceeded: S&P rating raised to "A+", the highest holding company credit rating in the utility industry by two notches	200%

Weightings = Earnings per share: 70%; Dividend growth: 20%; Credit rating: 10%

## Operational Performance Goals

Category	2017 Goal	Eversource Performance	Indicative Assessment
Reliability - Avg. Months Between Interruptions ("MBI")	Achieve MBI of within 15 to 18 months	Exceeded: MBI = 17.6 months. At the top of targeted performance zone, and first quartile vs. industry peers and best ever performance	175%
Average Restoration Duration ("SAIDI")	Achieve SAIDI of 76 to 63 minutes	Achieved: SAIDI = 73.2 minutes. Within targeted performance and first quartile vs. industry peers	175%
Safety Rate	0.9 - 1.2 Days Away/Restricted Time	Exceeded: 0.6 DART Best year ever for safety; performance exceeded target range and was first quartile in industry	200%
Gas Service Response	99.1%	Exceeded: 99.6%; also achieved all regulatory mandated targets and response was at first quartile vs. industry peers' performance	125%
Diverse Leadership	37% hires or promotions of leadership level be women or people of color	Exceeded: 37.5%, 0.5 percentage points above target	100%
Improve the Customer Experience	Customer billing improvements, enhanced communications, improved digital experience and community support	Partially Achieved: Improvements made as planned in digital offerings and enhanced outage communications. Customer satisfaction scores below expectations	75%
Positive Regulatory Outcomes - Divestiture and State rate activity	Successfully complete the generation assets sale and constructive rate case results	Exceeded: Successfully completed N.H. Generation Divestiture and the MA Rate Case. CT Rate Case was filed and a settlement agreement was reached and filed with PURA for approval	200%
Positive Outcomes on Key Strategic Initiatives	Major strategic initiatives	Partially Achieved: Aquarion Water Company purchase completed. Bay State Wind making good progress. NPT was selected by Massachusetts in the State's clean energy RFP and progressed through several key siting approvals but was denied approval by New Hampshire Site Evaluation Committee. Access Northeast reconfiguring in light of adverse court decision.	75%
Weightings = Reliability and Restoration: 60%; Key corporate initiatives: 25%; Safety/Gas service/Diversity: 15%			

## Performance Goals Assessment

Financial Performance at 161% (weighted 70%)	113%
Operational Performance at 155% (weighted 30%)	47%
Overall Performance	160%

## Additional Factors

The following key strategic, environmental and customer-focused results were also considered significant by the Committee in making an assessment of overall financial and operational performance, but were not given specific weightings or assigned a specific performance assessment score:

- Eversource resolved a long-standing dispute with federal and state agencies regarding the location of a critical underwater electric transmission line providing service to the Massachusetts Water Resources Authority.
- Eversource continued to transform and grow the natural gas delivery business. Eversource added more than 10,000 new gas customers for the fifth consecutive year and achieved its highest-level rating of 93 percent from new customers.
- Eversource was recognized as being the number one energy efficiency provider in the industry.
- Eversource is proceeding with a planned development of 18 sites in Massachusetts that will provide 62MW of solar generation and an anticipated rate base investment of \$180 million.
- Eversource received approval in its Massachusetts rate filing of \$100 million to advance energy storage and electric vehicle charging infrastructure.

### *Individual Performance Factors Considered by the Committee*

The goal of the Committee for 2017 was again to provide incentives for Eversource executives to work together as a highly effective, integrated team to achieve or exceed the financial, operational, safety, customer, strategic and diversity goals and objectives. The Committee based the annual incentive payments on team performance and also on the Committee's assessment of each executive's individual performance in supporting the performance goals, additional achievements and overall performance of Eversource. The Committee and all other independent Eversource Trustees assessed the performance of the Chief Executive Officer and, based on the recommendations of the Chief Executive Officer as to executives other than himself, the Committee assessed the performance of the other Named Executive Officers to determine the individual incentive payments as disclosed in the Summary Compensation Table. Based on the Committee's review, which included its assessment of the performance goals, the significant other accomplishments of Eversource and the Named Executive Officers, and the overall performance of Eversource and each of the Named Executive Officers, considered in its totality by the Committee to have been excellent, the Committee approved annual incentive program payments for the Named Executive Officers at levels that ranged from 148 percent to 199 percent of target. These payments reflected the individual and team contributions of the Named Executive Officers in achieving the goals and the additional accomplishments and the overall performance of Eversource.

In determining Mr. Judge's annual incentive payment of \$2,285,000, which was 160 percent of target and which reflects his and Eversource's continued strong performance, the Committee and the Board considered the totality of Eversource's success in accomplishing the goals set by the Committee, the additional accomplishments of Eversource, and the superior leadership of Mr. Judge in every part of the business, significantly advancing Eversource towards its goal of being recognized as the Best Energy Company in the country.

#### **2017 Annual Incentive Program Awards**

<b>Named Executive Officer</b>	<b>Award</b>
James J. Judge	\$ 2,285,000
Philip J. Lembo	700,000
Werner J. Schweiger	775,000
Gregory B. Butler	625,000
Joseph R. Nolan, Jr.	680,000

### **Long-Term Incentive Program**

#### *General*

Eversource's long-term incentive program is intended to focus on Eversource's longer-term strategic goals and to help retain its executives. A new three-year program commences every year. For the 2017 - 2019 Long-Term Incentive Program, each executive's target long-term incentive opportunity consisted of 50 percent Eversource Energy Performance Shares and 50 percent RSUs. Performance Shares are designed to reward long-term achievements as measured against pre-established performance measures. RSUs are designed to provide executives with an incentive to increase the value of Eversource common shares in alignment with shareholder interests, while also serving as a retention component for executive talent. Eversource believes these compensation elements create a focus on continued Eversource and share price growth to further align the interests of Eversource's executives with the interests of Eversource's shareholders.

Mr. Judge was elected President and Chief Executive Officer of Eversource on April 6, 2016 upon the retirement of Thomas J. May. Mr. Judge had previously served as Executive Vice President and Chief Financial Officer of Eversource until his election as President and Chief Executive Officer. Mr. Lembo was elected Executive Vice President and Chief Financial Officer of Eversource on May 4, 2016, having previously served as Vice President and Treasurer. Thus, 2017 was the first year during which the Committee made long term incentive program stock awards to Mr. Judge and Mr. Lembo in their new positions of President and Chief Executive Officer and Executive Vice President and Chief Financial Officer, respectively. The grant date fair values of Mr. Judge's and Mr. Lembo's 2017 stock awards under the 2017 long term incentive program were \$5,504,904 and \$1,314,086, respectively, compared to their 2016 awards of \$1,382,021 and \$212,300 respectively.

### **Performance Share Grants**

#### *General*

Performance Shares are designed to reward future financial performance, measured by long-term earnings growth and shareholder returns over a three-year performance period, therefore aligning management compensation with performance. Performance Shares are granted as a target number of Eversource common shares. The number of Performance Shares granted are determined by dividing the target grant value in dollars by the average daily closing prices of Eversource common shares on the New York Stock Exchange for the ten business days preceding the grant date and rounding to the nearest whole share. Until the end of the Performance Period, the value of dividends that would have been paid with respect to the Performance Shares had the Performance Shares been actual common shares will be deemed to be invested in additional Performance Shares, which remain at risk until actual performance for the period is determined.

*Performance Shares under the 2017 - 2019 Program*

For the 2017 - 2019 Program, the Committee determined it would continue to measure performance using: (i) average diluted earnings per share growth ("EPSG"); and (ii) relative total shareholder return ("TSR") measured against the performance of companies that comprise the EEI Index. As in 2016 and 2015, the Committee selected EPSG and TSR as performance measures because the Committee continues to believe that they are generally recognized as the best indicators of overall corporate performance. Further, the Committee considers it a best practice to use a combination of relative and absolute metrics, with EPS growth serving as a key input to shareholder value and TSR serving as the output.

The number of Performance Shares awarded at the end of the three-year period ranges from 0 percent to 200 percent of target, depending on EPSG and relative TSR performance as set forth in the performance matrix below. Performance Share grants are based on a percentage of annualized base salary at the time of the grant and measured in dollars. The target number of shares under the 2017 - 2019 Program ranged from 35 percent to 213 percent of base salary. For the 2017 - 2019 Program, EPSG ranges from 0 percent to 9 percent, while TSR ranges from below the 10th percentile to above the 90th percentile. The Committee determined that payout at 100 percent of target should be challenging but achievable. As a result, vesting at 100 percent of target occurs at various combinations of EPSG and TSR performance. In addition, the value of any Performance Shares that actually vest may increase or decrease over the vesting period based on Eversource's share price performance. The number of performance shares granted at target were approved as set forth in the table below. The Committee and the independent Members of the Eversource Board determined the Performance Share grants for the Chief Executive Officer. Based on input from the Chief Executive Officer, the Committee determined the Performance Share grants for each of the other executive officers, including the other Named Executive Officers.

*Performance Shares under the 2016 - 2018 Program*

For the 2016 - 2018 Program, the Committee used the same performance measures of EPSG and TSR and the same criteria used in the 2017 - 2019 Program described above and the 2015 - 2017 Program described below.

The performance matrix set forth below describes how the Performance Share payout will be determined under the 2016 - 2018 and 2017 - 2019 Long-Term Incentive Programs and how the Performance Share payout was determined under the 2015 - 2017 Program. Three-year average EPSG is cross-referenced with the actual three-year TSR percentile to determine actual performance share payout as a percentage of target:

**2015 - 2017, 2016 - 2018 and 2017 - 2019 Long-Term Incentive Programs Performance Share Potential Payout**

Three-Year Average EPS Growth	Three-Year Relative Total Shareholder Return Percentiles									
	Below 10th	20th	30th	40th	50th	60th	70th	80th	90th	Above 90th
9%	110%	120%	130%	140%	150%	160%	170%	180%	190%	200%
8%	100%	110%	120%	130%	140%	150%	160%	170%	180%	190%
7%	90%	100%	110%	120%	130%	140%	150%	160%	170%	180%
6%	80%	90%	100%	110%	120%	130%	140%	150%	160%	170%
5%	70%	80%	90%	100%	110%	120%	130%	140%	150%	160%
4%	60%	70%	80%	90%	100%	110%	120%	130%	140%	150%
3%	40%	50%	70%	80%	90%	100%	110%	120%	130%	140%
2%	20%	40%	60%	70%	80%	90%	100%	110%	120%	130%
1%	—	10%	40%	60%	70%	80%	90%	100%	110%	120%
0%	—	—	20%	30%	50%	70%	80%	90%	100%	110%
Below 0%	—	—	—	—	10%	20%	30%	40%	50%	60%

**Long-Term Incentive Program Performance Share Grants at Target**

Named Executive Officer	2016 - 2018 Performance Share Grant	2017 - 2019 Performance Share Grant
James J. Judge	12,004	48,259
Philip J. Lembo	1,844	11,520
Werner J. Schweiger	11,805	11,703
Gregory B. Butler	7,791	9,052
Joseph R. Nolan, Jr.	4,503	7,920

*Results of the 2015 - 2017 Performance Share Program*

The 2015 - 2017 Program ended on December 31, 2017. The actual performance level achieved under the Program was a three-year average adjusted EPS growth of 5.5 percent and a three-year total shareholder return at the 41st percentile, which when interpolated in accordance with the criteria established by the Committee in 2015, resulted in vesting performance shares units at 106 percent of target. This determination was made in accordance with the performance criteria approved by the Committee at the commencement of the performance period. At its February 7, 2018 meeting, the Committee confirmed that the actual results achieved were calculated in accordance with established performance criteria,

and it considered all non-recurring items in determining that the adjusted EPS was calculated in accordance with the plan documents. The number of Performance Shares awarded to the Named Executive Officers were approved as set forth in the table below.

#### 2015 - 2017 Long-Term Incentive Program Performance Share Award

##### 2015 – 2017 Long-Term Incentive Program Performance Share Grants at Target

Named Executive Officer	Performance Share Grant
James J. Judge	11,436
Philip J. Lembo	1,984
Werner J. Schweiger	11,319
Gregory B. Butler	8,052
Joseph R. Nolan, Jr.	4,434

#### Restricted Share Units

##### General

Each RSU granted under the long-term incentive program entitles the holder to receive one Eversource common share at the time of vesting. All RSUs granted under the long-term incentive program vest in equal annual installments over three years. RSU holders are eligible to receive reinvested dividend units on outstanding RSUs held by them to the same extent that dividends are declared and paid on Eversource common shares. Reinvested dividend equivalents are accounted for as additional RSUs that accrue and are distributed with the common shares issued upon vesting of the underlying RSUs. Common shares, including any additional common shares in respect of reinvested dividend equivalents, are not issued for any RSUs that do not vest.

The Committee determined RSU grants for each executive officer participating in the long-term incentive program. RSU grants are based on a percentage of annualized base salary at the time of the grant and measured in dollars. In 2017, the percentage used for each executive officer was based on the executive officer's position in Eversource and ranged from 35 percent to 213 percent of base salary. The Committee reserves the right to increase or decrease the RSU grant from target for each officer under special circumstances. The Committee and all other independent members of the Eversource Board determined the RSU grants for Eversource's Chief Executive Officer. Based on input from the Chief Executive Officer, the Committee determined the RSU grants for each of the other executive officers, including the other Named Executive Officers.

All RSUs are granted on the date of the Committee meeting at which they are approved. RSU grants are subsequently converted from dollars into Eversource common share equivalents by dividing the value of each grant by the average closing price for Eversource common shares over the ten trading days prior to the date of the grant. RSU grants at 100 percent of target were approved as set forth in the table below.

Named Executive Officer	RSUs Awarded		
	2015	2016	2017
James J. Judge	9,800	12,004	48,259
Philip J. Lembo	1,700	1,844	11,520
Werner J. Schweiger	9,700	11,805	11,703
Gregory B. Butler	6,900	7,791	9,052
Joseph R. Nolan, Jr.	3,800	4,503	7,920

#### Clawbacks

If Eversource's earnings were to be restated as a result of noncompliance with accounting rules caused by fraud or misconduct or if a participant engages in a material violation of Eversource's Code of Business Conduct or breaches a material covenant in an employment agreement, as determined by the Eversource Board of Trustees, the participant would be required by the Eversource Incentive Plan to reimburse Eversource for certain incentive compensation received by him or her.

#### No Hedging and No Pledging Policy

Eversource has adopted a policy prohibiting the purchase of financial instruments or otherwise entering into transactions designed to have the effect of hedging or offsetting any decrease in the value of Eversource common shares by Eversource's Trustees and executives. This policy also prohibits all pledging, derivative transactions of short sales involving Eversource common shares or the holding of any Eversource common shares in a margin account.

## Share Ownership Guidelines and Retention Requirements

The Committee has approved share ownership guidelines to further emphasize the importance of share ownership by Eversource officers. As indicated in the table below, the guidelines call for Eversource's Chief Executive Officer to own common shares equal to six times base salary, executive vice presidents to own a number of common shares equal to three times base salary, senior vice presidents to own common shares equal to two times base salary, and all other officers to own a number of common shares equal to one to one and one half times base salary.

<b>Executive Officer</b>	<b>Base Salary Multiple</b>
Chief Executive Officer	6
Executive Vice Presidents	3
Operating Company Presidents / Senior Vice Presidents	2
Vice Presidents	1 – 1.5

Eversource requires that its officers attain these ownership levels within five years. All Eversource officers, including Eversource's Named Executive Officers, have satisfied the share ownership guidelines or are expected to satisfy them within the applicable timeframe. Common shares, whether held of record, in street name, or in individual 401(k) accounts, and RSUs satisfy the guideline requirements to hold 100 percent of the net shares. Unexercised stock options and unvested performance shares do not count toward the ownership guidelines. In addition to the share ownership guidelines noted above, all officers must hold all the shares awarded under the Eversource's incentive compensation plan until the share ownership guidelines have been met.

### Other

#### Retirement Benefits

Eversource provides a qualified defined benefit pension program for certain officers, which is a final average pay program subject to tax code limits. Because of such limits, Eversource also maintains a supplemental non-qualified pension program. Benefits are based on base salary and certain incentive payments, which is consistent with the goal of providing a retirement benefit that replaces a percentage of pre-retirement income. The supplemental program compensates for benefits barred by tax code limits, and generally provides (together with the qualified pension program) benefits equal to approximately 60 percent of pre-retirement compensation (subject to certain reductions) for Messrs. Judge, Lembo, Schweiger and Nolan, and approximately 50 percent of such compensation for Mr. Butler. The supplemental program has been discontinued for newly-elected officers.

As set forth in this CD&A, Mr. Judge and Mr. Lembo were elected to the positions of President and Chief Executive Officer and Executive Vice President and Chief Financial Officer respectively in 2016, such that 2017 was the first year that each served in his new position. Each had a resulting substantial increase in the actuarial, formula-based present values of his pension benefit due to the increase in their base pay and annual bonus. This increase is disclosed in the Change in Pension Value and Non-Qualified Deferred Earnings column of the Summary Compensation Table. These accounting-based increases, while representing for Mr. Judge and Mr. Lembo a substantial portion of their 2017 total compensation disclosed in the SEC Total column of the Summary Compensation Table, resulted in no actual 2017 W-2 earnings for either of them.

For certain participants, the benefits payable under the Supplemental Non-Qualified Pension Program (the "Program") differ from those described above. The Program benefit payable to Mr. Schweiger is fully vested and is further reduced by benefits he is entitled to receive under previous employers' retirement plans.

Also see the narrative accompanying the "Pension Benefits" table and accompanying notes for more detail on the above program.

#### 401(k) Benefits

Eversource offers a qualified 401(k) program for all employees, including executives, subject to tax code limits. After applying these limits, the program provides a match of 50 percent of the first 8 percent of eligible base salary, up to a maximum of \$10,800 per year for Messrs. Judge, Lembo, Schweiger and Nolan. For Mr. Butler, the program provides a match of 100 percent of the first 3 percent of eligible base salary, up to a maximum of \$8,100 per year.

#### Deferred Compensation

Eversource offers a non-qualified deferred compensation program for its executives. In 2017, the program allowed deferral of up to 100 percent of base salary, annual incentives and long-term incentive awards. The program allows participants to select investment measures for deferrals based on an array of deemed investment options (including certain mutual funds and publicly traded securities).

See the Non-Qualified Deferred Compensation Table and accompanying notes for additional details on the above program.

### **Perquisites**

Eversource provides executives with limited financial planning, vehicle leasing and access to tickets to sporting events. The current level of perquisites does not factor into decisions on total compensation.

### **Contractual Agreements**

Eversource maintains contractual agreements with all of its Named Executive Officers that provide for potential compensation in the event of certain terminations, including termination following a Change in Control. Eversource believes these agreements are necessary to attract and retain high quality executives and to ensure executive focus on Eversource business during the period leading up to a potential Change in Control. The agreements are "double-trigger" agreements that provide executives with compensation in the event of a Change in Control followed by termination of employment due to one or more of the events set forth in the agreements, while still providing an incentive to remain employed with Eversource for the transition period that follows.

Under the agreements, certain compensation is generally payable if, during the applicable change in control period, the executive is involuntarily terminated (other than for cause) or terminates employment for "good reason." These agreements are described more fully in the tables following this CD&A under "Payments Upon Termination."

### **Tax and Accounting Considerations**

Eversource's Incentive Plan permits annual incentive and performance share awards that were intended to qualify as performance-based compensation under the recently repealed Section 162(m) of the Internal Revenue Code. Eversource is aware of the changes in the Internal Revenue Code that impact tax deductibility of incentive compensation. Eversource believes that the availability of a tax deduction for forms of compensation is secondary to the goal of providing market-based compensation to attract and retain highly qualified executives. The Committee believes it is in Eversource's best interests to retain discretion to make compensation awards, whether or not deductible.

Eversource has adopted the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 718, *Compensation-Stock Compensation*. In general, Eversource and the Committee do not consider accounting considerations in structuring compensation arrangements.

### **Equity Grant Practices**

Equity awards noted in the compensation tables are made annually at the February meeting of Eversource's Compensation Committee (subject to further approval by all of the independent members of Eversource's Board of Trustees of the Chief Executive Officer's award) when the Committee also determines base salary, annual and long-term incentive compensation targets and annual incentive awards. The date of this meeting is chosen at least a year in advance, and therefore awards are not coordinated with the release of material non-public information.

## SUMMARY COMPENSATION TABLE

The table below summarizes the total compensation paid or earned by CL&P's principal executive officer (Mr. Judge), principal financial officer (Mr. Lembo) and the three other most highly compensated executive officers in 2017, determined in accordance with the applicable SEC disclosure rules (collectively, the Named Executive Officers). As explained in the footnotes below, the amounts reflect the economic benefit to each Named Executive Officer of the compensation item paid or accrued on behalf of the Named Executive Officers for the fiscal year ended December 31, 2017 in accordance with such rules. All salaries, annual incentive amounts and long-term incentive amounts shown for each Named Executive Officer were paid for all services rendered to Eversource Energy and its subsidiaries, including CL&P, in all capacities.

Name and Principal Position	Year	Salary	Stock Awards <sup>(2)</sup>	Non-Equity Incentive Plan <sup>(3)</sup>	Change in Pension Value and Non-Qualified Deferred Earnings <sup>(4)</sup>	All Other Compensation <sup>(5)</sup>	SEC Total	Adjusted SEC Total <sup>(6)</sup>
<b>James J. Judge</b>	2017	\$ 1,230,694	\$ 5,504,904	\$ 2,285,000	\$ 6,869,854	\$ 25,009	\$ 15,915,461	\$ 9,045,607
President and Chief Executive Officer of Eversource Energy; Chairman of CL&P	2016	959,690	1,382,021	2,200,000	1,616,742	24,809	6,183,262	4,566,520
	2015	605,650	1,135,526	690,000	895,929	20,672	3,347,777	2,451,848
<b>Philip J. Lembo <sup>(1)</sup></b>	2017	613,847	1,314,086	700,000	1,246,325	21,485	3,895,743	2,649,418
Executive Vice President and Chief Financial Officer of Eversource Energy and CL&P	2016	439,208	212,300	600,000	543,133	21,285	1,815,926	1,272,793
<b>Werner J. Schweiger</b>	2017	634,078	1,334,961	775,000	1,225,581	21,418	3,991,038	2,765,457
Executive Vice President and Chief Operating Officer of Eversource Energy and CL&P	2016	592,108	1,359,110	700,000	1,156,328	21,135	3,828,681	2,672,353
	2015	600,000	1,123,939	680,000	746,734	21,135	3,171,808	2,425,074
<b>Gregory B. Butler</b>	2017	597,886	1,032,562	625,000	1,670,745	15,361	3,941,554	2,270,809
Executive Vice President and General Counsel of Eversource Energy and CL&P	2016	514,494	896,978	575,000	539,638	12,886	2,538,996	1,999,358
	2015	474,992	—	525,000	242,980	—	1,242,972	999,992
<b>Joseph R. Nolan, Jr. <sup>(1)</sup></b>	2017	515,578	903,434	680,000	1,486,025	16,076	3,601,113	2,115,088
Executive Vice President-Customer and Corporate Relations of Eversource Energy and CL&P	2016	419,364	518,430	550,000	826,729	15,876	2,330,399	1,503,670

(1) Messrs. Lembo and Nolan did not meet the requirements for inclusion in the Summary Compensation Table and were not Named Executive Officers for 2015.

(2) Reflects the aggregate grant date fair value of RSUs and performance shares granted in each fiscal year, calculated in accordance with FASB ASC Topic 718.

RSUs were granted to each Named Executive Officer as long-term compensation, which vest in equal annual installments over three years.

In 2017, each of the Named Executive Officers was granted performance shares as long-term incentive compensation. These performance shares will vest based on the extent to which the two performance conditions described in the CD&A are achieved as of December 31, 2019. The grant date fair values for the performance shares, assuming achievement of the highest level of both performance conditions, are as follows: Mr. Judge: \$4,151,239; Mr. Lembo: \$990,950; Mr. Schweiger: \$1,006,692; Mr. Butler: \$778,653; and Mr. Nolan: \$681,278.

Holders of RSUs and performance shares are eligible to receive dividend equivalent units on outstanding awards to the same extent that dividends are declared and paid on Eversource common shares. Dividend equivalent units are accounted for as additional common shares that accrue and are distributed simultaneously with the common shares issued upon vesting of the underlying RSUs and performance shares.

Mr. Judge was elected President and Chief Executive Officer of the Company on April 6, 2016, upon the retirement of Thomas J. May. Mr. Judge had previously served as Executive Vice President and Chief Financial Officer of the Company until his election as President and Chief Executive Officer. Mr. Lembo was elected Executive Vice President and Chief Financial Officer of the Company on May 4, 2016, having previously served as Vice President and Treasurer. Thus, 2017 was the first year during which the Committee made long term incentive program stock awards to Mr. Judge and Mr. Lembo in their new positions of President and Chief Executive Officer and Executive Vice President and Chief Financial Officer, respectively.

(3) Includes payments to the Named Executive Officers under the 2017 Annual Incentive Program (Mr. Judge: \$2,285,000, Mr. Lembo: \$700,000; Mr. Schweiger: \$775,000; Mr. Butler: \$625,000; and Mr. Nolan: \$680,000).

(4) Includes the actuarial increase in the present value from December 31, 2016 to December 31, 2017, of the Named Executive Officers' accumulated benefits under all of the Eversource defined benefit pension program and agreements, determined using interest rate and mortality rate assumptions consistent with those appearing in the footnotes to this Annual Report on Form 10-K for the fiscal year ended December 31, 2017. The substantial actuarial increase in Mr. Judge's benefit in 2017 resulted from the increase in base pay and annual incentive following his promotion in 2016 to Chief Executive Officer of Eversource. The change in interest rates also impacted the amount of actuarial increase. The Named Executive Officer may not be fully vested in such amounts. More information on this topic is set forth in the Pension Benefits table. There were no above-market earnings in deferred

compensation value during 2017, as the terms of the Deferred Compensation Plan provide for market-based investments, including Eversource common shares.

Mr. Judge and Mr. Lembo were elected to the positions of President and Chief Executive Officer and Executive Vice President and Chief Financial Officer respectively, in 2016, such that 2017 was the first year that each served in his new position. Each had a resulting substantial increase in the actuarial, formula-based present values of his pension benefit due to the increase in their base pay and annual bonus. These accounting-based increases, while representing for Mr. Judge and Mr. Lembo a substantial portion of their 2017 total compensation disclosed in the SEC Total above, resulted in no actual 2017 W-2 earnings for either of them.

- (5) Includes matching contributions allocated by us to the accounts of Named Executive Officers under the 401k Plan as follows: \$10,800 for each of Messrs. Judge, Lembo, Schweiger and Nolan, and \$8,100 for Mr. Butler. For Mr. Judge, the value shown includes financial planning services valued at \$5,000 and \$9,209 paid by Eversource for a company-leased vehicle. For Mr. Lembo, the value shown includes financial planning services valued at \$5,000 and \$5,685 paid by Eversource for a company-leased vehicle. For Mr. Schweiger, the value shown includes financial planning services valued at \$5,000 and \$5,618 paid by Eversource for a company-leased vehicle. None of the other Named Executive Officers received perquisites valued in the aggregate in excess of \$10,000.
- (6) The amounts in the Adjusted SEC Total column reflect an adjustment to the total compensation reported in the column marked SEC Total. The Adjusted SEC Total subtracts the actuarial change in pension value disclosed in the column titled "Change in Pension Value and Non-Qualified Deferred Earnings" as further described in Note (4) above in order to reflect compensation earned during the year by the executive without consideration of pension benefit impacts. The amounts in this column differ substantially from, and are not a substitute for, the amounts noted in the SEC Total.

#### GRANTS OF PLAN-BASED AWARDS DURING 2017

The Grants of Plan-Based Awards Table provides information on the range of potential payouts under all incentive plan awards during the fiscal year ended December 31, 2017. The table also discloses the underlying equity awards and the grant date for equity-based awards. We have not granted any stock options since 2002.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards <sup>(1)</sup>			All Other Stock Awards: Number of Shares of Stock or Units <sup>(2)</sup>	Grant Date Fair Value of Stock and Option Awards <sup>(3)</sup>
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (\$)	Target (#)	Maximum (#)		
<b>James J. Judge</b>									
Annual Incentive <sup>(4)</sup>	02/03/17	\$ 714,000	\$ 1,428,000	\$ 2,856,000	\$ —	—	—	—	\$ —
Long-Term Incentive <sup>(5)</sup>	02/03/17	—	—	—	—	48,259	96,518	48,259	5,504,904
<b>Philip J. Lembo</b>									
Annual Incentive <sup>(4)</sup>	02/03/17	236,500	473,000	946,000	—	—	—	—	—
Long-Term Incentive <sup>(5)</sup>	02/03/17	—	—	—	—	11,520	23,040	11,520	1,314,086
<b>Werner J. Schweiger</b>									
Annual Incentive <sup>(4)</sup>	02/03/17	240,000	480,000	960,000	—	—	—	—	—
Long-Term Incentive <sup>(5)</sup>	02/03/17	—	—	—	—	11,703	23,406	11,703	1,334,961
<b>Gregory B. Butler</b>									
Annual Incentive <sup>(4)</sup>	02/03/17	195,000	390,000	780,000	—	—	—	—	—
Long-Term Incentive <sup>(5)</sup>	02/03/17	—	—	—	—	9,052	18,104	9,052	1,032,562
<b>Joseph R. Nolan, Jr.</b>									
Annual Incentive <sup>(4)</sup>	02/03/17	170,500	341,000	682,000	—	—	—	—	—
Long-Term Incentive <sup>(5)</sup>	02/03/17	—	—	—	—	7,920	15,840	7,920	903,434

- (1) Reflects the number of performance shares granted to each of the Named Executive Officers on February 3, 2017 under the 2017 - 2019 Long-Term Incentive Program. Performance shares were granted subject to a three-year Performance Period that ends on December 31, 2019. At the end of the Performance Period, common shares will be awarded based on actual performance results as a percentage of target, subject to reduction for applicable payroll withholding taxes. Holders of performance shares are eligible to receive dividend equivalent units on outstanding performance shares awarded to them to the same extent that dividends are declared and paid on Eversource common shares. Dividend equivalent units are accounted for as additional common shares that accrue and are distributed simultaneously with the common shares underlying the performance shares. The Annual Incentive Program does not include an equity component.
- (2) Reflects the number of RSUs granted to each of the Named Executive Officers on February 3, 2017 under the 2017 - 2019 Long-Term Incentive Program. RSUs vest in equal installments on February 2, 2018, 2019 and 2020. We will distribute common shares with respect to vested RSUs on a one-for-one basis following vesting, after reduction for applicable payroll withholding taxes. Holders of RSUs are eligible to receive dividend equivalent units on outstanding RSUs awarded to them to the same extent that dividends are declared and paid on Eversource common shares. Dividend equivalent units are accounted for as additional common shares that accrue and are distributed simultaneously with the common shares distributed in respect of the underlying RSUs.
- (3) Reflects the grant date fair value, determined in accordance with FASB ASC Topic 718, of RSUs and performance shares granted to the Named Executive Officers on February 3, 2017 under the 2017 - 2019 Long-Term Incentive Program.

- (4) The threshold payment under the Annual Incentive Program is 50 percent of target. The actual payments in 2018 for performance in 2017 are set forth in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table.
- (5) Reflects the range of potential payouts, if any, pursuant to performance share awards under the 2017 - 2019 Long-Term Incentive Program, as described in the CD&A.

#### OUTSTANDING EQUITY GRANTS AT DECEMBER 31, 2017

The following table sets forth RSU and performance share grants outstanding at the end of the fiscal year ended December 31, 2017 for each of the Named Executive Officers. There are no outstanding options.

Name	Stock Awards <sup>(1)</sup>			
	Number of Shares or Units of Stock That Have Not Vested (#) <sup>(2)</sup>	Market Value of Shares or Units of Stock That Have Not Vested (\$) <sup>(3)</sup>	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) <sup>(4)</sup>	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) <sup>(5)</sup>
<b>James J. Judge</b>	61,900	\$ 3,910,906	73,351	\$ 4,634,346
<b>Philip J. Lembo</b>	13,818	873,019	15,719	993,112
<b>Werner J. Schweiger</b>	24,010	1,516,957	35,317	2,231,300
<b>Gregory B. Butler</b>	17,400	1,099,253	25,227	1,593,835
<b>Joseph R. Nolan, Jr.</b>	12,761	806,219	17,147	1,083,333

- (1) Awards and market values of awards appearing in the table and the accompanying notes have been rounded to whole units.
- (2) A total of 55,588 unvested RSUs vested after January 1 and on or before February 2, 2018: Mr. Judge: 24,450; Mr. Lembo: 5,240; Mr. Schweiger: 11,773; Mr. Butler: 8,409; and Mr. Nolan: 5,716. A total of 43,882 unvested RSUs will vest on February 2, 2019: Mr. Judge: 20,855; Mr. Lembo: 4,616; Mr. Schweiger: 8,213; Mr. Butler: 5,877; and Mr. Nolan: 4,321. A total of 30,419 unvested RSUs will vest on February 2, 2020: Mr. Judge: 16,595; Mr. Lembo: 3,962; Mr. Schweiger: 4,024; Mr. Butler: 3,114; and Mr. Nolan: 2,724.
- (3) The market value of RSUs is determined by multiplying the number of RSUs by \$63.18, the closing price per share of common shares on December 29, 2017, the last trading day of the year.
- (4) Reflects the target payout level for performance shares granted under the 2015 - 2017 Program, the 2016 - 2018 Program and the 2017 - 2019 Program.
- The performance period for the 2015 - 2017 Program ended on December 31, 2017. Payouts under that program are set forth in the CD&A under the "Results of the 2015 - 2017 Performance Share Program."
- The performance shares payout for 2016 - 2018 Program and the 2017 - 2019 Program will be based on actual performance results as a percentage of target, subject to reduction for applicable payroll withholding taxes. As described more fully under "Performance Shares" in the CD&A and Note (1) to the Grants of Plan-Based Awards table, performance shares will vest following a three-year performance period based on the extent to which the two performance conditions are achieved. Under the 2016 - 2018 Program, a total of 40,389 unearned performance shares (including accrued dividend equivalents) will vest based on the extent to which the two performance conditions described in the CD&A are achieved as of December 31, 2018. Assuming achievement of these conditions at a target level of performance, the amount of the awards would be as follows: Mr. Judge: 12,776; Mr. Lembo: 1,963; Mr. Schweiger: 12,565; Mr. Butler: 8,292; and Mr. Nolan: 4,793. Under the 2017 - 2019 Program, a total of 91,254 unearned performance shares (including accrued dividend equivalents) will vest based on the extent to which the two performance conditions described in the CD&A are achieved as of December 31, 2019, assuming achievement of these conditions at a target level of performance: Mr. Judge: 49,786; Mr. Lembo: 11,885; Mr. Schweiger: 12,073; Mr. Butler: 9,339; and Mr. Nolan: 8,171.
- (5) The market value is determined by multiplying the number of performance shares in the adjacent column by \$63.18, the closing price of Eversource Energy common shares on December 29, 2017, the last trading day of the year.

## OPTION EXERCISES AND STOCK VESTED IN 2017

The following table reports amounts realized on equity compensation during the fiscal year ended December 31, 2017. The Stock Awards columns report the vesting of RSU and performance share grants to the Named Executive Officers in 2017.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise <sup>(1)</sup>	Number of Shares Acquired on Vesting (#) <sup>(2)</sup>	Value Realized on Vesting <sup>(3)</sup>
<b>James J. Judge</b>	—	\$ —	24,892	\$ 1,395,241
<b>Philip J. Lembo</b>	—	—	4,164	233,432
<b>Werner J. Schweiger</b>	124,640	4,380,089	19,632	1,100,165
<b>Gregory B. Butler</b>	—	—	17,116	959,431
<b>Joseph R. Nolan, Jr.</b>	—	—	9,589	537,460

- (1) Represents the amounts realized upon option exercises, which is the difference between the option exercise price and the market price at the time of exercise.
- (2) Includes RSUs and performance shares granted to the Named Executive Officers under the long-term incentive programs, including dividend reinvestments, as follows:

Name	2014 Program	2015 Program	2016 Program	2017 Program
<b>James J. Judge</b>	17,278	3,486	4,128	—
<b>Philip J. Lembo</b>	2,926	605	633	—
<b>Werner J. Schweiger</b>	12,122	3,450	4,060	—
<b>Gregory B. Butler</b>	11,983	2,454	2,679	—
<b>Joseph R. Nolan, Jr.</b>	6,688	1,352	1,549	—

In all cases, we reduce the distribution of common shares by that number of shares valued in an amount sufficient to satisfy tax withholding obligations.

- (3) Values realized on vesting of RSUs granted under the 2014 - 2016, 2015 - 2017 and 2016 - 2018 Programs were based on \$55.95 per share, the closing price of Eversource common shares on February 14, 2017. Values realized on vesting of performance shares granted under the 2014 - 2016 Program were based on \$56.15 per share, the closing price of Eversource common shares on February 17, 2017.

## PENSION BENEFITS IN 2017

The Pension Benefits Table shows the estimated present value of accumulated retirement benefits payable to each Named Executive Officer upon retirement based on the assumptions described below. The table distinguishes between benefits available under the qualified pension program, the supplemental pension program, and any additional benefits available under contractual agreements. See the narrative above in the CD&A under the caption "Other- Retirement Benefits" and "Contractual Agreements" for more detail on benefits under these plans and agreements.

The values shown in the Pension Benefits Table for Messrs. Judge, Lembo and Schweiger were calculated as of December 31, 2017, based on benefit payments in the form of a lump sum. For Mr. Butler, we assumed a payment of benefits in the form of a contingent annuitant option. Such earned pension program benefit value could otherwise have changed because of the reduction in mortality factors and potentially rising interest rates.

The values shown in this Table for the Named Executive Officers were based on benefit payments commencing at the earliest possible ages for retirement with unreduced benefits: Mr. Judge: age 60; Mr. Lembo: age 62; Mr. Schweiger: age 55; Mr. Butler: age 62; and Mr. Nolan: age 62.

In addition, we determined benefits under the qualified pension program using tax code limits in effect on December 31, 2017. For Messrs. Judge, Lembo, Schweiger and Nolan, the values shown reflect actual 2017 salary and annual incentives earned in 2016 but paid in 2017 (per applicable supplemental program rules). For Mr. Butler, the values shown reflect actual 2017 salary and annual incentives earned in 2016 but paid in 2017 (per applicable supplemental program rules).

We determined the present value of benefits at retirement age using the discount rate within a range of 3.56 percent to 3.68 percent under ACS 715-30 pension accounting for the 2018 fiscal year end measurement as of December 31, 2017. This present value assumes no pre-retirement mortality, turnover or disability. However, for the postretirement period beginning at retirement age, we used the RP2014 Employee Table Projected Generationally with Scale MP2015. This new mortality table (as published by the Society of Actuaries in 2014) and projection scale were used by the Eversource Pension Plan for year-end 2018 financial disclosure. Additional assumptions appear in the footnotes to this Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

## Pension Benefits

Name	Plan Name	Number of Years Credited Service (#)	Present Value of Accumulation Benefit	During Last Fiscal Year
James J. Judge	Retirement Plan	40.33	\$ 2,718,021	\$ —
	Supplemental Plan	20.00	8,420,744	—
	Supplemental Plan	40.33	7,904,098	—
Philip J. Lembo	Retirement Plan	8.75	1,201,331	—
	Supplemental Plan	8.75	2,489,455	—
Werner J. Schweiger	Retirement Plan	15.83	500,881	—
	Supplemental Plan	15.83	1,902,091	—
	Supplemental Plan	15.00	6,082,675	—
Gregory B. Butler	Retirement Plan	21.00	1,115,793	—
	Supplemental Plan	21.00	3,972,477	—
	Target	21.00	2,988,076	—
Joseph R. Nolan, Jr.	Retirement Plan	18.33	894,997	—
	Supplemental Plan	18.33	2,156,155	—
	Supplemental Plan	18.00	2,441,589	—

## NONQUALIFIED DEFERRED COMPENSATION IN 2017

See the narrative above in the CD&A under the caption "Elements of 2017 Compensation - Other - Deferred Compensation" for more detail on Eversource's non-qualified deferred compensation program.

Name	Executive Contributions in Last FY	Registrant Contributions in Last FY	Aggregate Earnings in in Last FY	Aggregate Withdrawals/ Distributions	Aggregate Balance at Last FYE <sup>(1)</sup>
James J. Judge	\$ —	\$ —	\$ 868,753	\$ —	\$ 5,693,348
Philip J. Lembo	—	—	195,092	—	1,370,466
Werner J. Schweiger	—	—	2,344,596	—	17,228,164
Gregory B. Butler	—	—	3,038	—	20,607
Joseph R. Nolan, Jr.	—	—	771,911	—	4,850,174

- (1) Includes the total market value of deferred compensation program balances at December 31, 2017, plus the value of vested RSUs or other awards for which the distribution of common shares is currently deferred, based on \$63.18, the closing price of Eversource common shares on December 29, 2017, the last trading day of the year. The aggregate balances reflect a significant level of earnings on previously earned and deferred compensation.

## POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL

The discussion and tables below show compensation payable to each Named Executive Officer who is still an employee of Eversource, in the event of: (i) voluntary termination; (ii) involuntary not-for-cause termination; (iii) termination in the event of death or disability; and (iv) termination following a change in control. No amounts are payable in the event of a termination for cause. The amounts shown assume that each termination was effective as of December 31, 2017, the last business day of the fiscal year.

Generally, a "change in control" means a change in ownership or control effected through (i) the acquisition of 30 percent or more of the combined voting power of common shares or other voting securities (20 percent for Mr. Butler, excluding certain defined transactions), (ii) the acquisition of more than 50 percent of Eversource common shares, excluding certain defined transactions (for Messrs. Judge, Lembo; Schweiger and Nolan), (iii) a change in the majority of the Eversource Board of Trustees, unless approved by a majority of the incumbent Trustees, (iv) certain reorganizations, mergers or consolidations where substantially all of the persons who were the beneficial owners of the outstanding common shares immediately prior to such business combination do not beneficially own more than 50 percent of the voting power of the resulting business entity (excluding in certain cases defined transactions), and (v) complete liquidation or dissolution of Eversource, or a sale or disposition of all or substantially all of the assets of Eversource other than, for Mr. Butler, to an entity with respect to which following completion of the transaction more than 50 percent of common shares or other voting securities is then owned by all or substantially all of the persons who were the beneficial owners of common shares and other voting securities immediately prior to such transaction.

In the event of a change in control, the Named Executive Officers are generally entitled to receive compensation and benefits following either involuntary termination of employment without "cause" or voluntary termination of employment for "good reason" within the applicable period (generally two years following a change in control). The Committee believes that termination for good reason is conceptually the same as termination "without cause" and, in the absence of this provision, potential acquirers would have an incentive to constructively terminate executives to avoid paying severance. Termination for "cause" generally means termination due to a felony or certain other convictions; fraud, embezzlement, or theft in the course of employment; intentional, wrongful damage to Eversource property; gross misconduct or gross negligence in the course of employment or gross neglect of duties harmful to Eversource; or a material breach of obligations under the agreement. "Good reason" for termination generally exists after assignment of duties inconsistent with executive's position, a material reduction

in compensation or benefits, a transfer more than 50 miles from the executive's pre-change in control principal business location (or for Messrs. Judge, Lembo, Schweiger and Nolan, an involuntary transfer outside the Greater Boston Metropolitan Area), or requiring business travel to a substantially greater extent than required prior to the change in control.

The summaries above do not purport to be complete and are qualified in their entirety by the actual terms and provisions of the agreements and plans, copies of which have been filed as exhibits to this Annual Report on Form 10-K for the year ended December 31, 2017.

#### **Payments Upon Termination**

Regardless of the manner in which the employment of a Named Executive Officer terminates, the executive is entitled to receive certain amounts earned during the executive's term of employment. Such amounts include:

- Vested RSUs and certain other vested awards;
- Amounts contributed and any vested matching contributions under the deferred compensation program;
- Pay for unused vacation; and
- Amounts accrued and vested under the pension/supplemental and 401k programs (except in the event of a termination for cause under the supplemental program).

The following table describes additional compensation payable to the Named Executive Officers in the event of voluntary termination, involuntary termination not for cause, termination in the event of death or disability and termination following a change in control. No benefits are provided in the event of termination for cause. See the section above captioned "Pension Benefits in 2017" for information about the pension program, supplemental program and other benefits, and the section captioned "Nonqualified Deferred Compensation in 2017."

**POST-EMPLOYMENT COMPENSATION PAYMENTS UPON TERMINATION**

Name	Type of Payments	Voluntary Termination	Involuntary Termination Not for Cause	Termination Upon Death or Disability	Termination Following a Change in Control
<b>James J. Judge</b>	Annual Incentives <sup>(1)</sup>	\$ —	\$ —	\$ —	\$ 1,428,000
	Performance Shares <sup>(2)</sup>	2,260,474	2,260,474	2,260,474	4,634,346
	RSUs <sup>(3)</sup>	1,421,180	1,421,180	1,421,180	3,910,906
	Special Retirement Benefit <sup>(4)</sup>	—	—	—	12,618,115
	Health and Welfare Benefits <sup>(5)</sup>	—	—	—	92,049
	Perquisites <sup>(6)</sup>	—	—	—	15,000
	Excise Tax and Gross-ups <sup>(7)</sup>	—	—	—	9,235,719
	Separation Payment for Liquidated Damages <sup>(8)</sup>	—	—	—	10,326,000
<b>Total</b>		\$ 3,681,654	\$ 3,681,654	\$ 3,681,654	\$ 42,260,135
<b>Philip J. Lembo</b>	Annual Incentives <sup>(1)</sup>	\$ —	\$ —	\$ —	\$ 473,000
	Performance Shares <sup>(2)</sup>	449,108	449,108	449,108	993,112
	RSUs <sup>(3)</sup>	304,596	304,596	304,596	873,019
	Special Retirement Benefit <sup>(4)</sup>	—	—	—	2,615,100
	Health and Welfare Benefits <sup>(5)</sup>	—	—	—	40,296
	Perquisites <sup>(6)</sup>	—	—	—	10,000
	Separation Payment for Liquidated Damages <sup>(8)</sup>	—	—	—	2,460,000
	<b>Total</b>		\$ 753,704	\$ 753,704	\$ 753,704
<b>Werner J. Schweiger</b>	Annual Incentives <sup>(1)</sup>	\$ —	\$ —	\$ —	\$ 480,000
	Performance Shares <sup>(2)</sup>	1,458,259	1,458,259	1,458,259	2,231,300
	RSUs <sup>(3)</sup>	684,308	684,308	684,308	1,516,957
	Special Retirement Benefit <sup>(4)</sup>	—	—	—	2,180,720
	Health and Welfare Benefits <sup>(5)</sup>	—	—	—	82,475
	Perquisites <sup>(6)</sup>	—	—	—	15,000
	Separation Payment for Liquidated Damages <sup>(8)</sup>	—	—	—	4,020,000
	<b>Total</b>		\$ 2,142,567	\$ 2,142,567	\$ 2,142,567
<b>Gregory B. Butler</b>	Annual Incentives <sup>(1)</sup>	\$ —	\$ —	\$ —	\$ 390,000
	Performance Shares <sup>(2)</sup>	1,025,640	1,025,640	1,025,640	1,593,835
	RSUs <sup>(3)</sup>	488,756	488,756	488,756	1,099,253
	Special Retirement Benefit <sup>(4)</sup>	—	4,803,710	—	5,236,764
	Health and Welfare Benefits <sup>(5)</sup>	—	22,399	—	33,599
	Perquisites <sup>(6)</sup>	—	10,000	—	15,000
	Excise Tax and Gross-Ups <sup>(7)</sup>	—	—	—	2,188,796
	Separation Payment for Liquidated Damages <sup>(8)</sup>	—	990,000	—	1,980,000
	Separation Payment for Non-Compete Agreement <sup>(9)</sup>	—	990,000	—	990,000
<b>Total</b>		\$ 1,514,396	\$ 8,330,505	\$ 1,514,396	\$ 13,527,247
<b>Joseph R. Nolan, Jr.</b>	Annual Incentives <sup>(1)</sup>	\$ —	\$ —	\$ —	\$ 341,000
	Performance Shares <sup>(2)</sup>	—	—	637,537	1,083,333
	RSUs <sup>(3)</sup>	—	—	332,244	806,219
	Special Retirement Benefit <sup>(4)</sup>	—	—	—	4,557,194
	Health and Welfare Benefits <sup>(5)</sup>	—	—	—	80,579
	Perquisites <sup>(6)</sup>	—	—	—	15,000
	Excise Tax and Gross-ups <sup>(7)</sup>	—	—	—	2,393,454
	Separation Payment for Liquidated Damages <sup>(8)</sup>	—	—	—	3,225,000
	<b>Total</b>		\$ —	\$ —	\$ 969,781

- (1) For Termination Following a Change in Control: Represents target 2017 annual incentive awards as described in the Grants of Plan Based Awards Table.
- (2) For Voluntary Termination and Termination Not For Cause (except for Mr. Nolan), and for Termination Upon Death or Disability: Represents 100 percent of the performance share awards under the 2015 - 2017 Long-Term Incentive Program, 67 percent of the performance share awards under the 2016 - 2018 Long-Term Incentive Program and 33 percent of the performance share awards under the 2017 - 2019 Long-Term Incentive Program. The values were calculated by multiplying the number of RSUs by \$63.18, the closing price of Eversource common shares on December 29, 2017, the last trading day of the year. For Termination Following a Change in Control: Represents 100 percent of the performance share awards under each of the three Programs listed above.
- (3) For Voluntary Termination and Termination Not For Cause (except for Mr. Nolan), and for Termination Upon Death or Disability: Represents values of RSUs granted under Eversource long-term incentive programs that, at year-end 2017, were unvested under applicable vesting schedules. Under these programs, RSUs vest pro rata based on credited service years, age at termination, and time worked during the vesting period. The values were calculated by multiplying the number of RSUs by \$63.18, the closing price of Eversource common shares on December 29, 2017, the last trading day of the year. For Termination Following a Change in Control: Represents values of all RSUs granted under the long-term incentive programs that, at year-end 2017, were unvested under applicable vesting schedules, all of which vest in full.



- (4) The amount noted in the Involuntary Termination, Not for Cause column, represents for Mr. Butler actuarial present values at year-end 2017 of amounts payable (two years of service) solely under an employment agreement upon termination, which are in addition to amounts due under the pension plan. For Termination Following a Change in Control: Represents actuarial present values at year-end 2017 of amounts payable solely under employment agreements upon termination (which are in addition to amounts due under the pension program). For Messrs. Judge, Schweiger, Butler and Nolan, pension benefits were calculated by adding three years of service (two years for Mr. Lembo). A lump sum of this benefit value is payable to Messrs. Judge, Lembo and Schweiger. Pension amounts shown in the table are present values at year-end 2017 of benefits payable upon termination as described with respect to the Pension Benefits Table above.
- (5) The amount noted in the Involuntary Termination, Not for Cause column, represents for Mr. Butler the value of two years' employer contributions toward active health, long-term disability, and life insurance benefits, plus a payment to offset any taxes thereon. For Termination Following a Change in Control: Represents estimated cost to Eversource at year-end 2017 (estimated by consultants) of providing post-employment health and welfare benefits beyond those available to non-executives upon involuntary termination. The amounts shown in the table for Messrs. Judge, Schweiger and Nolan represent the value of three years (two years for Mr. Lembo) continued health and welfare plan participation. The amounts shown in the table for Mr. Butler represent the value of three years' employer contributions toward active health, long-term disability, and life insurance benefits, plus a payment to offset any taxes on the value of these benefits, less the value of one year of retiree health coverage at retiree rates.
- (6) The amount noted in the Involuntary Termination, Not for Cause column, represents for Mr. Butler the cost of reimbursing Mr. Butler for two years financial planning and tax preparation fees. For Termination Following a Change in Control: Represents the cost to Eversource of reimbursing for financial planning and tax preparation fees for three years (two years for Mr. Lembo).
- (7) For Termination Following a Change in Control: Represents payments made to offset costs associated with certain excise taxes under Section 280G of the Internal Revenue Code. Executives may be subject to certain excise taxes under Section 280G if they receive payments and benefits related to a Termination Following a Change in Control that exceed specified Internal Revenue Service limits. Contractual agreements with the above executives provide for a grossed-up reimbursement of these excise taxes. The amounts in the table are based on the Section 280G excise tax rate of 20 percent, the statutory federal income tax withholding rate of 35 percent, the applicable state income tax rate, and the Medicare tax rate of 1.45 percent.
- (8) The amount noted in the Involuntary Termination, Not for Cause column, represents for Mr. Butler a severance payment (two-times the sum of base salary plus relevant annual incentive award) in addition to any non-compete agreement payment described above. For Termination Following a Change in Control: Represents severance payments in addition to any non-compete agreement payments described in the prior note. For Messrs. Judge, Schweiger and Nolan, this payment equals three-times the sum of base salary plus relevant annual incentive award (two-times the sum for Messrs. Lembo and Butler). These payments do not replace, offset or otherwise affect the calculation or payment of the annual incentive awards.
- (9) For Involuntary Termination, Not For Cause and Termination Following a Change in Control: Represents a payment made under an agreement with Mr. Butler as consideration for agreement not to compete with Eversource following termination of employment, equal to the sum of base salary plus relevant annual incentive award. This payment does not replace, offset or otherwise affect the calculation or payment of the annual incentive awards.

#### PAY RATIO

Eversource's CEO to median employee pay ratio is calculated pursuant to the requirements of Item 402(u) of Regulation S-K. As described in the caption to the Summary Compensation Table, the salary, annual incentive amounts and long-term incentive amounts shown for the CEO were paid for all services rendered to Eversource Energy and its subsidiaries, including CL&P, in all capacities. Accordingly, the Pay Ratio calculation was performed using the CEO's compensation received for all services rendered to Eversource Energy and its subsidiaries, including CL&P. Similarly, Eversource identified the median employee by reviewing the 2017 total cash compensation of all full-time employees, excluding the CEO, who were employed by Eversource and its subsidiaries on December 31, 2017. In the assessment of median employee compensation, pay for those employees who commenced work during 2017 was annualized. Otherwise, no assumptions, adjustments, or estimates were made with respect to total cash compensation, and the compensation for any full-time employees who were not employed by Eversource at the end of 2017 was not annualized. Eversource believes the use of total cash compensation for all employees is a consistently applied compensation measure, as Eversource does not widely distribute annual equity awards to employees.

After identifying the median employee based on total cash compensation, the annual total compensation for such employee was calculated using the same methodology used for the Named Executive Officers as set forth in the Summary Compensation Table. Mr. Judge had 2017 annual total compensation of \$15,915,461, as reflected in the Summary Compensation Table. Eversource's median employee's annual total compensation for 2017 was \$124,959. Eversource's 2017 CEO to median employee pay ratio is 127 to one.

## Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

### Eversource Energy

In addition to the information below under "Securities Authorized for Issuance Under Equity Compensation Plans," incorporated herein by reference is the information contained in the sections "Common Share Ownership of Certain Beneficial Owners" and "Common Share Ownership of Trustees and Management" of Eversource Energy's definitive proxy statement for solicitation of proxies, expected to be filed with the SEC on or about March 23, 2018.

### NSTAR ELECTRIC and PSNH

Certain information required by this Item 12 has been omitted for NSTAR Electric and PSNH pursuant to Instruction I(2)(c) to Form 10-K, Omission of Information by Certain Wholly-Owned Subsidiaries.

### CL&P

#### COMMON SHARE OWNERSHIP OF DIRECTORS AND MANAGEMENT

Eversource Energy owns 100 percent of the outstanding common stock of CL&P. The table below shows the number of Eversource Energy common shares beneficially owned as of February 21, 2018, by each of CL&P's directors and each Named Executive Officer of CL&P, as well as the number of Eversource Energy common shares beneficially owned by all of CL&P's directors and executive officers as a group. The table also includes information about options, restricted share units and deferred shares credited to the accounts of CL&P's directors and executive officers under certain compensation and benefit plans. No equity securities of CL&P are owned by any of the Trustees, directors or executive officers of Eversource Energy or CL&P. The address for the shareholders listed below is c/o Eversource Energy, Prudential Center, 800 Boylston Street, Boston, Massachusetts 02199 for Messrs. Judge, Lembo, Nolan and Schweiger; c/o Eversource Energy, 56 Prospect Street, Hartford, Connecticut 06103-2818 for Mr. Butler.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership <sup>(1)(2)</sup> (3)	Percent of Class
James J. Judge, Chairman of CL&P	257,970	*
Philip J. Lembo, Executive Vice President and Chief Financial Officer, Director of CL&P	40,089	*
Werner J. Schweiger, Chief Executive Officer, Director of CL&P	252,314	*
Gregory B. Butler, Executive Vice President and General Counsel, Director of CL&P	86,388	*
Joseph R. Nolan, Jr., Executive Vice President-Customer and Corporate Relations of Eversource Service	95,135	*
All directors and executive officers as a group (7 persons)	817,106 <sup>(4)</sup>	*

\* Less than 1% of Eversource Energy common shares outstanding.

1. The persons named in the table have sole voting and investment power with respect to all shares beneficially owned by each of them, except as noted below.
2. Also includes restricted share units, deferred restricted share units and/or deferred shares, including dividend equivalents, as to which none of the individuals has voting or investment power, and phantom shares held by executive officers who participate in a deferred compensation plan as follows: Mr. Judge: 174,195 shares; Mr. Lembo: 23,150 shares; Mr. Schweiger: 185,767 shares; Mr. Butler: 17,625; and Mr. Nolan: 70,515 shares.
3. Includes Eversource Energy common shares held as units in the 401(k) Plan invested in the Eversource Energy Common Shares Fund over which the holder has sole voting and investment power (Mr. Judge: 25,485 shares; Mr. Lembo: 2,811 shares; Mr. Schweiger: 262 shares; Mr. Butler: 5,769 shares; and Mr. Nolan: 18,115 shares).
4. Includes 492,651 unissued Eversource Energy common shares. See Note 2.

## SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table sets forth the number of Eversource Energy common shares issuable under Eversource Energy equity compensation plans, as well as their weighted exercise price, as of December 31, 2017, in accordance with the rules of the SEC:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights <sup>(1)</sup>	Weighted-average exercise price of outstanding options, warrants and rights <sup>(2)</sup>	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column <sup>(1)</sup> )
Equity compensation plans approved by security holders	1,227,604	\$—	2,445,110
Equity compensation plans not approved by security holders <sup>(3)</sup>	—	—	—
<b>Total</b>	<b>1,227,604</b>	<b>\$—</b>	<b>2,445,110</b>

(1) Includes 717,039 common shares for distribution in respect of restricted share units, and 510,565 performance shares issuable at target, all pursuant to the terms of our Incentive Plan.

(2) The weighted-average exercise price does not take into account restricted share units or performance shares, which have no exercise price.

(3) Securities set forth in this table are authorized for issuance under compensation plans that have been approved by shareholders of Eversource Energy or the former shareholders of NSTAR.

### Item 13. Certain Relationships and Related Transactions, and Director Independence

#### Eversource Energy

Incorporated herein by reference is the information contained in the sections captioned "Trustee Independence" and "Related Person Transactions" of Eversource Energy's definitive proxy statement for solicitation of proxies, expected to be filed with the SEC on or about March 23, 2018.

#### NSTAR ELECTRIC and PSNH

Certain information required by this Item 13 has been omitted for NSTAR Electric and PSNH pursuant to Instruction I(2)(c) to Form 10-K, Omission of Information by Certain Wholly-Owned Subsidiaries.

#### CL&P

Eversource Energy's Code of Ethics for Senior Financial Officers applies to the Senior Financial Officers (Chief Executive Officer, Chief Financial Officer and Controller) of Eversource Energy, CL&P and certain other Eversource Energy subsidiaries. Under the Code, one's position as a Senior Financial Officer in the company may not be used to improperly benefit such officer or his or her family or friends. Under the Code, specific activities that may be considered conflicts of interest include, but are not limited to, directly or indirectly acquiring or retaining a significant financial interest in an organization that is a customer, vendor or competitor, or that seeks to do business with the company; serving, without proper safeguards, as an officer or director of, or working or rendering services for an organization that is a customer, vendor or competitor, or that seeks to do business with the company. Waivers of the provisions of the Code of Ethics for Trustees, executive officers or directors must be approved by Eversource Energy's Board of Trustees. Any such waivers will be disclosed pursuant to legal requirements.

Eversource Energy's Code of Conduct, which applies to all Trustees, directors, officers and employees of Eversource Energy and its subsidiaries, including CL&P, contains a Conflict of Interest Policy that requires all such individuals to disclose any potential conflicts of interest. Such individuals are expected to discuss their particular situations with management to ensure appropriate steps are in place to avoid a conflict of interest. All disclosures must be reviewed and approved by management to ensure a particular situation does not adversely impact the individual's primary job and role.

Eversource Energy's Related Persons Transactions Policy is administered by the Corporate Governance Committee of Eversource Energy's Board of Trustees. The Policy generally defines a "Related Persons Transaction" as any transaction or series of transactions in which (i) Eversource Energy or a subsidiary is a participant, (ii) the aggregate amount involved exceeds \$120,000 and (iii) any "Related Persons" has a direct or indirect material interest. A "Related Persons" is defined as any Trustee or nominee for Trustee, any executive officer, any shareholder owning more than 5 percent of Eversource Energy's total outstanding shares, and any immediate family member of any such person.

Management submits to the Corporate Governance Committee for consideration any Related Persons Transaction into which Eversource Energy or a subsidiary proposes to enter. The Corporate Governance Committee recommends to the Eversource Energy Board of Trustees for approval only those transactions that are in Eversource Energy's best interests. If management causes the company to enter into a Related Persons Transaction prior to approval by the Corporate Governance Committee, the transaction will be subject to ratification by the Eversource Energy Board of Trustees. If the Eversource Energy Board of Trustees determines not to ratify the transaction, then management will make all reasonable efforts to cancel or annul such transaction.

The directors of CL&P are employees of CL&P and/or other subsidiaries of Eversource Energy, and thus are not considered independent.

## **Item 14. Principal Accountant Fees and Services**

### **Eversource Energy**

Incorporated herein by reference is the information contained in the section "Relationship with Independent Auditors" of Eversource Energy's definitive proxy statement for solicitation of proxies, expected to be filed with the SEC on or about March 23, 2018.

### **CL&P, NSTAR ELECTRIC and PSNH**

#### **Pre-Approval of Services Provided by Principal Auditors**

None of CL&P, NSTAR Electric and PSNH is subject to the audit committee requirements of the SEC, the national securities exchanges or the national securities associations. CL&P, NSTAR Electric and PSNH obtain audit services from the independent auditor engaged by the Audit Committee of Eversource Energy's Board of Trustees. Eversource Energy's Audit Committee has established policies and procedures regarding the pre-approval of services provided by the principal auditors. Those policies and procedures delegate pre-approval of services to the Eversource Energy Audit Committee Chair provided that such offices are held by Trustees who are "independent" within the meaning of the Sarbanes-Oxley Act of 2002 and that all such pre-approvals are presented to the Eversource Energy Audit Committee at the next regularly scheduled meeting of the Committee.

The following relates to fees and services for the entire Eversource Energy system, including Eversource Energy, CL&P, NSTAR Electric and PSNH.

#### **Fees Billed By Principal Independent Registered Public Accounting Firm**

The aggregate fees billed to the Company and its subsidiaries by Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates (collectively, the Deloitte Entities), for the years ended December 31, 2017 and 2016 totaled \$4,533,922 and \$4,336,626, respectively. In addition, affiliates of Deloitte & Touche LLP, as noted below, provide other accounting services to the Company. Fees consisted of the following:

##### **1. Audit Fees**

The aggregate fees billed to the Company and its subsidiaries by Deloitte & Touche LLP for audit services rendered for the years ended December 31, 2017 and 2016 totaled \$4,243,000 and \$3,988,000, respectively. The audit fees were incurred for audits of consolidated financial statements of Eversource Energy and its subsidiaries, reviews of financial statements included in the Combined Quarterly Reports on Form 10-Q of Eversource Energy and its subsidiaries and other costs. The fees also included audits of internal controls over financial reporting as of December 31, 2017 and 2016.

##### **2. Audit-Related Fees**

The aggregate fees billed to the Company and its subsidiaries by the Deloitte Entities for audit-related services rendered for the years ended December 31, 2017 and 2016 totaled \$283,000 and \$346,000, respectively. The audit-related fees were incurred for procedures performed in the ordinary course of business in support of certain regulatory filings, comfort letters, and consents and other costs related to registration statements and financings.

##### **3. Tax Fees**

There were no tax fees for the years ended December 31, 2017 and 2016.

##### **4. All Other Fees**

The aggregate fees billed to the Company and its subsidiaries by the Deloitte Entities for services, other than the services described above, for the years ended December 31, 2017 and 2016 totaled \$7,922 and \$2,626, respectively. These fees were for the review of benefit payment calculations in 2017, and a license for access to an accounting standards research tool in both 2017 and 2016.

The Audit Committee pre-approves all auditing services and permitted audit-related or other services (including the fees and terms thereof) to be performed for us by our independent registered public accounting firm, subject to the de minimis exceptions for non-audit services described in Section 10A(i)(1)(B) of the Securities Exchange Act of 1934, which are approved by the Audit Committee prior to the completion of the audit. The Audit Committee may form and delegate its authority to subcommittees consisting of one or more members when appropriate, including the authority to grant pre-approvals of audit and permitted non-audit services, provided that decisions of such subcommittee to grant pre-approvals are presented to the full Audit Committee at its next scheduled meeting. During 2017, all services described above were pre-approved by the Audit Committee.

The Audit Committee has considered whether the provision by the Deloitte Entities of the non-audit services described above was allowed under Rule 2-01(c)(4) of Regulation S-X and was compatible with maintaining the independence of the registered public accountants and has concluded that the Deloitte Entities were and are independent of us in all respects.

**PART IV**

**Item 15. Exhibits and Financial Statement Schedules**

(a) 1. Financial Statements:

The financial statements filed as part of this Annual Report on Form 10-K are set forth under Item 8, "Financial Statements and Supplementary Data."

2. Schedules

I. Financial Information of Registrant:

Eversource Energy (Parent) Balance Sheets as of December 31, 2017 and 2016 S-1

Eversource Energy (Parent) Statements of Income for the Years Ended  
December 31, 2017, 2016 and 2015 S-2

Eversource Energy (Parent) Statements of Comprehensive Income for the Years Ended  
December 31, 2017, 2016 and 2015 S-2

Eversource Energy (Parent) Statements of Cash Flows for the Years Ended  
December 31, 2017, 2016 and 2015 S-3

II. Valuation and Qualifying Accounts and Reserves for Eversource, CL&P, NSTAR Electric and PSNH  
for 2017, 2016 and 2015 S-4

All other schedules of the companies for which inclusion is required in the applicable regulations of the SEC are permitted to be omitted under the related instructions or are not applicable, and therefore have been omitted.

3. Exhibit Index E-1

**Item 16. Form 10-K Summary**

Not applicable.

**EVERSOURCE ENERGY**

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**EVERSOURCE ENERGY**

February 23, 2018

By: /s/ Jay S. Buth

Jay S. Buth

Vice President, Controller and Chief Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

**POWER OF ATTORNEY**

Each person whose signature appears below constitutes and appoints Gregory B. Butler, Philip J. Lembo and Jay S. Buth and each of them, his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ James J. Judge</u> James J. Judge	Chairman of the Board, President and Chief Executive Officer and a Trustee (Principal Executive Officer)	February 23, 2018
<u>/s/ Philip J. Lembo</u> Philip J. Lembo	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 23, 2018
<u>/s/ Jay S. Buth</u> Jay S. Buth	Vice President, Controller and Chief Accounting Officer	February 23, 2018
<u>/s/ John S. Clarkeson</u> John S. Clarkeson	Trustee	February 23, 2018
<u>/s/ Cotton M. Cleveland</u> Cotton M. Cleveland	Trustee	February 23, 2018
<u>/s/ Sanford Cloud, Jr.</u> Sanford Cloud, Jr.	Trustee	February 23, 2018

<u>Signature</u>	<u>Title</u>	<u>Date</u>
/s/ James S. DiStasio _____ James S. DiStasio	Trustee	February 23, 2018
/s/ Francis A. Doyle _____ Francis A. Doyle	Trustee	February 23, 2018
/s/ Charles K. Gifford _____ Charles K. Gifford	Trustee	February 23, 2018
/s/ John Y. Kim _____ John Y. Kim	Trustee	February 23, 2018
/s/ Paul A. La Camera _____ Paul A. La Camera	Trustee	February 23, 2018
/s/ Kenneth R. Leibler _____ Kenneth R. Leibler	Trustee	February 23, 2018
/s/ William C. Van Faasen _____ William C. Van Faasen	Trustee	February 23, 2018
/s/ Frederica M. Williams _____ Frederica M. Williams	Trustee	February 23, 2018
/s/ Dennis R. Wraase _____ Dennis R. Wraase	Trustee	February 23, 2018

THE CONNECTICUT LIGHT AND POWER COMPANY

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE CONNECTICUT LIGHT AND POWER COMPANY

February 23, 2018

By: /s/ Jay S. Buth

Jay S. Buth

Vice President, Controller and Chief Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

POWER OF ATTORNEY

Each person whose signature appears below constitutes and appoints Gregory B. Butler, Philip J. Lembo and Jay S. Buth and each of them, his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
/s/ James J. Judge James J. Judge	Chairman and a Director (Principal Executive Officer)	February 23, 2018
/s/ Werner J. Schweiger Werner J. Schweiger	Chief Executive Officer and a Director	February 23, 2018
/s/ Philip J. Lembo Philip J. Lembo	Executive Vice President and Chief Financial Officer and a Director (Principal Financial Officer)	February 23, 2018
/s/ Gregory B. Butler Gregory B. Butler	Executive Vice President and General Counsel and a Director	February 23, 2018
/s/ Jay S. Buth Jay S. Buth	Vice President, Controller and Chief Accounting Officer	February 23, 2018

**NSTAR ELECTRIC COMPANY**

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**NSTAR ELECTRIC COMPANY**

February 23, 2018

By: /s/ Jay S. Buth

Jay S. Buth

Vice President, Controller and Chief Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

**POWER OF ATTORNEY**

Each person whose signature appears below constitutes and appoints Gregory B. Butler, Philip J. Lembo and Jay S. Buth and each of them, his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ James J. Judge</u> James J. Judge	Chairman and a Director (Principal Executive Officer)	February 23, 2018
<u>/s/ Werner J. Schweiger</u> Werner J. Schweiger	Chief Executive Officer and a Director	February 23, 2018
<u>/s/ Philip J. Lembo</u> Philip J. Lembo	Executive Vice President and Chief Financial Officer and a Director (Principal Financial Officer)	February 23, 2018
<u>/s/ Gregory B. Butler</u> Gregory B. Butler	Executive Vice President and General Counsel and a Director	February 23, 2018
<u>/s/ Jay S. Buth</u> Jay S. Buth	Vice President, Controller and Chief Accounting Officer	February 23, 2018

**PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE**

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE**

February 23, 2018

By: /s/ Jay S. Buth

Jay S. Buth

Vice President, Controller and Chief Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

**POWER OF ATTORNEY**

Each person whose signature appears below constitutes and appoints Gregory B. Butler, Philip J. Lembo and Jay S. Buth and each of them, his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ James J. Judge</u> James J. Judge	Chairman and a Director (Principal Executive Officer)	February 23, 2018
<u>/s/ Werner J. Schweiger</u> Werner J. Schweiger	Chief Executive Officer and a Director	February 23, 2018
<u>/s/ Philip J. Lembo</u> Philip J. Lembo	Executive Vice President and Chief Financial Officer and a Director (Principal Financial Officer)	February 23, 2018
<u>/s/ Gregory B. Butler</u> Gregory B. Butler	Executive Vice President and General Counsel and a Director	February 23, 2018
<u>/s/ Jay S. Buth</u> Jay S. Buth	Vice President, Controller and Chief Accounting Officer	February 23, 2018

SCHEDULE I  
EVERSOURCE ENERGY (PARENT)  
FINANCIAL INFORMATION OF REGISTRANT  
BALANCE SHEETS  
AS OF DECEMBER 31, 2017 AND 2016  
(Thousands of Dollars)

	2017	2016
<b>ASSETS</b>		
Current Assets:		
Cash	\$ 521	\$ 93
Accounts Receivable from Subsidiaries	3,397	32,864
Dividend Receivable from Subsidiary	150,000	—
Notes Receivable from Subsidiaries	844,500	740,300
Prepayments and Other Current Assets	18,568	23,122
<b>Total Current Assets</b>	<b>1,016,986</b>	<b>796,379</b>
Deferred Debits and Other Assets:		
Investments in Subsidiary Companies, at Equity	10,945,986	9,703,287
Notes Receivable from Subsidiaries	312,190	224,290
Accumulated Deferred Income Taxes	47,940	126,091
Goodwill	3,231,811	3,231,811
Other Long-Term Assets	58,313	44,020
<b>Total Deferred Debits and Other Assets</b>	<b>14,596,240</b>	<b>13,329,499</b>
<b>Total Assets</b>	<b>\$ 15,613,226</b>	<b>\$ 14,125,878</b>
<b>LIABILITIES AND CAPITALIZATION</b>		
Current Liabilities:		
Notes Payable	\$ 778,087	\$ 1,022,000
Long-Term Debt - Current Portion	32,114	28,883
Accounts Payable	292	—
Accounts Payable to Subsidiaries	18,242	8,771
Other Current Liabilities	56,601	47,215
<b>Total Current Liabilities</b>	<b>885,336</b>	<b>1,106,869</b>
Deferred Credits and Other Liabilities	118,176	148,756
Capitalization:		
Long-Term Debt	3,523,472	2,158,519
Equity:		
Common Shareholders' Equity:		
Common Shares	1,669,392	1,669,392
Capital Surplus, Paid in	6,239,940	6,250,224
Retained Earnings	3,561,084	3,175,171
Accumulated Other Comprehensive Loss	(66,403)	(65,282)
Treasury Stock	(317,771)	(317,771)
<b>Common Shareholders' Equity</b>	<b>11,086,242</b>	<b>10,711,734</b>
<b>Total Capitalization</b>	<b>14,609,714</b>	<b>12,870,253</b>
<b>Total Liabilities and Capitalization</b>	<b>\$ 15,613,226</b>	<b>\$ 14,125,878</b>

See the Combined Notes to Financial Statements in this Annual Report on Form 10-K for a description of significant accounting matters related to Eversource parent, including Eversource common shares information as described in Note 17, "Common Shares," material obligations and guarantees as described in Note 11, "Commitments and Contingencies," and debt agreements as described in Note 7, "Short-Term Debt," and Note 8, "Long-Term Debt."

SCHEDULE I  
EVERSOURCE ENERGY (PARENT)  
FINANCIAL INFORMATION OF REGISTRANT  
STATEMENTS OF INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015  
(Thousands of Dollars, Except Share Information)

	2017	2016	2015
Operating Revenues	\$ —	\$ —	\$ —
Operating Expenses:			
Other	(32,189)	(39,453)	9,315
Operating Income/(Loss)	32,189	39,453	(9,315)
Interest Expense	80,700	59,420	45,130
Other Income, Net:			
Equity in Earnings of Subsidiaries	993,063	922,321	900,824
Other, Net	23,339	4,267	6,602
Other Income, Net	1,016,402	926,588	907,426
Income Before Income Tax Benefit	967,891	906,621	852,981
Income Tax Benefit	(20,105)	(35,681)	(25,504)
Net Income	\$ 987,996	\$ 942,302	\$ 878,485
Basic Earnings per Common Share	\$ 3.11	\$ 2.97	\$ 2.77
Diluted Earnings per Common Share	\$ 3.11	\$ 2.96	\$ 2.76
Weighted Average Common Shares Outstanding:			
Basic	317,411,097	317,650,180	317,336,881
Diluted	318,031,580	318,454,239	318,432,687

STATEMENTS OF COMPREHENSIVE INCOME

	2017	2016	2015
Net Income	\$ 987,996	\$ 942,302	\$ 878,485
Other Comprehensive (Loss)/Income, Net of Tax:			
Qualified Cash Flow Hedging Instruments	1,974	2,137	2,079
Changes in Unrealized (Losses)/Gains on Marketable Securities	(350)	2,294	(2,588)
Change in Funded Status of Pension, SERP and PBOP Benefit Plans	(2,745)	(2,869)	7,674
Other Comprehensive (Loss)/Income, Net of Tax	(1,121)	1,562	7,165
Comprehensive Income	\$ 986,875	\$ 943,864	\$ 885,650

See the Combined Notes to Financial Statements in this Annual Report on Form 10-K for a description of significant accounting matters related to Eversource parent, including Eversource common shares information as described in Note 17, "Common Shares," material obligations and guarantees as described in Note 11, "Commitments and Contingencies," and debt agreements as described in Note 7, "Short-Term Debt," and Note 8, "Long-Term Debt."

SCHEDULE I  
EVERSOURCE ENERGY (PARENT)  
FINANCIAL INFORMATION OF REGISTRANT  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 and 2015  
(Thousands of Dollars)

	2017	2016	2015
<b>Operating Activities:</b>			
Net Income	\$ 987,996	\$ 942,302	\$ 878,485
Adjustments to Reconcile Net Income to Net Cash			
<b>Flows Provided by Operating Activities:</b>			
Equity in Earnings of Subsidiaries	(993,063)	(922,321)	(900,824)
Cash Dividends Received from Subsidiaries	753,300	724,877	602,300
Deferred Income Taxes	37,867	19,008	16,880
Other	(36,052)	(27,963)	(22,864)
<b>Changes in Current Assets and Liabilities:</b>			
Accounts Receivables from Subsidiaries	29,405	(9,173)	(16,980)
Taxes Receivable/Accrued, Net	1,555	8,050	(14,426)
Accounts Payable, Including Affiliate Payables	9,763	(6,908)	(134,730)
Other Current Assets and Liabilities, Net	7,536	(7,433)	6,832
<b>Net Cash Flows Provided by Operating Activities</b>	<b>798,307</b>	<b>720,439</b>	<b>414,673</b>
<b>Investing Activities:</b>			
Capital Contributions to Subsidiaries	(1,156,731)	(589,500)	(218,500)
(Increase)/Decrease in Notes Receivable from Subsidiaries	(192,100)	14,510	(131,650)
Other Investing Activities	1,484	—	12,000
<b>Net Cash Flows Used in Investing Activities</b>	<b>(1,347,347)</b>	<b>(574,990)</b>	<b>(338,150)</b>
<b>Financing Activities:</b>			
Cash Dividends on Common Shares	(602,083)	(564,486)	(529,791)
Issuance of Long-Term Debt	1,200,000	500,000	450,000
Decrease in Notes Payable	(42,690)	(76,453)	(2,622)
Other Financing Activities	(5,759)	(4,484)	5,819
<b>Net Cash Flows Provided by/(Used in) Financing Activities</b>	<b>549,468</b>	<b>(145,423)</b>	<b>(76,594)</b>
<b>Net Increase/(Decrease) in Cash</b>	<b>428</b>	<b>26</b>	<b>(71)</b>
Cash - Beginning of Year	93	67	138
<b>Cash - End of Year</b>	<b>\$ 521</b>	<b>\$ 93</b>	<b>\$ 67</b>
<b>Supplemental Cash Flow Information:</b>			
Cash Paid/(Received) During the Year for:			
Interest	\$ 73,868	\$ 58,018	\$ 43,024
Income Taxes	\$ (59,526)	\$ (65,531)	\$ (34,680)

See the Combined Notes to Financial Statements in this Annual Report on Form 10-K for a description of significant accounting matters related to Eversource parent, including Eversource common shares information as described in Note 17, "Common Shares," material obligations and guarantees as described in Note 11, "Commitments and Contingencies," and debt agreements as described in Note 7, "Short-Term Debt," and Note 8, "Long-Term Debt."

SCHEDULE II  
EVERSOURCE ENERGY AND SUBSIDIARIES  
VALUATION AND QUALIFYING ACCOUNTS AND RESERVES  
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015  
(Thousands of Dollars)

Column A	Column B	Column C		Column D	Column E
		Additions			
		(1)	(2)		
Description:	Balance as of Beginning of Year	Charged to Costs and Expenses	Charged to Other Accounts - Describe (a)	Deductions - Describe (b)	Balance as of End of Year
<u>Eversource:</u>					
Reserves Deducted from Assets -					
Reserves for Uncollectible Accounts:					
2017	\$ 200,630	\$ 44,665	\$ 47,630	\$ 97,217	\$ 195,708
2016	190,680	69,466	45,452	104,968	200,630
2015	175,317	51,077	79,622	115,336	190,680
<u>CL&amp;P:</u>					
Reserves Deducted from Assets -					
Reserves for Uncollectible Accounts:					
2017	\$ 86,391	\$ 5,312	\$ 25,533	\$ 38,364	\$ 78,872
2016	79,479	17,572	28,801	39,461	86,391
2015	84,287	10,105	30,592	45,505	79,479
<u>NSTAR Electric:</u>					
Reserves Deducted from Assets -					
Reserves for Uncollectible Accounts:					
2017	\$ 70,284	\$ 21,252	\$ 14,273	\$ 36,143	\$ 69,666
2016	66,676	31,728	11,253	39,373	70,284
2015	50,550	19,168	36,977	40,019	66,676
<u>PSNH:</u>					
Reserves Deducted from Assets -					
Reserves for Uncollectible Accounts:					
2017	\$ 9,941	\$ 6,917	\$ 464	\$ 6,841	\$ 10,481
2016	8,733	7,288	498	6,578	9,941
2015	7,663	8,889	841	8,660	8,733

- (a) Amounts relate to uncollectible accounts receivables reserved for that are not charged to bad debt expense. The PURA allows CL&P and Yankee Gas to accelerate the recovery of accounts receivable balances attributable to qualified customers under financial or medical duress (uncollectible hardship accounts receivable) outstanding for greater than 180 days and 90 days, respectively. The DPU allows NSTAR Electric and NSTAR Gas to recover in rates, amounts associated with certain uncollectible hardship accounts receivable.
- (b) Amounts written off, net of recoveries.

## EXHIBIT INDEX

Each document described below is incorporated by reference by the registrant(s) listed to the files identified, unless designated with a (\*), which exhibits are filed herewith. Management contracts and compensation plans or arrangements are designated with a (+).

### **Exhibit Number      Description**

#### 3. Articles of Incorporation and By-Laws

##### (A) Eversource Energy

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3.1 Declaration of Trust of Eversource Energy, as amended through May 3, 2017 ([Exhibit 3.1, Eversource Form 10-Q filed on May 5, 2017](#))

##### (B) The Connecticut Light and Power Company

3.1 Certificate of Incorporation of CL&P, restated to March 22, 1994 (Exhibit 3.2.1, 1993 CL&P Form 10-K, File No. 000-00404) ([Exhibit 3.2.1, 1993 CL&P Form 10-K, File No. 000-00404](#))

3.1.1 Certificate of Amendment to Certificate of Incorporation of CL&P, dated December 26, 1996 ([Exhibit 3.2.2, 1996 CL&P Form 10-K filed March 25, 1997, File No. 001-11419](#))

3.1.2 Certificate of Amendment to Certificate of Incorporation of CL&P, dated April 27, 1998 ([Exhibit 3.2.3, 1998 CL&P Form 10-K filed March 23, 1999, File No. 000-00404](#))

3.1.3 Amended and Restated Certificate of Incorporation of CL&P, dated effective January 3, 2012 ([Exhibit 3\(i\), CL&P Current Report on Form 8-K filed January 9, 2012, File No. 000-00404](#))

3.2 By-laws of CL&P, as amended and restated effective September 29, 2014 ([Exhibit 3.1, CL&P Current Report on Form 8-K filed October 2, 2014, File No. 000-00404](#))

##### (C) NSTAR Electric Company

3.1 Restated Articles of Organization of NSTAR Electric Company, fka Boston Edison Company ([Exhibit 3.1, NSTAR Electric Form 10-Q for the Quarter Ended June 30, 1994 filed August 12, 1994, File No. 001-02301](#))

3.2 Bylaws of NSTAR Electric Company, as amended and restated effective September 29, 2014 ([Exhibit 3.1, NSTAR Electric Current Report on Form 8-K filed October 2, 2014, File No. 000-02301](#))

##### (D) Public Service Company of New Hampshire

3.1 Articles of Incorporation, as amended to May 16, 1991 ([Exhibit 3.3.1, 1993 PSNH Form 10-K filed March 25, 1994, File No. 001-06392](#))

3.2 By-laws of PSNH, as in effect June 27, 2008 ([Exhibit 3, PSNH Form 10-Q for the Quarter Ended June 30, 2008 filed August 7, 2008, File No. 001-06392](#))

#### 4. Instruments defining the rights of security holders, including indentures

##### (A) Eversource Energy

4.1 Indenture between Eversource Energy and The Bank of New York as Trustee dated as of April 1, 2002 ([Exhibit A-3, Eversource Energy 35-CERT filed April 16, 2002, File No. 070-09535](#))

4.1.1 Fifth Supplemental Indenture between Eversource Energy and The Bank of New York Trust Company N.A., as Trustee, dated as of May 1, 2013, relating to \$300 million of Senior Notes, Series E, due 2018 and \$4 million of Senior Notes, Series F, due 2023 ([Exhibit 4.1, Eversource Energy Current Report on Form 8-K filed May 16, 2013, File No. 001-05324](#))

4.1.2 Sixth Supplemental Indenture between Eversource Energy and The Bank of New York Trust Company N.A., as Trustee, dated as of January 1, 2015, relating to \$150 million of Senior Notes, Series G, due 2018 and \$300 million of Senior Notes, Series H, due 2025 ([Exhibit 4.1, Eversource Energy Current Report on Form 8-K filed January 21, 2015, File No. 001-05324](#))

4.1.3 Seventh Supplemental Indenture between Eversource Energy and The Bank of New York Trust Company N.A., as Trustee, dated as of March 7, 2016, relating to \$250 million of Senior Notes, Series I, due 2021 and \$250 million of Senior Notes, Series J, due 2026 ([Exhibit 4.1, Eversource Energy Current Report on Form 8-K filed March 15, 2016, File No. 001-05324](#))

4.1.4 Eighth Supplemental Indenture between Eversource Energy and The Bank of New York Trust Company N.A., as Trustee, dated as of March 10, 2017, relating to \$300 million of Senior Notes, Series K, Due 2022 ([Exhibit 4.1, Eversource Energy Current Report on Form 8-K filed March 16, 2017, File No. 001-05324](#))

4.1.5 Ninth Supplemental Indenture between Eversource Energy and The Bank of New York Trust Company N.A., as Trustee, dated as of October 1, 2017, relating to \$450 million of Senior Notes, Series K, due 2022 and \$450 million of Senior Notes, Series L, due 2024 ([Exhibit 4.1, Eversource Energy Current Report on Form 8-K filed October 12, 2017, File No. 001-05324](#))

4.2 Indenture dated as of January 12, 2000, between Eversource Energy, as successor to NSTAR LLC, as successor to NSTAR, and Bank One Trust Company N.A. ([Exhibit 4.1 to NSTAR Registration Statement on Form S-3, filed January 14, 2000, on File No. 333-94735](#))

4.2.1 Form of 4.50% Debenture Due 2019 ([Exhibit 99.2, NSTAR Form 8-K filed November 16, 2009, File No. 001-14768](#))

(B) The Connecticut Light and Power Company

\* 4.1 [Indenture of Mortgage and Deed of Trust between CL&P and Bankers Trust Company, Trustee, dated as of May 1, 1921 \(Composite including all twenty-four amendments to May 1, 1967\)](#)

4.1.1 Series D Supplemental Indentures to the Composite May 1, 1921 Indenture of Mortgage and Deed of Trust between CL&P and Bankers Trust Company, dated as of October 1, 1994 ([Exhibit 4.2.16, 1994 CL&P Form 10-K filed March 27, 1995, File No. 001-11419](#))

4.1.2 Series B Supplemental Indenture between CL&P and Deutsche Bank Trust Company Americas, as Trustee dated as of September 1, 2004 ([Exhibit 99.5, CL&P Current Report on Form 8-K filed September 22, 2004, File No. 000-00404](#))

4.2 Composite Indenture of Mortgage and Deed of Trust between CL&P and Deutsche Bank Trust Company Americas f/k/a Bankers Trust Company, dated as of May 1, 1921, as amended and supplemented by seventy-three supplemental mortgages to and including Supplemental Mortgage dated as of April 1, 2005 ([Exhibit 99.5, CL&P Current Report on Form 8-K filed April 13, 2005, File No. 000-00404](#))

4.2.1 Supplemental Indenture (2005 Series B Bonds) between CL&P and Deutsche Bank Trust Company Americas, as Trustee dated as of April 1, 2005 ([Exhibit 99.2, CL&P Current Report on Form 8-K filed April 13, 2005, File No. 000-00404](#))

4.2.2 Supplemental Indenture (2006 Series A Bonds) between CL&P and Deutsche Bank Trust Company Americas, as Trustee dated as of June 1, 2006 ([Exhibit 99.2, CL&P Current Report on Form 8-K filed June 7, 2006, File No. 000-00404](#))

4.2.3 Supplemental Indenture (2007 Series A Bonds and 2007 Series B Bonds) between CL&P and Deutsche Bank Trust Company Americas, as Trustee dated as of March 1, 2007 ([Exhibit 99.2, CL&P Current Report on Form 8-K filed March 29, 2007, File No. 000-00404](#))

4.2.4 Supplemental Indenture (2007 Series C Bonds and 2007 Series D Bonds) between CL&P and Deutsche Bank Trust Company Americas, as Trustee dated as of September 1, 2007 ([Exhibit 4, CL&P Current Report on Form 8-K filed September 19, 2007, File No. 000-00404](#))

- 4.2.5 Supplemental Indenture (2008 Series A Bonds) between CL&P and Deutsche Bank Trust Company Americas, as Trustee dated as of May 1, 2008 ([Exhibit 4, CL&P Current Report on Form 8-K filed May 29, 2008, File No. 000-00404](#))
- 4.2.6 Supplemental Indenture (2009 Series A Bonds) between CL&P and Deutsche Bank Trust Company Americas, as Trustee dated as of February 1, 2009 ([Exhibit 4, CL&P Current Report on Form 8-K filed February 19, 2009, File No. 000-00404](#))
- 4.2.7 Supplemental Indenture (2013 Series A Bond) between CL&P and Deutsche Bank Trust Company Americas, as Trustee dated as of January 1, 2013 ([Exhibit 4.1, CL&P Current Report on Form 8-K filed January 22, 2013, File No. 000-00404](#))
- 4.2.8 Supplemental Indenture (2014 Series A Bond) between CL&P and Deutsche Bank Trust Company Americas, as Trustee dated as of April 1, 2014 ([Exhibit 4.1, CL&P Current Report on Form 8-K filed April 29, 2014, File No. 000-00404](#))
- 4.2.9 Supplemental Indenture (2015 Series A Bonds) between CL&P and Deutsche Bank Trust Company Americas, as Trustee dated as of May 1, 2015 ([Exhibit 4.1, CL&P Current Report on Form 8-K filed May 26, 2015, File No. 000-00404](#))
- 4.2.10 Supplemental Indenture (2015 Series A Bonds) between CL&P and Deutsche Bank Trust Company Americas, as Trustee dated as of November 1, 2015 ([Exhibit 4.1, CL&P Current Report on Form 8-K filed December 4, 2015, File No. 000-00404](#))
- 4.2.11 Supplemental Indenture (2017 Series A Bonds) between CL&P and Deutsche Bank Trust Company Americas, as Trustee dated as of March 1, 2017 ([Exhibit 4.1, CL&P Current Report on Form 8-K filed on March 16, 2017, File No. 000-00404](#))
- 4.2.12 Supplemental Indenture (2014 Series A Bonds) between CL&P and Deutsche Bank Trust Company Americas, as Trustee dated as of August 1, 2017 ([Exhibit 4.1, CL&P Current Report on Form 8-K filed August 23, 2017, File No. 000-00404](#))
- 4.3 Loan Agreement between Connecticut Development Authority and CL&P (Pollution Control Revenue Refunding Bonds - 2011A Series) dated as of October 1, 2011 ([Exhibit 1.1, CL&P Current Report on Form 8-K filed October 28, 2011, File No. 000-00404](#))

(C)

NSTAR Electric Company

- \* 4.1 [Indenture between Boston Edison Company and the Bank of New York \(as successor to Bank of Montreal Trust Company\)](#)
- 4.1.1 A Form of 5.75% Debenture Due March 15, 2036 ([Exhibit 99.2, Boston Edison Company Current Report on Form 8-K filed March 17, 2006, File No. 001-02301](#))
- 4.1.2 A Form of 5.50% Debenture Due March 15, 2040 ([Exhibit 99.2, NSTAR Electric Company Current Report on Form 8-K filed March 15, 2010, File No. 001-02301](#))
- 4.1.3 A Form of 2.375% Debenture Due 2022 ([Exhibit 4, NSTAR Electric Company Current Report on Form 8-K filed October 18, 2012, File No. 001-02301](#))
- 4.1.4 A Form of 4.40% Debenture Due 2044 ([Exhibit 4, NSTAR Electric Company Current Report on Form 8-K filed March 13, 2014, File No. 001-02301](#))
- 4.1.5 A Form of 3.25% Debenture due 2025 ([Exhibit 4, NSTAR Electric Company Current Report on Form 8-K filed on November 20, 2015, File No. 001-02301](#))
- 4.1.6 A Form of 2.70% Debenture due 2026 ([Exhibit 4, NSTAR Electric Company Current Report on Form 8-K filed on May, 31, 2016, File No. 001-02301](#))
- 4.1.7 Form of 3.20% Debenture due May 15, 2027 ([Exhibit 4, NSTAR Electric Company Current Report on Form 8-K/A filed on October 12, 2017 File No. 001-02301](#))

\* 4.2 [Amended and Restated Credit Agreement, dated December 8, 2017, by and between NSTAR Electric Company and the Banks named therein, pursuant to which Barclays Bank PLC serves as Administrative Agent and Swing Line Lender](#)

4.3 Indenture between NSTAR Electric Company, as successor to Western Massachusetts Electric Company ("WMECO"), and The Bank of New York, as Trustee, dated as of September 1, 2003 ([Exhibit 99.2, WMECO Current Report on Form 8-K filed October 8, 2003, File No. 000-07624](#))

4.3.1 Second Supplemental Indenture between NSTAR Electric Company, as successor to WMECO, and The Bank of New York, as Trustee dated as of September 1, 2004 ([Exhibit 4.1, WMECO Current Report on Form 8-K filed September 27, 2004, File No. 000-07624](#))

4.3.2 Fourth Supplemental Indenture between NSTAR Electric Company, as successor to WMECO, and The Bank of New York Trust, as Trustee, dated as of August 1, 2007 ([Exhibit 4.1, WMECO Current Report on Form 8-K filed August 20, 2007, File No. 000-07624](#))

4.3.3 Fifth Supplemental Indenture between NSTAR Electric Company, as successor to WMECO, and The Bank of New York Trust Company, N.A., as Trustee, dated as of March 1, 2010 ([WMECO Current Report on Form 8-K filed March 10, 2010, File No. 000-07624](#))

4.3.4 Sixth Supplemental Indenture between NSTAR Electric Company, as successor to WMECO, and The Bank of New York Trust Company, N.A., as Trustee, dated as of September 15, 2011 ([Exhibit 4.1, WMECO Current Report on Form 8-K filed September 19, 2011, File No. 000-07624](#))

4.3.5 Seventh Supplemental Indenture between NSTAR Electric Company, as successor to WMECO, and The Bank of New York Trust Company, N.A., as Trustee, dated as of November 1, 2013 ([Exhibit 4.1, WMECO Current Report on Form 8-K filed November 21, 2013, File No. 000-07624](#))

4.3.6 Eighth Supplemental Indenture between NSTAR Electric Company, as successor to WMECO, and The Bank of New York Trust Company, N.A., as Trustee, dated as of June 1, 2016 ([Exhibit 4.1, WMECO Current Report on Form 8-K filed June 29, 2016, File No. 000-07624](#))

(D) Public Service Company of New Hampshire

4.1 First Mortgage Indenture between PSNH and First Fidelity Bank, National Association, New Jersey, now First Union National Bank, Trustee, dated as of August 15, 1978 (Composite including all amendments effective June 1, 2011) ([included as Exhibit C to the Eighteenth Supplemental Indenture filed as Exhibit 4.1 to PSNH Current Report on Form 8-K filed June 2, 2011, File No. 001-06392](#))

4.1.1 Fourteenth Supplemental Indenture between PSNH and Wachovia Bank, National Association successor to First Union National Bank, as successor to First Fidelity Bank, National Association, as Trustee dated as of October 1, 2005 ([Exhibit 99.2, PSNH Current Report on Form 8-K filed October 6, 2005, File No. 001-06392](#))

4.1.2 Sixteenth Supplemental Indenture between PSNH and U.S. Bank National Association, Trustee, dated as of May 1, 2008 ([Exhibit 4.1 to PSNH Current Report on Form 8-K filed May 29, 2008 \(File No.001-06392\)](#))

4.1.3 Seventeenth Supplemental Indenture, between PSNH and U.S. Bank National Association, as Trustee dated as of December 1, 2009 ([Exhibit 4.1, PSNH Current Report on Form 8-K filed December 15, 2009 \(File No. 001-06392\)](#))

4.1.4 Eighteenth Supplemental Indenture, between PSNH and U.S. Bank National Association, as Trustee dated as of May 1, 2011 ([Exhibit 4.1, PSNH Current Report on Form 8-K filed June 2, 2011 \(File No. 001-06392\)](#))

4.1.5 Nineteenth Supplemental Indenture, between PSNH and U.S. Bank National Association, as Trustee dated as of September 1, 2011 ([Exhibit 4.1, PSNH Current Report on Form 8-K filed September 16, 2011 \(File No. 001-06392\)](#))

4.1.6 Twentieth Supplemental Indenture, between PSNH and U.S. Bank National Association, as Trustee dated as of November 1, 2013 ([Exhibit 4.1, PSNH Current Report on Form 8-K filed November 20, 2013 \(File No. 001-06392\)](#))

4.1.7 Twenty-first Supplemental Indenture, between PSNH and U.S. Bank National Association, as Trustee dated as of October 1, 2014 ([Exhibit 4.1, PSNH Current Report on Form 8-K filed October 17, 2014 \(File No. 001-06392\)](#))

4.2 Series A Loan and Trust Agreement among Business Finance Authority of the State of New Hampshire and PSNH and State Street Bank and Trust Company, as Trustee (Tax Exempt Pollution Control Bonds) dated as of October 1, 2001 ([Exhibit 4.3.4, 2001 Eversource Energy Form 10-K filed March 22, 2002, File No. 001-05324](#))

(F) Eversource Energy, The Connecticut Light and Power Company and Public Service Company of New Hampshire

\* 4.1 [Amended and Restated Credit Agreement, dated December 8, 2017, by and among Eversource Energy, CL&P, NSTAR Gas, PSNH and Yankee Gas Services Company and the Banks named therein, pursuant to which Bank of America, N.A. serves as Administrative Agent](#)

10. Material Contracts

(A) Eversource Energy

\* 10.1 [Lease between The Rocky River Realty Company and Eversource Energy Service Company, dated as of July 1, 2008](#)

+ 10.2 Eversource Energy Board of Trustees' Compensation Arrangement Summary ([Exhibit 10.3, 2016 Eversource Energy Form 10-K filed February 23, 2017, File No. 001-05324](#))

+ 10.3 Amended and Restated Memorandum Agreement between Eversource Energy and Leon J. Olivier effective January 1, 2009 ([Exhibit 10.9, 2008 Eversource Energy Form 10-K filed February 27, 2009, File No. 001-05324](#))

+ 10.4 Eversource Supplemental Executive Retirement Program effective as of January 1, 2015 ([Exhibit 10.5, 2015 Eversource Energy Form 10-K filed February 26, 2016, File No. 001-05324](#))

+ 10.5 Eversource Energy Deferred Compensation Plan for Executives effective as of January 1, 2014 ([Exhibit 10.6, 2015 Eversource Energy Form 10-K filed February 26, 2016, File No. 001-05324](#))

10.6 Composite Transmission Service Agreement, by and between Northern Pass Transmission LLC, as Owner and H.Q. Hydro Renewable Energy, Inc., as Purchaser dated October 4, 2010 and effective February 14, 2014 ([Exhibit 10.5, 2013 Eversource Energy Form 10-K filed on February 25, 2014, File No. 001-05324](#))

+ 10.7 NSTAR Excess Benefit Plan, effective August 25, 1999 ([Exhibit 10.1 1999 NSTAR Form 10-K/A filed September 29, 2000, File No. 001-14768](#))

+ 10.7.1 NSTAR Excess Benefit Plan, incorporating the NSTAR 409A Excess Benefit Plan, as amended and restated effective January 1, 2008, dated December 24, 2008 ([Exhibit 10.1.1 2008 NSTAR Form 10-K filed February 9, 2009, File No. 001-14768](#))

+ 10.8 NSTAR 2007 Long Term Incentive Plan, effective May 3, 2007 (Exhibit 10.2, Eversource Energy Registration Statement on Form S-8 filed on May 8, 2012)

+ 10.8.1 Deferred Common Share/Dividend Equivalent Award, Stock Option Grant, Option Certificate and Performance Share Award/Dividend Equivalent Award Agreement Under the NSTAR 2007 Long Term Incentive Plan, by and between NSTAR and James J. Judge, dated January 24, 2008 ([Exhibit 10.8.2, 2007 NSTAR Form 10-K filed February 11, 2008, File No. 001-14768](#))

+ 10.8.2 Deferred Common Share/Dividend Equivalent Award, Stock Option Grant, Option Certificate and Performance Share Award/Dividend Equivalent Award Agreement Under the NSTAR 2007 Long Term Incentive Plan, by and between NSTAR and Joseph R. Nolan, dated January 24, 2008 ([Exhibit 10.8.4, 2007 NSTAR Form 10-K filed February 11, 2008, File No. 001-14768](#))

+ 10.8.3 Deferred Common Share/Dividend Equivalent Award, Stock Option Grant, Option Certificate and Performance Share Award/Dividend Equivalent Award Agreement Under the NSTAR 2007 Long Term Incentive Plan, by and between NSTAR and Werner J. Schweiger, dated January 24, 2008 ([Exhibit 10.8.5, 2007 NSTAR Form 10-K filed February 11, 2008, File No. 001-14768](#))

+ 10.8.4 Deferred Common Share/Dividend Equivalent Award, Stock Option Grant, Option Certificate and Performance Share Award/Dividend Equivalent Award Agreement Under the NSTAR 2007 Long Term Incentive Plan by and between NSTAR and NSTAR's other Senior Vice Presidents and Vice Presidents, dated January 24, 2008 (in form) ([Exhibit 10.8.6, 2007 NSTAR Form 10-K filed February 11, 2008, File No. 001-14768](#))

+ 10.9 Amended and Restated Change in Control Agreement by and between James J. Judge and NSTAR, dated November 15, 2007 ([Exhibit 10.9, 2007 NSTAR Form 10-K filed February 11, 2008, File No. 001-14768](#))

+ 10.10 Amended and Restated Change in Control Agreement by and between Joseph R. Nolan, Jr. and NSTAR, dated November 15, 2007 ([Exhibit 10.13, 2007 NSTAR Form 10-K filed February 11, 2008, File No. 001-14768](#))

+ 10.11 Amended and Restated Change in Control Agreement by and between Werner J. Schweiger and NSTAR, dated November 15, 2007 ([Exhibit 10.14, 2007 NSTAR Form 10-K filed February 11, 2008, File No. 001-14768](#))

+ 10.12 Amended and Restated Change in Control Agreement by and between Senior Vice President and NSTAR, dated November 15, 2007 ([Exhibit 10.15, 2007 NSTAR Form 10-K filed February 11, 2008, File No. 001-14768](#))

+ 10.13 Master Trust Agreement between NSTAR and State Street Bank and Trust Company (Rabbi Trust), effective August 25, 1999 ([Exhibit 10.5, NSTAR Form 10-O for the Quarter Ended September 30, 2000 filed November 14, 2000, File No. 001-14768](#))

+ 10.14 Currently effective Change in Control Agreement between NSTAR's Vice Presidents and NSTAR (in form) ([Exhibit 10.17, 2009 NSTAR Form 10-K filed February 25, 2010, File No. 001-14768](#))

(B) Eversource Energy, The Connecticut Light and Power Company, NSTAR Electric Company and Public Service Company of New Hampshire

10.1 Amended and Restated Form of Service Contract between each of Eversource Energy, CL&P, NSTAR Electric Company and Eversource Energy Service Company dated as of January 1, 2014. ([Exhibit 10.1, Eversource Energy Form 10-K filed on February 25, 2014, File No. 001-05324](#))

10.2 Transmission Operating Agreement between the Initial Participating Transmission Owners, Additional Participating Transmission Owners and ISO New England, Inc. dated as of February 1, 2005 ([Exhibit 10.29, 2004 Eversource Energy Form 10-K filed March 17, 2005, File No. 001-05324](#))

10.2.1 Rate Design and Funds Disbursement Agreement among the Initial Participating Transmission Owners, Additional Participating Transmission Owners and ISO New England, Inc., effective June 30, 2006 ([Exhibit 10.22.1, 2006 Eversource Energy Form 10-K filed March 1, 2007, File No. 001-05324](#))

10.3 Eversource Energy's Third Amended and Restated Tax Allocation Agreement dated as of April 10, 2012, ([Exhibit 10.1 Eversource Energy Form 10-O for Quarter Ended June 30, 2012 filed August 7, 2012, File No. 001-05324](#))

+ 10.4 Amended and Restated Incentive Plan Effective January 1, 2009 ([Exhibit 10.3, Eversource Energy Form 10-O for the Quarter Ended September 30, 2008 filed November 10, 2008, File No. 001-05324](#))

+ 10.5 Trust under Supplemental Executive Retirement Plan dated May 2, 1994 ([Exhibit 10.33, 2002 Eversource Energy Form 10-K filed March 21, 2003, File No. 001-05324](#))

+ 10.5.1 First Amendment to Trust Under Supplemental Executive Retirement Plan, effective as of December 10, 2002 ([Exhibit 10 \(B\) 10.19.1, 2003 Eversource Energy Form 10-K filed March 12, 2004, File No. 001-05324](#))

+ 10.5.2 Second Amendment to Trust Under Supplemental Executive Retirement Plan, effective as of November 12, 2008 ([Exhibit 10.12.2, 2008 Eversource Energy Form 10-K filed February 27, 2009, File No. 001-05324](#))

+ 10.6 Special Severance Program for Officers of Eversource Energy Companies as of January 1, 2009 ([Exhibit 10.2 Eversource Energy Form 10-Q for Quarter Ended September 30, 2008 filed November 10, 2008, File No. 001-05324](#))

+ 10.7 Amended and Restated Employment Agreement with Gregory B. Butler, effective January 1, 2009 ([Exhibit 10.7, 2008 Eversource Energy 2010 Form 10-K filed February 27, 2009, File No. 001-05324](#))

(C) Eversource Energy, The Connecticut Light and Power Company, Public Service Company of New Hampshire and NSTAR Electric Company

10.1 Agreements among New England Utilities with respect to the Hydro-Quebec interconnection projects

\* 10.1.1 [Composite conformed copy of Equity Funding Agreement for New England Hydro-Transmission Electric Company, Inc., dated as of June 1, 1985 \(Massachusetts\)](#)

\* 10.1.2 [Composite conformed copy of Equity Funding Agreement for New England Hydro-Transmission Electric Company, Inc., dated as of June 1, 1985 \(New Hampshire\)](#)

\* 10.1.3 [Composite conformed copy of Phase II Massachusetts Transmission Facilities Support Agreement, dated as of June 1, 1985](#)

\* 10.1.4 [Composite conformed copy of Phase II New England Power AC Facilities Support Agreement dated June 1, 1985](#)

\* 10.1.5 [Composite conformed copy of Phase II New Hampshire Transmission Facilities Support Agreement dated as of June 1, 1985](#)

10.2 Eversource Energy Service Company Transmission and Ancillary Service Wholesale Revenue Allocation Methodology among The Connecticut Light and Power Company, NSTAR Electric Company, Public Service Company of New Hampshire, Holyoke Water Power Company and Holyoke Power and Electric Company Trustee dated as of January 1, 2008 ([Exhibit 10.1, Eversource Energy Form 10-Q for the Quarter Ended March 31, 2008 filed May 9, 2008, File No. 001-05324](#))

(D) Eversource Energy and The Connecticut Light and Power Company

10.1 CL&P Agreement Re: Connecticut NEEWS Projects by and between CL&P and The United Illuminating Company dated July 14, 2010 ([Exhibit 10, CL&P Form 10-Q for the Quarter Ended June 30, 2010 filed August 6, 2010, File No. 000-00404](#))

(E) Eversource Energy and Public Service Company of New Hampshire

\* 10.1 [Purchase and Sale Agreement between Public Service Company of New Hampshire and Granite Shore Power LLC, dated as of October 11, 2017](#)

\* 10.2 [Purchase and Sale Agreement between Public Service Company of New Hampshire and HSE Hydro NH AC, LLC dated as of October 11, 2017](#)

\* 12. Ratio of Earnings to Fixed Charges

(A) [Eversource Energy](#)

(B) [The Connecticut Light and Power Company](#)

(C) [NSTAR Electric Company](#)

(D) [Public Service Company of New Hampshire](#)

- \* 21. [Subsidiaries of the Registrant](#)
- \* 23. [Consents of Independent Registered Public Accounting Firm](#)
- \* 31. Rule 13a - 14(a)/15 d - 14(a) Certifications
  - (A) Eversource Energy
    - 31 [Certification by the Chief Executive Officer of Eversource Energy pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
    - 31.1 [Certification by the Chief Financial Officer of Eversource Energy pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
  - (B) The Connecticut Light and Power Company
    - 31 [Certification by the Chairman of CL&P pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
    - 31.1 [Certification by the Chief Financial Officer of CL&P pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
  - (C) NSTAR Electric Company
    - 31 [Certification by the Chairman of NSTAR Electric Company pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
    - 31.1 [Certification by the Chief Financial Officer of NSTAR Electric Company pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
  - (D) Public Service Company of New Hampshire
    - 31 [Certification by the Chairman of PSNH pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
    - 31.1 [Certification by the Chief Financial Officer of PSNH pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
- \*32 18 U.S.C. Section 1350 Certifications
  - (A) Eversource Energy
    - 32 [Certification by the Chief Executive Officer and Chief Financial Officer of Eversource Energy pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)
  - (B) The Connecticut Light and Power Company
    - 32 [Certification by the Chairman and the Chief Financial Officer of CL&P pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)
  - (C) NSTAR Electric Company
    - 32 [Certification by the Chairman and the Chief Financial Officer of NSTAR Electric Company pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)
  - (D) Public Service Company of New Hampshire
    - 32 [Certification by the Chairman and the Chief Financial Officer of PSNH pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)

*101.INS	XBRL Instance Document
*101.SCH	XBRL Taxonomy Extension Schema
*101.CAL	XBRL Taxonomy Extension Calculation
*101.DEF	XBRL Taxonomy Extension Definition
*101.LAB	XBRL Taxonomy Extension Labels
*101.PRE	XBRL Taxonomy Extension Presentation

COMPOSITE (Including All Amendments to May 1, 1967)

Indenture of Mortgage and Deed of Trust

Dated as of May 1, 1921

THE CONNECTICUT LIGHT AND POWER COMPANY

TO

BANKERS TRUST COMPANY,  
Trustee

As Amended by Twenty-Four Supplemental Indentures  
(to and including Supplemental Indenture dated as of May 1, 1967)

---

**THE CONNECTICUT LIGHT AND POWER COMPANY**

**Indenture of Mortgage and Deed of Trust**

**Dated as of May 1, 1921  
(as amended to May 1, 1967)**

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**THIS INDENTURE**, dated as of the first day of May, 1921, between THE CONNECTICUT LIGHT AND POWER COMPANY, a corporation of the State of Connecticut (hereinafter called "Company"), party of the first part, and BANKERS TRUST COMPANY, a corporation organized and existing under the laws of the State of New York (hereinafter called "Trustee"), party of the second part, Witnesseth:

(Recitals omitted.)

*Now, Therefore, This Indenture Witnesseth* , that the Company, for and in consideration of the premises and the sum of One Dollar (\$1.) to it in hand paid by the Trustee, the receipt whereof is hereby acknowledged, and of other valuable considerations, in order to secure the payment of the principal and interest of all said bonds according to their tenor, and the faithful performance of the covenants herein contained, has granted, bargained, sold, assigned, mortgaged, pledged; transferred, set over, aliened, enfeoffed, released, conveyed and confirmed, and by these presents does grant, bargain, sell, assign, mortgage, pledge, transfer, set over, alien, enfeoff, release, convey and confirm unto the Bankers Trust Company, as Trustee, and its successor or successors in the trust hereby created, and its and their assigns, all the following described property, rights, privileges, and franchises of the Company, viz:

*(All descriptions of real estate rights. privileges and easements and all references to prior encumbrances have been omitted herein.)*

TOGETHER with all plants, buildings, structures, improvements and machinery located upon said real estate or any portion thereof, and all rights, privileges and easements. of; every kind and nature appurtenant thereto; and all and singular the tenements, hereditaments and appurtenances belonging to the real estate or any part thereof hereinbefore described or referred to or intended so to be, or in any wise appertaining thereto, and the reversions, remainders, rents, issues and profits thereof; also all the estate; right, title, interest, property, possession, claim and demand whatsoever, as well in law as in equity, of the Company, of, in and to the same and any and every part thereof, with the appurtenances.

TOGETHER with the following electrical transmission lines and distributing systems:

*(All descriptions of electrical transmission lines. and distributing systems have been omitted herein.)*

Also all real estate, easements, rights-of-way, water rights, riparian rights, flowage rights, dams, ponds, lakes, reservoirs, canals, water-ways, water power

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properties, gas and electric light, heat and power plants and systems, power houses, steam stations, substations, transformer houses, tunnels, subways, bridges, viaducts, locks, ware-houses, store-houses, tool houses, dwelling houses, out-houses, buildings, structures, plants, machinery and apparatus, waterwheels, turbines, gates, valves, piping, pumps, furnaces, boilers, engines, steam engines, gas engines, steam turbines, dynamos, generators, turbo-generators, motor generators, rotary converters, transformers, switches, switch-boards, appliances, equipment, tools, fixtures, electric transmission lines and systems, electric distribution lines and systems, gas distribution lines and systems, telephone lines and systems, towers, poles, cross-arms, insulators, cables, wires, conduits, ducts, man-holes, devices, motors, meters, lamps, shops, trucks, automobiles, wagons, vehicles, instruments, and, except as herein otherwise provided, all property, real and personal of whatsoever character, and wherever situated, and all rights, privileges, and franchises, now or at any time hereafter acquired, owned, held or possessed by the Company.

Also all the estate, right, title and interest granted to the Company by the Housatonic Power Company by an instrument in writing, dated August 9, 1917, in and to certain franchises, plants and appurtenances necessary for or particularly connected with the generation or distribution for sale of gas or electricity within the State of Connecticut, which were demised or leased for the term of nine hundred and ninety-nine (999) years by the Connecticut Railway and Lighting Company to The Consolidated Railway Company by instrument in writing, dated December 19, 1906, recorded in the office of the Secretary of State of the State of Connecticut in Volume 7, page 140, and which were in turn assigned by two certain mesne conveyances, both dated February 28, 1910, executed by The New York, New Haven and Hartford Railroad Company (formerly The Consolidated Railway Company) to the Housatonic Power Company; also all the estate, right, title and interest granted to the Company by The United Electric Light and Water Company by instrument in writing, also dated August 9, 1917, in and to certain of the aforesaid franchises, plants and appurtenances and which were assigned by a certain mesne conveyance, dated December 30, 1911, executed by The New York, New Haven and Hartford Railroad Company (formerly The Consolidated Railway Company) and the Housatonic Power Company, to The United Electric Light and Water Company; subject, however, to the interpretation and determination of such estate, right, title and interest as contained in a certain agreement, dated June 27, 1917, between Connecticut Railway and Lighting Company, Housatonic Power Company, The United Electric Light and Water Company, and The New York, New Haven and Hartford Railroad Company, as amended by an agreement dated July 23, 1918, between

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Connecticut Railway and Lighting Company, Housatonic Power Company, The United Electric Light and Water Company, The New York, New Haven and Hartford Railroad Company, and The Connecticut Light and Power Company, and as contained in a certain agreement dated April 26, 1921 between Connecticut Railway and Lighting Company, The New York, New Haven and Hartford Railroad Company and The Connecticut Light and Power Company, all the rights and obligations whereof inure to and are obligatory upon the Company, said two mesne conveyances to the Housatonic Power Company dated February 28, 1910, and said agreement dated June 27, 1917, as amended by said agreement dated July 23, 1918, being hereinafter referred to in Section 3.05 and in Section 8.02 of this indenture as "said agreements dated February 28, 1910, June 27, 1917, and July 23, 1918, referred to in the granting clause hereof."

Also all rents, tolls, earnings, profits, revenues, dividends and income arising or to arise from any property now or hereafter owned, leased or operated by the Company.

Also all rights, claims, patents, patent rights, agreements, accounts receivable and other cash assets, contracts, leases, lease-hold interests, of every kind and nature whatsoever, now owned or hereafter acquired by the Company.

Excepting, however, from the lien and operation of this indenture, all the franchises and property, real and personal, plants and appurtenances lately of the Village Water Company, of Suffield, Connecticut, which are necessary for or particularly connected with the pumping, distribution and sale of water throughout the territory covered by the charter of said Village Water Company, and which were demised and leased by an instrument in writing dated September 9, 1912, by the Housatonic Power Company to The Enfield Electric Light and Power Company for a term of ninety-nine (99) years, with an option to purchase.\*

Excepting, however, from the lien and operation of this indenture, stocks; bonds or other obligations of other corporations now owned or hereafter acquired by the Company, unless the same shall be deposited by the Company with the Trustee as provided in this indenture.

It is the intention and it is hereby agreed that all property of the kind hereinbefore described acquired by the Company after the date hereof, shall, except as otherwise provided herein, be as fully embraced within the provisions of this indenture, and subject to the lien hereby created, as if the said property were now owned by the Company, and were specifically described herein and conveyed hereby.

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*\* The franchises and property of the Village Water Company referred to in the text were disposed of by the Company in 1956.*

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TO HAVE AND TO HOLD all and singular the property, rights, privileges and franchises hereby granted or mentioned or intended so to be, together with all and singular the reversions, remainders, rents, revenues, incomes, issues and profits, privileges and appurtenances, now or hereafter belonging or in anywise appertaining thereto, unto the Trustee and its successors in the trust hereby created and its and their assigns, forever; subject, however, as to the properties embraced in the indenture of mortgage and supplemental mortgage of The New Milford Power Company to the Central Trust Company of New York, dated February 24, 1902, and February 16, 1904, respectively, securing an issue of Five Per Cent. First Mortgage Thirty-Year Gold Bonds of The New Milford Power Company, to an aggregate principal amount of One Million Dollars (\$1,000,000), all of which have been issued and are now outstanding, to the lien of said mortgage and supplemental mortgage, but only insofar as by the terms of said mortgage and supplemental mortgage they attach to any part or parts of the properties, plants and systems of the Company, and subject further, however, to the aforesaid agreement between The New York, New Haven and Hartford Railroad Company, The New England Navigation Company, Housatonic Power Company, The United Gas Improvement Company, and The Connecticut Light and Power Company, dated July 23, 1918, and recorded in New Milford Land Records, Vol. 76, page 53, but only insofar as by the terms of said agreement it attaches to any part or parts of the properties, plants and systems of the Company.

But in trust, nevertheless, for the equal and proportionate benefit and security of all present and future holders of the bonds and coupons issued and to be issued hereunder and secured by this indenture, and to secure the payment of such bonds and the interest thereon when payable in accordance with the provisions thereof or hereof, and to secure the performance of and compliance with the covenants and conditions of this indenture without preference, priority or distinction, except as provided in Section 10.01 hereof, as to lien or otherwise of any one bond over any other bond by reason of priority in the issue or negotiation thereof, and under and subject to the provisions and conditions and for the uses and purposes hereinafter set forth.

And it is hereby covenanted that all such bonds, with the coupons for the interest thereon, are to be issued, authenticated and delivered, and that the mortgaged premises are to be held by the Trustee upon and subject to the following covenants, provisions and conditions and for the uses and purposes hereinafter set forth, as follows, to wit:

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*\* The new Milford Power Company mortgage referred to in the text was discharged and released in 1932.*

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## ARTICLE 1.

### Definitions.

SECTION 1.01. *Defined Terms.* The terms defined in this Section shall, for all purposes of this indenture and of all indentures supplemental hereto entered into in accordance with the provisions hereof, have the meanings herein specified, unless the context otherwise specifies or requires. Unless herein otherwise defined or unless the context otherwise specifies or requires, all terms used in the Mortgage which are defined (expressly or by reference to the Securities Act of 1933, as amended) in the Trust Indenture Act of 1939, as amended, shall have the meanings assigned to them in said Act as it was in force on April 1, 1967.

(a) *Accountant:*

The term "accountant" shall mean an individual, partnership or corporation qualified to pass upon accounting questions, whether or not employed by or in any way affiliated with the Company.

(b) *Accountants certificate:*

The term "accountant's certificate" shall mean a certificate or opinion signed by an accountant appointed by the Company and acceptable to the Trustee, and conforming to the requirements of Section 15.03.

(c) *Affiliate:*

The term "affiliate" when used with regard to the Company or to any other person shall mean a person directly or indirectly controlling, controlled by, or under direct or indirect common control with, the Company or such other person, as the case may be. A person shall be deemed to control a corporation, for the purpose of this definition, if such person possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of such corporation, whether through the ownership of voting securities, by contract, or otherwise.

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(d) *Appraiser:*

The term "appraiser" shall mean an individual, partnership or corporation qualified to determine the value of the property or securities in question, whether or not employed by or in any way affiliated with the Company.

(e) *Appraiser's certificate:*

The term "appraiser's certificate" shall mean a certificate or opinion signed by an appraiser appointed by the Company and acceptable to the Trustee, and conforming to the requirements of Section 15.03.

(f) *Board of Directors:*

The term "Board" or "Board of Directors" shall mean the Board of Directors of the Company.

(g) *Bondable property additions:*

The term "bondable property additions" shall mean the amount of bondable property additions made the basis for action under the Mortgage as specified in item (xv) of a bondable property certificate filed with the Trustee.

(h) *Bondable property certificate:*

The term "bondable property certificate" shall mean an accountant's certificate conforming to the requirements of Section 15.03 filed with the Trustee and complying with the requirements of Subdivision (1) of Section 3.57;

(i) *Bondholders:*

The term "bondholders" or "holders of the bonds" or "holders" shall mean the bearers of any coupon bonds the ownership of which is not at the time registered as to principal, the registered owners of any coupon bonds which are at the time duly registered as to principal, and the registered owners of any fully registered bonds.

Any reference to a particular percentage or proportion of holders shall mean the holders at the particular time of the specified percentage or pro portion in aggregate principal amount of all bonds then outstanding exclusive of bonds (whether or not theretofore issued) owned by the Company or

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any other obligor upon the bonds or by any affiliate of the Company or of any other obligor upon the bonds and whether held in the treasury of the Company or of such obligor or of any such affiliate or pledged to secure any indebtedness; provided, however, that where such reference is made in connection with the protection of the Trustee in acting upon the direction or consent of a specified proportion of bondholders or of holders of bonds of a specific series, such bonds so held shall be excluded only if known to the Trustee to be so held; and provided, further, that bonds so pledged may be regarded as outstanding for the purposes of this paragraph if the pledgee shall establish to the satisfaction of the Trustee the pledgee's right to vote such bonds and that the pledgee is not an affiliate of the Company or of any other obligor upon the bonds.

(j) *Bonds:*

The term "bond" or "bonds" shall mean a bond or bonds issued under the Mortgage.

(k) *Certified resolution; resolution:*

The term "certified resolution" or "resolution" shall mean a copy of a resolution certified by the Secretary or an Assistant Secretary of the Company, under its corporate seal, to have been duly adopted by the Board or the Executive Committee of the Board and to be in full force and effect on the date of such certification.

(l) *Company:*

The term "Company" shall mean the party of the first part hereto, The Connecticut Light and Power Company, and, subject to Article 7, shall also include its successors and assigns.

(m) *Corporation:*

The term "corporation" shall also include voluntary associations, joint stock companies and business trusts.

(n) *Cost:*

The term "cost" (except as used in Article 3, Article 8 and Section 9.02), when used with respect to any particular property additions or other property

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acquired or constructed by the Company, means the actual cost (or, if not known, estimated cost) thereof to the Company, determined in accordance with the Uniform System. (o) Counsel:

The term "counsel" shall mean counsel, who may be of counsel to the Company, appointed by the Company and acceptable to the trustee.

(p) *Coupons*:

The term "coupon" or "coupons" shall mean any interest coupon or interest coupons, as the case may be, appertaining to the bonds.

(q) *CR&L Lease*:

The term "CR&L Lease" means the 999-year lease dated December 19, 1906 from Connecticut Railway and Lighting Company to The Consolidated Railway Company, recorded in the office of the Secretary of State of the State of Connecticut in Volume 7, Page 140, as heretofore or hereafter supplemented and amended.

(r) *Engineer*:

The term "engineer" shall mean an individual, partnership or corporation qualified to pass upon engineering questions; whether or not employed by or in any way affiliated with the Company.

(s) *Engineer's certificate*:

The term "engineer's certificate" shall mean a certificate conforming to the requirements of Section 15.03 signed by an engineer appointed by the Company and acceptable to the Trustee.

(t) *Event of default*:

The term "event of default" shall mean any event of default specified in Section 10.02, continued for the period of time, if any, therein designated.

(u) *Fair value*:

The term "fair value", when used with respect to any property, shall mean the fair value thereof determined as if it were free of lien securing debt, if any.

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The term "fair value", when used with respect to any particular property acquired or constructed by the Company, shall mean the fair value thereof to the Company determined as of the date of the engineer's or independent engineer's certificate in which such property is included, except that the fair value of any property which has been retired prior to the date of the certificate in which it is included shall be determined as of the date when such property first became properly chargeable to utility plant accounts of the Company under the Uniform System.

In the case of any property consisting of a plant or system which within six months prior to the date of its acquisition by the Company has been used by a person or persons other than the Company in a business similar to that in which it has been or is to be used or operated by the Company, the "fair value" thereof shall be deemed to include the fair value of any franchises, contracts, operating agreements or other rights or property acquired simultaneously therewith, for which no separate or distinct consideration shall have been paid or apportioned. The provisions of this subsection (u) shall not be applicable to, and shall not modify or otherwise vary the interpretation of, Article 3, Article 8 and Section 9.02.

*(v) First Effective Date:*

The term "First Effective Date" shall mean the earliest date on which all bonds of series originally issued under the Mortgage prior to January 1, 1960 have ceased to be outstanding.

*(w) Independent:*

The term "independent" when applied to any accountant, appraiser, engineer, or other expert, shall mean an expert who (a) is in fact independent; (b) does not have any substantial interest, direct or indirect, in the Company or in any person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Company; and (c) is not connected with the Company or any person directly or indirectly controlling, or controlled by, or under direct or indirect common control with, the Company, as an officer, employee, underwriter, trustee, director or person performing similar functions. The fact that an accountant, appraiser, engineer or other expert is retained by the Company, or that his services are engaged, otherwise than as an employee or officer of the Company, for compensation

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shall not be deemed in itself to disqualify him on the ground that he is not independent.

*(x) Independent accountant's certificate:*

The term "independent accountant's certificate" shall mean a certificate or opinion conforming to the requirements of Section 15.03 and signed by an independent accountant appointed by the Company and approved by the Trustee in the exercise of reasonable care.

*(y) Independent appraiser's certificate:*

The term "independent appraiser's certificate" shall mean a certificate or opinion conforming to the requirements of Section 15.03 and signed by an independent appraiser appointed by the Company and approved by the Trustee in the exercise of reasonable care.

*(z) Independent engineer's certificate:*

The term "independent engineer's certificate" shall mean a certificate conforming to the requirements of Section 15.03 and signed by an independent engineer appointed by the Company and approved by the Trustee in the exercise of reasonable care.

*(aa) Lien of the Mortgage:*

The term "lien hereof" or "lien of the Mortgage" or "lien of this Mortgage" shall mean the lien created or intended to be created by the Mortgage (including the after-acquired property clauses hereof), or otherwise created or intended to be created, constituting any property a part of the security held by the Trustee for the benefit of the bonds outstanding.

*(bb) Maintenance certificate:*

The term "maintenance certificate" shall mean an officers' certificate conforming to the requirements of Section 15.03 filed by the Company with the Trustee pursuant to the requirements of Section 6.06.

*(cc) Mortgage:*

The term "Mortgage" shall mean the Company's Indenture of Mortgage and Deed of Trust, dated as of May 1, 1921, to Bankers Trust Company, as Trustee, as supplemented and amended by all supplemental indentures.

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(dd) *Mortgaged property:*

The terms "mortgaged property" or "trust estate" shall mean as of any particular time the property (including cash) which at said time is covered or intended to be covered by the lien of the Mortgage.

(ee) *Nuclear core elements; bondable value of nuclear core elements:*

The term "nuclear core elements" shall mean the fuel elements comprising the core for a nuclear power reactor. The term shall include (i) fuel elements while in the process of fabrication and special nuclear or other materials held for use in such fabrication, (ii) fuel elements which are being held for future use in the reactor, (iii) fuel elements located in the reactor, (iv) fuel elements which have been withdrawn from the reactor after use, and (v) fuel elements, and materials formerly comprising fuel elements, which are undergoing or have undergone reprocessing.

The term "bondable value", as applied to any particular nuclear core element, shall mean the cost thereof, or the fair value thereof to the Company as of the time the element is first used in the nuclear reactor, whichever is less.

(ff) *Officers' certificate:*

The term "officers' certificate" shall mean a certificate signed by the President or a Vice-President and the Treasurer or an Assistant Treasurer of the Company and conforming to the requirements of Section 15.03.

(gg) *Officers' default certificate:*

The term "officers' default certificate" shall mean an officers' certificate delivered in connection with a request or application under the Mortgage and stating that, so far as known to the signers, the Company is not, and upon the granting of the application will not be, in default in the performance of any of the covenants or provisions of the Mortgage.

(hh) *Opinion of counsel:*

The term "opinion of counsel" shall mean an opinion or opinions in writing signed by counsel and conforming to the requirements of Section 15.03.

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(ii) *Outstanding, with reference to bonds:*

The term "outstanding," when used with reference to bonds, shall mean as of any particular time all bonds issued under the Mortgage, except:

(i) bonds theretofore cancelled or delivered to the Trustee for cancellation;

(ii) bonds for the purchase, payment or redemption of which moneys in the necessary amount shall have been irrevocably deposited with the Trustee, provided, however, that if such bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Mortgage, or provision satisfactory to the Trustee shall have been made for the giving of such notice; and

(iii) bonds theretofore paid or in lieu of or in substitution for which other bonds shall have been authenticated or certified and delivered pursuant to Section 2.08 hereof.

(jj) *Outstanding, with reference to prior lien obligations:*

The term "outstanding," when used with reference to prior lien obligations, shall mean as of any particular time all prior lien obligations authenticated and delivered by the trustee or other holder of the prior lien securing the same or, if there be no such trustee or other holder, theretofore made and delivered or incurred, except:

(i) prior lien obligations theretofore cancelled or delivered to the trustee or other holder of any such prior lien for cancellation;

(ii) prior lien obligations held by the Trustee subject to the provisions of Article 9 hereof;

(iii) prior lien obligations held by the trustee or other holder of a prior lien upon the same property as that mortgaged or pledged to secure the prior lien obligation so held (under conditions such that no transfer of ownership or possession of such prior lien obligations by the trustee or other holder of such prior lien is permissible otherwise than to the Trustee to be held subject to the provisions of Article 9 hereof, or to the trustee or other holder of some other prior lien upon

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the same property for cancellation or to be held uncanceled under the terms of such other prior lien under like conditions);

(iv) prior lien obligations for the purchase, payment or redemption of which funds in the necessary amount shall have been irrevocably deposited with the Trustee or the trustee or other holder of a prior lien, provided that if such prior lien obligations are to be redeemed prior to the maturity thereof, notice of such redemption shall have, been given as required by the prior lien securing the same, or provision satisfactory to the Trustee shall have been made for the giving of such notice; and

(v) lost, stolen or destroyed prior lien obligations in lieu of or in substitution for which other prior lien obligations shall have been authenticated and delivered.

(kk) *Permitted liens:*

The term "permitted liens" shall mean:

(a) any mortgages, liens or other encumbrances created by others than. the Company and any renewal or extension of any such lien, mortgage or other encumbrance, which at the particular time in question are liens upon lands not owned by the Company over which easements or rights-of-way for towers, poles, wires, conduits, mains, pipe lines, transmission lines, distribution lines, metering stations or other facilities or purposes are held by the Company, securing bonds or other indebtedness Which have. not been assumed or guaranteed by the Company and on which the Company does not customarily pay interest charges;

(b) undetermined liens and charges incidental to construction;

(c) any valid right under any provision of statutory or common law to purchase, condemn, appropriate. or recapture, or to designate a purchaser of, any of the mortgaged property;

(d) the lien of taxes and assessments. not at the time due and delinquent;

(e) the lien of specified taxes and assessments which are delinquent but the validity of which is being contested at the time by the Company in good faith;

(f) the lien reserved in leases. for rent and other payments in the nature of rent and for compliance with the terms of the leases in the case of leasehold estates;

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(g) minor defects and irregularities in the titles to any property which do not materially impair the use of such property for the purposes for which it is held by the Company;

(h) easements, rights, exceptions or reservations in any property of the Company, granted or reserved or created by law for the purpose of towers, poles, conduits, mains, pipe lines, transmission lines, distribution lines, metering stations, roads, streets, alleys, highways, railroad tracks, docks, water or air rights, wells and other like facilities or purposes, or for the joint or common use of real property, facilities and equipment, which do not materially impair the use of such property for the purposes for which it is held by the Company;

(i) rights reserved to or vested in any municipality or public authority to control or regulate any property of the Company or to use any such property in any manner which does not materially impair the use of such property for the purposes for which it is held by the Company;

(j) any obligations or duties, affecting the property of the Company, to any municipality or public authority with respect to any franchise, grant, license or permit;

(k) any irregularities in or deficiencies of title to any rights-of-way for electric transmission lines, electric distribution lines, pipe lines, telephone lines, power lines, water lines and/or appurtenances thereto or other improvements thereon, and to any real estate used or to be used primarily for right-of-way purposes, provided that in the opinion of counsel the Company shall have obtained from the apparent owner of the lands or estates therein covered by any such right-of-way a sufficient right, by the terms of the instrument granting such right-of-way, to the use thereof for the construction, operation or maintenance of such lines, appurtenances or improvements for which the same are used or are to be used, or provided that in the opinion of counsel the Company has power under its charter or by statute, by the exercise of eminent domain or a similar right or power, to remove such irregularities or deficiencies; and

(1) the rights of persons other than the Company created by the agreement between The New York, New Haven and Hartford Railroad Company, The New England Navigation Company, Housatonic Power Company, The United Gas Improvement Company and the Company,

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dated July 23, 1918, and recorded in the New Milford Land Records, Vol. 76, Page 53.

(ll) *Person:*

The term "person" shall mean and include an individual, a corporation, a partnership, an association, a joint stock company, a trust, any unincorporated organization or any government or political subdivision thereof.

(mm) *Prior lien obligations; prior lien:*

The term "prior lien obligations" shall mean debt obligations secured by mortgage or other lien, charge, title retention agreement or other encumbrance prior to or on a parity with the lien of the Mortgage (except a permitted lien) existing on property constituting a part of the trust estate, whether or not assumed by the Company; and the term "prior lien" shall mean any lien securing outstanding prior lien obligations.

(nn) *Property additions; amount of property additions:*

The term "property additions" shall mean utility property acquired or constructed by the Company since December 31, 1966. Permanent improvements, extensions, additions or replacements in the process of construction or erection shall be "property additions" as of any given date, insofar as actually constructed or erected after December 31, 1966, and before such given date. Property additions as so defined shall not include any of the following:

- (a) good will or going concern value;
  - (b) any contracts or agreements or franchises or governmental permits, granted or acquired, as such, separate and distinct from the property operated thereunder or in connection therewith or incident thereto;
  - (c) any shares of stock or certificates or evidences of interest therein, or any bonds, notes or other evidences of indebtedness or certificates of interest therein or any other securities;
  - (d) any materials, merchandise, appliances or supplies acquired for the purpose of resale to customers in the ordinary course and conduct of business or any materials or supplies held for consumption in operation;
  - (e) any property of the various general types which are currently excepted from the lien of the Mortgage by the granting clauses thereof;
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(f) any leased property (except for transmission or distribution purposes) or improvements thereto, except (1) property leased under the CR&L Lease and improvements thereto, and (2) improvements to other leased property which under the provisions of the applicable lease may be removed at or prior to the expiration of the lease and which may be so removed without substantially impairing their value to the Company; and

(g) any property upon which the Mortgage does not constitute a direct mortgage lien.

The term "amount", as applied to any particular property additions, shall mean the cost thereof, or the fair value thereof, whichever is less.

(oo) *Public accountant:*

The term "public accountant" shall mean an individual or a partnership or a corporation engaged in the accounting profession and entitled to practice as a public or chartered accountant under the laws of the state, territory or country of the residence or principal office of such person or entity, whether or not regularly engaged by the Company.

(pp) *Replacement fund requirement:*

The term "replacement fund requirement" (1), for any period of time, other than a period of twelve consecutive calendar months which is not a calendar year, shall mean an amount equal to the sum of the minimum provisions for replacement of depreciable property for:

(i) each calendar year, if any, included within the period in question, and

(ii) the months, if any, included within such period which are subsequent to the end of the last completed calendar year,  
and

(2) for a period of twelve consecutive calendar months which is not a calendar year, shall mean the minimum provision for replacement of depreciable property for such period.

The minimum provision for replacement of depreciable property for a calendar year or any other period of twelve consecutive calendar months shall be 2.25% of the average of the Company's depreciable property as at the beginning and end of such year or other period.

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The minimum provision for replacement of depreciable property for the period of months subsequent to the end of the last completed calendar year shall be 1/12<sup>th</sup> of 2.25% of the average of the Company's depreciable property as at the beginning and end of such period for each full month included within such period.

The term "depreciable property" shall mean, as of any specified time of computation, an amount, determined in accordance with generally accepted accounting principles, equal to the sum of (a) the aggregate of the cost to the Company, or the original cost, (whichever is less) of depreciable utility property, excluding any amount included in utility plant acquisition adjustments accounts or in any accounts for similar purposes, and (b) amounts included in the utility plant acquisition adjustments accounts or in accounts for similar purposes of the Company if (1) the Company shall have failed to provide a reserve therefor on its books and (2) the Company shall have failed to make provision for charges to income and/or periodic charges to surplus in lieu of charges to income adequate to permit the write-off thereof at the expiration of the estimated useful life of the property represented thereby.

(qq) *Refundable prior lien obligations:*

The term "refundable prior lien obligations" at any particular time shall mean all prior lien obligations which are or previously were secured by a prior lien on any property additions certified to the Trustee in any bondable property certificate and which are or were outstanding at any time after the property additions on which such prior lien is or was a lien have been so certified to the Trustee (whether or not still outstanding at such particular time) other than (1) prior lien obligations in exchange for which other prior lien obligations have been delivered, (2) prior lien obligations theretofore made the basis for the authentication and delivery of bonds or the withdrawal of cash under any provision of the Mortgage, or for a credit under Section 3.55, Section 6.06, Section 6.14 or Article 8.5, provided that prior lien obligations which are withdrawn from the Trustee pursuant to Section 6.06 shall, at the time of such withdrawal, again become refundable prior lien obligations, (3) prior lien obligations which shall have been deducted from the fair value of any mortgaged property released, and (4) prior lien obligations which have ceased to be outstanding by reason of having been paid, redeemed, purchased or otherwise retired through the application of moneys received on a release of, or representing the proceeds of insurance on, or

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the proceeds of the taking by eminent domain or purchase by any governmental or public body, authority, agency or licensee of, or the proceeds of any other sale, disposition or change of, mortgaged property, including the proceeds of and substitutes for any thereof.

*(rr) Responsible officers of the Trustee:*

The term "responsible officers of the Trustee" shall mean and include the chairman of the board of directors, the president, every vice-president, every assistant vice-president, the cashier, the secretary, the treasurer, every trust officer, every assistant trust officer, and every other officer and assistant officer of the Trustee to whom any corporate trust matter is referred because of his knowledge of and familiarity with a particular subject, and the term "responsible officer" shall mean and include any of said officers.

*(ss) Retirements; amount of retirements:*

The term "retirements" shall mean and include all utility property which, subsequent to December 31, 1966, shall have become worn out or permanently unserviceable, or shall have been lost, sold, destroyed, abandoned, surrendered on lapse of title, or released from the lien of the Mortgage, or taken by eminent domain, or purchased by any governmental or public body, authority, agency or licensee pursuant to the right reserved to or vested in it by any license or franchise, or otherwise disposed of by the Company, or retired from service for any reason, or shall have permanently ceased to be used or useful in the business of the Company. The term "amount", as applied to any particular retirement, shall mean the cost thereof to the extent that an amount equivalent to such cost is credited to utility plant accounts under the Uniform System.

*(tt) Second Effective Date:*

The term "Second Effective Date" shall mean the earliest date on which all bonds of series originally issued under the Mortgage prior to April 1, 1967 have ceased to be outstanding.

*(uu) Securities and Exchange Commission:*

The term "Securities and Exchange Commission" shall mean the Commission created by the Securities Exchange Act of 1934, or in the event that such Commission shall not be existing and performing the duties performed by it on August 31, 1944, then the body performing the duties theretofore performed by the aforesaid Securities and Exchange Commission.

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(vv) *Special nuclear material:*

The term "special nuclear material" shall mean uranium, thorium, plutonium and any other material from time to time used or selected for use by the Company as fuel material in a nuclear electric generating unit.

(ww) *Supplemental indenture:*

The term "supplemental indenture" or "indenture supplemental hereto" shall mean any indenture duly authorized and entered into in accordance with the provisions of the Mortgage and expressly stated to be supplemental hereto.

(xx) *Trustee:*

The term "Trustee" shall mean Bankers Trust Company, or the trustee under the Mortgage for the time being, whether original or successor.

(yy) *Trust estate:*

See definition of "mortgaged property".

(zz) *Uniform System:*

The term "Uniform System" shall mean:

(i) the uniform systems of accounts applicable to the Company prescribed by the Public Utilities Commission of the State of Connecticut, as in effect January 1, 1967 and as said systems may be amended from time to time, or

(ii) if the systems of accounts prescribed by the Public Utilities Commission of the State of Connecticut cease to be applicable to the Company, the systems of accounts, as amended from time to time, prescribed by the regulatory commission having jurisdiction or supervisory authority over the accounts of the Company, or

(iii) if no regulatory commission has jurisdiction or supervisory authority over the accounts of the Company, a system of accounts maintained in accordance with generally accepted accounting principles.

(aaa) *Utility property:*

The term "utility property" shall mean property of the Company located in Connecticut or elsewhere and necessary or useful in the utility business, as

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that business is from time to time carried on by the Company, which is charged or properly chargeable to utility plant accounts in accordance with the Uniform System; provided, however, that the nuclear core elements required for a nuclear electric generating unit owned by the Company or in which the Company has an interest shall not constitute "utility property", even if charged or properly chargeable to utility plant accounts in accordance with the Uniform System, if all or any portion of the inventory of nuclear core elements required for such generating unit has been made the basis of the issue of bonds under Section 3.55.

SECTION 1.02. *Terms Defined Elsewhere.* Definitions of terms of general usage elsewhere defined in the Mortgage are set forth respectively:

Term	Section
underlying bonds	3.04
underlying mortgages	3.04
core deficiency	3.55
replacement credit	6.06
available replacement credit	6.06
replacement deficit	6.06
purchase money obligations	8.04, 8.56

## ARTICLE 2.

### Form, Execution, Delivery, Registry and Exchange of Bonds.

SECTION 2.01. *General Limitation on Amount.* The issue of bonds hereunder shall not be limited in respect of their aggregate principal amount, except as the Board may otherwise provide in respect of any particular series at the time of the creation thereof, and except that the total amount of bonds outstanding at any time shall not, in any event, exceed the amount at that time permitted by law.

SECTION 2.02. *Bonds Issuable in Series.* Bonds may be issued in series. All bonds of the same series shall be identical in tenor, except as to the denominations thereof and except, in the case of registered bonds without coupons, as to the date specified therein from which interest is to accrue. All of the bonds of a particular series shall bear the same date.

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SECTION 2.03. *Designation and Terms of Bonds of Each Series.* The bonds of each series shall be designated in such appropriate manner as shall be determined by the Board. The terms of the bonds of each series, including the denominations of the bonds, date of the bonds, date of maturity, rate of interest, semi-annual interest payment dates, exchangeability, provisions relating to conversion into the capital stock of the Company, or of a successor corporation, to a sinking fund, to redemption, to payment without deduction for certain taxes, and to reimbursement of the holder of any bonds for taxes on account of said bonds paid by said holder in States other than Connecticut, shall be such, not inconsistent with the terms of the Mortgage, as may be fixed by the Board and as shall be expressed in said bonds.

SECTION 2.04. *Form and Execution of Bonds; Interest Accrual.* Bonds of all series, and the coupons to be attached to coupon bonds shall be substantially in the forms hereinbefore set forth, provided however that there may be such omissions, variations or insertions therein as in the case of each series may be necessary or appropriate to make the bonds of such series conform to the listing requirements of any Stock Exchange or to provisions authorized in respect of the bonds of such series by the Board and permitted by the Mortgage.

All bonds issued under the Mortgage shall, from time to time, be executed on behalf of the Company with the manual or facsimile signature of its President or one of its Vice-Presidents, under its corporate seal or a facsimile thereof, attested by the manual or facsimile signature of its Secretary or an Assistant Secretary, and the Company may adopt and use for that purpose a facsimile signature of any person who shall have been such President, Vice-President, Secretary, or Assistant Secretary, notwithstanding the fact that such person may have ceased to have held the particular office at the time when such bonds shall be actually authenticated and delivered. After such execution and attestation the bonds shall be delivered to the Trustee for authentication by it and thereupon as provided in the Mortgage and not otherwise the Trustee shall authenticate and shall deliver the same. Only such bonds as shall bear thereon indorsed a certificate of authentication substantially in the form hereinbefore recited, executed by the Trustee, shall be secured by the Mortgage or be entitled to any right or benefit hereunder, and such authentication by the Trustee upon any such bond shall be conclusive and the only evidence that the bond so authenticated, when issued by the

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Company, has been duly issued hereunder and that the holder thereof is entitled to the benefit of the trusts hereby created.

In case any of the officers of the Company who shall have signed and sealed any of the bonds issuable under the Mortgage shall have ceased to be officers of the Company before the bonds so signed and sealed shall have been actually authenticated and delivered by the Trustee, such bonds, nevertheless, may be authenticated and delivered and issued as though the persons who signed and sealed such bonds had not ceased to be officers of the Company; and also any of such bonds may be signed and sealed in behalf of the Company by such persons as at the actual date of the execution of such bonds shall be the proper officers of the Company, although at the date of such bond any such person shall not have been an officer of the Company. The coupons to be attached to coupon bonds shall be authenticated by the engraved facsimile signature of the present Treasurer or of any future Treasurer of the Company, and the Company may adopt and use for that purpose the facsimile signature of any person who shall have been such Treasurer, notwithstanding the fact that he may have ceased to be such Treasurer at the time when such bonds shall be actually authenticated and delivered.

Before bonds of any series shall be authenticated or delivered by the Trustee, a certified resolution authorizing or creating such series shall be delivered to the Trustee, and the bonds of such series shall conform to the terms expressed in such resolution.

Coupon bonds shall bear interest from their date. Registered bonds without coupons shall bear interest from the interest payment date next preceding the date of authentication, unless such date of authentication be an interest payment date, in which case such bonds shall bear interest from such interest payment date.

Bonds may be issued originally either as coupon bonds or as registered bonds without coupons. The Trustee shall not authenticate or deliver any coupon bond unless all coupons thereon then matured shall have been detached and cancelled.

SECTION 2.05. *Denominations; Numbering.* Coupon bonds of each series shall be of the denomination of \$1,000.

Registered bonds without coupons of each series shall be of the denominations of \$1,000 or any multiple thereof as the Board may determine.

Coupon bonds and registered bonds without coupons of the several denominations shall each be identified by such numbers, letters or other dis-

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tinguishing marks as may be adopted by the Board with the approval of the Trustee.

SECTION 2.06. *Registrations, Transfers and Exchanges*. The Company shall keep at an office or agency to be maintained by it in the Borough of Manhattan, City of New York, books for the registry and transfer, as in the Mortgage provided, of bonds issued hereunder, which books at all reasonable times shall be open for inspection by the Trustee.

Any coupon bond may be registered as to principal only on the said books of the Company at its said office or agency and after such registration no transfer shall be valid unless made on said books by the registered holder in person, or by his attorney duly authorized, and similarly noted on the bond. Upon presentation to the Company at such office or agency of any such coupon bond registered as to principal, accompanied by a written instrument of transfer in form approved by the Company duly executed by the registered holder, such bond shall be transferred upon such books. The registered holder of any such coupon bond, registered as to principal, shall also have the right to cause the same to be registered as payable to bearer, in which case transferability by delivery shall be restored, and thereafter the principal of such bond when due shall be payable to the person presenting the bond; but any such bond registered as payable to bearer may be registered again in the name of the holder with the same effect as the first registration thereof. Successive registrations and transfers as aforesaid may be made from time to time as desired. Each registration of a bond shall be noted thereon by the agent for such purpose of the Company. Registration of any coupon bond as to principal, however, shall not affect the negotiability of the coupons appertaining to such bond, but every such coupon shall continue to pass by delivery merely and shall remain payable to bearer.

Whenever any coupon bond or bonds of the same series, by the terms thereof exchangeable for coupon bonds of the same series of other denominations, together with all unmatured coupons thereto appertaining, shall be surrendered to the Company for exchange for a like principal amount of coupon bonds of other denominations of the same series, the Company shall execute, and the Trustee shall authenticate, and it or the Company shall deliver in exchange therefor a like aggregate principal amount of coupon bonds of the same series of such other denominations as shall be designated in the bonds so surrendered, bearing all unmatured coupons.

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Whenever the registered holder of any registered bond without coupons shall surrender the same to the Company for transfer, together with a written instrument of transfer in form approved by the Company duly executed by such registered holder, the Company shall execute, and the Trustee shall authenticate, and it or the Company shall deliver in exchange therefor anew registered bond without coupons, or new registered bonds without coupons, of the same series, for the same aggregate principal amount.

Whenever any registered bond without coupons, by the terms thereof exchangeable for a coupon bond or coupon bonds of the same series, together With a written instrument of transfer in form approved by the Company duly executed by the registered holder, shall be surrendered to the Company for exchange for one or more coupon bonds of the same series, the Company shall execute, and the Trustee shall authenticate, and it or the Company shall deliver in exchange therefor a like aggregate principal amount of coupon bonds of the same series as the surrendered bond, bearing all unmatured coupons.

Whenever any coupon bond or bonds of the same series, by the terms thereof exchangeable for a registered bond or registered bonds without coupons. together with all unmatured coupons thereto appertaining shall be surrendered for exchange for a registered bond or registered bonds without coupons. the Company shall execute. and the Trustee shall authenticate, and it or the Company shall deliver in exchange therefor a registered bond or registered bonds without coupons, of the same series, for the same aggregate principal amount.

For any exchange of bonds for bonds of another denomination, or of registered bonds without coupons for coupon bonds, and for any transfer of registered bonds without coupons, the Company, at its option, may require the payment of a sum sufficient to reimburse it for any stamp tax or other governmental charge, and in addition thereto of a reasonable charge (not exceeding two dollars) for each new bond, if any, issued upon such transfer or exchange. In every case of transfer or exchange of bonds the Trustee forthwith shall cancel the surrendered bond or bonds and coupons, and upon demand shall deliver the same to the Company.

SECTION 2.07. *Ownership of Bonds.* The Company and the Trustee may deem and treat the bearer of any coupon bond hereby secured which shall not at the time be registered as hereinbefore provided, and the bearer of any coupons for interest on any bond, whether or not such bond shall be registered, as the absolute owner of such bond or coupons, as the case may be, for the purpose of receiving payment thereof and for all other purposes,

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and neither the Company nor the Trustee shall be affected by any notice to the contrary.

The Company and the Trustee shall deem and treat the person in whose name any registered bond without coupons issued hereunder shall be registered as hereinbefore provided as the absolute owner of such bond for the purpose of receiving payment of or on account of the principal and interest on such bond, and for all other purposes and shall deem and treat the person in whose name any coupon bonds shall be so registered as the absolute owner thereof for the purpose of receiving payment of or on account of the principal thereof, and for all other purposes except to receive payment of interest represented by outstanding coupons.

SECTION 2.08. *Replacement of Bonds.* In case any bond issued under the Mortgage shall become mutilated or be destroyed or lost, the Company in its discretion may issue, and thereupon the Trustee shall authenticate and deliver, a new bond of like tenor, date and series bearing in the case of a coupon bond, coupons having the same maturities as those attached to the bond at the time it was mutilated, destroyed or lost except such coupons as have been paid prior to the delivery of the new bond. The applicant for such substitute bond shall furnish to the Company and to the Trustee evidence to their satisfaction, respectively, of the mutilation, destruction or loss of such bond, and of the ownership thereof, and said applicant also shall furnish such indemnity to both the Company and the Trustee, respectively, as in their discretion they may require, and said applicant shall pay all expenses incident to the issue of a new bond under this Section and shall comply with such other reasonable regulations as the Company or the Trustee may prescribe.

SECTION 2.09. *Temporary Bonds.* Until definitive bonds shall be prepared the Company may execute and upon the request of the Company the Trustee shall authenticate and deliver in lieu of such definitive bonds and subject to the same provisions, limitations and conditions, temporary printed or typewritten bonds of any denomination substantially of the tenor of the bonds hereinbefore recited, with or without coupons and with appropriate omissions, insertions and variations as may be required. Pending the preparation of the definitive bonds, such temporary bonds shall be exchangeable for other temporary bonds of like aggregate principal amount, whether of the same or different denominations, in accordance with the provisions of this Article 2.

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Upon the surrender of such temporary bonds, or any of them, in exchange for definitive bonds, the Company, at its own expense, shall prepare and execute and, upon cancellation of such surrendered bonds, the trustee shall authenticate and deliver in exchange therefor, definitive bonds for the same aggregate principal amount as the temporary bonds surrendered, and otherwise in accordance with said temporary bonds. Until so exchanged, the temporary bonds in all respects shall be entitled to the same lien and security of the Mortgage as the definitive bonds issued and authenticated hereunder, and, except as otherwise provided as to any series in the supplemental indenture setting forth the terms and provisions of such series, interest, when and as payable shall be paid and such payment noted thereon, if such temporary bonds shall have been issued without coupons or, if such temporary bonds shall have been issued with coupons shall be paid on presentation and surrender of such coupons as they mature.

SECTION 2.10. *Fully Registered Issues*. Notwithstanding any other provision in the Mortgage, if definitive bonds of any series originally issued after April 1, 1967 are issuable only as registered bonds without coupons:

(a) the Company shall not be required to make any transfers or exchanges of bonds of such series for a period of fifteen (15) days next preceding (i) any mailing of notice of redemption of bonds of such series, or (ii) any interest payment date for bonds of such series, and the Company shall not be required to make transfers or exchanges of the principal amount (or any portion thereof) of any bonds of such series called or selected for redemption after the mailing of a notice of the redemption thereof; and

(b) the supplemental indenture establishing the terms of the bonds of such series may provide for (i) the determination of the registered holders entitled to receive payment of interest thereon by reference to a record date, and (ii) the dates from which such bonds shall bear interest.

### **ARTICLE 3.**

#### **Issue of Bonds.**

SECTION 3.01. *Effective Time of Article; General Requirements*. This Article 3 shall continue in effect until the Second Effective Date but not thereafter and shall cease to be of any force or effect on the Second Effective Date. So long as this Article 3 continues in effect, the Company shall not be entitled

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to require the Trustee to authenticate and deliver additional bonds under the Mortgage unless the Company complies with the applicable requirements of both this Article 3 and Article 3.5; provided, however, that nothing in the Mortgage shall be construed as requiring that the basis for the issue of such additional bonds under this Article 3 be the same as the basis for the issuance of such bonds under Article 3.5.

SECTION 3.02. *General Restrictions on Issues.* The Company may, subject only to the conditions prescribed in this Article 3 and Article 3.5, issue bonds secured by the Mortgage without limit as to principal amount. Such power to issue bonds shall not be exhausted by any issue but may be exercised from time to time, and the Mortgage shall be a continuing lien to secure the payment of the principal and interest of all bonds which may from time to time be outstanding hereunder.

SECTION 3.03. *Bonds Issued to Refund, Retire or Replace Other Bonds.* Additional bonds secured by the Mortgage may from time to time be authenticated and delivered hereunder, to refund, or retire, or replace, either before, at or after maturity, any bonds issued hereunder, upon compliance with the conditions prescribed in either paragraph (1) or (2) of this Section 3.03.

(1) Upon (a) delivery to the Trustee of any bonds issued hereunder, whether of the same or different series, cancelled or uncancelled, with all unmatured coupons, if any, thereto appertaining, either in bearer form or accompanied by proper instruments of assignment and transfer, and/or (b) upon proof furnished to the Trustee, satisfactory to the Trustee, that any such bonds have been paid and satisfied in full, the Trustee shall, upon request of the Company, at any time or times thereafter, authenticate and deliver to, or upon the written order of, the Company, bonds of such other series as may be requested by the Company, equal in principal amount to the principal amount of the bonds so delivered to the Trustee, and/or of the bonds so proved to have been paid and satisfied, as the case may be; provided that the Trustee shall have been furnished with a certified resolution requesting the authentication and delivery of such bonds.

(2) Upon delivery to the Trustee (a) of a certified resolution requesting the Trustee to authenticate and deliver to, or upon the written order of, the Company, bonds of a particular series, secured by the Mortgage, for the purpose of refunding at maturity any bonds issued here-

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under, and/or for the purpose of redeeming any such bonds; whether of the same or a different series; that shall have been called for redemption according to their terms, and (b) in the case of bonds called for redemption, also a certified resolution authorizing such call, the Trustee shall authenticate and deliver to, or upon the written order of, the 'Company, bonds of such series as may be requested by It, equal in principal amount to the aggregate principal amount of the bonds to be refunded and/or redeemed; provided that cash equal to the principal amount of the bonds so authenticated and delivered shall simultaneously be deposited with the Trustee in exchange therefor. On the written order of the Company, and upon delivery to the Trustee from time to time of bonds so matured or maturing or so called for redemption (other than bonds in exchange for which the Trustee shall have -authenticated and delivered bonds under paragraph (1) of this Section 3.03, and other than bonds of any series in respect of which the sinking fund provisions prohibit it, which shall have been acquired through the sinking fund of such series), cancelled or uncanceled, with all unmatured coupons, if any, thereto appertaining,. either in bearer form or accompanied by proper instruments of assignment and transfer, the Trustee, out of the cash so deposited with it, shall pay to the Company a sum equal to the principal amount of the bonds so delivered to the Trustee.

All bonds and coupons delivered to the Trustee under the provisions of this Section 3.03. shall, if uncanceled, thereupon be cancelled, and shall be stamped by the Trustee with a notation that the same have been refunded under the Mortgage, and returned to the Company. No bonds shall be subsequently issued hereunder in place of bonds that shall have been so refunded, stamped and returned.

SECTION 3.04. *Bonds Issued Against Underlying Bonds.* Upon compliance with the conditions prescribed in this Section 3.04, additional bonds secured by the Mortgage may from time to time be authenticated and delivered hereunder either (a) to refund, pay, redeem, retire, purchase or otherwise acquire, before, at or after maturity, any bonds or other obligations secured by mortgage or other lien prior to the lien hereof upon any property which may hereafter be acquired by the Company and which shall have been used as a basis for the authentication and delivery of bonds under Section 3.05, or (b) to reimburse the Company for money expended for any of said purposes. All such bonds or other obligations referred to in subdivision (a) of this para

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graph are hereafter in the Mortgage called collectively "underlying bonds." All mortgages or other liens securing underlying bonds are hereinafter in the Mortgage called "underlying mortgages."

(1) Whenever, from time to time, the Company shall deposit with the Trustee before, at or after maturity, any of said underlying bonds, cancelled or uncanceled, with all unmatured coupons, if any, thereto appertaining, either in bearer form or accompanied by proper instruments of assignment and transfer, or shall furnish to the Trustee evidence satisfactory to the Trustee that any such bonds, including those acquired for sinking fund purposes under any underlying mortgage, have been paid and satisfied in full, the Trustee, upon request of the Company, evidenced by a certified resolution, shall authenticate and deliver to, or upon the written order of, the Company, bonds secured by the Mortgage of any series requested by it, of a principal amount equal to the principal amount of such bonds so delivered to the Trustee and/or of such bonds so proved to have been paid and satisfied.

(2) From time to time, before, at or after the maturity of any of said underlying bonds, the Company may sell or otherwise dispose of bonds of any series secured by the Mortgage, in order to provide, in whole or in part, the means to pay, redeem, purchase or otherwise acquire any part of such bonds then outstanding, and the Trustee shall thereupon authenticate and deliver to, or upon the written order of, the Company, bonds of any series requested by it secured by the Mortgage of an aggregate principal amount equal to the aggregate principal amount of the bonds to be so paid, redeemed, purchased or otherwise acquired, provided that, in each case an amount of money equal to the aggregate principal amount of the bonds so to be paid, redeemed, purchased or otherwise acquired shall simultaneously with the delivery of said bonds secured hereby be deposited with the Trustee. Out of the money so deposited the Trustee shall, upon demand of the Company, and upon the delivery to the Trustee, in bearer form, or accompanied by proper instruments of assignment and transfer, of any one or more of the underlying bonds so paid, redeemed, purchased or otherwise acquired by the Company, pay to it or upon its written order, a sum equal to the principal amount of the underlying bonds so delivered to the Trustee

Whenever the Company shall request the authentication of bonds for any of such purposes, it shall deliver to the Trustee, in addition to

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said bonds or cash, a certified resolution requesting the Trustee to authenticate and deliver to, or upon the written order of, the Company, a stated amount of said bonds to be sold or otherwise disposed of, for or in respect of the payment, purchase; redemption or acquisition of a stated number of underlying bonds, specifying such underlying bonds, and stating that said amount of bonds to be issued hereunder is required for such purpose.

(3) Every underlying bond which shall be deposited with the trustee under the provisions of this Section 3.04 shall be stamped by the Trustee substantially as follows: "Not Negotiable. Held in trust for the purposes declared in the First and Refunding Mortgage of The Connecticut Light and Power Company dated May 1, 1921," and shall be held by the Trustee as purchaser, without merger or extinguishment or impairment of lien, and if not previously cancelled, then in uncanceled form, as part of the security for the bonds issued and to be issued under the Mortgage, unless and until disposed of as hereinafter in this paragraph (3) authorized and directed. All underlying bonds deposited with the Trustee pursuant to this Section shall not thereafter, so long as Article 3 remains in effect, be used for any purpose under the Mortgage, except as provided in this Section.

Unless an event of default has occurred and is continuing, neither the principal nor the interest of any underlying bonds at any time held by the Trustee shall be collected or shall be required to be paid, and the coupons thereto appertaining, as they mature, shall be cancelled by the Trustee and delivered to the Company, except that if default be made in the payment of the interest or principal of any of the underlying bonds not held by the Trustee hereunder, the coupons appertaining to any such underlying bonds of the same issue, held subject to the lien of the Mortgage, shall not after such default be cancelled, and the Trustee may demand and enforce any sums due, whether for interest or as principal, on any such underlying bonds or uncanceled coupons, or may take such other action as shall, in its judgment, be desirable or necessary, and in all respects such bonds so held by the Trustee shall be enforceable equally and ratably with all other like bonds not so held by the Trustee. The Trustee shall be reimbursed by the Company, or from the trust estate, for all expenses by it properly incurred by reason of any such action taken, with interest, and the amount of such expenses and interest shall, until repaid, constitute a lien upon the mortgaged property prior to the lien of the Mortgage. If at any time all of the underlying bonds

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of any issue shall be deposited with the Trustee, or shall have been proved to the satisfaction of the Trustee to have been paid and satisfied in full, and there shall not be outstanding any mortgage or other lien, which is junior to the mortgage securing such deposited bonds and prior to the lien of the Mortgage, upon any part of the property subject to the lien of such underlying mortgage, then, the bonds of such issue then held by the Trustee shall be cancelled by the Trustee and surrendered to the Company, and, in such case, the Company shall procure the satisfaction and discharge of the mortgage securing said cancelled bonds. In case the Company shall fail or neglect to take such steps as may be necessary to procure the satisfaction and discharge of record of the mortgage securing said cancelled bonds, the Trustee may take or cause to be taken, at the expense of the Company, such steps as in its opinion may be necessary to procure the satisfaction and discharge of record of the said mortgage.

SECTION 3.05. *Issue of Bonds Against Additional Property.* Additional bonds secured by the Mortgage may from time to time be authenticated and delivered hereunder subject only to the following conditions:

(1) The Company shall be entitled to have authenticated and delivered a principal amount of bonds equal to, but not exceeding, 75% of the actual cost or of the fair value to the Company whichever shall be less (such fair value to be determined as of a time within two months prior to the date of the application for authentication of bonds) of (a) additions to, extensions, betterments or improvements of the real property, plants and transmission and distribution systems of the Company now owned or (of the kind described in clause (b) below) which may be hereafter acquired or which are leased under said agreements dated February 28, 1910, June 27, 1917, and July 23, 1918, referred to in the granting clause hereof, or of (b) additional real property (including easements in perpetuity), plants, transmission and distribution systems, equipment, apparatus and machinery situated in the State of Connecticut and useful or necessary in the Company's gas or electric business or in connection with its hydro-electric developments.

Additions, extensions, betterments and improvements in process of construction from time to time and so far as actually constructed and paid for and which have become subject to the lien of the Mortgage shall be deemed additions, extensions, betterments and improvements within the meaning of this Section.

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Only such additions, extensions, betterments and improvements or additional property as shall have been constructed or acquired by the Company after May 1, 1921, may be used as a basis for the authentication and delivery of bonds under this Section 3.05.

(2) No bonds shall be authenticated and delivered under the provisions of this Section 3.05, on account of property which is subject to a mortgage or other lien prior to the lien of the Mortgage, where such mortgage or lien represents or secures an indebtedness the face value of which exceeds 40% of the cost or fair value (whichever shall be less) of the property on which said mortgage or lien exists.

If any property on account of which request shall be made for the payment of deposited moneys or the authentication of any bonds is subject to any lien or charge within the limit above mentioned, the actual cost of such property within the meaning of paragraph (1) of this Section 3.05, shall be deemed to be the sum of the amount already paid therefor by the Company and of the face amount of such indebtedness so secured, and bonds may be authenticated and delivered on account of said property to a principal amount equal (a) to the difference between 75% of the actual cost of said property as above defined and the face amount of such indebtedness, or (b) to the difference between 75% of the fair value of the property (without any deduction for such indebtedness) and the face amount of such indebtedness; whichever of said cost or fair value shall be less.

(3) Bonds shall not be authenticated under the provisions of this Section 3.05 if the net earnings of the Company, during the period of twelve consecutive calendar months ending not more than ninety days prior to any request for authentication of bonds under this Section 3.05, shall have been less than 1 3/4 times the sum of (i) the rental and other sums payable by the Company in pursuance of said agreements dated February 28, 1910, June 27, 1917 and July 23, 1918 referred to in the granting clause hereof; (ii) the interest on all bonds then outstanding hereunder and on all underlying bonds then outstanding and not pledged hereunder, but not including the interest on any bonds in the sinking fund under the Mortgage and the interest on any bonds in sinking funds under any underlying mortgages; and (iii) the interest on the bonds then requested to be authenticated.

For the purposes of this Article 3, the term "net earnings" shall be construed to mean the amount remaining after deducting from the

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operating and non-operating revenues of the Company all ordinary and proper expenses of operation, including repairs and maintenance (which shall include the entire allowance for maintenance, renewals and replacements hereinafter in Section 6.08 specified), taxes, rentals (except as otherwise provided in this paragraph), insurance and all fixed charges other than (i) amortization, (ii) the rental and other sums payable by the Company in pursuance of said agreements dated February 28, 1910, June 27, 1917, and July 23, 1918, referred to in the granting clause hereof; (iii) payments to sinking funds under the Mortgage and to sinking funds under all underlying mortgages; and (iv) the interest on all bonds then outstanding hereunder and on all underlying bonds then outstanding and not pledged hereunder, but not including the interest on any bonds in the sinking fund under the Mortgage and the interest on any bonds in sinking funds under any underlying mortgages. In any case where bonds are to be authenticated and delivered, or deposited moneys are to be paid, to acquire the property, real or personal, of a going concern, the net earnings of the property proposed to be acquired may be added to the net earnings of the Company, and if such property shall be owned by the Company during only a part of any twelve months' period for which net earnings are to be computed, the net earnings of such property during such part of such period as shall have preceded the acquisition thereof by the Company, may be added to the net earnings of the Company for the purposes of this computation, provided the purpose for which the Company intends to use such property is similar to the purpose for which such property was being used immediately prior to the acquisition thereof by the Company. For the purposes of the foregoing computation of net earnings, capital gains and losses shall be excluded.

SECTION 3.06. *Conditions to Issue of Bonds Under Section 3.05.* Bonds issuable under the provisions of Section 3.05 shall be authenticated and delivered upon receipt by the Trustee, in addition to the certified resolution required by Section 2.04, of:

(1) A Statement signed by the President, or a Vice-President, and the Secretary, or an Assistant Secretary, of the Company that the Company has acquired additional property or made additions, extensions, betterments or improvements of a character which under the provisions of Section 3.05 may be used as the basis for the authentication and

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delivery of bonds hereunder; and describing such additional property; additions, extensions, betterments or improvements in reasonable detail, and stating further:

(a) the actual cost thereof to the Company, and that such property was acquired, or such additions, extensions; betterments; and improvements made, subsequent to May 1, 1921;

(b) that no part of the expenditures for additional property, or for such additions; extensions, betterments, or improvements has been made the basis of the authentication of any bonds under any provisions of this Article 3 or its predecessor provision, or has been made the basis pursuant to Section 9.02 or its predecessor provision of the withdrawal of any money, or the expenditure pursuant to Section 6.09 or its predecessor provision of any proceeds of insurance policies or other insurance funds, or the release of property under Article 8 or its predecessor provision, or has been made for repairs, maintenance, replacements, or renewals except to the extent by which the actual cost or fair value thereof exceeds the cost when new of the things renewed or replaced;

(c) that the Company, to the knowledge of the officers making such statements, is not in default in the performance of the provisions of the Mortgage;

(d) whether any property so acquired is subject to any lien or charge which shall be particularly described excepting current taxes and undetermined liens and charges incident to construction, and setting forth the amount of every such lien or charge;

(e) such statement may also state any other facts pertaining to the authentication of bonds under this Article 3.

(2) An engineer's certificate stating that personally, or through one or more competent assistants, the signer has examined the additional property, additions, extensions, betterments, and improvements specified in the statement referred to in paragraph (1) , and has considered the same in relation to the business of the Company and is of the opinion that either by expenditures, substitutions, or proper allowances, the mortgaged estates and properties have as a whole been kept in satisfactory operative condition, and that in his judgment, the fair value of such additional property, additions, extensions, betterments, or improvements is for the purposes of the Company a certain sum stated, and that said

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sum does not include the cost of any repairs, replacements or renewals necessary to keep the property of the Company in satisfactory operative condition, with the exception provided in clause (b) of paragraph (1). Such certificate shall be an independent engineer's certificate if:

(a) within six months prior to the date of acquisition thereof by the Company such property has been used or operated by a person or persons other than the Company in a business similar to that in which it has been or is to be used or operated by the Company; and

(b) the fair value to the Company of such property as set forth in such certificate or opinion is not less than \$25,000 and not less than 1% of the aggregate principal amount of bonds at the time outstanding,

and shall cover the fair value to the Company (as of the date of the certificate or opinion previously furnished the Trustee with reference thereto) of any property so used or operated which has been subjected to the lien of the Mortgage and which has been used as the basis for any action under the Mortgage since the commencement of the then current calendar year, and as to which a certificate or opinion of an independent engineer, appraiser, or other expert has not previously been furnished.

(3) Such Deeds, Conveyances, or Instruments of further assurance, as in the opinion of counsel may be necessary for the purpose of subjecting any property with respect to which authentication of bonds shall be requested to the lien and operation of the Mortgage as a first lien thereon (except the underlying mortgages or the liens, if any, specified in clause (d) of paragraph (1)) or the opinion of such counsel, that no such instruments are necessary for such purpose, and, also, the opinion of such counsel, to the effect that the Company has title to such property, subject to no liens prior to the Mortgage with the exceptions above stated. Such counsel's opinion shall also state that the Company has corporate authority to own and operate any property so acquired. Provided that in the event that any such additional property, or additions, extensions, betterments, and improvements, shall have been acquired or made upon, or in connection with the properties demised under the CR&L Lease, the provisions of this paragraph (3), shall not apply, but in lieu thereof there shall be furnished the opinion of such counsel to the effect that the Connecticut Railway and Lighting Com-

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pany has title to any such additional property and to any such additions, extensions, betterments and improvements to property of the Connecticut Railway and Lighting Company acquired after the date of the Mortgage and not used as a basis for the issue of bonds hereunder, subject only to current taxes and undetermined liens and charges incident to construction.

(4) A report signed by the Treasurer or an Assistant Treasurer of the Company and by a public accountant selected by the Company and satisfactory to the Trustee (who may be a public accountant regularly employed by the Company) setting forth the amount of the net earnings of the Company for a period of twelve consecutive calendar months ending not more than ninety days prior to the date of the request for authentication and delivery of bonds showing how the same have been calculated and to that end specifying the operating and non-operating revenues and also the respective amounts charged to the different distributive groups of operating expenses; such net earnings of the Company to be computed as defined above in Section 3.05(3). Said report shall show that the net earnings as thus determined comply with the requirements set forth in said Section 3.05(3).

(5) A certified resolution requesting the authentication and delivery of the bonds and designating the amount thereof, their denominations and series designation.

(6) Opinion of counsel to the effect that there has been obtained the consent of any governmental authority, the consent of which is a legal requisite to the authentication and delivery to the Company of such bonds by the Trustee or that no such consent is necessary.

SECTION 3.07. *Issue of Bonds for Cash Deposited With Trustee*. The Trustee shall, from time to time, upon the order or orders of the Company, evidenced by a certified resolution and upon the filing with the Trustee of a report of the kind described in paragraph (4) of Section 3.06, authenticate and deliver any bonds issuable under the provisions of Section 3.05, upon deposit with the Trustee by the Company of cash equal to the amount of principal of the bonds so ordered to be authenticated and delivered; provided, however, that the aggregate amount of such cash and any cash deposited under the provisions of Section 3.03 and Section 3.04 on deposit with the Trustee, shall not at any one time exceed the sum of \$4,000,000

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Any cash deposited with the Trustee under the provisions of this Section shall be held by the Trustee as a part of the mortgaged property and whenever the Company shall become entitled to the delivery of any bonds under the provisions of Section 3.05, and upon compliance with the conditions specified in Section 3.56, the Trustee shall pay over to the Company, or upon its order evidenced as aforesaid, in lieu of each bond to the delivery of which the Company may then be so entitled, a sum in cash equal to the principal amount of one such bond, such delivery of cash to be made upon the receipt by the Trustee of the same documents and instruments that would have been required hereunder to obtain the authentication of bonds issuable under the provisions of Section 3.05, except that no report of the kind described in paragraph (4) of Section 3.06 shall be required.

SECTION 3.08. *No Authentication During Default.* No bond shall be authenticated or delivered by the Trustee in case the Company shall at the time be in default in the payment of interest or principal of any of the bonds secured by the Mortgage, or in default in the observance of any of the covenants on its part to be performed under the provisions of the Mortgage.

SECTION 3.09. *Further Conditions.* As a further condition precedent to the Trustee's granting any request by the Company under and pursuant to this Article for the authentication and delivery of any bonds secured or to be secured by the Mortgage, there shall be delivered to the Trustee (i) an officer's certificate stating that the applicable conditions precedent specified in this Article have been complied with; (ii) an opinion of counsel stating that in his opinion said conditions precedent have been complied with; and (iii) an accountant's certificate stating that in his opinion the conditions precedent specified in this Article, which are subject to verification by accountants, have been complied with, such accountant's certificate to be an independent accountant's certificate if the aggregate principal amount of the bonds authenticated and delivered under the Mortgage since the commencement of the then current calendar year (other than those with respect to which an accountant's certificate is not required, or with respect to which an independent accountant's certificate has previously been furnished) is 10% or more of the aggregate principal amount of all bonds at the time outstanding under the Mortgage.

SECTION 3.10. *Investigation by Trustee.* The resolutions, certificates and other instruments provided for in this Article may be accepted by the

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Trustee as satisfactory and conclusive evidence as to the statements therein contained and shall be full authority to the Trustee for the authentication and delivery of bonds or for the payment of the proceeds thereof, but before authenticating and delivering any bonds under this Article or before making any payment of the proceeds thereof, the Trustee may, in its discretion, and shall, if requested in writing so to do by the holders of not less than a majority in principal amount of bonds then outstanding hereunder and furnished with indemnity satisfactory to it, cause to be made such independent investigation as it may see fit, and in that event, may decline to authenticate and deliver such bonds or to make any payment of the proceeds thereof, unless and until satisfied by such investigation of the substantial accuracy of such resolutions, certificates and other instruments. The reasonable expense of any such investigation shall be paid by the Company, or, if paid by the Trustee, shall be repaid by the Company upon demand, and until repaid, shall be a first charge upon the trust estate.

SECTION 3.11. *Supplemental Indenture.* No bonds shall be authenticated or delivered by the Trustee under this Article unless the Company shall execute, acknowledge and deliver to the Trustee an indenture supplemental hereto, confirming unto the Trustee all and singular the hereditaments, premises, estates and property hereby conveyed or assigned or intended so to be, or which the Company may hereafter become bound to convey or assign to the Trustee, as security for the bonds then outstanding hereunder and those then to be authenticated and delivered, the amount of which shall be clearly and fully set forth in such supplemental indenture; provided, however, that the Trustee may generally or in any particular instance waive any or all of the requirements of this Section 3.11 at any time if it be furnished with an opinion of counsel that compliance with this Section 3.11 is not necessary to secure' and maintain the validity and lien of the Mortgage as security for the bonds then outstanding hereunder and those which the Trustee is then requested to authenticate and deliver.

#### **ARTICLE 3.5.**

##### **Additional Restrictions on Issue of Bonds.**

SECTION 3.51. *Effect of Article; General Requirements.* So long as Article 3 continues in effect, the Company shall not be entitled to require the Trustee to authenticate and deliver additional bonds under the Mortgage

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unless the Company complies with the applicable requirements of both Article 3 and this Article 3.5; provided, however, that nothing in the Mortgage shall be construed as requiring that the basis for the issue of such additional bonds under this Article 3.5 be the same as the basis for the issue of such bonds under Article 3, and provided, further, that if a deposit of cash, bonds or prior lien obligations is required both under a provision of this Article and under the similar provision of Article 3, the making of such required deposit under Article 3 may be applied toward the satisfaction of the requirement of this Article. After Article 3 ceases to be in effect, the provisions of this Article 3.5 shall continue in effect and any cash, bonds or prior lien obligations theretofore deposited with the Trustee pursuant to Article 3 and held by the Trustee on the Second Effective Date shall, for all purposes of the Mortgage, be deemed to have been deposited with the Trustee pursuant to this Article 3.5. Subject to the foregoing, the Trustee shall from time to time authenticate and deliver bonds under the Mortgage of any one or more series in the amounts permitted by, and upon compliance by the Company with, the provisions of Section 3.52, Section 3.53, Section 3.54, Section 3.55 or Section 3.56, but only if the Trustee shall have received:

(1) a written application by the Company, dated the date of the filing thereof with the Trustee, requesting the authentication and delivery of bonds of a stated principal amount of a specified series, and designating the section or sections of this Article (other than this Section 3.51) under which such bonds are to be issued;

(2) a certified resolution requesting the Trustee to authenticate and deliver such bonds and (a) specifying any matters with respect thereto required or permitted by the Mortgage, and (b) specifying the officer or officers of the Company to whom or upon whose written order such bonds shall be delivered;

(3) an officers' default certificate dated the date of such application;

(4) an opinion of counsel, dated the date of the application, to the effect that the issue of the bonds applied for has been duly authorized by the Company and by any and all governmental authorities, the consent of which is requisite to the legal issue or sale of such bonds (in which case it shall be accompanied or preceded by any officially authenticated certificates or other documents by which such consent is

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or may be evidenced), or that no consent of any governmental authority is requisite to the legal issue of such bonds, and that all of the requirements of the Mortgage and of law for the due and lawful issue, authentication and delivery of such bonds have been duly complied with and such bonds, when issued, authenticated and delivered, will be the valid and legal obligations of the Company entitled to all the benefits and security of the Mortgage and entitled to the benefits of the lien hereof with the same degree of priority as all other bonds then outstanding;

(5) a duly executed indenture or indentures supplemental to the Mortgage, setting forth the terms and provisions of such series of bonds; and

(6) in the event the aggregate principal amount of (i) the bonds for which application is then being made, and (ii) all other bonds authenticated and delivered under this Article since the commencement of the then current calendar year, is 10% or more of the aggregate principal amount of bonds then outstanding, an independent accountant's certificate stating that each condition precedent, if any, provided for in the Mortgage as to such application (including any covenant compliance with which constitutes a condition precedent), compliance with which is subject to verification by accountants, has been satisfied, except that no certificate of any independent expert shall be required as to the amount or value of nuclear core elements or property additions other than the certificates of an independent engineer provided for in Section 3.55(a) and 3.57(3).

SECTION 3.52. *Bonds Issued Against Retired, Redeemed, Cancelled or Surrendered Bonds*. Upon compliance by the Company with the requirements of Section 3.51 and of this Section, the Trustee shall authenticate and deliver additional bonds in a principal amount equal to the principal amount of bonds authenticated and delivered hereunder which have been retired, redeemed, cancelled or surrendered for cancellation (except bonds cancelled upon their deposit with, or purchase by, the Trustee pursuant to Section 3.55, Section 3.56, Section 6.14, Article 8.5 or Article 9, and except bonds paid or redeemed with moneys deposited with the Trustee pursuant to Section 3.55, Section 3.56, Section 6.09, Section 6.14, Article 8 or Article 8.5, and except bonds held by the Trustee pursuant to Section 6.06 and except bonds theretofore cancelled upon their deposit with the Trustee pursuant to Article 3 or its predecessor provision prior to April 1, 1967), or for the payment at maturity or redemp-

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tion of which (other than a payment or redemption to be effected with moneys deposited with the Trustee pursuant to Section 3.55, Section 3.56, Section 6.06, Section 6.09, Section 6.14, Article g or Article 8.5) cash is then held by the Trustee, but only if the Trustee shall have received:

(a) an officers' certificate, dated the date of the Company's application pursuant to Section 3.51 (1), showing in reasonable detail that the bonds to be refunded may be made the basis of the issue of bonds under this Section; and

(b) in the event (i) the additional bonds for which application is then being made bear an interest rate higher than the bonds to be refunded, and (ii) the bonds to be refunded mature more than two years from the date of such application, a certificate complying with the requirements of Section 3.58.

SECTION 3.53. *Bonds Issued Against Refundable Prior Lien Obligations.* Upon compliance by the Company with the requirements of Section 3.51 and of this Section, the Trustee shall authenticate and deliver additional bonds in a principal amount equal to the principal amount of refundable prior lien obligations which have been (i) deposited with the Trustee (otherwise than pursuant to Section 6.15) to be held subject to the provisions of the Mortgage, or (ii) cancelled or delivered to the trustee or other holder of the prior lien securing the same for cancellation (otherwise than pursuant to Section 6.15 hereof), or (iii) paid or redeemed or for the payment or redemption of which funds in the necessary amount have been or shall concurrently be deposited with or shall be held by the Trustee or by the trustee or other holder of a prior lien with irrevocable direction so to apply the same, provided that if such refundable prior lien obligations are to be redeemed prior to the maturity thereof, notice of such redemption shall have been published or otherwise given as required by the prior lien securing the same, or provision satisfactory to the Trustee shall have been made for such notice; but only if the Trustee shall have received:

(a) an officers' certificate, dated the date of the Company's application pursuant to Section 3.51 (1), showing in reasonable detail that the refundable prior lien obligations which are the subject of such application may be made the basis of the issue of bonds under this Section; and

(b) in the event (i) the additional bonds for which application is then being made bear an interest rate higher than the prior lien

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obligations to be refunded, and (ii) the prior lien obligations to be refunded mature more than two years from the date of such application, a certificate complying with the requirements of Section 3.58.

SECTION 3.54. *Bonds Issued Against Property Additions*. Upon compliance by the Company with the requirements of Section 3.51 and of this section, the trustee shall authenticate and deliver additional bonds in an aggregate principal amount equal to 60% (or such higher percent; not to exceed 66 2/3%, as shall be authorized or approved, upon application by the Company, by the Securities and Exchange Commission or by any successor commission thereto, under the Public Utility Holding Company Act of 1935) of bondable property additions, but only if the Trustee shall have received:

(a) a bondable property certificate complying with the requirements of Subdivision (1) of section 3.57, accompanied by the evidence provided for in Section 3.57; and

(b) a certificate complying with the requirements of Section 3.58.

SECTION 3.55. *Bonds Issued to Finance Inventory of Nuclear Core Elements*. Upon compliance by the Company with the requirements of Section 3.51 and of this Section, the Trustee shall authenticate and deliver bonds in an aggregate principal amount equal to 60% (or such higher percent, not to exceed 66 2/3%, as shall be authorized or approved, upon application by the Company, by the Securities and Exchange Commission, or by any successor commission thereto, under the Public Utility Holding Company Act of 1935) of the bondable value of the Company's interest in all or a portion of the inventory of nuclear core elements required for any (or each) of the nuclear electric generating units which are owned by the Company or in which it has an interest and which are subject to the lien hereof; but only if the Trustee shall have received:

(a) An engineer's certificate (which shall be an independent engineer's certificate if any portion of the nuclear core elements to be financed has previously been owned by any person other than the United States of America, and while so owned, has been used, within six months prior to the date of acquisition thereof by the Company, by a person other than the Company in the generation of electric power), dated within thirty days of the date of the Company's application, stating the signer's opinion of the fair value of such nuclear core elements to the Company as of the

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time such elements are first used in the generating unit in question, and stating further that the inventory of nuclear core elements to be financed is in an amount not exceeding the Company's reasonable needs for the unit in question;

(b) an accountant's certificate dated within thirty days of the date of the Company's application, stating the cost to the Company of the nuclear core elements to be financed; provided that the Company shall furnish an independent accountant's certificate as to the cost of such nuclear core elements to the Company if, but only if, the principal amount of the bonds applied for, together with the principal amount of all other bonds authenticated under this Article 3.5 since the commencement of the then current calendar year (other than those with respect to which an independent accountant's certificate has previously been furnished) is 10% or more of the aggregate principal amount of bonds outstanding at the time;

(c) an opinion of counsel dated within thirty days of the date of such application, stating:

(i) that the Company has all licenses and other public authorizations required for the ownership and use of the nuclear core elements to be financed and the subjection of such elements to the lien hereof;

(ii) that the Mortgage is a lien on the Company's interest in the nuclear core elements with respect to which the bonds are being applied for, subject to no prior liens other than permitted liens, and that under the existing provisions of the Mortgage, it will constitute a lien on the Company's interest in any nuclear core elements acquired as replacements for those with respect to which the bonds are being applied for, so long as such replacement elements are located at the site of one of the Company's nuclear generating units; and

(iii) that the applicable requirements of the last and next-to-last paragraphs of this Section have been satisfied;

(d) an officers' certificate dated the date of such application stating (i) that no portion of the bondable value of the nuclear core elements with respect to which the application for the authentication and delivery of bonds is being made, has been made the basis of a prior application under this Section or under Section 3.54, and (ii) that such core elements

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are physically located at the site of one of the Company's nuclear electric generating units; and

(e) a certificate complying with the requirements of Section 3.58.

Each supplemental indenture establishing the terms and provisions of bonds to be issued pursuant to this Section shall contain provisions adequate to insure that after an inventory of nuclear core elements for use in the operation of a particular nuclear electric generating unit has been financed in whole or in part with such bonds:

(1) an inventory of nuclear core elements shall at all times be maintained through regular replacements or otherwise at the level required for the continued operation of the unit;

(2) the Company will be required to deliver to the Trustee on each disposition by sale or otherwise of any material portion of the elements which at the time make up the inventory so financed appropriate evidence to show (i) whether the elements disposed of have been replaced, and (ii) if a replacement has been effected, whether the replacement elements have a greater or lesser bondable value than the elements disposed of;

(3) replacement elements acquired to maintain the inventory shall be bondable under this Section or otherwise available for credit under the Indenture only to the extent that their bondable value is in excess of the bondable value of the nuclear cores replaced; and

(4) if at any time the Company either (i) disposes of a material portion of the elements which at the time make up the inventory so financed by sale or otherwise and does not effect a replacement of the elements disposed of with nuclear core elements which are subject to the lien of the Mortgage and subject to no prior liens other than permitted liens, or (ii) effects a replacement with elements so subject but having a lesser bondable value, the Company will be required to satisfy the resulting deficiency (the "core deficiency"), within a reasonable time after such disposition, by any one or more of the following methods:

(A) depositing cash with the Trustee equal to the amount of the core deficiency;

(B) depositing with the Trustee outstanding bonds or refundable prior lien obligations equal in principal amount to the amount of

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the core deficiency and which might at the time be made the basis for the authentication and delivery of bonds under Section 3.52 or Section 3.53;

(C) specifying to the Trustee (in a bondable property certificate complying with the requirements of Subdivision (1) of Section 3.57, accompanied by the evidence provided for in Section 3.57) bondable property additions equal to 100% of the amount of the core deficiency; or

(D) applying any credit then available to the Company on account of any prior increase in the bondable value of the inventory which has not previously been bonded under this Section or otherwise used for credit under the Mortgage.

Such supplemental indenture may permit the bondable value of elements disposed of to be determined on the basis of the average bondable value of elements in the inventory. All cash deposited with the Trustee in satisfaction of a core deficiency shall be held by the Trustee as part of the trust estate and may, upon the request of the Company, evidenced by a certified resolution:

(a) be withdrawn from time to time in an amount equal to 100% of bondable property additions, upon the filing with the Trustee of a bondable property certificate complying with the requirements of Subdivision (1) of Section 3.57, accompanied by the evidence provided for in Section 3.57:

(b) be withdrawn from time to time in an amount equal to the aggregate principal amount of bonds or refundable prior lien obligations deposited with the Trustee which might at the time be made the basis for the authentication and delivery of bonds under Section 3.52 or Section 3.53, upon the filing with the Trustee of the evidence, as appropriately modified, provided for in the appropriate one of said Sections, except that no certification as to the net earnings requirement of Section 3.58 shall be required;

(c) be used or applied as provided in Section 9.04; or

(d) be withdrawn from time to time in an amount equal to 100% of any credit then available to the Company on account of any increase

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in the bondable value of the inventory which has not previously been bonded under this Section or otherwise used for credit under the Mortgage.

In the event any nuclear core elements which are to be made the basis of the issue of bonds under this Section have previously been released from the lien of the Mortgage pursuant to Section 8.51, or are otherwise not subject to the lien hereof, the supplemental indenture establishing the terms and provisions of the bonds to be issued on the basis of such elements shall subject such elements to the lien hereof.

SECTION 3.56. *Bonds Issued Against Cash Deposited With Trustee*. Upon compliance by the Company with the requirements of Section 3.51 and of this Section, the Trustee shall authenticate and deliver additional bonds upon deposit with the Trustee by the Company of an amount of cash equal to the aggregate principal amount of bonds to be authenticated and delivered, but only if the Trustee shall have received a certificate complying with the requirements of Section 3.58.

All cash so deposited with the Trustee shall be held by the Trustee as part of the trust estate and may, upon the request of the Company, evidenced by a certified resolution:

(a) be withdrawn from time to time in an amount equal to 60% (or such higher percent, not to exceed 66 2/3%, as shall be authorized by the Securities and Exchange Commission or by any successor commission thereto, under the Public Utility Holding Company Act of 1935) of bondable property additions, upon the filing with the Trustee of a bondable property certificate complying with the requirements of Subdivision (1) of Section 3.57, accompanied by the evidence provided for in Section 3.57; or

(b) be withdrawn from time to time in an amount equal to the aggregate principal amount of bonds or refundable prior lien obligations deposited with the Trustee which might at the time be made the basis for the authentication and delivery of bonds under Section 3.52 or Section 3.53, upon the filing with the Trustee of the evidence, as appropriately modified, provided for in the appropriate one of said Sections, except that no certification as to the net earnings requirement of Section 3.58 shall be required; or

(c) be used or applied as provided in Section 9.04,

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provided, however, that so long as Article 3 continues in effect, all cash so deposited with the Trustee (i) may not be withdrawn, used or applied pursuant to paragraph (b) or (c) of this Section, and (ii) shall be subject to withdrawal pursuant to paragraph (a) of this Section only if, and to the extent that, such withdrawal is also permitted pursuant to Section 3.07.

SECTION 3.57. *Property Additions as Basis for Action; Bondable Property Certificate*. In order to take action on the basis of a specification of bondable property additions pursuant to Section 3.54, Section 3.55, Section 3.56, Section 6.06, Section 6.14, Section 8.56 or Section 9.03 the Company, in addition to complying with the applicable requirements of the provision in question, shall deliver to the Trustee the evidence specified in Subdivision (1) of this Section and to the extent applicable the evidence specified in Subdivisions (2), (3), (4) and (5) of this Section.

(1) An accountant's certificate (a bondable property certificate), dated not more than ninety days prior to the date of filing thereof with the Trustee stating

(i) the amount of property additions stated in item (viii) of the most recent certificate, if any, theretofore filed complying with the requirements of this Subdivision (1);

(ii) the cost, as stated in the independent accountant's certificate provided for in Subdivision (2) of this Section 3.57 of any property additions (not previously included in a certificate filed pursuant to this Subdivision (1)) which the Company elects to certify at the time and which (A) were operated, within six months prior to the date of acquisition thereof by the Company, by a person or persons other than the Company in a business similar to that in which they have been or are to be used or operated by the Company, and (B) have a fair value to the Company, as stated in the certificate provided for in Subdivision (3) of this Section 3.57, of not less than \$25,000 and not less than 1% of the aggregate principal amount of the bonds at the time outstanding;

(iii) the cost of any other property additions (not previously included in a certificate filed pursuant to this Subdivision (1) and not included in item (ii) of the certificate then being filed) which the Company elects to certify at the time;

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(iv) the fair value of the property additions, if any, included in item (ii) of the certificate, as stated in the independent engineer's certificate provided for in Subdivision (3) of this Section 3.57;

(v) the fair value of the property additions, if any, included in item (iii) of the certificate, as stated in the engineer's certificate provided for in Subdivision (4) of this Section 3.57;

(vi) 166 2/3% of the amount of any prior lien obligations secured by prior lien on any of the property additions included in items (ii) and (iii) of the certificate, if 166 2/3 % of the indebtedness represented by such obligations has not been deducted in a previous certificate filed complying with the requirements of this Subdivision (1);

(vii) the total amount of the property additions, if any, included in items (ii) and (iii) of the certificate (which shall be equal to (A) the sum of (a) the amount set out in item (ii) of the certificate or the amount set out in item (iv) thereof, whichever is less, and (b) the amount set out in item (iii) of the certificate or the amount set out in item (v) thereof, whichever is less, {B} reduced by the amount set out in item (vi) of the certificate);

(viii) the total amount of the property additions then being certified (which shall be the sum of item (i) plus item (vii));

(ix) the amount of any cash or purchase money obligations (as that term is used in Section 8.56) received on or after January 1, 1967 by the Trustee pursuant to Article 8 (or its predecessor Article) or Article 8.5, or so received pursuant to Section 6.09 (or its predecessor Section), but, in the case of cash so received pursuant to Section 6.09 (or its predecessor Section), only to the extent that such moneys have been withdrawn or otherwise applied pursuant to Article 9;

(x) the amount of any cash or purchase money obligations at the time held by the trustee or other holder of a prior lien which were received by such Trustee or other holder on or after January 1, 1967 on a release of, or as the proceeds of insurance on, or the proceeds of the taking by eminent domain or purchase by any governmental or public body, authority, agency or licensee of, or the proceeds of any other sale, disposition or change of, any mortgaged property;

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(xi) \$191,000,000, representing the aggregate net amount of credit for property available at January 1, 1967 under Section 3.05(1) (or its predecessor Section);

(xii) the total amount of bondable property additions theretofore specified in item (xv) of certificates complying with the requirements of this Subdivision (1) , as from time to time amended, filed with the Trustee as a basis for (A) the authentication and delivery of bonds under Section 3.54, (B) the withdrawal of cash under Section 3.55, Section 3.56, Section 6.06, Section 6.14 or Section 9.03, or (C) credit under Section 3.55, Section 6.06, Section 6.14 or Section 8.56, less the total amount of bondable property additions specified in certificates filed pursuant to Section 6.06 as a basis for a withdrawal of cash thereunder or for credit thereunder which have been offset in accordance with the provisions of said Section;

(xiii) the greater of (A) the replacement fund requirement for the period from January 1, 1967 to and including the date of the certificate, and (B) the aggregate amount of retirements during such period;

(xiv) the amount shown by the certificate to be available for use as bondable property additions under the Mortgage (which shall be equal to (A) the amount set out in item (viii) of the certificate plus the sum of the amounts set out in items (ix), (x) and (xi) thereof, (B) reduced by the sum of the amounts set out in items (xii) and (xiii) thereof);

(xv) the amount of bondable property additions made the basis for the application of which the certificate is a part, which shall not exceed the amount set out in item (xiv) of the certificate.

Each such certificate which contains a certification of property additions in item (ii) or (iii) thereof shall contain a description of such property additions. Such description shall be sufficient if given, either:

(A) by stating the descriptive name or title of the account or accounts under the Uniform System, or

(B) by furnishing the descriptive title of the project or other improvement, extension, addition or replacement.

Each certificate filed complying with the requirements of this Subdivision (1) which includes a certification of property additions in item

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(ii) or (iii) thereof shall state that each such property addition included in item (ii) or (iii) thereof has not previously been included in a certificate filed complying with the requirements of this Subdivision (1). However the inclusion of a particular property addition in a certificate filed complying with the requirements of this Subdivision (1) shall not affect the availability of such property addition for use under Section 3.05.

In the event any bondable property certificate which includes a certification of property additions in item (ii) or (iii) thereof shows an amount in item (xiv) thereof as being available for use as bondable property additions which exceeds the amount stated in item (xv) thereof, and if either:

(A) the amount of such excess (the "excess amount") is greater than 2% of the aggregate principal amount of bonds outstanding at the time of the filing of such certificate (the "excess certificate"); or

(B) the aggregate of the amounts specified as a basis for action in item (xv) of the bondable property certificates filed during the three years next succeeding the delivery of the excess certificate is less than the excess amount;

thereafter (i.e., after the filing of the excess certificate if condition (A) is applicable, or after three years following the filing of the excess certificate if condition (B) is applicable) and until the aggregate of the amounts specified as a basis for action in item (xv) of the bondable property certificates filed after the delivery of the excess certificate at least equals the excess amount, the Company shall be required to deliver to the Trustee at the time of each filing of a bondable property certificate a further independent engineer's certificate and/or engineer's certificate, as appropriate, as to the fair value of all property additions included in item (ii) or (iii) of the excess certificate. If any such further certificate states a lower fair value for the property additions to which it relates than was stated in the similar certificate filed with the excess certificate, the amount of bondable property additions available for use under the Mortgage shall be reduced by the amount of the difference and such reduction shall appropriately be taken into account in the current bondable property certificate and each subsequent certificate.

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(2) In case any property additions are included in item (ii) of a certificate then being filed with the Trustee pursuant to Subdivision (1) of this Section 3.57, and not otherwise, there shall be furnished an independent accountant's certificate, dated not more than ninety days prior to the date of filing thereof with the Trustee, stating the cost of such property additions.

(3) In case any property additions are included in item (ii) of a certificate then being filed with the Trustee pursuant to Subdivision (1) of this Section 3.57, or if required by the further provisions of Subdivision (1), and not otherwise, there shall be furnished an independent engineer's certificate, dated not more than ninety days prior to the date of filing thereof with the Trustee, stating the signer's opinion of the fair value of such property additions.

(4) In case any property additions are included in item (iii) of a certificate then being filed with the Trustee pursuant to Subdivision (1) of this Section 3.57, or if required by the further provisions of Subdivision (1), and not otherwise, there shall be furnished an engineer's certificate, dated not more than ninety days prior to the date of filing thereof with the Trustee, stating the signer's opinion of the fair value of such property additions.

(5) In case any property additions are included in items (ii) or (iii) of a certificate then being filed with the Trustee pursuant to Subdivision (1) of this Section 3.57, and not otherwise, there shall be furnished an opinion of counsel stating that such property additions (except such thereof as have been retired or otherwise disposed of prior to the date of such opinion) are subject to the direct first mortgage lien of the Mortgage, subject only to permitted liens and specified prior liens.

SECTION 3.58. *Net Earnings Requirement.* No bonds shall be authenticated and delivered under Section 3.54, Section 3.55 or Section 3.56 (or under Section 3.52 or Section 3.53 if the conditions stated in clause (b) thereof respectively shall be applicable) unless the Trustee shall have received an accountant's certificate, dated the date of the Company's application pursuant to Section 3.51 (1), showing in reasonable detail that the net earnings of the Company during a period of twelve consecutive calendar months during the

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period of fifteen consecutive calendar months immediately preceding the first day of the month in which the application for additional bonds is made at least twice the annual interest requirements of the Company; provided that such certificate shall be an independent accountant's certificate if the aggregate principal amount of (i) the bonds for which application is then being made, and (ii) all other bonds authenticated and delivered under the Mortgage since the commencement of the then current calendar year, is 10% or more of the aggregate principal amount of bonds then outstanding.

As used in this Section, the term "net earnings" shall mean the amount of income for a period of twelve consecutive calendar months remaining after deducting from the Company's gross operating revenues all operating expenses of the Company (excluding taxes measured by or dependent on net taxable income), and after adding or deducting, as appropriate, net nonoperating income or loss, all as computed in accordance with the Uniform System; provided that:

(1) the amount of net non-operating income or loss to be taken into account in determining net earnings for any period shall not exceed 10% (or such higher percent not to exceed 20%, as shall be authorized by the Securities and Exchange Commission or by any successor commission thereto, under the Public Utility Holding Company Act of 1935) of an amount determined by deducting such operating expenses from such gross operating revenues for the period in question;

(2) in computing net earnings for any period, the amount, if any, charged to income or earned surplus for such period for electric or gas plant acquisition adjustments shall be included in operating expenses in computing net earnings for the period to the extent that, and only to the extent that, the current provision for depreciation with respect to depreciable property shall be insufficient to permit the write-off of depreciable property (together with amounts classified as plant acquisition adjustments) at the expiration of the estimated useful life thereof;

(3) if for any period the replacement fund requirement exceeds the sum of (a) the amount included in operating expenses for depreciation, and (b) the amount required to be so included pursuant to paragraph (2) of this definition on account of acquisition adjustments, such excess shall be included in operating expenses in computing net earnings for the period; and

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(4) if any property owned by the Company on the date of any computation of net earnings shall consist of property formerly operated by others and acquired by the Company during or after the period covered by such certificate, the net earnings of such property (computed as nearly as practicable in the manner herein specified for the computation of the net earnings of the Company) during such period or such part of such period as shall have preceded the acquisition thereof by the Company, to the extent that the same have not otherwise been included and can be determined, shall be treated as net earnings of the Company for all purposes of this Section; and the net earnings which can be determined of any property disposed of by the Company during or after such period shall not be treated as net earnings of the Company.

Further, as used in this Section, "annual interest requirements" means the annual interest charges on all bonds and all prior lien obligations which will be outstanding immediately after the authentication and delivery of the additional bonds for which application is currently being made.

#### **ARTICLE 4.**

##### **Redemption of Bonds.**

SECTION 4.01. *Method of Redemption.* In the creation of any series of bonds hereunder the Company may reserve the right to redeem, before maturity, all or any part of the bonds of such series at such time or times and on such terms as the Board may determine and as shall be appropriately expressed in each of the bonds of such series.

In case the Company shall desire to exercise such right to redeem and pay off all, or, as the case may be, any part of the bonds of a particular series in accordance with the right reserved so to do, it will publish in at least one daily newspaper of general circulation published in the Borough of Manhattan, in the City of New York, and in at least one daily newspaper of general circulation published in the City of Boston, Massachusetts, the first such publication to be at least thirty days prior to the date fixed for payment, and thereafter publication to be made at least once each week during the last four calendar weeks preceding said redemption date, a notice to the

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effect that the Company has elected to redeem and pay off all the bonds of such series or a part thereof, as the case may be, on such date, specifying in case of partial redemption the serial numbers of the coupon bonds and registered bonds without coupons to be redeemed, and of the registered bonds without coupons to be redeemed in part only, and in every case stating that on said date there will become due and payable upon each of the bonds, or, in case of partial redemption, upon each coupon bond and upon each registered bond without coupons or portion thereof, so to be redeemed, at the office of the Trustee, the principal thereof with such premium, if any, as is specified in such bonds, together with the accrued interest to such date, and that from and after said date interest thereon will cease to accrue; provided, however, that such notice by publication may be omitted (and only the notice by mail required by the next sentence shall be required) in case all the bonds to be redeemed are fully registered bonds or coupon bonds registered as to principal of a series originally issued after April 1, 1967. Similar notice shall be sent by the Company through the mails, postage prepaid, at least thirty days prior to such redemption date, to the holders of registered bonds without coupons and to the registered holders of coupon bonds so to be redeemed to the addresses that shall appear upon the transfer register. In case the Company shall have elected to redeem and pay off less than all the outstanding bonds of any series it shall, in each such instance, at least ten days before the date upon which the first publication of the notice of redemption hereinbefore mentioned is required to be made, notify in writing the Trustee of its said election and of the aggregate principal amount of bonds of such series to be redeemed, and thereupon the Trustee shall draw by lot, in any manner by it deemed proper, the distinguishing numbers of bonds of such series equal to such aggregate principal amount. Each registered bond shall be represented in any such drawing by a lot for each \$1,000 of principal of such registered bond. The Trustee shall, within five days after receiving the notice aforesaid, notify the Company in writing what bonds shall have been so drawn. The notice of redemption hereinbefore mentioned shall specify the respective numbers of the registered bonds so drawn, in whole or in part, as well as the serial numbers of the coupon bonds so drawn, and in the case of any registered bonds without coupons which are to be redeemed in part only, said notice shall specify the respective portions of the principal amount thereof to be redeemed, and state that upon presentation of such registered bonds for redemption, new bonds of the same series of an aggregate principal

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amount equal to the unredeemed portions of such registered bonds will be issued in lieu thereof. The Company shall execute and the Trustee shall authenticate and deliver to the registered holder thereof, or on his order, and at the expense of the Company, a new bond, or new bonds, for the amount of surrendered registered bonds, less the principal amount paid on surrender and partial payment of the bonds so partially redeemed.

Before such redemption date specified in such notice the Company shall deposit with the Trustee a sum of money sufficient to redeem the bonds so designated for redemption and to pay the interest due thereon up to such redemption date to be held for account of the holders thereof and to be paid to them respectively upon presentation and surrender of said bonds with all unpaid coupons. From and after the redemption date specified in the notice above provided for (unless the Company shall fail to deposit with the Trustee the necessary funds as above provided) no further interest shall accrue upon any of the bonds so to be redeemed (or, in the case of registered bonds, only a portion of the face amount of which is to be redeemed, on such portion thereof), and anything in said bonds or in such coupons or in the Mortgage to the contrary notwithstanding, any coupons for interest pertaining to any such bonds and maturing after said date shall become and be null and void. If upon said redemption date any bonds so called for redemption shall not be presented for payment but the coupons due on said date attached to any such coupon bonds shall be presented or claim made for payment of interest on any such bonds as may be fully registered without coupons, the Company covenants that it will, if and when it is informed of the names and addresses of the parties who presented such coupons or claims for interest, notify such parties in writing of the fact that the bonds to which such coupons or claims for interest pertained have been called for redemption on said redemption date, and that no further interest will accrue upon such bonds or, in the case of fully registered bonds, upon the portion of the principal amount thereof which may have been called for redemption.

SECTION 4.02. *Redemption of All Bonds.* On the deposit with the Trustee of the amount necessary so to redeem all the outstanding bonds secured by the Mortgage (if they shall be redeemable and shall all have been duly called for redemption) together with proof by affidavit that said notice or notices of redemption have been given as hereinbefore provided for, and on payment to the Trustee of all its costs, charges and expenses in relation thereto or otherwise under the Mortgage, and on delivery to the Trustee of

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(i) an officer's certificate stating that the conditions precedent specified in this Article 4 have been complied with, and (ii) an opinion of counsel stating that in his opinion said conditions precedent have been complied with, the Trustee shall cancel and satisfy the Mortgage and cause the same, at the expense of the Company, to be discharged of record, and shall assign or cause to be assigned and shall deliver to the Company or upon its order all securities and moneys then held by the Trustee under the provisions hereof other than the moneys deposited under this Section 4.02. The moneys so deposited with the Trustee shall be applied by it to the payment of the bonds issued under the Mortgage at the redemption rate or rates with accrued interest to the interest day or days designated for redemption.

SECTION 4.03. *Redeemed Bonds To Be Cancelled.* All bonds redeemed and paid under this Article 4 shall be cancelled and, on demand, surrendered to the Company.

## ARTICLE 5

### **Bondholders' Lists and Reports by the Company and the Trustee.**

SECTION 5.01. *List of Names and Addresses.* The Company will, so long as any bonds are outstanding under the Mortgage, furnish or cause to be furnished to the Trustee between April 15 and May 1, and between October 15 and November 1, in each year, and at such other times as the Trustee may request in writing, within thirty days after the receipt by the Company of any such request, a list in such form as the Trustee may reasonably require containing all the information in the possession or control of the Company or of any of its paying agents, as to the names and addresses of the holders of bonds obtained since the date as of which the next previous list, if any, was furnished. Any such list shall be dated as of a date not more than fifteen days prior to the time such information is furnished or caused to be furnished, and need not include information received after such date.

SECTION 5.02. *Retention and Use of Lists.* (a) The Trustee shall preserve, in as current a form as is reasonably practicable, all information as to the names and addresses of the bondholders (i) contained in the most recent list furnished to it as provided in Section 5.01, (ii) received by it in the capacity of paying agent under the Mortgage, if and when acting in such

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capacity, and (iii) filed with it within two preceding years pursuant to Section 5.04 (c) (2). The Trustee may (1) destroy any list furnished to it as provided in said Section 5.01 upon receipt of a new list so furnished; (2) destroy any information received by it as paying agent for any series of bonds upon delivering to itself as Trustee, not earlier than forty-five days after an interest payment date of the bonds of such series, a list containing the names and addresses of the holders of bonds of such series obtained from such information since the delivery of the next previous list, if any, with respect to such series; (3) destroy any list delivered to itself as Trustee which was compiled from information received by it as such paying agent upon the receipt of a new list so delivered with respect to the same series; and (4) destroy any information received by it pursuant to Section 5.04(c)(2), but not until two years after such information has been filed with it.

(b) In case three or more holders of bonds outstanding under the Mortgage (hereinafter referred to as "applicants") apply in writing to the Trustee, and furnish to the Trustee reasonable proof that each such applicant has owned one or more bonds outstanding under the Mortgage for a period of at least six months preceding the date of such application, and such application states that the applicants desire to communicate with other holders of bonds with respect to their rights under the Mortgage or under the bonds, and is accompanied by a copy of the form of proxy or other communication which such applicants propose to transmit, then the Trustee shall, within five business days after the receipt of such application, at its election, either

(1) afford to such applicants access to all information preserved at the time by the Trustee in accordance with the provisions of subsection (a) of this Section and to the names and addresses of the holders of registered bonds without coupons and of coupon bonds registered as to principal; or

(2) inform such applicants as to the approximate number of holders of bonds whose names and addresses appear in the information preserved at the time by the Trustee in accordance with the provisions of subsection (a) of this Section and as to the approximate number of holders of registered bonds without coupons and of coupon bonds registered as to principal, and as to the approximate cost of mailing to such bondholders the form of proxy or other communication, if any, specified in such application.

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If the Trustee shall elect not to afford to such applicants access to such information, the Trustee shall, upon the written request of such applicants, mail to each bondholder whose name and address appear in the information preserved at the time by the Trustee in accordance with the provisions of subsection (a) of this Section, a copy of the form of proxy or other communication which is specified in such request, with reasonable promptness after a tender to the Trustee of the material to be mailed and of payment, or provision for the payment, of the reasonable expenses of mailing, unless within five days after such tender the Trustee shall mail to such applicants, and file with the Securities and Exchange Commission together with a copy of the material to be mailed, a written statement to the effect that, in the opinion of the Trustee, such mailing would be contrary to the best interests of the bondholders, or would be in violation of applicable law. Such written statement shall specify the basis of such opinion. If said Commission, after opportunity for a hearing upon the objections specified in the written statement so filed, shall enter an order refusing to sustain any of such objections, or if, after the entry of an order sustaining one or more of such objections, said Commission shall find, after notice and opportunity for a hearing, that all the objections so sustained have been met, and shall enter an order so declaring, the Trustee shall mail copies of such material to all such bondholders with reasonable promptness after the entry of such order and the renewal of such tender; otherwise the Trustee shall be relieved of any obligation or duty to such applicants respecting their application.

(c) The Trustee shall not be held accountable by reason of the mailing of any material pursuant to any request made under subsection (b) of this Section.

SECTION 5.03. *Furnishing of Reports.* (a) The Company will file with the Trustee within fifteen days after the Company is required to file the same with the Securities and Exchange Commission, copies of the annual reports and of the information, documents, and other reports (or copies of such portions of any of the foregoing as such Commission may from time to time by rules and regulations prescribe) which the Company may be required to file with such Commission pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934; or, if the Company is not required to file information, documents, or reports pursuant to either of such sections, then to file with the Trustee and the Securities and Exchange Commission, in accordance with rules and regulations prescribed from time

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to time by said Commission, such of the supplementary and periodic information, documents, and reports which may be required pursuant to Section 13 of the Securities Exchange Act of 1934 in respect of a security listed and registered on a national securities exchange as may be prescribed from time to time in such rules and regulations;

(b) The Company will file with the Trustee and the Securities and Exchange Commission, in accordance with the rules and regulations prescribed from time to time by said Commission, such additional information, documents and reports with respect to compliance by the Company with the conditions and covenants provided for in the Mortgage as may be required from time to time by such rules and regulations;

(c) The Company will transmit to the holders of bonds in the manner and to the extent provided in Section 5.04 (c) with respect to reports pursuant to Section 5.04(a), such summaries of any information, documents and reports required to be filed by the Company pursuant to subsections (a) and (b) of this Section as may be required by the rules and regulations prescribed from time to time by the Securities and Exchange Commission; (d) The Company will furnish to the Trustee (1) with or as a part of each annual report and each other document or report filed with the Trustee pursuant to subsection (a) or (b) of this Section, an officer's certificate stating that in the opinion of the signers such annual report or other document or report complies with the requirements of such subsection (a) or (b) and (2) after the Company shall have mailed or caused to be mailed to holders of bonds any summary of information, documents or reports pursuant to subsection (c) of this Section, a like certificate stating that in the opinion of the signers such summary complies with the requirements of such subsection (c).

SECTION 5.04. *Reports by Trustee.* (a) The Trustee shall transmit on or before November 15 in each year, to the bondholders as hereinafter in this Section provided, a brief report as of the preceding September 15 with respect to

(1) its eligibility under Section 11.14 and its qualifications under Section 11.11, or in lieu thereof, if to the best of its knowledge it has continued to be eligible and qualified under such Sections, a written statement to such effect;

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(2) the character and amount of any advances (and if the Trustee elects so to state, the circumstances surrounding the making thereof) made by the Trustee, as such, which remain unpaid on the date of such report, and for the reimbursement of which it claims or may claim a lien or charge, prior to that of the bonds on the trust estate or on property or funds held or collected by it as Trustee, if such advances so remaining unpaid aggregate more than 1/2% of the aggregate principal amount of the bonds outstanding on the date of such report;

(3) the amount, interest rate, and maturity date of all other indebtedness owing by the Company or any other obligor upon the bonds to the Trustee in its individual capacity on the date of such report, with a brief description of any property held as collateral security therefor, except an indebtedness based upon a creditor relationship arising in any manner described in paragraphs (2), (3), (4), or (6) of subsection (b) of Section 11.12;

(4) the property and funds physically in the possession of the Trustee, as such Trustee, or of a depository for it, on the date of such report;

(5) any release, or release and substitution, of property subject to the lien of the Mortgage (and the consideration therefor, if any) which it has not previously reported; provided, however, that to the extent that the aggregate value as shown by the release papers of any or all of such released properties does not exceed an amount equal to 1% of the aggregate principal amount of bonds then outstanding, the report need only indicate the number of such releases, the total value of property released as shown by the release papers, the aggregate amount of cash and obligations secured by purchase money mortgages received and the aggregate value of property received in substitution therefor as shown by the release papers;

(6) any additional issue of bonds which it has not previously reported; and

(7) any action taken by the Trustee in the performance of its duties under the Mortgage which it has not previously reported and which in its opinion materially affects the bonds, or the trust estate, except action in respect of a default, notice of which has been or is to be withheld by it in accordance with the provisions of Section 5.05.

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(b) The Trustee shall transmit to the bondholders as hereinafter provided, a brief report with respect to

(1) the release, or release and substitution, of property subject to the lien of the Mortgage (and the consideration therefor, if any) unless the fair value of such property, as shown by the release papers, is less than 10% of the aggregate principal amount of bonds outstanding under the Mortgage at the time of such release, or such release and substitution, such report to be so transmitted within ninety days after such time; and

(2) the character and amount of any advances (and if the Trustee elects so to state, the circumstances surrounding the making thereof) made by the Trustee, as such, since the date of the last report transmitted pursuant to the provisions of subsection (a) of this Section, for the reimbursement of which it claims or may claim a lien or charge, prior to that of the bonds on the trust estate or on property or funds held or collected by it as Trustee, and which it has not previously reported pursuant to this paragraph, if such advances remaining unpaid at any time aggregate more than 10% of the aggregate principal amount of bonds outstanding at such time, such report to be transmitted within ninety days after such time.

(c) Reports pursuant to this Section shall be transmitted by mail-

(1) to all registered holders of bonds, as the names and addresses of such holders appear upon the registration books of the Company;

(2) to such holders of bonds as have, within two years preceding such transmissions, filed their names and addresses with the Trustee for that purpose; and

(3) except in the case of reports pursuant to subsection (b) of this Section, to each bondholder whose name and address is preserved at the time by the Trustee, as provided in subsection (a) of Section 5.02.

(d) A copy of each such report shall, at the time of such transmission to bondholders, be filed by the Trustee with each stock exchange upon which the bonds are listed and also with the Securities and Exchange Commission.

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(e) For the purpose of this Section, all bonds which have been authenticated and delivered and not returned to the Trustee and cancelled, shall be deemed to be outstanding.

SECTION 5.05. *Notice of Default.* The Trustee shall, within ninety days after the occurrence thereof, give to the bondholders, in the manner and to the extent provided in Section 5.04(c), notice of all defaults known to the Trustee, unless such defaults shall have been cured before the giving of such notice (the term "defaults" for the purposes of this Section being hereby defined to be the events specified in Section 10.02, not including any periods of grace provided for therein) ; provided that, except in the case of default in the payment of the principal of or interest on any of the bonds, or in the payment of any sinking fund installment, the Trustee shall be protected in withholding such notice if and so long as the Board of Directors, the Executive Committee, or a trust committee of directors and/or responsible officers, of the Trustee in good faith determine that the withholding of such notice is in the interests of the bondholders.

## **ARTICLE 6.**

### **Particular Covenants of the Company.**

The Company hereby covenants and agrees as hereinafter in this Article set forth that:

SECTION 6.01. *To Pay Principal and Interest; Not to Extend or Refund Coupons.* It will duly and punctually pay the principal and interest of every bond authenticated and delivered by the Trustee under the Mortgage, at the dates, place and in the manner mentioned in such bonds or any coupons thereto belonging, according to the true intent and meaning thereof. The interest on the coupon bonds until maturity shall be payable only upon the presentation and surrender of the several coupons for such interest as they respectively mature and, when paid, such coupons shall forthwith be cancelled. The interest on the registered bonds without coupons shall be payable only to the registered holders thereof.

It will not directly or indirectly extend, or assent to the extension of, the time for payment of any coupon or claim for interest on any bond secured

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hereby, and it will not, directly or indirectly, be a party to any arrangement therefor by purchasing or funding said coupons or claims for interest or in any other manner.

SECTION 6.02. *Paying Agencies.* At all times, until the payment of the bonds issued hereunder, it will cause an office or agency to be maintained by it in the Borough of Manhattan, City of New York, and in any other place or places designated in the bonds, for the payment of the principal and/or interest of the bonds and where notices and demands in respect of the bonds and/or interest thereon may be served, and will, by written notice, designate such office or agency to the Trustee. In default of any such office or agency, presentation for payment may be made and notice and demand served at the principal office in said Borough of Manhattan of the Trustee or any successor to it in the trust.

It will cause any paying agent (other than the Company and the Trustee) heretofore or hereafter appointed by it to execute and deliver to the Trustee an instrument in which it shall agree with the Trustee, subject to the provisions of this Section, (1) that such paying agent shall hold in trust for the benefit of the bondholders or the Trustee all sums held by such paying agent for the payment of the principal of or interest or premium on any bonds outstanding under the Mortgage; and (2) that such paying agent shall give the Trustee notice of any failure by the Company or any other obligor upon the bonds to make payment of the principal of or interest or premium on any such bond, and of any default by the Company or any other obligor upon the bonds in the making of any such payment. Such paying agent shall not be obligated to segregate such sums from other funds of such paying agent, except to the extent required by law.

If the Company acts as its own paying agent, it shall, on or before each date on which the principal of, or an installment of interest or the premium on, any bond outstanding under the Mortgage becomes due, set aside and hold in trust for the benefit of the bondholders or the Trustee a sum sufficient to pay such principal or interest or premium so becoming due on any such bond and shall give to the Trustee notice of such action or of its failure to take such action.

SECTION 6.03. *Further Assurances.* (a) It will at any and all times do, execute, acknowledge and deliver, or will cause to be done, executed,

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acknowledged and delivered by any other corporation or person obligated to the Company so to do, all and every such further acts, deeds, conveyances, mortgages and transfers and assurances as the Trustee shall reasonably require for the better assuring, conveying, mortgaging, assigning and confirming unto the Trustee all and singular the hereditaments, the premises, estates and property hereby conveyed or assigned, or intended so to be, or which the Company may hereafter become bound to convey or assign to the Trustee and to transfer to any successor trustee such premises, estates and property.

(b) In the event nuclear core elements comprising all or a portion of an inventory of such elements which has been made the basis of the issue of bonds under Section 3.55 are removed from the site of the Company's nuclear generating unit for which such inventory was obtained, the Company will take all such action as may be required in any jurisdiction to which such elements are removed to preserve and protect the lien of the Mortgage on such elements, and the priority of such lien on such elements, unless either (i) such elements are released from the lien hereof pursuant to Article 8 or Article 8.5, or (ii) such elements are sold, exchanged, disposed of or removed pursuant to Section 8.03 or Section 8.53(h).

SECTION 6.04. *Warranty of Title.* It has good title to and is possessed of the lands and other property described in the granting clauses hereof as owned by the Company and thereby granted, and the Company will warrant and defend the title to said lands and other property as well as to any lands and other property hereafter made subject to the lien of the Mortgage, to the Trustee, its successors in the trust and its and their assigns for the benefit of the holders of bonds issued hereunder against claims and demands of all persons whomsoever; subject, however, insofar as affected thereby, to the lien described or referred to in the granting clause hereof and in the case of any such lands and other property subjected after May 1, 1921 to the lien of the Mortgage, to the liens and encumbrances thereon, if any, at the time they shall become subject to the lien of the Mortgage.

SECTION 6.05. *Prior liens.* (a) It will not voluntarily create, or suffer to be created, any debt, lien or charge having priority to the lien of the Mortgage, upon the trust estate, but it shall not be required to pay any such debt, lien or charge so long as it shall, in good faith and by appropriate

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proceedings, contest the validity thereof, unless thereby, in the judgment of the Trustee, the security afforded by the Mortgage will be materially endangered.

(b) Until the Second Effective Date (but not thereafter), it will not increase the outstanding issue of bonds under any underlying mortgage, now or hereafter a lien upon the mortgaged premises or any part thereof, and it will not extend or consent to the extension of the time of payment of the principal of any bonds secured by any such underlying mortgage, and before or at the maturity thereof will pay or cause to be paid the principal of, or will acquire and pledge hereunder, all such bonds and, until paid or discharged at maturity, or otherwise will, except as provided in paragraph (3) of Section 3.04, pay the interest thereon or cause it to be paid at the times and at the place or places therein, or in the coupons attached thereto set forth.

(c) It will cause all prior lien obligations to be paid in accordance with their terms at or before the maturity thereof, and will duly and punctually perform all the conditions imposed upon it by any prior lien, and will not permit any default under any prior lien to occur or continue for the period of grace specified therein.

It will not permit any increase in the aggregate principal amount of the outstanding indebtedness secured by any prior lien, other than in respect of interest accrued thereon but not yet due, unless

(i) the additional obligations representing such increase are issued in exchange for or in lieu of outstanding obligations on the exercise by the holder of such outstanding obligations of a right possessed by such holder at the date of acquisition by the Company of the property subject to such prior lien, or

(ii) the additional obligations representing such increase are deposited with the Trustee pursuant to Section 6.15 hereof, or

(iii) the additional obligations representing such increase are deposited with the trustee or other holder of another prior lien then existing upon the same property as that mortgaged or pledged to secure the additional obligations so deposited (under conditions such that no transfer of ownership or possession of such additional obligations by

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the trustee or other holder of such prior lien is permissible except to the Trustee hereunder to be held subject to the provisions of Section 6.15 hereof, or to the trustee or other holder of some other prior lien upon the same property for cancellation or to be held uncanceled under the terms of such other prior lien under like conditions).

It will not apply under any provision of the Mortgage on the basis of any additional prior lien obligations which are permitted to be incurred pursuant to clause (ii) or (iii) of the preceding sentence for the authentication and delivery of any bonds, or the withdrawal of cash, or the release of property, or for any other credit with respect to such additional prior lien obligations; nor will it apply, on the basis of any such additional prior lien obligations, under any provision of any prior lien for the withdrawal of cash or securities held by the trustee or other holder of such prior lien, unless such cash or securities so withdrawn shall be deposited with the Trustee hereunder (unless such cash or securities are required to be deposited with the trustee or other holder of some other prior lien upon the same property), to be held as part of the trust estate, and thereafter to be withdrawn, used or applied, in the manner, to the extent, and for the purposes and subject to the conditions provided in Article 9.

It will not reissue or otherwise dispose of any prior lien obligations which it may acquire, provided that nothing in this paragraph (c) shall prevent the retirement of any such prior lien obligation or the use of any such prior lien obligation under the Mortgage.

SECTION 6.06. *Renewal and Replacement Fund.* On or before May 1 of each year beginning with the year 1968, it will deliver to the Trustee a maintenance certificate which shall be dated within thirty days of the date of delivery to the Trustee and shall state:

- (i) the replacement fund requirement for the period subsequent to December 31, 1966, and prior to the January 1 next preceding the date of the certificate;
  - (ii) the amount specified pursuant to item (i) in the maintenance certificate, if any, filed in the preceding calendar year;
  - (iii) the difference between the amount specified in item (i) above and the amount specified in item (ii) above;
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(iv) the amount expended by the Company for property additions subsequent to December 31, 1966, and prior to the January 1 next preceding the date of such maintenance certificate;

(v) the amount specified pursuant to item (iv) in the maintenance certificate, if any, filed in the preceding calendar year;

(vi) the difference between the amount specified in item (iv) above and the amount specified in item (v) above;

(vii) any available replacement credit, as hereinafter defined, and the computation thereof; and

(viii) the replacement credit or replacement deficit as hereinafter defined.

The amount "expended by the Company for property additions", for purposes of this Section, shall not include (a) the amount of any prior lien obligation secured by a prior lien on property acquired, (b) any amount on account of property additions acquired by merger or consolidation, or which were operated, within six months prior to the date of acquisition thereof by the Company, by a person or persons other than the Company in a business similar to that in which they are to be used or operated by the Company, or (c) any amount expended for the acquisition of any property disposed of by the Company within the year immediately preceding such acquisition. However, if the Company acquires any property addition subject to a prior lien, any payments made thereafter by the Company in reduction of the prior lien obligation secured by such lien shall be deemed, for purposes of this Section, to have been "expended" for a property addition.

The term "replacement credit" shall mean the excess of the sum of the amounts stated pursuant to paragraphs (vi) and (vii) above over the amount stated pursuant to paragraph (iii) above, and the term "available replacement credit" shall mean the amount of the replacement credit, if any, stated in paragraph (viii) of the last maintenance certificate theretofore filed, less the principal amount of bonds or refundable prior lien obligations and cash thereafter withdrawn and the amount of bondable property additions thereafter offset upon the basis of such replacement credit as hereinafter in this Section provided.

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The term "replacement deficit" shall mean the amount by which the amount stated pursuant to paragraph (ill) above exceeds the sum of the amounts stated pursuant to paragraphs (vi) and (vii) above.

In case any maintenance certificate shows a replacement deficit; the Company will, concurrently with the filing of such certificate, satisfy such replacement deficit by any one or more of the following methods:

- (1) depositing cash with the Trustee;
- (2) depositing with the Trustee outstanding bonds or refundable prior lien obligations which might at the time be made the basis for the authentication and delivery of bonds under Section 3.52 or Section 3.53; or
- (3) specifying to the Trustee bondable property additions.

For the purpose of computing the amount of any deposit or credit for the purposes of this Section, bonds or refundable prior lien obligations deposited shall be included at the principal amount thereof, and credit shall be allowed for an amount equal to 100% of bondable property additions.

In the event the Company desires to specify bondable property additions under this Section to satisfy a replacement deficit or as the basis for a withdrawal of cash, it shall deliver to the Trustee a bondable property certificate complying with the requirements of Subdivision (1) of Section 3.57, accompanied by the evidence provided for in Section 3.57. If, in satisfaction of a replacement deficit or as a basis for the withdrawal of cash under this Section or to offset a prior certification of bondable property additions, the Company deposits with the Trustee outstanding bonds or refundable prior lien obligations which might at the time be made the basis for the authentication and delivery of bonds under Section 3.52 or Section 3.53, it shall deliver to the Trustee the evidence, as appropriately modified, provided for in the appropriate one of said Sections, except that no certification as to the net earnings requirement of Section 3.58 shall be required.

The Trustee shall hold any cash deposited with it under the provisions of this Section as part of the trust estate until paid out as hereinafter provided. Upon delivery to the Trustee of an application, signed by the President or a Vice-President of the Company, cash deposited under the provisions of this Section may

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(1) be withdrawn by the Company in an amount equal to any available replacement credit; or

(2) be withdrawn by the Company in an amount equal to 100% of bondable property additions; or

(3) be used or applied as provided in Section 9.04, except that any premium required to be paid to purchase or redeem bonds shall be paid out of funds held by the Trustee under this Section and the Company shall not be required to furnish the Trustee with additional funds for such purpose or to reimburse the Trustee or the replacement fund for moneys so paid out; or

(4) be withdrawn on the basis of a deposit of bonds or refundable prior lien obligations which might at the time be made the basis for the authentication and delivery of bonds under Section 3.52 or Section 3.53.

The amount of bondable property additions which has been specified to satisfy any replacement deficit or to withdraw any cash deposited with the Trustee pursuant to this Section may be offset, for the purpose of computing thereafter the amount of bondable property additions, in an amount equal to any available replacement credit or to the principal amount of outstanding bonds or refundable prior lien obligations deposited with the Trustee for such purpose which might at the time be made the basis for the authentication and delivery of bonds under Section 3.52 or Section 3.53. Such offset shall become effective upon the filing with the Trustee of an officers' certificate stating the amount of bondable property additions theretofore specified for such purposes to be offset and the manner in which such offset is to be effected. If such offset is to be effected by the deposit of bonds or refundable prior lien obligations, such officers' certificate shall be accompanied by such bonds or refundable prior lien obligations.

Bonds or refundable prior lien obligations deposited with or purchased or redeemed by the Trustee pursuant to this Section shall be held by the Trustee until withdrawn as hereinafter provided and, while so held, shall not be made the basis for the authentication of bonds, the withdrawal, use or application of cash or the release of property, under any of the provisions of the Mortgage, or used to satisfy a replacement deficit or to satisfy any other requirements hereof. Any bonds or refundable prior lien obligations deposited with or

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purchased or redeemed by the Trustee pursuant to this Section may be Withdrawn by the Company in principal amount equal to any available replacement credit, and thereafter the foregoing limitation on the use of such bonds or refundable prior lien obligations shall cease to be applicable. Such withdrawal shall be permitted upon the filing with the Trustee of all officers' certificate stating the principal amount of bonds or refundable prior lien obligations held by the Trustee subject to the provisions of this Section to be withdrawn and the amount of any available replacement credit. No payment by way of principal, interest or otherwise on any bonds or refundable prior lien obligations so held by the Trustee shall be made or demanded by the Trustee while so held and the coupons thereto appertaining as they mature shall be cancelled by the Trustee. Any bonds or refundable prior lien obligations so held by the Trustee shall, if continued to be so held, be cancelled upon the maturity thereof.

SECTION 6.07. *Payment of Taxes, etc.* It will from time to time pay or cause to be paid all taxes and assessments lawfully levied or assessed upon the property and franchises hereby mortgaged or pledged or intended so to be or upon any part thereof, and upon all other property, income and profits of the Company, when the same shall become lawfully due and payable, and will not suffer any mechanics', laborers', statutory or other similar liens to remain outstanding upon the mortgaged premises and pledged property, or any part thereof, the lien whereof might or could be held to be prior to the lien of the Mortgage; provided, however, that the Company shall have the right to contest by legal proceedings any taxes, assessments or liens not hereby created and pending such contest may delay or defer the payment thereof.

SECTION 6.08. *Maintenance of Property.* (a) It will not, except as herein allowed, do or suffer to be done any act or thing whereby the lien hereof might or could be impaired and it will at all times maintain, preserve and keep the mortgaged premises and every part thereof with the fixtures and appurtenances thereof, in thorough repair, working order and condition; and from time to time will make all needful and proper repairs, renewals, replacements, additions, betterments and improvements, so that at all times the value of the security for the bonds issued hereunder and the efficiency of the property hereby mortgaged shall be fully preserved and maintained.

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(b) Until the Second Effective Date (but not thereafter), it will set aside or expend from its gross operating revenues during each month beginning January 1, 1921, for the maintenance and replacement of its properties, an amount equivalent to not less than 10% of its gross operating revenues for such month. Any portion of such aggregate amount not actually expended for current maintenance or for replacements and renewals during any twelve months' period ending December 31 in any year shall be segregated in a special reserve account which shall in subsequent years be used only for maintenance expenditures or for replacements and renewals in excess of the 10% requirement for the current year or for capital expenditures which would otherwise be available as a basis for the issue of bonds hereunder. If during any such year the expenditures of the Company for maintenance, replacements and renewals should in the aggregate exceed an amount equivalent to 10% of its gross operating revenues during said year, any such excess may be credited upon the 10% requirement in subsequent years.

From time to time after January 1, 1924, but not within three years from the last previous determination, such percentage of gross operating revenues may be re-determined, effective as of the first day of the month following such redetermination, by a board of arbitration on application of the Company, notice having been given by the Company to the Trustee, or on the request of the Trustee delivered to the Company or on the request of the holders of at least 10% of all bonds secured hereby then outstanding, notice in such case having been given to the Company and to the Trustee. In case of such application by the Company or the Trustee it shall not be necessary or expected that any notice thereof shall be given to the bondholders by either the Company or the Trustee, except as to any bondholder who has filed with the Trustee a request to be notified.

If arbitration shall be so applied for or requested for the redetermination of such percentage of gross operating revenues, the arbitrators shall be appointed and the arbitration shall proceed in the following manner: Within thirty days after the delivery of such application or request the Company shall select one arbitrator, and the Trustee shall select one arbitrator, and shall notify each other of their selection, and if any bondholders have applied for the arbitration, or filed with the Trustee a request to be notified, the Trustee shall also notify such bondholders. Within ten days additional after the end of the said first period of thirty days the two arbitrators chosen as aforesaid shall select a third arbitrator. If the third arbitrator shall not

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be so selected within the said ten days; application may be made by either party to a judge of the United States Court of Appeals for the Second Circuit, or to such other judge as the two arbitrators previously chosen may agree upon, for the appointment of a competent and disinterested person in determining any questions before them, said arbitrators may consider any facts or evidence whatsoever which they in their uncontrolled judgment may deem competent or material, and the decision of a majority of said arbitrators shall be conclusive upon all parties in interest hereunder. Any vacancy in the board of arbitration shall be filled in the manner of the original appointment of the arbitrator whose place shall have become vacant. In case the questions submitted for decision shall not be decided by the board of arbitration and their report filed with the parties thereto 'within sixty days from the date of the selection of the third arbitrator, the arbitrators shall be deemed discharged, and upon request of either party a new arbitration may be had in like manner as aforesaid, subject to the same terms and provisions; provided, however, that if the Company, the Trustee and a majority in principal amount of the bondholders, if any, who applied for any arbitration shall, by writings filed with the Trustee, request that the time allowed for such arbitration be extended, it shall be extended for the shortest period specified in such requests. The expense of such arbitration shall be forthwith paid by the Company. Until such decision has been rendered by such board of arbitration the trustee shall be under no obligation to take any action with regard to the matter in issue or controversy, hut the provisions of the Mortgage relating to default shall not be in any manner suspended nor shall the rights of the Trustee or of the bondholders with respect to any acts or proceedings based upon or pursuant to any default be in any manner delayed or otherwise affected pending any such arbitration or by reason thereof.

(c) Nothing in this Section shall be construed to prescribe or affect in any manner whatsoever the methods and practices of the Company in keeping its books and accounts or as may be prescribed by any governmental authority, or shall impair by any implication the force of the covenant contained in this Section to maintain the property of the Company.

SECTION 6.09. *Insurance.* It will at all times keep such parts of the said mortgaged premises or property as are liable to be destroyed or injured by fire or other casualty insured against loss or damage to the extent that

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such property is usually insured, or in lieu of, or supplementing such insurance, it will adopt such other plan or method of protection against loss or damage by fire or other casualty, whether by the establishment of an insurance fund or otherwise, as may be determined by the Board; provided, however, that in the course of substitution of any such other plan or method, the Company will not at any time reduce the aggregate amount of protection of its property against loss below the amount for which such property would have been insured under the provisions of this Section had such plan or method not been adopted. The proceeds of any such insurance, if exceeding in any case of loss the amount of \$25,000, shall, if not required to be deposited with the trustee under any mortgage to which said property may be subject prior to the lien of the Mortgage, be paid to the Trustee which shall, at the request of the Company and under its direction, pay over the same to the Company from time to time to reimburse the Company for money spent by it for replacements of or substitutions for the injured or destroyed property, upon receipt by the Trustee of an engineer's certificate stating the fair value to the Company as of the date of the certificate of the replacement or substitution; provided that such certificate shall be an independent engineer's certificate if any portion of the property used to effect such replacement or substitution (A) was operated within six months prior to the date of acquisition thereof by the Company, by a person or persons other than the Company in a business similar to that in which it has been or is to be used or operated by the Company, and (B) has a fair value to the Company, as stated in the certificate required by this clause, of not less than \$25,000 and not less than 1% of the aggregate principal amount of the bonds at the time outstanding. Nevertheless the Trustee shall not be obliged to see to the application thereof. In all other cases the proceeds of any such insurance shall be applied for any of the purposes and in the manner set forth in Article 9, but only upon compliance with the requirements thereof.

SECTION 6.10. *Recording.* (a) It will cause this indenture and every indenture supplemental hereto, to be duly recorded both as a mortgage of real and of personal property, and will comply with the requirements of any and every law affecting the due recording of this indenture or any indenture supplemental hereto, and will do whatever else may be necessary in order to perfect and continue the lien of the Mortgage upon the mortgaged premises.

(b) It will furnish to the Trustee, promptly after the execution and delivery of each indenture supplemental to the Mortgage, an opinion of

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counsel either stating that in the opinion of Stich counsel the Mortgage has been properly recorded and filed so as to make effective the lien intended to be created thereby, and reciting the details of such action, or stating that in the opinion of such counsel no such action is necessary to make such lien effective. It shall be a compliance with this subsection (b) if (1) the opinion of counsel herein required to be delivered to the Trustee shall state that the Mortgage has been received for record or filing in each jurisdiction in which it is required to be recorded or filed and that, in the opinion of counsel (if such is the case), such receipt for record or filing makes effective the lien intended to be created by the Mortgage, and (2) such opinion is delivered to the Trustee within such time, following the date of the execution and delivery of each supplemental indenture as shall be practicable having due regard to the number and distance of the jurisdictions in which the Mortgage is required to be recorded or filed.

(c) It will furnish to the Trustee, on or before December 1, 1944, and annually thereafter between September 1 and December 1, an opinion of counsel, either stating that in the opinion of such counsel such action has been taken with respect to the recording, filing, re-recording, and re-filing of the Mortgage as is necessary to maintain the lien of the Mortgage, and reciting the details of such action, or stating that in the opinion of such counsel no such action is necessary to maintain such lien.

SECTION 6.11. *To Comply With All Provisions of Agreements and Leases* . It will punctually perform and comply with all the conditions, covenants, terms, stipulations and provisions of any and all leases, and agreements relating thereto, to which it is a party by assignment, sublease or otherwise, and which are subject to the lien of the Mortgage or to the Company's covenants herein.

SECTION 6.12. *Annual Audit*. It will annually on request of the Trustee, at its own expense, have made by a public accountant selected by the Company and satisfactory to the Trustee, an examination and audit of the accounts of the Company for the period ending on December 31<sup>st</sup> prior to such request and will furnish to the Trustee a report made by such accountant on the completion of each such examination and audit.

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SECTION 6.13. *Dividends.* (a) It will not declare and pay cash dividends upon its common stock in excess of the amount of such surplus income or earnings accumulated since December 31, 1920, as may remain after deducting from the gross operating and non-operating revenues of the Company expenses and charges of the Company of the following nature: operating expenses, all expenditures for current maintenance, replacements and renewals including any amount set aside under the provisions of Section 6.08, any percentages of earnings required to be paid under the terms of any franchise, taxes, interest charges, dividends on preferred stock, including such interest and dividends as have accrued, and all similar charges lawfully entitled to priority over dividends payable to the holders of shares of the common stock of the Company.

(b) It will not, after December 31, 1966 declare or pay any dividends, or make any other distributions (except (1) dividends payable or distributions made in shares of common stock of the Company and (2) dividends or distributions payable in cash in cases where, concurrently with the payment of the dividend or distribution, an amount in cash equal to the dividend or distribution is received by the Company as a capital contribution or as the proceeds of the issue and sale of shares of its common stock), on or in respect of common stock of the Company, or purchase or otherwise acquire or permit a subsidiary to purchase or otherwise acquire for a consideration any shares of common stock of the Company, if the aggregate of such dividends, distributions and such consideration for purchase or other acquisition of shares of common stock of the Company after December 31, 1966, shall exceed

(i) the earned surplus of the Company accumulated after December 31, 1966 (determined in accordance with generally accepted accounting principles and without giving effect to charges to earned surplus on account of such dividends, distributions or acquisitions or on account of the disposition of any amounts which may then be classified by the Company on its books as amounts in excess of the original cost of utility plant or to charges or credits to earned surplus on account of items inherent in the balance sheet at December 31, 1966 or on account of transfers from earned surplus to capital surplus or capital stock accounts), plus

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(ii) the earned surplus of the Company accumulated prior to January 1, 1967 in an amount not exceeding \$13,500,000, plus

(iii) such additional amount as shall be authorized or approved, upon application by the Company, by the Securities and Exchange Commission, or by any successor commission thereto, under the Public Utility Holding Company Act of 1935.

For the purposes of this Section, in determining the earned surplus of the Company accumulated after December 31, 1966, there shall be deducted the dividends accruing subsequent to December 31, 1966 on preferred stock of the Company and the total amount, if any, by which the charges to income or earned surplus for the period since December 31, 1966 as provisions for depreciation of utility property shall have been less than the replacement fund requirement for the period. Further, for purposes of this Section, in determining the earned surplus of the Company accruing subsequent to December 31, 1966, no effect shall be given to (1) charges to earned surplus with respect to a distribution of the shares of The Connecticut Gas Company and/or a company to which the Company conveys all or a substantial portion of the properties used by the Company in the gas business, or (2) charges or credits to earned surplus with respect to a profit or loss realized on the sale or other disposition by the Company of (i) all or a substantial portion of the properties used by the Company in the gas business, or (ii) the shares of The Connecticut Gas Company and/or a company to which the Company conveys all or a substantial portion of the properties used by the Company in the gas business. The term "consideration", as used in this Section, shall mean cash or fair value if the consideration be other than cash, and the term "provision for depreciation", as used in this Section, shall not be deemed to include provision for the amortization of any amounts classified by the Company on its books as amounts in excess of the original cost of utility plant.

SECTION 6.14. *Sinking and Improvement Fund.* It will, as and for a sinking and improvement fund for the benefit and security of all bonds now or hereafter issued under the Mortgage, so long as any such bonds remain outstanding, deposit cash with the Trustee, on or before May 1, 1968, and on or before May 1 in each year thereafter in an amount equal to 1% of the aggregate principal amount of bonds of all series originally

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issued under the Mortgage after January 1, 1967 and prior to January 1 of the year in question, after deducting from such aggregate principal amount:

(i) the principal amount of bonds of any such series all of which, prior to January 1 of the year in question, has ceased to be outstanding; and

(ii) with respect to any such series of bonds which remains outstanding in whole or part as of January 1 of the year in question, the principal amount of bonds of that series which, prior to January 1 of that year:

(a) have been deposited with the Trustee for cancellation as the basis for (i) the release of property; (ii) the withdrawal of any cash deposited with the Trustee as insurance proceeds; or (iii) the withdrawal of any cash or purchase money obligations deposited with the Trustee on the release, sale, other disposition or change of, or the taking by eminent domain or purchase by any governmental or public body, authority, agency, or licensee of, any property;

(b) have been purchased or redeemed with moneys deposited with the Trustee as insurance proceeds or on the release, sale, other disposition or change of, or the taking by eminent domain or purchase by any governmental or public body, authority, agency, or licensee of, any property; or

(c) have been pledged to secure indebtedness of the Company but have not otherwise been issued to the public.

The Company may, at its option, credit against the amount of cash required to be deposited pursuant to this Section, an amount equal to 60% (or such higher percent, not to exceed 66 2/3%, as shall be authorized or approved, upon application by the Company, by the Securities and Exchange Commission or by any successor commission thereto, under the Public Utility Holding Company Act of 1935) of bondable property additions, upon the filing with the Trustee of a bondable property certificate complying with the requirements of Subdivision (1) of Section 3.57, accompanied by the evidence provided for in Section 3.57.

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The Company may, at its option, also credit against the amount of cash required to be deposited pursuant to this Section the aggregate principal amount of any bonds or refundable prior lien obligations then deposited with the Trustee which might at the time be made the basis for the authentication and delivery of bonds under Section 3.52 or Section 3.53 and which the Company elects to make the basis of a credit under this Section. If, in satisfaction of the requirements of this Section, the Company deposits with the Trustee outstanding bonds or refundable prior lien obligations which might at the time be made the basis for the authentication and delivery of bonds under Section 3.52 or Section 3.53, it shall deliver to the Trustee the evidence, as appropriately modified, provided for in the appropriate one of said Sections, except that no certification as to the net earnings requirement of Section 3.58 shall be required. On or before May 1 of each year beginning May 1, 1968, concurrently with the delivery to the Trustee in each such year of the annual maintenance certificate, the Company shall deliver to the Trustee an officer's certificate which shall state:

(i) the aggregate principal amount of bonds of series originally issued under the Mortgage after January 1, 1967 and prior to January 1 of the year in question, less the aggregate principal amount of bonds to be deducted therefrom pursuant to the provisions of this Section 6.14;

(ii) the amount of bondable property additions which the Company then elects to make the basis of a credit under this Section 6.14; and

(iii) the aggregate principal amount of bonds or refundable prior lien obligations deposited with the Trustee which might at the time be made the basis for the authentication and delivery of bonds under Section 3.52 or Section 3.53 and which the Company then elects to make the basis of a credit under this Section 6.14.

All moneys deposited by the Company with the Trustee pursuant to this Section shall be held by the Trustee as part of the trust estate until paid out as hereinafter provided, but may, upon receipt by the Trustee of an application signed by the President or a Vice-President of the Company,

(1) be used or applied as provided in Section 9.04; or

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(2) be withdrawn by the Company in an amount equal to 60% (or such higher percent, not to exceed 66 2/3%, as shall be authorized or approved, upon application by the Company, by the Securities and Exchange Commission or by any successor commission thereto, under the Public Utility Holding Company Act of 1935) of bondable property additions, upon receipt by the Trustee of a bondable property certificate, complying with the requirements of Subdivision (1) of Section 3.57, accompanied by the evidence provided for in Section 3.57.

SECTION 6.15. *Deposit of Prior Lien Obligations as Security.* If any property additions are subject to a prior lien at the time of their specification in a bondable property certificate, the Company will to the extent permitted by the terms of the instrument creating such prior lien, the terms of the Mortgage and applicable law and regulations cause (a) to be issued in accordance with the terms of the instrument creating such prior lien, a principal amount of prior lien obligations not theretofore issued as near as may be equal to the principal amount of additional bonds to be issued or cash to be withdrawn or credit to be given under the Mortgage against the property additions which are subject to such prior lien, and (b) such prior lien obligations to be deposited with the Trustee to be held under the provisions of Article 9 hereof, unless required to be deposited with the trustee or other holder of another prior lien upon the same property additions.

Upon the cancellation and discharge of any prior lien, or upon the release in any other way of prior lien obligations deposited with the trustee or other holder of any other prior lien, the Company will (subject to the requirements of any mortgage or other lien securing such prior lien obligations) cause any prior lien obligations held by the trustee or other holder of the prior lien so cancelled or discharged or any prior lien obligations so released in any other way to be cancelled or, at the option of the Company, to be deposited with the Trustee hereunder to be held under the provisions of Article 9, provided that such prior lien obligations may be deposited with the trustee or other holder of some other prior lien (upon the same property as that mortgaged or pledged to secure the prior lien obligations so deposited) if required by the terms thereof; and, upon the cancellation and discharge of any prior lien, it will cause any cash or securities (other than prior lien obligations) held by the trustee or other holder of such prior lien to be deposited with the Trustee hereunder (unless such cash or securities are required to be deposited with the trustee or other holder of some other prior

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lien upon the same property) to be held as part of the trust estate, to be withdrawn, used or applied, in the manner, to the extent, and for the purposes and subject to the conditions of Article 8, Article 8.5 and Article 9.

Notwithstanding the foregoing, so long as Section 3.04 continues in effect, in the event of any conflict between Section 3.04 and the provisions of the second paragraph of this Section, Section 3.04 shall be controlling, and, to the extent of such conflict, the Company shall be required to comply only with Section 3.04 and not with this Section. After Section 3.04 ceases to be in effect, this Section shall be controlling also with respect to any prior lien obligations theretofore deposited under Section 3.04.

SECTION 6.16. *Annual Compliance Certificate.* It will, so long as any bonds are outstanding under the Mortgage, file with the Trustee at least once in each calendar year, beginning with the year 1945, an officer's certificate stating that in the opinion of the signers the Company at the date of such certificate and during the period from the date of the last certificate filed pursuant to the provisions of this Section (or its predecessor Section) has or has not, as the case may be, complied with the provisions of Sections 6.05, 6.07, 6.08, 6.09, 6.10, 6.11 and 6.13; in the event that such certificate states that the Company has not complied with any or all of said Sections such certificate shall recite the details of such non-compliance.

## **ARTICLE 7.**

### **Consolidation, Merger and Purchase.**

SECTION 7.01. *Company May Consolidate or Merge.* Nothing contained in the Mortgage shall prevent any consolidation or merger of the Company with or into any other corporation or corporations, or any conveyance, subject to the continuing lien of the Mortgage, of all of the mortgaged property to any corporation lawfully entitled to acquire and operate the same; provided, however, that such consolidation, merger, conveyance, or transfer shall be upon such terms as fully to preserve and in no respect to impair the lien and security of the Mortgage, or any of the rights or powers of the Trustee or of the bondholders hereunder; and provided, further, that upon any such consolidation, merger, conveyance or transfer the due and punctual payment of the principal and interest of all of said bonds according to their tenor, and the due and punctual performance and observance of all

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of the covenants and conditions of the Mortgage to be kept or performed by the Company, shall be expressly assumed by the corporation formed by any such consolidation or into which such merger shall have been made, or acquiring by conveyance or transfer all the property subject to the Mortgage.

SECTION 7.02. *Issue of Bonds by Successor Corporation.* In case the Company, pursuant to Section 7.01, shall be consolidated with or merged into any other corporation, or shall convey or transfer, subject to the lien of the Mortgage, all the mortgaged property as an entirety, the successor corporation formed by such consolidation or into which the Company shall have been merged, or which shall have received a conveyance or transfer as aforesaid, and any successor to such consolidated or merging corporation whether by successive consolidations, mergers, or otherwise, upon executing and causing to be recorded an indenture supplemental hereto with the Trustee satisfactory to the Trustee, whereby said successor corporation shall assume and agree to pay, duly and punctually, the principal and interest of the bonds hereby secured in accordance with the provisions of said bonds and coupons and the Mortgage, and shall agree to perform and fulfill all the covenants and conditions of the Mortgage binding upon the Company, and shall agree that the property forming the security for the bonds issued under the Mortgage shall be kept distinguishable and separable from other properties and shall as a system be kept at all times in good working order, supplied with adequate equipment or with the equivalent in adequate arrangements for the supply of electric power and gas from other sources, shall succeed to and be substituted for the Company, with the same effect as if it had been named herein as the mortgagor company; and such successor corporation thereupon may cause to be signed, issued and delivered in its own name any or all of such bonds which shall not theretofore have been signed by the Company and authenticated by the Trustee, and upon the order of such successor corporation in lieu of the Company, and subject to all the terms, conditions and limitations in the Mortgage prescribed, the Trustee shall authenticate and deliver any of such bonds which shall have been previously signed and delivered by the Company to the Trustee for authentication, and any of such bonds which such successor corporation shall thereafter, in accordance with the provisions of the Mortgage, cause to be signed and delivered to the Trustee for such purpose. All the bonds so issued shall in all respects have the same legal right and security as the bonds theretofore or thereafter issued in accordance with the terms of the Mortgage as though

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all of said bonds had been issued at the date of the execution hereof. In case of such consolidation or merger or conveyance and transfer such changes in phraseology and form (but not in substance) may be made in the bonds hereby secured, thereafter to be issued, as consequent upon such consolidation or merger, or conveyance and transfer, may be appropriate.

Provided, however, that as a condition precedent to the execution by the successor corporation and the authentication by the Trustee of any such additional bonds in respect of the actual cost or fair value of additional property, additions, extensions, betterments or improvements of the kind described in subdivision (1) of Section 3.05 (or in respect of property additions pursuant to Section 3.54), the supplemental indenture with the Trustee to be executed and caused to be recorded by the successor corporation as in this Article provided, shall contain a conveyance or transfer and mortgage in terms sufficient to include such additional property, additions, extensions, betterments or improvements (and such property additions); and to give to the Trustee a first lien not only thereon, but also upon any property and franchises which may be necessary in the use and operation thereof; and provided, further, that the lien created thereby shall have similar force, effect and standing as the lien of the Mortgage would have if the Company should not be consolidated with or merged into such other corporation or should not convey or transfer, subject to the Mortgage, all the mortgaged property as an entirety, as aforesaid, to the successor corporation, and should itself acquire such additional property or make such additions, extensions, betterments or improvements (and such property additions), and request the authentication and delivery of bonds under the provisions of the Mortgage in respect thereof.

The Trustee may receive as conclusive evidence and shall be fully protected in relying upon an opinion of counsel that any such supplemental indenture complies with the foregoing conditions and provisions of this Section and that such successor corporation is authorized to cause to be signed, issued and delivered in its own name any or all of such bonds, subject to all the terms, conditions and limitations in the Mortgage prescribed.

SECTION 7.03. Extent of Lien of Mortgage on Property of Successor Corporation. In case the Company, pursuant to Section 7.01, shall be consolidated with or merged into any other corporation, or shall convey or transfer, subject to the lien of the Mortgage, all the mortgaged property as an entirety, as aforesaid, neither the Mortgage nor the supplemental indenture

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with the Trustee to be executed and caused to be recorded by the successor corporation as in Section 7.02 provided, shall become or be a lien upon any of the properties or franchises of the successor corporation except those acquired by it from the Company, and additional property or improvements, extensions and additions appurtenant thereto, and the additional property, permanent improvements, extensions and additions to or about the plant and property of the successor corporation or other properties made and used by it as the basis for the issue of additional bonds under the Mortgage, as herein provided, and such franchises, repairs and additional property as may be acquired by the successor corporation in pursuance of the covenants herein contained to maintain, preserve and renew the franchises covered by the Mortgage, and to keep and maintain the property covered by the Mortgage in thorough repair, working order and condition, or in pursuance of some other covenant or agreement hereof to be kept or performed by the Company and except all properties and franchises which may be acquired by the successor corporation which shall be used in direct connection with the mortgaged estates and properties.

## **ARTICLE 8**

### **Possession and Release of the Property Mortgaged.**

SECTION 8.01. *Effective Time of Article.* This Article 8 shall continue in effect until the Second Effective Date but not thereafter, and shall cease to be of any force or effect on the Second Effective Date.

SECTION 8.02. *Company to Retain Possession of Property Until Default.* Until default shall be made by the Company in the payment of the principal of or the interest upon the bonds issued hereunder, or any of them or some part thereof, according to the tenor and effect thereof; or until default shall be made in respect of some other act or thing in said bonds or herein required to be done, the Company shall be entitled to possess, manage, operate, use and enjoy, and be suffered and permitted to remain in the actual and undisturbed possession of all and singular the property hereby mortgaged (other than shares of stock, bonds and other securities pledged or to be pledged hereunder with the Trustee), and to receive, take and use the rents, income and profits thereof as if the Mortgage had not been made, with power in the

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ordinary course of business to use and consume the supplies and deal with the contracts and chases in action, and to alter, repair, change and add to its buildings, structures and any or all of its plant and equipment, and the appliances appertaining to or used in connection with its business, constructed or owned or hereafter constructed or acquired by the Company, and conveyed or intended to be conveyed hereby to the Trustee. Until such default the Company may assent or agree to any modification of said agreements dated February 28, 1910, June 27, 1917, and July 23, 1918, referred to in the granting clause hereof and of said agreement dated April 26, 1921, between Connecticut Railway and Lighting Company, The New York, New Haven and Hartford Railroad Company and the Company referred to in the granting clause hereof.

SECTION 8.03. *Disposal Without Release.* As long as the Company shall remain in possession of the mortgaged premises and there shall be no continuing default under the Mortgage, the Company may alter, remove, sell, exchange or otherwise dispose of such materials, appliances and other movable property as may become worn out or no longer be necessary or profitable for the use of the Company; provided the Company shall immediately renew the same or substitute other property therefor which in its judgment may be of the same or greater utility or value, so that such alteration, removal or disposition will not impair the security pf the bonds issued hereunder; and the Company may also alter or remove any improvements, buildings or other structures upon or under the surface of any lands, tenements or hereditaments constituting a part of the mortgaged premises, if such alteration or removal will, in its opinion, enable it to use its property to better advantage in the judicious and most profitable operation and management of its business; provided, however, that the Company shall not in any given six months, without the consent of the Trustee, sell or dispose of such property exceeding in value fifty thousand dollars, but the Trustee shall be under no duty to make inquiry as to whether or not this condition has been observed; and the Company covenants that it will keep its system and property up to as high efficiency for practical and profitable operation in every respect as before such alteration or removal. Notwithstanding the foregoing provisions of this Section, however, the Company shall not be entitled pursuant to this Section to remove, sell, exchange or otherwise dispose of, without a release, any nuclear core elements which have become worn out or no

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longer necessary or profitable for the use of the Company unless such removal, sale, exchange or other disposition would be permitted by Section 8.53(h), if Section 8.53(h) were then in effect.

SECTION 8.04. *Release on Disposition.* As long as the Company shall remain in possession of the mortgaged premises and there shall be no continuing default under the Mortgage, the Company may sell or otherwise dispose of any other of its property at any time covered directly or indirectly hereby, and the Trustee shall release such property from the lien hereof upon receipt by the Trustee of:

(1) A certified resolution requesting such release or consent;

(2) An engineer's certificate signed by the President or a Vice-President of the Company, stating in substance as follows:

(a) That the retention of such property is no longer desirable in the conduct of the business of the Company and that the security hereby afforded will not be impaired by such release or consent.

(b) That the Company has sold or exchanged or contracted to sell or exchange the property in question for a consideration representing, in the opinion of the signers, its full value to the Company, which consideration may be: (i) cash; or (ii) partly cash and partly obligations secured by purchase money mortgage ("purchase money obligations") upon the property to be sold or exchanged; or (iii) any other property which could be made the basis for the authentication and delivery of bonds under Section 3.05, such consideration to be set out in reasonable detail in such certificate.

(3) Any money or obligations stated in said certificate to have been received in consideration for any such property or the certificate of a corporate trustee under one of the underlying mortgages stating that it has received such money or obligations; and if real estate or other property is included in the consideration received for such property, deeds or other instruments of conveyance, assignment or transfer sufficient, in the opinion of counsel hereinafter referred to, to subject the same to the lien of the Mortgage;

(4) An opinion of counsel to the effect that any obligations included in the consideration for such property are valid obligations,

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and that any purchase money mortgage securing the same is sufficient to afford a lien upon the property to be sold or exchanged, that the Company has absolute title to any property included in the consideration for said sale or exchange, and that any deeds or other instruments of conveyance, assignment or transfer covering any such property are sufficient to subject the same to the lien of the Mortgage directly, free from any liens prior hereto except current taxes and undetermined liens and charges incident to construction and except underlying mortgages; or an opinion of such counsel to the effect that no instrument of conveyance, assignment or transfer is necessary to vest in the Company the consideration received for such sale or exchange, or to subject the same to the lien of the Mortgage in the manner stated.

(5) An engineer's certificate as to the fair value of any property to be released from the lien of the Mortgage, which certificate shall state that in the opinion of the signer, the proposed release will not impair the security under the Mortgage in contravention of the provisions thereof; such certificate shall be made by an independent engineer if the fair value of such property and of all other property released since the commencement of the then current calendar year, as set forth in the certificates required by this paragraph (5), is 10% or more of the aggregate principal amount of bonds at the time outstanding; but such independent engineer's certificate shall not be required in the case of any release of property, if the fair value thereof as set forth in the certificate required by this paragraph (5) is less than \$25,000 or less than 1% of the aggregate principal amount of bonds at the time outstanding.

(6) In the event the consideration for the property includes any purchase money obligations or any property which could be made the basis for the authentication and delivery of bonds under Section 3.05, a certificate or opinion of an engineer, appraiser or other expert as to the fair value to the Company of such purchase money obligations or other property; and if

(i) within six months prior to the date of acquisition thereof by the Company such property has been used or operated by a person or persons other than the Company in a business similar to that in which it has been or is to be used or operated by the Company; and

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(ii) the fair value to the Company of such property as set forth in such certificate or opinion is not less than \$25,000 and not less than 1% of the aggregate principal amount of bonds at the time outstanding; or

(iii) in the case of purchase money obligations, the fair value to the Company of such obligations and of all other purchase money obligations made the basis of any release pursuant to this Article 8 since the commencement of the then current calendar year, as set forth in the certificates required by this paragraph (6), is 10% or more of the aggregate principal amount of bonds at the time outstanding;

such certificate or opinion shall be made by an independent engineer, appraiser, or other expert.

The resolutions and certificates, and the instruments and opinions hereinbefore provided for, shall be full authority to the Trustee for making any such release or giving such consent; but before making any such release or giving such consent the Trustee may, in its discretion, and shall, if requested in writing so to do by the holders of not less than a majority in principal amount of the outstanding bonds and furnished with security and indemnity satisfactory to it, cause to be made such independent investigation as it may see fit, and the expense thereof shall be paid by the Company or if paid by the Trustee shall be repaid by the Company upon demand, with interest at the rate of 6% per annum.

Any new property acquired by the Company by exchange or purchase, to take the place of any property released hereunder, shall forthwith and without further conveyance become subject to the lien of and be covered by the Mortgage; but if requested by the Trustee the Company shall convey the same to the Trustee by proper deeds upon the trusts and for the purposes of the Mortgage.

The proceeds of any property released by the Trustee shall be held and disposed of by the Trustee in the manner provided in Article 9.

SECTION 8.05. *Release Without Disposition*. As long as the Company shall remain in possession of the mortgaged premises and there shall be no continuing default under the Mortgage, the Company may without having sold or disposed of the same, procure the release of any property from the

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lien hereof, and the Trustee shall release the same from the lien hereof on receipt by the Trustee of:

(1) The resolution, consideration and certificates and opinions provided for in paragraphs (1), (3), (4), (5) and (6) of Section 8.04 as in said paragraphs provided, except the consideration may be only cash and/or property which could be made the basis for the authentication and delivery of bonds under Section 305; and

(2) A certificate, signed by the persons and in the manner prescribed for the certificate in paragraph, (2) of Section 8.04, stating in substance as follows:

(a) That the retention of such property is no longer desirable in the conduct of the business of the Company and that the security hereby afforded will not be impaired by such release,

(b) That the amount of the cash and/or other property offered by the Company as consideration, for the release of said property represents, in the opinion of the signers of the certificate, the full value to the Company of the property the release of which is then requested.

Any cash received as such consideration shall be disposed of by the Trustee in the manner provided in Article 9.

SECTION 8.06. *Proceeds Deposited With Trustee of Underlying Mortgage*. If under the provisions of any underlying mortgage in case of a release of any portion of the mortgaged premises, there is required to be made with the trustees under such mortgage or deed of trust, a deposit of cash or pledge of securities received in payment for said property released, the Company shall not be required to deposit with the Trustee hereunder such cash or securities to the extent that they may be required to be deposited with the trustees under said underlying mortgages; provided that any such deposits remaining with any of said trustees, upon the discharge and cancellation of said mortgages or deeds of trust, shall be redeposited with the Trustee hereunder and shall be held subject to the lien of the Mortgage, or disposed of by the Trustee in the manner provided in Article 9.

SECTION 8.07. *Franchise Not To Be Sold; Liability of Purchasers*. In no case shall the franchise of the Company to be a corporation be granted,

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sold, assigned or exchanged except as in the Mortgage provided. No purchaser, grantee, assignee or vendee of any property under the provisions of this Article 8 and no one with whom any exchange as herein authorized shall be made, shall be or be held to be liable or responsible for the proper investment, whether by the Company or by the Trustee, of the moneys or other proceeds of any such grant, assignment, sale, exchange or other proceeding hereby authorized.

SECTION 8.08. *Exercise of Powers by Receiver or Trustee*. In case the mortgaged premises or any part thereof shall be in possession of a receiver lawfully appointed, the powers in and by this Article 8 conferred upon the Company may be exercised by such receiver with the approval of the Trustee in respect to the property in the possession of such receiver, and if the Trustee shall be in possession of the mortgaged premises under any provisions of the Mortgage, then all the powers of this Article 8 conferred upon the Company may be exercised by the Trustee in its discretion.

SECTION 8.09. *Release in Case of Condemnation, etc.* Should any of the mortgaged property be taken by exercise of the power of eminent domain or should any governmental body, at any time, exercise any right which it may have to purchase any part of the mortgaged property, the Trustee shall release the property so taken or purchased, and shall be fully protected in doing so upon being furnished with an opinion of counsel to the effect that such property has been taken by exercise of the power of eminent domain, or purchased by a governmental body in the exercise of a right which it had to purchase the same. The proceeds of all property so taken or purchased, except any portion thereof which may be required by the terms of any underlying mortgage to be paid to the trustee or bondholders thereunder, shall be paid over to the Trustee, to be held and disposed of by the Trustee in the manner provided in Article 9; provided, however, that when the amount of such proceeds paid to the Trustee in any individual case exceeds 25% of the face value of the bonds then outstanding, such proceeds shall be used only as follows:

(1) The Company shall first notify, by publication in one or more newspapers of general circulation in the Borough of Manhattan, City of New York, and in one or more such newspapers in the City of Boston, Massachusetts, and in the case of registered bondholders by

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mailing notice to their registered addresses, the holder of all bonds outstanding hereunder, that the Trustee has a certain sum (to be stated) representing the proceeds of the taking of the whole or part of the Company's property by the exercise of the power of eminent domain or through purchase by some governmental body and describing briefly the property so taken and stating that said sum, in the amount of \$1,000 or a multiple thereof, will be used in the payment to each bondholder who may so desire of a proportion of the principal of the bonds held by him equal to the proportion which the amount of said proceeds bears to the total principal amount of bonds then outstanding and that if any bondholder shall not, within six months from the date of such notice, notify the Trustee in writing of his election to accept such payment, he shall lose his right thereto and the amount of the proceeds thus available shall thereupon be divided in the manner above stated among those bondholders who shall have, within said six months' period, notified the Trustee of their election to accept such payment. Upon surrender of their bonds, in denominations of \$1 ,000 or multiples thereof, with all unmatured coupons attached for cancellation, the Trustee shall, upon the interest date next following the expiration of said six months' period, proceed to pay in the manner above stated the sum so available to such of the bondholders as shall have elected, within \*said six months' period, to accept the same and who shall, on or before said interest date, have surrendered their bonds for cancellation above stated and, if the bonds so surrendered for cancellation shall be for a principal amount in excess of the sum to be so paid thereon, the Company shall deliver to such bondholders new coupon bonds with all unmatured coupons attached or registered bonds without coupons within the limitations prescribed in the Mortgage, of a principal amount equal to such excess.

(2) If at the expiration of said six months' period there shall remain any balance of said proceeds above the amount required to pay in full the principal amount, with accrued interest to the next interest date, of all bonds the holders of which have elected to accept payment thereon as aforesaid, the Trustee shall hold such balance for the Company's account and it shall, from time to time, at the Company's request, be disposed of by the Trustee in the manner provided in Article 9.

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## ARTICLE 8.5.

### Possession, Use and Release of Property.

SECTION 8.51. *Effective Time of Article; Release on Second Effective Date.* This Article shall be of no force or effect so long as Article 8 continues in effect, but shall automatically become and be in full force and effect at such time as Article 8 ceases to be in effect.

When this Article shall become and be in full force and effect as provided above, then, unless an event of default shall have happened and be continuing, upon application by the Company and receipt of an officers' default certificate dated the date of said application, the Trustee shall execute and deliver to the Company appropriate instruments releasing, to the extent hereinbelow provided, the interest, if any, of the Trustee in all right, title and interest of the Company then owned or thereafter acquired in and to

(a) all stocks, bonds or other obligations of persons other than corporations, and all other securities, unless the same shall be deposited by the Company with the Trustee as provided in the Mortgage;

(b) all rights and claims (other than with respect to the mortgaged property), patents, patent rights and other similar rights, agreements, contracts, accounts receivable, notes and bills receivable, judgments and other evidences of indebtedness not specifically assigned to and pledged with the Trustee hereunder;

(c) electricity, gas, water, electric and gas appliances, stock in trade, materials, supplies and other products generated, manufactured, produced, purchased, or otherwise acquired for the purpose of sale and/or resale, transmission, distribution, storage or use in the usual course of business or the operation of any of the properties of the Company;

(d) coal, natural gas, timber, lumber, crops, minerals, mineral rights and other products of land owned by the Company, in each case not in the ground;

(e) office furniture and equipment, small tools and equipment and machinery of portable size, and vehicles and vessels of every sort, together with all equipment and supplies necessary to the operation and maintenance of such vehicles and vessels;

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(f) all rents, tolls, earnings, profits, revenues, dividends and income then or thereafter arising from any property, other than the mortgaged property, then or thereafter owned, leased or operated by the Company;

(g) all leasehold interests, permits, licenses and similar rights, whether then owned or thereafter acquired by the Company, which are intended to be hereby conveyed, transferred or assigned and which may not be legally so conveyed, transferred or assigned, or which cannot be so conveyed, transferred or assigned without the consent of officer parties whose consent is not secured or without subjecting the Trustee to a liability not otherwise contemplated by the provisions of the Mortgage or which otherwise may not be hereby lawfully and/or effectively granted, conveyed, mortgaged, transferred and assigned by the Company;

(h) the last day of the term of each leasehold estate (oral or written, or any agreement therefor) then owned or thereafter acquired by the Company;

provided, however, that if, at the time of the release of said property from the lien of the Mortgage pursuant to this Section 8.51, the Company has theretofore issued bonds pursuant to Section 3.55 to finance an inventory of nuclear core elements for one or more of its nuclear electric generating units, none of the elements for such unit which are located at the site of such unit shall be released from the lien hereof pursuant to this Section; and, provided, further, that (i) if upon the occurrence of my event of default the Trustee or any receiver or trustee or any governmental subdivision, body or agency appointed or acting pursuant to statutory provision or order of court shall have entered into possession of the trust estate or a substantial part thereof (other than securities and cash forming a part of the trust estate), the property hereinabove thereby released from the lien hereof shall immediately become subject to the lien hereof to the extent permitted by law; (ii) whenever all events of default shall have been cured and the possession of the trust estate (other than securities and cash forming a part thereof) shall have been restored to the Company, any property of the character described in this paragraph so restored to the Company shall again be excepted and excluded from the lien of the Mortgage to the extent hereinabove set forth; and (iii) to the extent not prohibited

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by any other provision of the Mortgage, nothing contained in the release herein provided for shall prevent the Company, prior to any such entry, from selling, assigning, transferring, pledging or otherwise disposing of property of the character thereby released from the lien hereof by this paragraph and in any such case the title, possession or other rights of the purchaser, assignee or transferee thereof shall be free and clear of such lien as would otherwise attach under the Mortgage in the event of such entry.

SECTION 8.52. *Possession and Use of Property.* Unless an event of default shall have happened and is continuing, the Company shall have the power in the ordinary course of business, freely and without any consent by or hindrance on the part of the Trustee or of the bondholders, to: (i) possess, use and enjoy all the property, real, personal and mixed, and appurtenances thereto and all franchises, contracts and rights conveyed by the Mortgage (other than such securities, obligations and moneys as are, or are expressly required to be, deposited with or received or collected by the Trustee); (ii) receive and use all tolls, rents, revenues, earnings, interest, dividends, royalties, issues, income and profits thereof; (iii) produce, generate, manufacture, purchase, transmit, distribute, store, sell and otherwise deal with and use electricity, gas, water, electric and gas appliances and other products; (iv) use and consume stock in trade, materials and supplies; (v) deal with chases in action (other than pledged securities), leases (including the CR&L Lease) and contracts and exercise, release or amend the rights and powers conferred upon it thereby; and (vi) alter, repair, maintain, replace, reconstruct, relocate, remove and operate any of its buildings, plants, stations, structures, transmission lines, distribution lines, pipe lines, conduits, mains, machinery, equipment, tools, dams, reservoirs and other real property and tangible personal property, except that none of such real property or tangible personal property may be relocated or removed so as to impair the lien of the Mortgage thereon unless such property is sold, abandoned or otherwise disposed of as permitted by this Section or by Section 8.53 or released by the Trustee.

SECTION 8.53. *Dispositions Without Release.* The Company may at any time and from time to time, without any release or consent by the Trustee:

(a) Sell or otherwise dispose of, free from the lien of the Mortgage, any vehicles, machinery, equipment, fixtures, apparatus, stock in trade, materials, supplies, tools and implements at any time subject to the lien hereof, which have become worn out, unserviceable, undesirable

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or unnecessary for use in the conduct of its business, upon replacing the same with, or substituting for the same, other property of equal value (after the deduction of an amount equal to 166 2/3% of the principal amount of any indebtedness secured by prior lien thereon) at least equal to the value at that time of the property so disposed of, and which is of the nature of property subject to the lien hereof, which other property shall without further action become subject to the lien hereof; provided that a sale or disposition of nuclear core elements pursuant to this Section shall be permitted only upon compliance with the requirements of Section 8.53(h);

(b) Abandon any property, if in the opinion of the Board of Directors (i) the abandonment of such property is desirable in the proper conduct of the business and in the operation of the properties of the Company or is otherwise in the best interests of the Company, and (ii) the value and utility generally of all its properties as an entirety and the security for the bonds will not thereby be impaired;

(c) Surrender or assent to or procure the modification of any easement, right-of-way, lease, franchise, license, authority or permit which it may now or hereafter hold or under which it may now or hereafter operate, if in the opinion of counsel the Company shall have the right, under the modified easement, right-of-way, lease, franchise, license, authority or permit, or under a new easement, right-of-way, lease, franchise, license, authority or permit received in exchange in the event of any such surrender, or under some other easement, right-of-way, lease, franchise, license, authority or permit, to conduct the same business in the same or an extended territory during the same or an extended or unlimited period of time;

(d) Surrender or assent to or procure a modification of any easement, right-of-way, lease, franchise, license, authority or permit under which it operates any of its properties which it may now or hereafter hold or under which it may now or hereafter operate, if in the opinion of the Board of Directors (i) it is no longer necessary or desirable in the proper conduct of the Company's business, or is otherwise no longer in the best interests of the Company, to operate such properties or to comply with the terms and provisions of such easement, right-of-way, lease, franchise, license, authority or permit, and (ii) the value and utility generally of all its properties as an entirety and the security for the bonds will not thereby be impaired;

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(e) Sell, surrender, release, abandon or otherwise dispose of, either with or without consideration (provided any consideration received by the Company shall, subject to the provisions of Section 8.56, be paid over to the Trustee to be held by it as part of the trust estate), any easements, rights-of-way, leases, licenses, authority or permits over private property for towers, poles, wires, cables, conduits, pipe lines or mains, or for transmission line or distribution line purposes, if such towers, poles, wires, cables, conduits, pipe lines or mains, or such transmission or distribution lines, have theretofore been sold by the Company or removed by the Company to other property in accordance with the provisions of Section 8.52 or taken by any municipality or other governmental subdivision by the exercise of a power of eminent domain or similar right or power, and if in the opinion of the Board of Directors the value and utility generally of all its properties as an entirety and the security for the bonds will not thereby be impaired;

(f) Grant to any public utility or railroad or other carrier or communication company or any electric, telephone or other cooperative association, governmental authority, municipality or other governmental subdivision, either with or without consideration (provided any consideration received by the Company shall, subject to the provisions of Section 8.56, be paid over to the Trustee to be held by it as part of the trust estate), easements, rights-of-way, leases, licenses, authority or permits, for fixed periods of time or in perpetuity, over or with respect to any of the real property constituting part of the trust estate, if in the opinion of the Board of Directors (i) the granting of such easements, rights-of-way, leases, licenses, authority or permits does not substantially impair the continued use and enjoyment by the Company of the real property over or in respect of which such easements, rights-of-way, leases, licenses, authority or permits are granted for the purpose for which such property is used by the Company, and (ii) the value and utility generally of all its properties as an entirety and the security for the bonds will not thereby be impaired; and

(g) Grant to any public utility or railroad or other carrier or communication company or any electric, telephone or other cooperative association, governmental authority, municipality or other governmental subdivision, either with or without consideration (provided any consideration received by the Company shall, subject to the provisions of Section 8.56, be paid over to the Trustee to be held by it as part of

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the trust estate), easements, rights-of-way, leases, licenses, authority or permits, for fixed periods of time or in perpetuity, over or with respect to any of the real property constituting part of the trust estate, if such easements, rights-of-way, leases, licenses, authority or permits as granted by the Company (unless granted pursuant to Subdivision (f) of this Section) are for use or useful by the grantees, lessees, licensees or permittees thereof in connection with electric or gas facilities connected or to be connected with any electric or gas facilities of the Company or in connection with the transmission or distribution of electricity or gas to or from any such facilities of the Company or in connection with the transportation of materials or supplies to or from the property of the Company or in connection with the storage of materials or supplies of the Company or in connection with the provision of communication service to or for the Company, and, if in the opinion of the Board of Directors, the value and utility generally of all its properties as an entirety and the security for the bonds will not thereby be impaired.

(h) Sell, exchange or otherwise dispose of, free from the lien of the Mortgage, its interest in nuclear core elements (and, if, and so long as nuclear core elements not located at the site of a generating unit owned by the Company are excluded from the lien of the Mortgage, free its interest in particular nuclear core elements from such lien by removing the elements from the site of a generating unit owned by it), first or simultaneously substituting for the same its interest in other nuclear core elements of a value to the Company at least equal to that of the interest substituted for, which interest shall forthwith be subject to the lien of the Mortgage to the same extent as the interest substituted for; provided, however, that before any such sale, exchange, disposition or removal is effected the Company shall deliver to the Trustee an opinion of counsel stating that the Mortgage is a lien on the Company's interest in such substitute nuclear core elements, subject to no prior liens other than permitted liens; and, provided, further that if the fair value of the Company's interest in any such nuclear core elements so sold, exchanged, disposed of or removed exceeds \$25,000, the Company shall be entitled to effect the sale, exchange, disposition or removal thereof pursuant to this Section only upon the receipt by the Trustee of a certificate, dated not more than 30 days prior to the date of its receipt by the Trustee, of an engineer (who shall be an independent

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engineer if either (i) the fair value of the interest to be sold, exchanged, disposed of or removed is at least \$25,000 and at least 1% of the aggregate principal amount of all bonds at the time outstanding, and the aggregate of the fair value of such interest and of any other such interests so sold, exchanged, disposed of or removed and all property released from the lien of the Mortgage since the commencement of the then current calendar year (as previously certified to the Trustee) is 10% or more of the aggregate principal amount of all bonds at the time outstanding, or (ii) the substituted nuclear core elements have, within 6 months prior to the date of acquisition thereof by the Company, been used or operated by others than the Company, in a business similar to that in which they have been or are to be used or operated by the Company) stating:

(A) the fair value at the date of the certificate, in the opinion of the signer, of the Company's interest in the nuclear core elements to be sold, exchanged, disposed of or removed;

(B) the fair value to the Company at the date of the certificate, in the opinion of the signer, of the Company's interest in that substituted nuclear core elements; and

(C) that, in the opinion of the signer, the proposed sale, exchange, disposition or removal will not impair the security under the Mortgage in contravention of the provisions hereof.

For the purpose of Subdivision (c) of this Section 8.53 and of any opinion to be rendered under it, any right of any government or governmental body or authority to terminate an easement, right-of-way, lease, franchise, license, authority or permit shall not be deemed to abridge or affect its duration.

SECTION 8.54. *Release of Property by Trustee*. From time to time and at any time the Company may sell, transfer or otherwise dispose of any property (including franchises and securities other than prior lien obligations) constituting a part, but less than substantially all, of the trust estate and, before, after or concurrently with such sale, transfer or other disposition, the Trustee shall release the same from the lien of the Mortgage but only upon receipt by the Trustee of:

(a) A certified resolution requesting such release;

(b) An engineer's certificate, dated not more than ninety days prior to the date of filing thereof with the Trustee, which shall state in substance:

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(i) the signer's opinion of the fair value, as of the date of such certificate, of the property to be released, together with a description of such property in reasonable detail, but such description shall be sufficient if given as provided in (A) or (B) of Subdivision (1) of Section 3.57;

(ii) the nature of the consideration received or to be received by the Company from the sale or other disposition of the property to be released; and

(iii) that in the opinion of the signer the retention of the property to be released is no longer necessary in the conduct of the continuing business of the Company or other property acquired or to be acquired is as well suited to the needs of the continuing business of the Company as that to be released, and the proposed release will not impair the security under the Mortgage in contravention of the provisions thereof;

which certificate shall be an independent engineer's certificate if the fair value of the property (including franchises and securities) to be released and all other property (including franchises and securities) released from the lien of the Mortgage since the commencement of the then current calendar year, as set forth in the certificates previously filed pursuant to this Subdivision (b), is 10% or more of the aggregate principal amount of the bonds at the time outstanding; but such certificate shall not be required to be an independent engineer's certificate if the fair value of the property to be released, as set forth in the certificate required by this Subdivision (b), is less than \$25,000 or less than 1% of the aggregate principal amount of the bonds at the time outstanding;

(c) An amount in cash (which may be reduced as provided in Section 8.56), to be held by the Trustee as part of the trust estate, at least equal to the fair value of the property to be released, as specified in the engineer's certificate or the independent engineer's certificate provided for in Subdivision (b) of this Section;

(d) An opinion of counsel to the effect that all conditions precedent provided for in the Mortgage relating to the release of the property in question have been or will have been complied with and stating, in case the Trustee is requested to release any franchise, that such release

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will not impair in any material way the right of the Company to operate any of its remaining properties; and

(e) An officers' default certificate, dated within five days of the date of filing thereof with the Trustee.

SECTION 8.55. *Eminent Domain and Other Governmental Takings*. Should all or any part of the trust estate be taken by the exercise of a power of eminent domain or similar right or power, the Trustee may accept any payment or award therefor as representing its fair value, and, at the request of the Company evidenced by a certified resolution and an officers' default certificate which shall also state that the Board of Directors has approved such payment or award, or that such award has been made by an order, judgment or decree of a court of competent jurisdiction, and that such order, judgment or decree is final and not subject to revision or appeal, shall execute and deliver a release of property so taken and shall be fully protected in so doing upon being furnished with an opinion of counsel stating that such property has been taken by the exercise of a power of eminent domain or of a similar right or power. In any such proceedings the Trustee may be represented by counsel. Cash representing proceeds of all property so taken shall be paid over to or collected by the Trustee to be held and applied as part of the trust estate; provided, however, that the amount of such cash to be paid over to or collected by the Trustee may be reduced as provided in Section 8.56.

SECTION 8.56. *Reduction of Cash Required To Be Deposited With Trustee Upon Release of Property*. The Company shall have the right, upon application to the Trustee, to reduce the amount of cash required or permitted to be deposited with or paid over to the Trustee or which may be collected by the Trustee, pursuant to any provision of this Article 8.5 by:

(a) an amount equal to 100% of bondable property additions, upon the filing with the Trustee of a bondable property certificate complying with the requirements of Subdivision (1) of Section 3.57, accompanied by the evidence provided for in Section 3.57;

(b) in the case of a taking or other disposition of property pursuant to Section 8.53, Section 8.54 or Section 8.55, the amount (less 166 2/3% of the amount of any prior lien obligations required to be specified in

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the accountant's certificate provided for in paragraph (1) of this Subdivision (b)) of any property additions concurrently acquired by the Company in exchange for the property taken or otherwise disposed of, but only upon receipt by the Trustee of:

(1) an accountant's certificate, dated not more than ninety days prior to the date of filing thereof with the Trustee, stating (i) the cost of such property additions and (ii) the amount of prior lien obligations, if any, secured by prior lien on such property additions, if such obligations have not been deducted in a previous certificate filed complying with the requirements of this paragraph (1) of Subdivision (b) or of Subdivision (l) of Section 3.57; which certificate shall be an independent accountant's certificate in the event any of such property additions are of the character referred to in item (ii) of Subdivision (1) of Section 3.57;

(2) an engineer's certificate, dated not more than ninety days prior to the date of the filing thereof with the Trustee, stating the signer's opinion of the fair value of such property additions, which certificate shall be an independent engineer's certificate in the event any of such property additions are of the character referred to in item (ii) of Subdivision (1) of Section 3.57; and

(3) an opinion of counsel stating that such property additions are then, or upon due recording of the instrument conveying the same to the Company will be, subject to the direct first mortgage lien of the Mortgage, subject only to permitted liens and specified prior liens;

(c) in the case of a taking or other disposition of property pursuant to Section 8.53, Section 8.54 or Section 8.55, the amount of any obligations (herein sometimes referred to as "purchase money obligations") secured by a mortgage on the property taken or otherwise disposed of by the Company, which purchase money obligations and mortgages securing the same shall be duly assigned to the Trustee; provided, that the principal amount thereof to be credited pursuant to this Section shall not exceed, in the case of any release pursuant to Section 8.54, 60% (or such higher percent, not to exceed 66 2/3%, as shall be authorized or approved, upon application by the Company, by the Securities and Exchange Commission or by any successor commission

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thereto, under the Public Utility Holding Company Act of 1935) of the fair value (as certified pursuant to said Section 8.54) of the property covered by any such purchase money mortgage;

(d) in the case of a taking or other disposition pursuant to Section 8.53, Section 8.54 or Section 8.55 of property which, prior to its taking or other disposition, was subject to a prior lien, the amount of cash and/or purchase money obligations of the character described in Subdivision (c) of this Section 8.56, received as the proceeds of the taking or other disposition of the property, which has been deposited with or duly assigned to the trustee or other holder of such prior lien pursuant to the requirements thereof, as shown by the certificate of such trustee or other holder of such prior lien;

(e) in the case of a taking or other disposition pursuant to Section 8.53, Section 8.54 or Section 8.55 of property which has been taken or otherwise disposed of subject to a prior lien, the amount of the prior lien obligation secured by such prior lien, subject to which the property has been taken or otherwise disposed of, as shown in an officers' certificate, which certificate shall briefly describe or otherwise identify such prior lien and shall state that the property in question constitutes all of the property which immediately prior to such taking or other disposition was subject to such prior lien; and/or

(f) the principal amount of any bonds or refundable prior lien obligations then outstanding concurrently deposited with the Trustee which might at the time be made the basis of the authentication and delivery of bonds under Section 3.52 or Section 3.53 but only upon the filing with the Trustee of the evidence, as appropriately modified, provided for in the appropriate one of said Sections, except that no certification as to the net earning requirement of Section 3.58 shall be required.

The certification of any particular property addition to the Trustee pursuant to Subdivision (b) of this Section 8.56 shall in no way be deemed to prevent the subsequent inclusion of such property addition in a certificate filed complying with the requirements of Subdivision (1) of Section 3.57.

In case the Company elects to make application pursuant to Subdivision (c), (d) or (e) of this Section 8.56, there shall be delivered to the Trustee an opinion or opinions of counsel

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(1) in case any purchase money obligation is being assigned to the Trustee or to the trustee or other holder of a prior lien pursuant to Subdivision (c) or (d) of this Section 8.56, stating that the same is a valid obligation and is duly secured by a valid purchase money mortgage constituting a direct lien upon property taken or otherwise disposed of by the Company, from and clear of all liens, charges or encumbrances prior thereto, except any prior liens, or other charges or encumbrances prior to the lien of the Mortgage, which may have existed on such property immediately prior to such taking or other disposition, and that any such purchase money obligation and mortgage have been duly assigned to the Trustee and/or to the trustee or other holder of a prior lien, as the case may be, and that the assignment of such mortgage is in recordable form and has been recorded or provision assuring prompt and due recording has been made;

(2) in case any cash or purchase money obligation shall be certified to have been deposited with or assigned to the trustee or other holder of a prior lien pursuant to Subdivision (d) of this Section 8.56, stating that the property taken or otherwise disposed of by the Company or a specified portion thereof was immediately before such taking or other disposition subject to such prior lien, and that such deposit or assignment is required by such prior lien; and

(3) in case an officers' certificate shall have been delivered to the Trustee pursuant to Subdivision (e) of this Section 8.56, stating that the property taken or otherwise disposed of was immediately before such taking or other disposition subject to the prior lien or liens stated in such certificate, and that the nature and extent of such prior lien or liens are correctly stated in such certificate.

Any purchase money obligation assigned to the Trustee pursuant to this Section 8.56, and/or the mortgage or other lien securing such obligation, may be released by the Trustee upon deposit by the Company of cash, to be received by the Trustee as part of the trust estate, in an amount equal to the unpaid principal amount of such obligation. The principal amount of any such obligation not so released shall be paid over to or collected by the Trustee when the same shall be paid or become payable and the Trustee may take any action it deems advisable to preserve the security of my mortgage or other lien securing any such obligation.

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SECTION 8.57. *Purchaser Protected*. In no event shall any purchaser in good faith of any property purported to be released hereunder be bound to ascertain the authority of the Trustee to execute the release; or to inquire as to any facts required by the provisions hereof for the exercise of such authority; or to see to the application of the purchase moneys. Nor shall any purchaser in good faith of vehicles, machinery, equipment, fixtures, apparatus, stock in trade, materials, supplies, tools or implements be under obligation to ascertain or inquire into the occurrence of the event on which any such sale is hereby authorized.

SECTION 8.58. *Powers Exercisable Notwithstanding Event of Default; Powers Exercisable by Trustee or Receiver*. The Trustee shall not be required under any of the provisions of this Article to release any part of the mortgaged property from the lien hereof at any time when an event of default shall have happened and be continuing but, notwithstanding the continuance of an event of default, the Trustee may release from the lien hereof any part of the mortgaged property, upon compliance by the Company with the other conditions specified in this Article in respect thereof, if the Trustee in its discretion shall deem such release for the best interest of the bondholders. In case the trust estate shall be in the possession of one or more receivers lawfully appointed or of a trustee in bankruptcy or reorganization proceedings (including a trustee or trustees appointed under the provisions of Chapter X of an Act to establish a uniform system of bankruptcy throughout the United States, approved July 1, 1898, as amended) or of assignees for the benefit of creditors, the powers by this Article conferred upon the Company may be exercised by such receivers, trustees or assignees, with the approval of the Trustee, regardless of whether an event of default has happened and is continuing, and in such event a writing signed by such receivers, trustees or assignees, may be received by the Trustee in lieu of any certified resolution required by the provisions of this Article, and such receivers, trustees or assignees may make any certificate required by the provisions of this Article to be made by an officer or officers of the Company. If the Trustee hereunder shall be in possession of the trust estate under any provision of the Mortgage, then all such powers by this Article conferred upon the Company may be exercised by the Trustee in its discretion.

SECTION 8.59. *Execution of Instruments of Disclaimer by Trustee*. In case the Company proposes to transfer or otherwise dispose of or has trans-

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ferred or otherwise disposed of any property of the character excepted from the lien hereof, or any property under the conditions authorized by Section 8.53, the Trustee shall, from time to time, execute such instruments of disclaimer, quitclaim, waiver, consent or confirmation as may be appropriate upon receipt by the Trustee of:

(1) A certified resolution authorizing or confirming the transfer or other disposition by the Company;

(2) An officers' certificate reciting the transfer or other disposition; describing in reasonable detail the property transferred or disposed of or to be transferred or disposed of; stating that such property is not subject to the lien hereof, or that the transfer or other disposition thereof is authorized by Section 8.53; stating that a written disclaimer, quitclaim, waiver, consent or confirmation by the Trustee is appropriate; stating, unless the property is not subject to the lien hereof, that no event of default has happened and is continuing; and requesting the execution and delivery by the Trustee of such disclaimer, quitclaim, waiver, consent or confirmation; and

(3) An opinion of counsel stating that such property is not subject to the lien hereof or required to be subjected thereto by any of the provisions hereof, or that the transfer or other disposition thereof is authorized by Section 8.53; and stating that the execution of such disclaimer, quitclaim, waiver, consent or confirmation is appropriate.

SECTION 8.60. *Company's Right to Interest on Securities Deposited With Trustee*. Unless an event of default shall have happened and be continuing, the Company shall be entitled to receive and collect all interest which may become payable on any purchase money obligations or other evidences of indebtedness or securities held as part of the trust estate, and shall be entitled to collect all cash dividends payable out of earned surplus on shares of stock held as part of the trust estate and to vote all such shares of stock.

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**ARTICLE 9.**

**Moneys, Bonds or Prior Lien Obligations Held by Trustee as Part of Trust Estate.**

SECTION 9.01. *Effective Time and Application of Certain Provisions of Article*. Section 9.02 shall continue in effect until the Second Effective Date but not thereafter and shall cease to be of any force or effect on the Second Effective Date.

So long as Section 9.02 continues in effect:

(a) any moneys received by the Trustee pursuant to Article 8 as the proceeds of released property or otherwise, and any insurance proceeds which are required by Section 6.09 to be applied in accordance with this Article, shall be subject only to withdrawal in accordance with Section 9.02 or to investment in bonds or other debt obligations pursuant to the last paragraph of Section 9.10; provided that the foregoing limitation shall not be applicable to any other moneys received by the Trustee pursuant to the Mortgage; and

(b) no withdrawal may be effected under Section 9.02 unless such withdrawal is also permitted under Section 9.03(i).

So long as Article 3 continues in effect, the provisions of Section 9.03(ii) and Section 9.04 shall not be applicable to any moneys deposited with the Trustee pursuant to Article 3. After Article 3 ceases to be in effect, Section 9.03 and Section 9.04 shall be applicable to any moneys theretofore deposited with the Trustee pursuant to Article 3. So long as Section 3.04 continues in effect, the provisions of Section 9.09 shall not be applicable to prior lien obligations which (i) constitute "underlying bonds" and (ii) are deposited with the Trustee pursuant to Section 3.04, nor shall Section 9.09 be applicable to any money received with respect to such obligations, but Section 9.09 shall be applicable to all other prior lien obligations. After Section 3.04 ceases to be in effect, Section 9.09 shall be applicable also to any "underlying bonds" heretofore deposited under Section 3.04 and to any money received with respect to such obligations.

SECTION 9.02. *Certain Withdrawals Prior to Second Effective Date*. Prior to the Second Effective Date, any moneys or purchase money obligations

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received by the Trustee pursuant to Article 8 as the proceeds of released property or otherwise, and any insurance proceeds which are required by Section 6.09 to be applied in accordance with this Article, shall, upon compliance with Section 9.03(i) and this Section, and upon request of the Company, evidenced by a certified resolution, be paid out by the Trustee only for the actual cost or fair value, whichever shall be less (such fair value to be determined as of a time within two months prior to the application for such payment), of additional property, additions, extensions, betterments or improvements of the kind described in subdivision (1) of Section 3.05, upon receipt by the Trustee of the documents and instruments required under paragraphs (1) , (2) and (3) of Section 3.06; provided that the basis for payment shall be the full amount of such cost or fair value instead of only 75% thereof.

SECTION 9.03. *Withdrawal of Moneys Held by Trustee*. Subject to Section 9.01, any moneys deposited with the Trustee pursuant to Article 8 or Article 8.5 and any other moneys held by the Trustee as part of the trust estate to which the provisions of this Article are expressly made applicable shall be paid over from time to time by the Trustee upon application of the Company to or upon the order of the Treasurer or an Assistant Treasurer of the Company (i) in an amount equal to 100% of bondable property additions but only upon the filing with the Trustee of a certificate complying with the requirements of Subdivision (1) of Section 3.57, accompanied by the evidence provided for in Section 3.57, or (ii) in an amount equal to the principal amount of bonds or refundable prior lien obligations concurrently deposited with the Trustee which might at the time be made the basis for the authentication and delivery of bonds under Section 3.52 or Section 3.53 but only upon the filing with the Trustee of the evidence, as appropriately modified, provided for in the appropriate one of said Sections, except that no certification as to the net earnings requirement of Section 3.58 shall be required.

SECTION 9.04. *Purchase or Redemption of Bonds*. Subject to Section 9.01, any moneys held by the Trustee as part of the trust estate (other than moneys deposited in a sinking or improvement fund for the benefit of a particular series of bonds) shall, at the election and in accordance with the request of the Company, evidenced by a certified resolution, (i) be applied by the Trustee from time to time to the purchase of outstanding bonds in the manner provided in Section 9.05 or (ii) be applied by the Trustee to

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the payment at maturity of any bonds issued and outstanding under the Mortgage or (iii) be applied by the Trustee in reduction of the amount then required to be deposited by the Company with the Trustee in connection with the redemption of bonds issued and outstanding under the Mortgage.

SECTION 9.05. *Manner of Purchasing Bonds*. Subject to Section 9.01, when requested by the Company under Section 9.04, the Trustee shall make purchases of bonds out of the moneys referred to in Section 9.04 and Section 9.06 in such manner as it may deem proper but shall not purchase bonds at a price or prices (including accrued interest but not including brokerage charges) exceeding the lowest redemption price of the bonds to be purchased applicable at the time to a redemption at the option of the Company, plus accrued interest up to, but not including, the day of purchase, or, in the case of bonds, if any, which are not then subject to redemption, at a price or prices (including accrued interest but not including brokerage charges) exceeding the principal amount thereof, plus accrued interest up to, but not including, the day of purchase.

SECTION 9.06. *Trustee's Expenses; Accrued Interest*. All expenses incurred by the Trustee or the Company in connection with any purchase of bonds pursuant to the provisions of this Article shall be paid by the Company out of its general funds, and the Company agrees to reimburse the Trustee on demand for any funds disbursed by it for any such purpose. In addition, upon any such purchase the Company shall pay to the Trustee all interest up to, but not including, the day of purchase on all bonds so purchased, together with the amount by which the aggregate purchase price (excluding interest) paid by the Trustee exceeds the aggregate principal amount of bonds purchased. If required by the Trustee, the funds necessary for the payment of such expenses, accrued interest and any excess of the purchase price over the principal amount shall be paid by the Company in anticipation of such disbursements by the Trustee.

SECTION 9.07. *Release of All or Substantially All of Company's Properties from Lien of Mortgage*. In case all or substantially all of the properties of the Company (other than securities, obligations and cash held by the Trustee) shall have been released from the lien hereof, no payment shall be made to the Company by the Trustee pursuant to the provisions of this Article until all the bonds outstanding (other than bonds held by the Company) shall have been paid, redeemed or otherwise retired.

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SECTION 9.08. *Cancellation and Further Use of Certain Deposited or Purchased Bonds.* Except to the extent that other provision is made therefor in Article 3 or Section 6.06, all bonds deposited with, or purchased by, the Trustee pursuant to Article 3, Article 3.5, Section 6.14, Article 8.5 or this Article, shall be accompanied by all unmatured coupons thereto appertaining, shall be cancelled forthwith upon the receipt thereof by the Trustee, and shall not thereafter be used for any purpose under the Mortgage.

SECTION 9.09. *Deposited Prior Lien Obligations.* The provisions of this Section are subject to the limitation expressed in Section 9.01.

All prior lien obligations deposited with the Trustee pursuant to any provision of the Mortgage shall be accompanied by all unmatured coupons thereto appertaining, or shall be accompanied by evidence satisfactory to the Trustee (which may be a certificate of the trustee or other holder of the prior lien securing the same) that the discharge of the lien securing such prior lien obligations may be obtained without the production of any coupon or coupons that may be missing; and each prior lien obligation so deposited shall be uncanceled. Each prior lien obligation deposited hereunder shall be in bearer form or accompanied by appropriate instruments of transfer; and the Trustee may cause any or all registered prior lien obligations to be registered in its name as Trustee, or otherwise, or in the name or names of its nominee or nominees. All prior lien obligations deposited with the Trustee pursuant to Article 3, Article 3.5, Section 6.14, Section 6.15, Article 8.5 or this Article shall not thereafter be used for any purpose under the Mortgage, except as provided in this Section.

All prior lien obligations received by the Trustee shall be held by the Trustee as part of the trust estate and without impairment of the obligation represented thereby or the lien thereof for the protection and further security of the bonds. Unless an event of default shall have happened and is continuing, no payment by way of interest or otherwise on any of the prior lien obligations held by the Trustee shall be made or demanded and the coupons thereto appertaining as they mature shall be cancelled by the Trustee and delivered so cancelled to the Company, unless the Company shall direct with respect to any of such prior lien obligations, to have such payments made and demanded, in which event the Company shall, subject to the provisions hereinafter in this Section contained, be entitled to receive all such payments. In any event, except during the continuance of an event of default, all moneys received by the Trustee (a) on account of the principal of or interest or pre-

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mium on said prior lien obligations, or (b) by reason of the sale or delivery of any of said obligations to a sinking fund or other similar device for the retirement of prior lien obligations shall be paid over by the Trustee to or upon the written order of the Company; provided that any such moneys which represent the proceeds of insurance on, or of the release of, or of the taking by eminent domain or purchase of, or other disposition or change of, mortgaged utility property, including the proceeds of and substitutes for any thereof, shall be retained by the Trustee and held as part of the trust estate, and may be withdrawn, used or applied as provided in Section 9.03 or Section 9.04. The Company shall deliver to the Trustee an officers' certificate in connection with each payment requested to be made to or upon the order of the Company pursuant to the preceding sentence which shall show whether any of the moneys to be paid over are required to be retained by the Trustee.

Unless an event of default shall have happened and is continuing, the Trustee, if so directed by the Company, shall cause any prior lien obligations held by it to be cancelled, and the obligation thereby evidenced to be satisfied and discharged, upon the receipt by it of (A) notice from the trustee or other holder of the lien securing the same that such trustee or other holder, on receipt of the prior lien obligations so held by the Trustee; will cause the lien securing the same to be satisfied and discharged of record, and (B) an opinion of counsel to the effect that there is no outstanding lien (other than permitted liens) covering any part of the property upon which such lien exists junior to such lien and senior to the lien of the Mortgage. Further, so long as no such event of default shall have happened and is continuing, the Trustee shall, at the Company's request, sell or surrender any prior lien obligations held by it subject to this Section 9.09 to the trustee or other holder of the prior lien securing the same for cancellation, or to be held uncanceled for the purposes of any sinking fund or other similar device for the retirement of the prior lien obligations so sold or surrendered, provided, however, that no such prior lien obligations shall be sold or surrendered except for cancellation as aforesaid, until the Trustee shall have received an opinion of counsel to the effect that the provisions of the prior lien securing the prior lien obligations so to be sold or surrendered are such that no transfer of ownership or possession of such prior lien obligations by the trustee or other holder of such prior lien is permissible thereunder except to the Trustee hereunder, to be held subject to the provisions of this Section 9.09, or to the trustee or other holder of a prior lien upon the same property, for cancellation or to be held uncanceled under the terms of such prior lien under like conditions.

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If all the property subject to the prior lien securing any prior lien obligations deposited with the Trustee shall be released from the lien of the Mortgage, such prior lien obligations shall be at the Company's request, be cancelled or surrendered to the Company.

If an event of default shall have happened and is continuing, the Trustee may (a) exercise in its absolute discretion, without the consent of the Company, any and all rights of a bondholder with respect to the prior lien obligations then held by the Trustee or (b) take any other action which shall in its judgment be desirable or necessary to avail of the security created for such prior lien obligations by the prior liens securing the same; and it may, in its discretion, take any such action when no such event of default exists, with the written consent of, or at the request of, the Company. The Trustee shall be reimbursed from the trust estate for all expenses by it properly incurred by reason of any such action taken without negligence or bad faith with interest upon all such expenditures at the rate of 6% per annum; and the amount of such: expenses and interest shall, until repaid, constitute a lien upon the mortgaged property prior to the lien of the bonds and coupons.

SECTION 9.10. *Investment of Moneys.* Subject to the restrictions specified in the last paragraph of this Section, any moneys held by the Trustee as a part of the trust estate may, at the request of the Company evidenced by a certified resolution, be invested or reinvested by the Trustee in any of the investments now or hereafter authorized by the laws of the State of Connecticut or the Commonwealth of Massachusetts or the State of New York pertaining to the investment by savings banks of funds held by them. Until an event of default shall have happened and is continuing, any income on such investments which may be received by the Trustee shall be forthwith paid to the Company less, however, any accrued interest or dividends paid by the Trustee at the time of purchase. The securities representing such investments shall be held by the Trustee as part of the trust estate; but, upon a like request of the Company, or at any time when the Trustee deems the continued holding thereof to be prejudicial to the interests of the bondholders, the Trustee shall sell all or any designated part of the same and the proceeds of such sale shall be held by the Trustee in like manner and subject to the same conditions as the cash used by it to purchase the securities so sold. In case the net proceeds (exclusive of interest or dividends) realized upon any sale shall amount to more than the amount invested by the Trustee in the purchase of the securities so sold, the Trustee shall, unless an event of default has occurred

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and is continuing, pay the excess over to the Company. In case the net proceeds (exclusive of interest or dividends) realized upon any sale shall amount to less than the amount invested by the Trustee in the purchase of securities so sold, the Trustee shall within five days after such sale notify the Company in writing thereof and within five days thereafter the Company shall pay to the Trustee the amount of the difference between such purchase price and the amount so realized, and the amounts so paid shall be held by the Trustee in like manner and subject to the same conditions as the proceeds realized upon such sale.

Whenever the Company, upon any application for which provision is made in the Mortgage in respect to the withdrawal of cash held by the Trustee, shall become entitled to the payment to it by the Trustee of any moneys theretofore deposited with or then held by the Trustee under the Mortgage, the Company shall accept securities held by the Trustee as part of the trust estate pursuant to this Section, to the extent that such securities shall be tendered to it by the Trustee in lieu of cash; and such securities shall be accepted in lieu of such cash, at the cost thereof to the trust estate.

Notwithstanding the foregoing provisions of this Section, until the Second Effective Date, any moneys received by the Trustee pursuant to Article 8 as the proceeds of released property or otherwise and any insurance proceeds received by the Trustee pursuant to Section 6.09, may be invested and reinvested only as provided in this paragraph. Upon the request of the Company, the Trustee shall invest such moneys, or any part thereof, in the purchase, on the best terms obtainable, but not exceeding the price at which bonds can then be called for sinking fund purposes or the then current redemption price, of outstanding bonds of any series hereby secured, and upon such purchase shall cancel such bonds and all coupons thereto attached and deliver them to the Company, or may so invest such cash proceeds, or any part thereof, in underlying bonds or in other debt obligations approved by the Company, which shall be at the time legal investments for savings banks in the State of New York, and shall hold such debt obligations so purchased, subject to be sold with the consent of the Company from time to time and their proceeds paid out or invested in the manner provided in this paragraph or in Section 9.02. Any income collected on such debt obligations so purchased shall from time to time, as long as there shall be no default hereunder, be paid to the Company on demand by it. This paragraph shall cease to be of any force or effect on the Second Effective Date.

SECTION 9.11. *Powers Exercisable Notwithstanding Event of Default; Powers Exercisable by Trustee or Receiver* . Except as otherwise expressly

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permitted by this Section, no cash held by the Trustee as a part of the trust estate shall be paid over to or upon the order of the Company or applied to the purchase, payment or redemption of bonds pursuant to this Article, if an event of default shall have happened and be continuing; and the Company shall furnish to the Trustee an officers' default certificate in connection with each application by the Company pursuant to Section 9.03 or Section 9.04 and each request by the Company for purchase of debt obligations pursuant to the last paragraph of Section 9.10. In case the trust estate shall be in tile possession of one or more lawfully appointed or of a trustee or trustees in bankruptcy or reorganization proceedings (including a trustee or trustees appointed under the provisions of Chapter X of an Act to establish a uniform system of bankruptcy throughout the United States, approved July 1, 1898, as amended) or of assignees for the benefit of creditors, the powers by this Article conferred upon the Company may be exercised by such receivers, trustees or assignees, with the approval of the Trustee, if an event of default shall have happened and be continuing, and in such event a writing signed by such receivers, trustees or assignees may be received by the Trustee in lieu of any certified resolution required by the provisions of this Article, and such receivers, trustees or assignees may make any certificate required by this Article to be made by an officer or officers of the Company. If the Trustee hereunder shall be in possession of the trust estate under any provision of the Mortgage, then all such powers by this Article conferred upon the Company may be exercised by the Trustee in its discretion.

#### **ARTICLE 10.**

##### **Remedies of the Trustee and Bondholders.**

SECTION 10.01. Extended Interest Claims. In case any coupon or claim for interest on any of the bonds hereby secured shall have been funded or extended by or with the consent of the Company, such coupon or claim for interest so funded or extended shall not be entitled, in case of default hereunder, to the benefit or security of the Mortgage, except subject to the prior payment in full of the principal of all of said bonds that shall be outstanding and of all coupons and claims for interest thereon that shall not have been so funded or extended. If any coupons or claims for interest on any of said bonds at or after maturity shall be owned by the Company, then such matured coupons or claims for interest shall not be entitled to the benefit or security of the Mortgage, and the Company covenants that all

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such coupons and claims for interest so owned by it at or after their maturity shall promptly be cancelled.

SECTION 10.02. *Events of Default*. If one or more of the following events herein called "events of default" shall happen, that is to say:

(a) default shall be made in payment of any installment of interest on any bond or bonds issued hereunder when and as the same shall become payable as therein and herein expressed and such default shall continue for the period of ninety days; or

(b) default shall be made in the payment of the principal of any bond or bonds issued hereunder when the same shall become due and payable either by the terms thereof or otherwise as herein, provided; or

(c) default shall be made in the observance or performance of any other of the covenants and conditions on the part of the Company in the bonds hereby secured or in the Mortgage contained and such default shall continue for the period of ninety days after written notice specifying such default shall have been given to the Company by the Trustee, which notice may be given by the Trustee in its discretion and shall be given on the written request of the holders of at least a majority in principal amount of the bonds hereby secured at the time outstanding; or such notice may be given by the holders of at least 25% in principal amount of the bonds hereby secured at the time outstanding; or

(d) default shall be made in the payment of the interest on any underlying bond (or refundable prior lien obligation) and such default shall continue for the period of ninety days, or the Company shall fail at the maturity, whether by declaration or otherwise, of such underlying bonds (or refundable prior lien obligations) and on presentation thereof in accordance with the terms thereof, to pay said underlying bonds (or refundable prior lien obligations) or to cause them to be taken up and delivered to the Trustee to be held under the Mortgage, or default shall be made in the performance of any covenant contained in any underlying mortgage (or any prior lien securing refundable prior lien obligations), and by reason of such default any right of entry or right of action for the enforcement of the security afforded thereby shall accrue; or

(e) a decree by a court having jurisdiction of the premises shall have been entered adjudging the Company a bankrupt and such decree

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shall have continued undischarged and unstayed for a period of ninety days; or an order of a court having jurisdiction in the premises for the appointment of a receiver of the property of the Company, or for the winding up or liquidation of its business or affairs, shall have been entered and such order shall have remained in force undischarged and unstayed for a period of ninety days; or the Company shall institute proceedings to be adjudicated a voluntary bankrupt or shall make an assignment for the benefit of creditors;

then and in each and every such case the Trustee personally or by its agents or attorneys may enter into and upon all or any part of the trust estate, and may exclude the Company, its agents and servants wholly therefrom, and having and holding the same, may use, operate, manage and control the trust estate or any part thereof, and conduct the business thereof, either personally, or by its superintendent, managers, receivers, agents and servants or attorneys, to the best advantage of the holders of the bonds hereby secured, and upon every such entry the Trustee, at the expense of the trust estate, from time to time may make all necessary or proper repairs, renewals, replacements and useful or required alterations, additions, betterments and improvements to and on the trust estate as to it may seem judicious, and may pay and satisfy all liens and charges thereon prior to the lien of the Mortgage, and may insure and keep insured any property subject to the lien of the Mortgage, and in such case the Trustee shall have the right to manage the trust estate and to carry on the business and exercise all rights and powers of the Company, either in the name of the Company, or otherwise, as the Trustee shall deem best; and it shall be entitled to collect and receive all earnings, income, rents, issues and profits of the same and every part thereof. After deducting the expenses of operating said trust estate and of conducting the business thereof, and of all repairs, maintenance, renewals, replacements, alterations, additions, betterments, improvements and all payments which it may be required or may elect to make for taxes, assessments, insurance or prior or other proper charges on said trust estate, or any part thereof, as well as just and reasonable compensation for its own services, and for all agents, clerks and other employees, and for all attorneys and counsel by it properly engaged and employed, it shall apply the moneys arising as aforesaid as follows:

(1) In case the principal of any of the bonds hereby secured shall not have become due and be unpaid, to the payment of the interest in

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default, in the order of the maturity of the installments of such interest, with interest thereon at the same rate as is borne by the bonds upon which such interest is due; such payments to be made ratably to the persons entitled thereto without discrimination or preference.

(2) In case the principal of any of the bonds hereby secured shall not have become due and be unpaid, to the making of any sinking fund payments due upon any series of bonds secured hereby, such payments to be made ratably to the persons entitled thereto without discrimination or preference.

(3) In case the principal of any of the bonds hereby secured shall have become due, by declaration or otherwise, and shall be unpaid, first to the payment of the accrued interest upon all bonds outstanding hereunder, with interest on the overdue installments thereon at the same rate as is borne by the bonds on which such interest is due, in the order of the maturity of the installments of such interest, such payments to be made ratably to the persons entitled to such payments without any discrimination or preference: and then to the making of any sinking fund payments of any series of bonds secured hereby then due and to the payment of any principal then due of bonds secured hereby, such payments of sinking fund and principal to be made ratably to the persons entitled to such payments without any discrimination or preference.

These provisions are, however, subject to the provisions of Section 10.01.

Upon payment in full of whatever may be due for principal or interest, or both, as the case may be, and the expenses of the Trustee, and in case all other defaults have been made good and secured to the satisfaction of the Trustee, possession of the mortgaged property shall be returned to the Company or to whomsoever shall be entitled thereto.

SECTION 10.03. *Acceleration, Restoration of Parties to Former Position.* In case one or more of the events of default shall happen and shall be continuing, then during the continuance of such default, the Trustee may, and upon the written request of the holders of not less than a majority in principal amount of the bonds hereby secured then outstanding shall, or the holders of least 25% in principal amount of the bonds hereby secured then outstanding may, by notice in writing delivered to the Company, declare the

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principal of all bonds hereby secured then outstanding to be due and payable immediately, anything in the Mortgage or in said bonds contained to the contrary notwithstanding. This provision, however, is subject to the condition that if, at any time after the principal of said bonds shall have been so declared due and payable all arrears of interest upon all such bonds with interest on overdue installments of interest at the same rate or rates as the bonds upon which such interest is in default bear, and the principal of any bonds which shall have become due by their terms, and the expenses of the Trustee, shall either be paid by the Company, or be collected out of the trust estate before any sale of the trust estate shall have been made, and all other defaults made good or secured to the satisfaction of the Trustee, then and in every such case the holders of a majority in principal amount of the bonds hereby secured then outstanding, by written notice to the Company and to the Trustee, may waive such default and its consequences; but no such waiver shall extend to or affect any subsequent default or impair any right consequent thereto.

In case the Trustee shall have proceeded to enforce any right under the Mortgage by foreclosure, entry or otherwise and such proceedings shall have been discontinued or abandoned because of such waiver or for any other reason or shall have been determined adversely to the Trustee, then and in every such case the Company and the Trustee shall be restored to their former position and rights hereunder in respect of the trust estate, and all rights, remedies and powers of the Trustee shall continue as though no such proceedings had been taken.

SECTION 10.04. *Sale of Property; Other Remedies.* If one or more of the events of default shall happen and shall be continuing, the Trustee may, and upon the written request of the holders of not less than a majority in principal amount of the bonds hereby secured, and upon being indemnified as hereinafter provided, shall, with or without entry, personally or by attorney, in its discretion, sell to the highest bidder all and singular the trust estate, property and premises, rights, franchises and interest and appurtenances and either real and personal property of every kind, and all right, title, interest, claim and demand therein, and right of redemption thereof, in one lot and as an entirety, unless a sale in parcels shall have been requested by the holders of a majority in principal amount of the bonds hereby secured, then outstanding, in which case the sale shall be made in such parcels as shall be specified in such request, or unless such sale as an entirety is impracticable by reason of

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some statute or some other cause, which sale or sales shall be made at public auction, at such place as the Trustee may specify, or at such other place as may be required by law, at such time and upon such terms as the Trustee may fix and briefly specify in the notice of sale to be given as herein provided; or proceed to protect and enforce its rights and the rights of the holders of bonds secured by the Mortgage, by a suit or suits at law or in equity, whether for the specific performance of any covenant or agreement contained herein, or in aid of the execution of any power herein granted, or for the foreclosure of the Mortgage, or for the enforcement of any other proper legal or equitable remedy, as the Trustee, being advised by counsel shall deem most expedient in the interests of the holders of the bonds hereby secured. In case the Trustee shall proceed by suit or suits at law or in equity for the foreclosure of the Mortgage, as above provided, the said Trustee shall be entitled to have the mortgaged property, rights and franchises, of every description hereby mortgaged or intended so to be, sold at judicial sale under the order of any court or courts of competent jurisdiction, for or toward the satisfaction of the principal or interest, or both, due and owing to the holders of the bonds and coupons then outstanding, issued under or entitled to the benefits of the security of the Mortgage, and for the enforcement of the rights, liens and securities of the Trustee and the holders of such bonds and coupons, and shall be entitled, pending any such suit or proceeding, to a receivership of all the property, rights and franchises subject to the lien hereof, and all the tolls, earnings, revenues, issues, profits and income thereof.

Upon the happening of one or more of the events of default and the commencement thereafter of judicial proceedings to enforce any legal or equitable remedy under the Mortgage, all moneys held by the Trustee hereunder, except sinking fund moneys, shall be deemed to be held without distinction as between any of the series of bonds outstanding hereunder, for the sole purpose of paying the principal of and interest upon the bonds secured by the Mortgage, and upon any sale, whether under the power of sale herein contained or pursuant to judicial proceedings, shall be applied as provided in Section 10.09.

SECTION 10.05. *Notice of Sale.* Notice of any such sale pursuant to any provisions of the Mortgage, shall state the time when, and the place where, the same is to be made, and shall contain a brief general description of the property to be sold, and shall be sufficiently given if published once in each

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week for four successive weeks prior to such sale, in a newspaper published in the Borough of Manhattan, City of New York, and in a newspaper published in the county in which the sale is to be made and in such other manner as may be required by law.

SECTION 10.06. *Adjournment of Sale.* From time to time the Trustee may adjourn any sale to be made by it under the provisions of the Mortgage, by announcement at the time and place appointed for such sale, or for such adjourned sale or sales; and without further notice or publication, the Trustee may make such sale at the time and place to which the same shall be so adjourned.

SECTION 10.07. *Trustee's Deed; Effect of Sale.* Upon the completion of any sale or sales under the Mortgage, the Trustee shall execute and deliver to the accepted purchaser or purchasers a good and sufficient deed or deeds of conveyance of the property and franchises sold; and the Trustee and its successors are hereby appointed the true and lawful attorney or attorneys, irrevocable, of the Company, in its name and stead, to make all necessary deeds and conveyances of the property thus sold; and for that purpose it and they may execute all necessary deeds and instruments of assignment and transfer, the Company hereby ratifying and confirming all that its said attorney or attorneys shall lawfully do by virtue hereof. Nevertheless, the Company shall, if so requested by the Trustee, ratify such sale by executing and delivering to the Trustee or to such purchaser or purchasers as may be designated in such request, any such instruments as, in the judgment of the Trustee, may be advisable.

Any such sale or sales made under or by virtue of the Mortgage, whether under the power of sale herein granted, or pursuant to judicial proceedings, shall operate to divest all right, title, interest, claim and demand whatsoever, either at law or in equity, of the Company, in and to the premises and property so sold, and shall be a perpetual bar both at law and in equity against the Company, its successors and assigns, and against any and all persons claiming or to claim the premises and property sold, or any part thereof, from, through or under the Company, its successors or assigns.

The receipt of the Trustee or of the court officer conducting any such sale shall be full and sufficient discharge to any purchaser of the property or any part thereof sold as aforesaid for the purchase money; and no such pur-

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chaser or his representatives, grantees or assigns, after paying such purchase money and receiving such receipt, shall be bound to see to the application of such purchase money upon or for any trust or purpose of the Mortgage, or in any manner whatsoever be answerable for any loss, misapplication or nonapplication of any such purchase money or any part thereof, or be bound to inquire as to the authorization, necessity, expediency or regularity of any such sale.

SECTION 10.08. *All Bonds to Become Due on Sale.* In case of any such sale, whether made under the power of sale hereby granted or pursuant to judicial proceedings, the whole of the principal sums of the bonds hereby secured, if not previously due, shall at once become due and payable, anything in said bonds or in the Mortgage to the contrary notwithstanding.

SECTION 10.09. *Application of Proceeds of Sale.* The purchase money, proceeds and avails of any such sale, whether made under the power of sale hereby granted or pursuant to judicial proceedings, together with any other sums which then may be held by the Trustees as part of the trust estate, except sinking fund moneys, shall be applied as follows:

First, to the payment of the costs and expenses of such sale, including a reasonable compensation to the Trustee, its agents, attorneys and counsel, and all expenses, liabilities and advances made or incurred by the Trustee without negligence or bad faith in managing and maintaining the property constituting the trust estate, and to the payment of all taxes, assessments or liens prior to the lien of the Mortgage, except any taxes, assessments or other superior liens subject to which said sale shall have been made.

Second, to the payment of the whole amount then owing or unpaid upon the bonds and coupons hereby secured for principal and interest, with interest on the principal and the overdue installments of interest at the same rate or rates respectively as were borne by the respective bonds; and in case such proceeds shall be insufficient to pay in full the whole amount so due and unpaid upon the said bonds, then to the payment of such principal and interest, without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, ratably to the aggregate of such principal and the accrued and unpaid interest, subject,

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however, to the provisions of Section 10.01. Such payments shall be made on the date fixed therefor by the Trustee, upon presentation of the several bonds and coupons and stamping thereon the amount paid, if such bonds and coupons be only partly paid, and upon surrender thereof if fully paid.

*Third*, the payment over of the surplus, if any, to the Company, its successors or assigns, or to whomsoever may be lawfully entitled to receive the same.

SECTION 10.10. *Purchaser May Use Bonds and Coupons in Payment.* Upon any sale as aforesaid, any purchaser, for the purpose of making settlement or payment for the property purchased, shall be entitled to use and apply any bonds issued hereunder and then outstanding, and any matured and unpaid interest obligations thereon, by presenting the same so that there may be credited, as paid thereon, the sums payable out of the net proceeds of such sale to the holders of such bonds and such interest obligations, as his ratable share of such net proceeds, after allowing for the proportion of the total purchase price required to pay the costs and expenses of the sale, compensations and other charges; and thereupon such purchaser shall be credited on account of such purchase price payable by him, with the portion of such net proceeds that shall be applicable to the payment of, and that shall have been credited upon, the bonds and interest obligations so turned in, and at any such sale the Trustee or any bondholders may bid for and purchase such property, may make payment on account thereof as aforesaid, and upon compliance with the terms of sale, may hold, retain and dispose of such property without further accountability therefor.

SECTION 10.11. *Waiver of Stay or Extension Laws.* The Company will not at any time insist upon or plead, or in any manner whatever claim or take the benefit or advantage of, any stay or extension law now or at any time hereafter in force; nor will it claim, fake or insist on any benefit or advantage from any law now or hereafter in force providing for the valuation or appraisal of the property hereby mortgaged or conveyed or pledged, or any part thereof, prior to any sale or sales thereof to be made pursuant to any provision herein contained or to the decree of any court of competent jurisdiction; nor after any such sale or sales will it claim or exercise any right conferred by any statute to redeem the property so sold, or any

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part thereof, nor will it after such sale, if at the time of such sale it shall be in possession of the property so sold, claim or exercise any right under any law whatever to retain possession thereof, or to collect, receive or have the benefit of any rent, issues or profits thereof, for or during any subsequent period of redemption provided for by any law; and it hereby expressly waives all benefit and advantage of such law or laws and covenants that it will not hinder, delay or impede the execution of any power herein granted and delegated to the Trustee, but that it will suffer and permit the execution of every such power as though no such law or laws had been made or enacted.

SECTION 10.12. *Payment of Principal and Interest; Judgment.* The Company covenants that (1) in case default shall be made in the payment of any interest on any bond or bonds at any time outstanding and secured by the Mortgage, and such default shall have continued for the period of ninety days, or (2) in case default shall be made in the payment of the principal of any such bond or bonds when the same shall become payable, whether upon the maturity of said bonds, or upon declaration or otherwise, then, upon demand of the Trustee, the Company will pay to the Trustee, for the benefit of the holders of the bonds and coupons hereby secured, then outstanding, the whole amount that then shall have become due and payable on all such bonds and coupons then outstanding, for interest or principal, or both, as the case may be, with interest upon the overdue principal and installments of interest at the same rates respectively as were borne by the respective bonds whereof the principal or installments of interest shall be overdue; and in case the Company shall fail to pay the same forthwith upon such demand, the Trustee, in its own name and as the trustee of an express trust, shall be entitled to recover judgment against the Company for the whole amount so due and unpaid.

The Trustee shall be entitled to recover judgment as aforesaid, either before or after or during the pendency of any proceedings for the enforcement of the lien of the Mortgage, and the right of the Trustee to recover such judgment shall not be affected by any entry or sale hereunder, or by the exercise of any other right, power or remedy for the enforcement of the provisions of the Mortgage or the foreclosure of the lien hereof; and in case of a sale of the mortgaged or pledged property or any part thereof, the Trustee, in its own name and as trustee of an express trust, shall be entitled to enforce payment of, and to receive, all amounts then remaining due and unpaid upon any and all of the bonds and coupons then outstanding hereunder for the

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benefit of the holders thereof, and shall be entitled to due for and recovery judgment for any portion of the said debt remaining unpaid, with interest: No recovery of any such judgment by the Trustee, and no levy of any execution upon property subject to the lien of the Mortgage, or upon any other property, shall in any manner, or to any extent, affect the lien of the Mortgage upon the property, or any part thereof, subject to the Mortgage, or any lien, rights, powers or remedies of the Trustee hereunder, or any liens rights, powers or remedies of the holders of the bonds, but such lien, rights, power and remedies shall continue unimpaired as before.

Any moneys thus collected by the Trustee under this Section shall be applied by the Trustee, first, to the payment of the expenses, disbursements and compensation of the Trustee, its agents and attorneys, and, second, toward the payment of the amounts then due and unpaid upon such bonds and coupons, in respect of or for the benefit of which such moneys shall have been collected ratably, and without any preference or priority of any kind, except as provided in Section 10.01, according to the amounts due and payable upon such bonds and coupons, respectively, at the date fixed by the Trustee for the distribution of such moneys, upon presentation of the several bonds and coupons and stamping thereon such payment, if only partially paid, and upon surrender thereof, if fully paid.

SECTION 10.13. *Trustee Entitled to Right of Entry and Appointment of Receiver.* Upon filing a bill in equity or upon other commencement of judicial proceedings by the Trustee to enforce any right under the Mortgage, the Trustee shall be entitled to exercise the right of entry, and also any and all rights and powers herein conferred and provided to be exercised by the Trustee upon the occurrence and continuance of any default as hereinbefore provided in Section 10.02; and as a matter of right, the Trustee shall be entitled to the appointment of a receiver of the premises hereby mortgaged, and of the earnings, revenue, rents, issues, profits and other income thereof and therefrom, with all such powers as the court or courts making such appointment shall confer.

SECTION 10.14. *When Bondholders May Sue Hereunder.* No holder of any bond or coupon issued hereunder shall have any right to institute any suit, action or proceeding in equity or at law for the foreclosure of the Mortgage, or for the appointment of a receiver, or for the execution of any trust hereunder, or for any other remedy hereunder, unless the holders of not less

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than 25% in principal amount of the bonds hereby secured and then outstanding shall have requested the Trustee in writing to take action in respect of the matter complained of, and shall have afforded to it a reasonable opportunity to exercise the powers hereinbefore granted, or to institute such action, suit or proceeding in its own name; nor unless also they shall have offered to the Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby; nor unless the Trustee shall have refused or neglected to act on such notice, request and indemnity, and such notification, request and offer of indemnity are hereby declared, in every such case at the option of the Trustee, to be conditions precedent to the execution of the powers and trusts of the Mortgage and to any action or causes of action for foreclosure or for the appointment of a receiver, or for any other remedy hereunder; it being understood and intended that no one or more holders of bonds and coupons shall have any right, in any manner whatever, by his or their action, to affect, disturb or prejudice the lien of the Mortgage, or to enforce any right hereunder except in the manner herein provided; and that all proceedings at law or in equity shall be instituted, had and maintained in the manner herein provided, and for the equal benefit of all holders of such outstanding bonds and coupons.

Any rights of action under the Mortgage may be enforced by the Trustee without the possession of any of the bonds or coupons hereby secured or the production thereof on the trial or other proceedings relative thereto, and any such suit or proceedings instituted by the Trustee shall be brought in its own name, and any recovery of judgment shall be for the ratable benefit of the holders of said bonds and coupons.

SECTION 10.15. *Remedies Are Cumulative.* Except as herein expressly provided to the contrary, no remedy herein conferred upon or reserved to the Trustee or to the holders of bonds issued hereunder is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder, or now or hereafter existing at law or in equity or by statute.

SECTION 10.16. *No Right Impaired by Delay.* No delay or omission of the Trustee, or of any holder of bonds issued hereunder, to exercise any right or power accruing upon any default continuing as aforesaid shall impair any such right or power, or shall be construed to be a waiver of any such default or an acquiescence therein, and every power and remedy given by

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this Article 10 to the Trustee or to Ute bondholders, subject to the provisions of Section 10.14, may be exercised from time to time and as often as may be deemed expedient by the Trustee or by the bondholders.

SECTION 10.17. *Trustee May Institute Suits to Prevent Impairment of Lien.* The Trustee shall have power to institute and to maintain such suits and proceedings as it may be advised shall be necessary or expedient to prevent any impairment of the security hereunder by any acts of the Company, or of others, in violation of the Mortgage, or unlawful or as the Trustee may be advised shall be necessary or expedient to preserve and to protect its interests and the interests of the bondholders in respect of the property subject to the Mortgage, and in respect of the income, earnings, issues and profits arising therefrom; including power to institute and to maintain suits or proceedings to restrain the enforcement of, or compliance with, or the observance of, any legislative or other governmental enactment, rule or order that may be unconstitutional or otherwise invalid, if the enforcement of, compliance with or observance of such enactment, rule or order would impair the security hereunder or be prejudicial to the interests of the bondholders or of the Trustee.

SECTION 10.18. *Filing of Claims by Trustee.* The Trustee may file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee and of the bondholders allowed in any judicial proceedings relative to the Company or any other obligor upon the bonds, or the creditors thereof or the property thereof.

SECTION 10.19. *No Recourse Against Stockholders, Officers, etc.* No recourse under or upon any obligation, covenant or agreement contained in the Mortgage or under or upon any indebtedness hereby secured or because of the creation thereof, shall be had against any incorporator, stockholder, officer or director of the Company or of any successor corporation, directly or through the Company or through a receiver or a trustee in bankruptcy, by the enforcement of any assessment or penalty, or by any legal or equitable proceedings, by virtue of any constitution, rule of law or otherwise; it being expressly agreed and understood that the Mortgage and all the bonds and obligations hereby secured are solely corporate obligations, and that no personal liability whatever does, or shall attach to or be incurred by the incorporators, stockholders, officers or directors of the Company or of any

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successor corporation or any of them, because of the incurring of the indebtedness hereby authorized, or under or by reason of any of the obligations, covenants or agreements contained in the Mortgage or in any of the bonds or coupons hereby secured, or implied therefrom; and any and all personal liability of every name and nature, either at common law or in equity, or created by statute or constitution, of every such incorporator, stockholder, officer or director on the Mortgage and on such bonds and coupons, is hereby expressly released and waived, as a condition of, and as part of the consideration for, the execution of the Mortgage and the issue of the bonds and coupons hereby secured.

## **ARTICLE 11.**

### **Concerning the Trustee.**

SECTION 11.01. *General Duties and Responsibilities of Trustee.* The Trustee hereby accepts the trust created by the Mortgage. The Trustee undertakes, prior to the occurrence of an event of default and after the curing of any such event of default, to perform such duties and only such duties as are specifically set forth in the Mortgage, and in case of the occurrence of any such event of default (which has not been cured) to exercise such of the rights and powers vested in it by the Mortgage, and to use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

For the purposes of Section 11.01 and Section 11.02, an event of default shall be deemed cured when the default which gave rise to such event of default has been cured or the event of default has been waived as permitted by the Mortgage.

SECTION 11.02. *Examination of Evidence; Limitation of Liability.* The Trustee, upon receipt of evidence furnished to it by or on behalf of the Company pursuant to any provision of the Mortgage, will examine the same to determine whether or not such evidence conforms to the requirements of the Mortgage.

No provision of the Mortgage shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act, or its own wilful misconduct, except that

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(a) prior to the occurrence of an event of default, and after the curing of any such event of default, the Trustee shall not be liable except for the performance of such duties as are specifically set out in the Mortgage, and no implied covenants or obligations shall be read into the Mortgage against the Trustee, but the duties and obligations of the Trustee, prior to the occurrence of such an event of default and after the curing of any such event of default which may have occurred, shall be determined solely by the express provision of the Mortgage; and

(b) prior to the occurrence of an event of default, and after the curing of any such event of default and in the absence of bad faith on the part of the Trustee, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions conforming to the requirements of the Mortgage, and

(c) the Trustee shall not be liable for any error of judgment made in good faith by a responsible officer or officers of the Trustee, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts; and

(d) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the holders of not less than a majority in aggregate principal amount of the bonds at the time outstanding relating to the time, method, and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under the Mortgage.

SECTION 11.03. *Responsibilities for Recitals, etc.; Notice to Company.* The recitals of fact in the Mortgage and in the bonds contained (other than the certificate of authentication of the Trustee on the bonds), shall be taken as the statements of the Company, and the Trustee assumes no responsibility for the correctness of the same. The Trustee makes no representation as to the value of the mortgaged property or any part thereof, or as to the title of the Company thereto, or as to the value or validity of the security afforded thereby and by the Mortgage, or as to the value or validity of any securities at any time held under the Mortgage, or as to the validity of the Mortgage or of the bonds or coupons issued thereunder, and the Trustee shall incur no

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responsibility, except as otherwise provided in Section 11.01 and Section 11.02, in respect of such matters.

Except as herein otherwise provided, any notice or demand which by any provision of the Mortgage is required or permitted to be given or served by the Trustee on the Company shall be deemed to have been sufficiently given and served, for all purposes, by being deposited postage prepaid in a post office letter box, addressed (until another address is filed by the Company with the Trustee) to the Company at P.O. Box 2010, Hartford, Connecticut 06101.

SECTION 11.04. *Performance of Trust.* Except to the extent otherwise provided by Section 11.01 and Section 11.02:

(1) The Trustee may rely and shall be protected in acting upon any resolution, certificate, opinion, notice, request, consent, order, statement, report, bond, or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties.

(2) The Trustee may consult with counsel and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance with the opinion of such counsel.

(3) The Trustee may execute any of the trusts or its powers under the Mortgage and perform any duty thereunder, itself or by or through its attorneys, agents or employees.

(4) Whenever the existence or non-existence of any fact or other matter shall be material, the Trustee shall, prior to the occurrence of an event of default, and after the curing of any such event of default, be protected in acting or refraining from acting under any provision of the Mortgage, in relying upon an officers' certificate as to the existence or non-existence of any such fact or matter, but in its discretion the Trustee may accept other evidence of such fact or matter, or may require such further or additional evidence as to it may seem reasonable.

(5) Any resolution of the Board of Directors or of the Executive Committee of the Company shall, for the purposes of the Trustee, be deemed sufficiently proved if certified by the Secretary or an Assistant Secretary of the Company.

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(6) Whenever in the Mortgage, in connection with any application for the authentication and delivery of bonds or for the payment of any moneys held by the Trustee or for the execution of any release or upon any other application to the Trustee, resolutions, certificates, statements, opinions, appraisals, reports, orders or other papers are required by any of the provisions of the Mortgage to be delivered to the Trustee as a condition of the granting of such application, it is intended that the truth and accuracy of the facts and opinions stated therein shall, in each and every such case, be conditions precedent to the right of the Company to have such application granted. Nevertheless, upon any such application, the resolutions, certificates, statements, opinions, appraisals, reports, orders or other papers so required to be delivered to the Trustee may be received by the Trustee as conclusive evidence of any fact or matter therein set forth, and shall, in the absence of bad faith on the part of the Trustee, be full warrant, authority and protection to the Trustee acting on the faith thereof, not only in respect of the facts but also in respect of the opinions therein set forth; and, before granting any such application, the Trustee shall not be bound to make any further investigation of the facts or opinions so set forth; but the Trustee may in its discretion, make any such further investigation as it may see fit. If the Trustee shall determine to make such further investigation, it shall be entitled to examine the books, records and premises of the Company, either itself or through its agents or attorneys; and unless satisfied, with or without such examination, of the truth and accuracy of the matters stated in such resolutions, certificates, statements, opinions, appraisals, reports, orders or other papers, the Trustee shall be under no obligation to grant the application. The reasonable expense of every such examination or other inquiry shall be paid by the Company, or if paid by the Trustee, shall be repaid by the Company, upon demand, with interest at the rate of 6% per annum, and, until such repayment, shall be secured by a lien on the mortgaged property and the proceeds thereof prior to the lien of the bonds and coupons issued hereunder.

SECTION 11.05. *Not Liable Beyond Moneys Deposited.* Whenever provision is made in the Mortgage for the payment of moneys by the Trustee, whether on redemption of bonds, payment of bonds or interest coupons, the payment or repayment of moneys to the Company, or otherwise, the Trustee

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shall in no event be liable to anyone beyond the amount of moneys deposited with it for any such purpose.

SECTION 11.06. *May Become Owner or Pledgee of Bonds.* The Trustee, in its individual or any other capacity, may become the owner or pledgee of bonds or coupons secured hereby with the same rights it would have if it were not Trustee.

SECTION 11.07. *Holding of Moneys.* All moneys received by the Trustee whether as Trustee or paying agent shall, until used or applied as herein provided, be held in trust for the purposes for which they were paid, but need not be segregated from other funds, except as otherwise provided by law, and the Trustee shall not be under any liability to pay interest thereon except such, if any, as during the period it may generally allow on similar funds. Unless an event of default shall have happened and shall be continuing, any interest so allowed by the Trustee shall be paid over to the Company.

SECTION 11.08. *Compensation.* The Trustee shall be entitled to reasonable compensation (which shall not be limited to the compensation of trustees of an express trust as provided by law), for all services rendered by it in the execution of the trusts by the Mortgage created, and such compensation, as well as the reasonable compensation of its counsel and of such persons as it ay employ in the administration or management of the trust, and all other reasonable expenses necessarily incurred and actually disbursed under the Mortgage, the Company agrees to pay and, for such payment, the Trustee shall have a lien on any funds or property at any time in its hands under the Mortgage in priority to the rights and claims of the holders of the bonds.

SECTION 11.09. May File Claims For Compensation. In order to further assure the Trustee that it will be compensated and reimbursed as provided in Section 11.08 and that the prior lien provided for in Section 11.08 to secure the payment of such compensation and reimbursement will be enforced for the benefit of the Trustee, it is agreed that in the event of

- (1) the adjudication of the Company as a bankrupt by any court of competent jurisdiction,
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(2) the filing of any petition seeking the reorganization of the Company under the Federal Bankruptcy Laws or any other applicable law or statute of the United States of America or of any State thereof,

(3) the appointment of one or more trustees or receivers of the Company or of all or substantially all of the property of the Company,

(4) the filing of any bill to foreclose the Mortgage,

(5) the filing by the Company of a petition to take advantage of any insolvency act, or

(6) the institution of any other proceeding wherein it shall become necessary or desirable to file or present claims against the Company,

the Trustee may file from time to time in any such proceeding or proceedings one or more claims, supplemental claims and amended claims as a secured creditor for its reasonable compensation for all services rendered by it (including services rendered during the course of any such proceeding or proceedings) and for reimbursement for all advances, expenses and disbursements (including reasonable compensation, expenses and disbursements of its counsel and of all persons not regularly in its employ) made or incurred by it in the execution of the trusts created by the Mortgage and in the exercise and performance of any of the powers and duties of the Trustee under the Mortgage; and the Trustee and its counsel and agents may file in any such proceeding or proceedings, applications or petitions for compensation for such services rendered, and for reimbursement for such advances, expenses and disbursements. The claim or claims of the Trustee filed in any such proceeding or proceedings shall be reduced by the amount of compensation for services, and reimbursement for advances, expenses and disbursements paid to it after final allowance to it and to its counsel and agents by the court in any such proceeding as an expense of administration or in connection with a plan of reorganization or readjustment. To the extent that compensation and reimbursement are denied to the Trustee or to its counsel or other agents because of not being rendered or incurred in connection with the administration of an estate in a proceeding or in connection with a plan of reorganization or readjustment, approved as required by law, because such services were not rendered in the interests of and with benefit to the estate of the Company as a whole but in the interests of and with benefit to the holders of the bonds, in the execution of the trusts created by the Mortgage or in the exercise and

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performance of any of the powers and duties of the Trustee under the Mortgage or because of any other reason, the court may to the extent permitted by law allow such claim, as supplemented and amended, in any such proceeding or proceedings, and for the purposes of any plan of reorganization or readjustment of the Company's obligations, classify the Trustee as a secured creditor of a class separate and distinct from that of other creditors and of a class having priority and precedence over the class in which the holders of bonds are placed by reason of having a lien, prior and superior to that of the holders of the bonds, upon the trust estate, including all property or funds held or collected by the Trustee as such. The amount of the claim or claims of the Trustee for services rendered and for advances, expenses and disbursements (including reasonable compensation, expenses and disbursements of its counsel and of all persons not regularly in its employ) which are not allowed and paid in any such proceeding, but for which the Trustee is entitled to the allowance of a secured claim as in the Mortgage provided, may be fixed by the court or judge in any such proceeding or proceedings to the extent that such court or judge has or exercises jurisdiction over the amount of any such claim or claims.

SECTION 11.10. *Incidental Powers.* Whenever it is provided in the Mortgage that the Trustee shall take any action upon the happening of a specified event or upon the fulfillment of any condition or upon the request of the Company or of bondholders, the Trustee taking such action shall have full power to give any and all notices and to do any and all acts and things incidental to such action.

SECTION 11.11. *Conflicts of Interests.* (a) If the Trustee has or acquires any conflicting interest, as defined by subsection (d) of this Section, he Trustee shall within ninety days after ascertaining that it has such conflicting interest, either eliminate such conflicting interest or resign in the manner hereinafter provided in Section 11.15, but such resignation shall not become effective until the appointment of a successor trustee and such successor's acceptance of such appointment. The Company covenants to take prompt steps to have a successor appointed in the manner hereinafter provided in Section 11.17.

(b) In the event that the Trustee shall fail to comply with the provisions of the preceding subsection (a) of this Section, the Trustee shall

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within ten days after the expiration of such ninety day period transmit notice of such failure to the bondholders, in the manner and to the extent provided in subsection (c) of Section 5.04 with respect to the reports pursuant to subsection (a) of said Section 5.04.

(c) Subject to the provisions of Section 15.04, any bondholder who has been a bona fide holder of a bond or bonds for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor if the Trustee fails, after written request therefor by such holder, to comply with the provisions of subsection (a) of this Section.

(d) The Trustee shall be deemed to have a conflicting interest if

(1) the Trustee is trustee under another indenture-under which any other securities, or certificates of interest or participation in any other securities, of the Company, are outstanding, unless, under the exceptions or the proviso contained in paragraph (1) of subsection (b) of Section 310 of the Trust Indenture Act, the trusteeship under such other indenture shall not constitute a conflicting interest;

(2) the Trustee or any of its directors or executive officers is an obligor upon the bonds or an underwriter for the Company;

(3) the Trustee directly or indirectly controls or is directly or indirectly controlled by or is under direct or indirect common control with the Company or an underwriter for the Company;

(4) the Trustee or any of its directors or executive officers is a director, officer, partner, employee, appointee or representative of the Company, or of an underwriter (other than the Trustee itself) for the Company who is currently engaged in the business of underwriting, except that (A) one individual may be a director and/or an executive officer of the Trustee and a director and/or an executive officer of the Company, but may not be at the same time an executive officer of both the Trustee and the Company; (B) if and so long as the number of directors of the Trustee in office is more than nine, one additional individual may be a director and/or an executive officer of the Trustee and a director of the Company; and (C) the Trustee may be designated by the Company or by any underwriter for the Company to act in the capacity of transfer agent, registrar, custodian, paying agent, fiscal agent,

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escrow agent or depository or in any other similar capacity or, subject to the provisions of paragraph (1) of this subsection, to act as trustee whether under an indenture or otherwise;

(5) 10% or more of the voting securities of the Trustee is beneficially owned either by the Company or by any director, partner or executive officer thereof, or 20% or more of such voting securities is beneficially owned, collectively, by any two or more of such persons; or 10% or more of the voting securities of the Trustee is beneficially owned either by an underwriter for the Company or by any director, partner or executive officer thereof, or is beneficially owned, collectively, by any two or more such persons;

(6) the Trustee is the beneficial owner of or holds as collateral security for an obligation which is in default, (A) 5% or more of the voting securities or 10% or more of any other class of security of the Company, not including the bonds issued under the Mortgage and securities issued under any other indenture under which the Trustee is also trustee, or (B) 10% or more of any class of security of an underwriter for the Company;

(7) the Trustee is the beneficial owner of, or holds as collateral security for an obligation which is in default, 5% or more of the voting securities of any person who, to the knowledge of the Trustee, owns 10% or more of the voting securities of, or controls directly or indirectly or is under direct or indirect common control with, the Company;

(8) the Trustee is the beneficial owner of or holds as collateral security for an obligation which is in default 10% or more of any class of security of any person who, to the knowledge of the Trustee, owns 50% or more of the voting securities of the Company; or

(9) the Trustee owns on May 15th in any calendar year in the capacity of executor, administrator, testamentary or *inter vivos* trustee, guardian, committee or conservator, or in any other similar capacity, an aggregate of 25% or more of the voting securities, or of any class of security, of any person, the beneficial ownership of a specified percentage of which would have constituted a conflicting interest under paragraphs (6), (7) or (8) of this subsection. As to any such securities of which the Trustee acquired ownership through becoming executor, administrator or testamentary trustee of an estate which included them, the

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provisions of the preceding sentence shall not apply for a period of two years from the date of such acquisition, to the extent that such securities included in such estate do not exceed 25% of such voting securities or 25% of any such class of security. Promptly after May 15th, in each calendar year, the Trustee shall make a check of its holdings of such securities in any of the above-mentioned capacities as of May 15<sup>th</sup>. If the Company fails to make payment in full of principal or interest upon the bonds when and as the same become due and payable, and such failure continues for thirty days thereafter, the Trustee shall make a prompt check of its holdings of such securities in any of the above-mentioned capacities as of the date of the expiration of such thirty-day period, and after such date, notwithstanding the foregoing provisions of his paragraph, all such securities so held by the Trustee-with sole or joint control over such securities vested in it, shall, but only so long as such failure shall continue, be considered as though beneficially owned by the Trustee for the purposes of paragraphs (6), (7) and (8) of this subsection (d).

The specifications of percentages in paragraphs (5) to (9), inclusive, of this subsection shall not be construed as indicating that the ownership of such percentages of the securities of a person is or is not necessary or sufficient to constitute direct or indirect control for the purposes of paragraph (3) or (7) of this subsection.

For the purposes of paragraphs (6), (7), (8) and (9) of this subsection only, (A) the terms "security" and "securities" shall include only such securities as are generally known as corporate securities, but shall not include any note or other evidence of indebtedness issued to evidence an obligation to repay moneys lent to a person by one or more banks, trust companies or banking firms or any certificate of interest or participation in any such note or evidence of indebtedness; (B) an obligation shall be deemed to be in default when a default in payment of principal shall have continued for thirty days or more and shall not have been cured; and (C) the Trustee shall not be deemed to be the owner or holder of (i) any security which it holds as collateral security (as trustee or otherwise) for an obligation which is not in default as above defined, or (ii) any security which it holds as collateral security under the Mortgage, irrespective of any default hereunder, or (iii) any security which it holds as agent for collection, or as custodian, escrow agent or depositary, or in any similar representative capacity.

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The percentages of voting securities and other securities specified in this Section shall be calculated in accordance with the following provisions:

(a) A specified percentage of the voting securities of the Trustee, the Company or any other obligor upon the bonds issued hereunder or any other person referred to in this Section (each of whom is referred to as a "person" in this paragraph) means such amount of the outstanding voting securities of such person as entitles the holder or holders thereof to cast such specified percentage of the aggregate votes which the holders of all the outstanding voting securities of such person are entitled to cast in the direction or management of the affairs of such person.

(b) A specified percentage of a class of securities of a person means such percentage of the aggregate amount of securities of the class outstanding.

(c) The term "amount", when used in regard to securities, means the principal amount if relating to evidences of indebtedness, the number of shares if relating to capital shares, and the number of units, if relating to any other kind of security

(d) The term "outstanding" means issued and not held by or for the account of the issuer. The following securities shall not be deemed outstanding within the meaning of this definition:

- (1) Securities of an issuer held in a sinking fund relating to securities of the issuer of the same class;
- (2) Securities of an issuer held in a sinking fund relating to another class of securities of the issuer, if the obligation evidenced by such other class of securities is not in default as to principal or interest or otherwise;
- (3) Securities pledged by the issuer thereof as security for an obligation of the issuer not in default as to principal or interest or otherwise;
- (4) Securities held in escrow if placed in escrow by the issuer thereof;

provided, however, that any voting securities of an issuer shall be deemed outstanding if any person other than the issuer is entitled to exercise the voting rights thereof.

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(e) A security shall be deemed to be of the same class as another security if both securities confer upon the holder or holders thereof substantially the same rights and privileges, provided, however, that, in case of secured evidences of indebtedness, all of which are issued under a single indenture, differences in the interest rates or maturity dates of various series thereof shall not be deemed sufficient to constitute such series different classes, and provided, further, that, in the case of unsecured evidences of indebtedness, differences in the interest rates or maturity dates thereof shall not be deemed sufficient to constitute them securities of different classes, whether or not they are issued under a single indenture.

For the purposes of this Section the term "underwriter; when used with reference to the Company or any other obligor upon the bonds issued hereunder means every person who, within three years prior to the time as of which the determination is made, has purchased from the Company or any such other obligor with a view to, or has offered or sold for the Company or any such other obligor, in connection with, the distribution of any security of the Company or any such other obligor, outstanding at such time, or has participated or has had a direct or indirect participation in any such undertaking, or has participated or has had a participation in the direct or indirect underwriting of any such undertaking, but such term shall not include a person whose interest was limited to a commission from an underwriter or dealer not in excess of the usual and customary distributors; or sellers' commission.

For the purposes of this Section the terms "directors;", "executive officers" and "voting securities" shall have the meanings assigned to such terms in Section 303 of the Trust Indenture Act of 1939.

For the purposes of this Section the term "person"; shall have the meaning assigned to such term in Section 2 of the Securities Act of 1933.

SECTION 11.12. Apportionment of Preferential Collections. (a) Subject to the provisions of subsection (b) of this Section, if the Trustee shall be or shall become a creditor, directly or indirectly, secured or unsecured, of the Company within four months prior to a default (as defined in the last paragraph of this subsection), or subsequent to such a default, then, unless and until such default shall be cured, the Trustee shall set apart and hold in a special account for the benefit of the Trustee individually, the

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holders of the bonds, and the holders of other indenture securities (as defined in the last paragraph of this subsection)

(1) an amount equal to any and all reductions in the amount due and owing upon any claim as such creditor in respect of principal or interest effected after the beginning of such four months' period and valid as against the Company and its other creditors, except any such reduction resulting from the receipt or disposition of any property described in paragraph (2) of this subsection or from the exercise of any right of set-off which the Trustee could have exercised if a petition in bankruptcy had been filed by or against the Company upon the date of such default; and

(2) all property received in respect of any claim as such creditor, either as security therefor, or in satisfaction or composition thereof, or otherwise after the beginning of such four months' period or an amount equal to the proceeds of any such property, if disposed of, subject, however, to the rights, if any, of the Company and its other creditors in such property or such proceeds.

Nothing herein contained, however, shall affect the right of the Trustee -

(A) to retain for its own account (i) payments made on account of any such claim by any person (other than the Company) who is liable thereon, and (ii) the proceeds of the bona fide sale of any such claim by the Trustee to a third person, and (iii) distributions made in cash, securities, or other property in respect of claims filed against the Company in bankruptcy or receivership or in proceedings for reorganization pursuant to the Bankruptcy Act or applicable State law;

(B) to realize, for its own account, upon any property held by it as security for any such claim, if such property was so held prior to the beginning of such four months' period;

(C) to realize, for its own account, but only to the extent of the claim hereinafter mentioned, upon any property held by it as security for any such claim, if such claim was created after the beginning of such four months' period and such property was received as security therefor simultaneously with the creation thereof, and if the Trustee shall sustain the burden of proving that at the time such property was so received the Trustee had no reasonable cause to believe that a default

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as defined in the last paragraph of this subsection would occur within four months; or

(D) to receive payment on any claim: referred to in paragraph (B) or (C); against the release of any property held as security for such claim as provided in paragraph (B) or (C), as the case may be, to the extent of the fair value of such property.

For the purposes of paragraphs (B), (C) and (D), property substituted after the beginning of such four months' period for property held as security at the time of such substitution shall, to the extent of the fair value of the property released, have the same status as the property released, and, to the extent that any claim referred to in any of such paragraphs is created in renewal of or in substitution for or for the purpose of repaying or refunding any pre-existing claim of the Trustee as such creditor, such claim shall have the same status as such pre-existing claim.

If the Trustee shall be required to account, the funds and property held in such special account and the proceeds thereof shall be apportioned between the Trustee, the bondholders, and the holders of other indenture securities in such manner that the Trustee, the bondholders, and the holders of other indenture securities realize, as a result of payments from such special account and payments of dividends on claims filed against the Company in bankruptcy or receivership or in proceedings for reorganization pursuant to the Bankruptcy Act or applicable State law, the same percentage of their respective claims, figured before crediting to the claim of the Trustee anything on account of the receipt by it from the Company of the funds and property in such special account and before crediting to the respective claims of the Trustee, the bondholders, and the holders of other indenture securities dividends on claims filed against the Company in bankruptcy or receivership or in proceedings for reorganization pursuant to the Bankruptcy Act or applicable State law, but after crediting thereon receipts on account of the indebtedness represented by their respective claims from all sources other than from such dividends and from the funds and property so held in such special account. As used in this paragraph, with respect to any claim, the term "dividends" shall include any distribution with respect to such claim, in bankruptcy or receivership or in proceedings for reorganization pursuant to the Bankruptcy Act or applicable State law, whether such distribution is made in cash, securities or other property, but shall not include

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any such distribution with respect to the secured portion, if any, of such claim. The court in which such bankruptcy, receivership, or proceeding for reorganization is pending shall have jurisdiction (i) to apportion between the Trustee, the bondholders, and the holders of other indenture securities, in accordance with the provisions of this paragraph, the funds and property held in such special account and the proceeds thereof, or (ii) in lieu of such apportionment, in whole or in part, to give to the provisions of this paragraph due consideration in determining the fairness of the distributions to be made to the Trustee, the bondholders, and the holders of other indenture securities, with respect to their respective claims, in which event it shall not be necessary to liquidate or to appraise the value of any securities or other property held in such special account or as security for any such claim, or to make a specific allocation of such distributions as between the secured and unsecured portions of such claims, or otherwise to apply the provisions of this paragraph as a mathematical formula.

Any Trustee who has resigned or been removed after the beginning of such four months' period shall be subject to the provisions of this subsection as though such resignation or removal had not occurred. Any Trustee who has resigned or been removed prior to the beginning of such four months' period shall be subject to the provisions of this subsection if and only if the following conditions exist-

(i) the receipt of property or reduction of claim which would have given rise to the obligation to account, if such Trustee had continued as trustee, occurred after the beginning of such four months' period; and

(ii) such receipt of property or reduction of claim occurred within four months after such resignation or removal.

As used in this subsection (a), the term "default" means any failure to make payment in full of the principal of or interest upon the bonds or upon the other indenture securities when and as such principal or interest becomes due and payable; and the term "other indenture securities" means securities upon which the Company is an obligor (as defined in Section 303 (12) of the Trust Indenture Act of 1939) outstanding under any other indenture (a) under which the Trustee is also trustee, (b) which contains provisions substantially similar to the provisions of this subsection, and (c) under which a default exists at the time of the apportionment of the funds and property held in said special account.

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(b) There shall be excluded from the operation of subsection (a) of this Section a creditor relationship arising from-

(1) the ownership or acquisition of securities issued under any indenture, or any security or securities having a maturity of one year or more at the time of acquisition by the Trustee;

(2) advances authorized by a receivership or bankruptcy court of competent jurisdiction or by the Mortgage for the purpose of preserving the property subject to the lien of the Mortgage or of disc4arging tax liens or other prior liens or encumbrances on the trust estate, if notice of such advance and of the circumstances surrounding the making thereof is given to the bondholders as provided in subsections (a), (b) and (c) of Section 5.04 with respect to advances by the Trustee as such;

(3) disbursements made in the ordinary course of business in the capacity of trustee under an indenture, transfer agent, registrar, custodian, paying agent, fiscal agent or depositary, or other similar capacity;

(4) an indebtedness created as a result of services rendered or premises rented; or an indebtedness created as a result of goods or securities sold in a cash transaction as defined in the last paragraph of this subsection;

(5) the ownership of stock or of other securities of a corporation organized under the provisions of Section 25 (a) of the Federal Reserve Act, as amended, which is directly or indirectly a creditor of the Company; or

(6) the acquisition, ownership, acceptance or negotiation of any drafts, bills of exchange, acceptances or obligations which fall within the classification of self-liquidating paper as defined in the last paragraph of this subsection.

As used in this subsection (b), the term "cash transaction" shall mean any transaction in which full payment for goods or securities sold is made within seven days after delivery of the goods or securities in currency or in checks or other orders drawn upon banks or bankers and payable upon demand; the term "self-liquidating paper" shall mean any draft, bill of exchange, acceptance or obligation which is made, drawn, negotiated or incurred by the Company for the purpose of financing the purchase, processing,

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manufacture, shipment, storage or sale of goods, wares or merchandise and which is secured by documents evidencing title to, possession of, or a lien upon, the goods, wares or merchandise or the receivables or proceeds arising from the sale of the goods, wares or merchandise previously constituting the security, provided the security is received by the Trustee simultaneously with the creation of the creditor relationship with the obligor arising from the making, drawing, negotiating or incurring of the draft, bill of exchange, acceptance or obligation.

SECTION 11.13. *Term "Company" to Include Other Obligors.* In the event that any person shall at any time after August 31, 1944 become an obligor upon any of the bonds issued under the Mortgage, so long as such person shall continue to be an obligor upon such bonds, the term "Company", as used in Section 11.11 (except subdivision (a) thereof) and in Section 11.12, and as last used in Section 10 .12, shall include any other obligor upon the bonds issued hereunder.

SECTION 11.14. *Qualifications of Trustee.* At all times the Trustee hereunder shall be a trust company which is a corporation organized and doing business under the laws of the United States or of any state or territory, or the District of Columbia, which (i) is authorized under such laws to exercise corporate trust powers and has an office in the Borough of Manhattan in the City of New York, and (ii) is subject to supervision or examination by Federal or State authority, and (iii) has a combined capital and surplus aggregating at least \$5,000,000. If the Trustee publishes reports of condition at least annually, pursuant to law or to the requirements of said supervising or examining authority, then for the purposes of this Section the combined capital and surplus of the Trustee shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

SECTION 11.15. *Trustee May Resign.* The Trustee may resign and be discharged from the trusts created by the Mortgage by giving written notice thereof to the Company, specifying the date when such resignation shall take effect, and by publishing such notice at least once not less than fifteen nor more than thirty days prior to the date so specified, in two daily newspapers of general circulation published in the Borough of Manhattan, City of New York; and such resignation shall take effect on the date specified in such

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SECTION 11.16. *Removal by Bondholders.* Any Trustee hereunder may be removed at any time by an instrument in writing, filed with the Trustee, signed by the holders of a majority in principal amount of the bonds hereby secured then outstanding.

SECTION 11.17. *Successor Trustee.* In case at any time the trustee, or any successor hereafter appointed, shall resign or shall be removed (unless the Trustee shall be removed as provided in subsection (c) of Section 11.11 in which event the vacancy shall be filled as provided in said subsection) or shall become incapable of acting, or shall be adjudicated a bankrupt or insolvent, or if a receiver of the Trustee or of any such successor or of its property shall be appointed, or if any public officer shall take charge or control of the Trustee or of any such successor or of its property and affairs; a successor may be appointed by the holders of a majority in principal amount of the bonds then outstanding hereunder by an instrument or concurrent instruments in writing signed and acknowledged by such bondholders or by their attorneys in fact duly authorized, and filed with such successor trustee, notification thereof being given to the Company and the retiring trustee; provided, nevertheless, that until a new trustee shall be appointed by the bondholders as aforesaid, the Company, by instrument executed by order of its Board of Directors and duly acknowledged by its President or a Vice-President and its Secretary or an Assistant Secretary, may appoint a trustee to fill such vacancy until a new trustee shall be appointed by the bondholders as herein authorized. The Company shall publish notice of any such appointment, which notice shall be published at least once a week for four successive weeks in two newspapers printed in the English language and customarily published on each business day, of general circulation in the Borough of Manhattan, in the City of New York. Any such trustee so appointed by the Company shall immediately and without further act be superseded by a trustee appointed by the bondholders, if such bondholders shall make such appointment within one year from the date they first had the right so to appoint under the terms hereof.

If in a proper case no appointment of a successor trustee shall be made pursuant to the foregoing provisions of this Article within six months after a vacancy shall have occurred in the office of trustee, the holder of any bond outstanding hereunder or any retiring trustee may apply to any court of competent jurisdiction to appoint a successor trustee. Said court may

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thereupon after such notice, if any, as such court may deem proper and prescribe, appoint a successor trustee.

If the Trustee resigns because of a conflict of interest as provided in subsection (a) of Section 11.11 and a successor has not been appointed by the Company or the bondholders or, if appointed, has not accepted the appointment within thirty days after the date of such resignation, the resigning Trustee may apply to any court of competent jurisdiction for the appointment of a successor trustee.

Any trustee appointed under the provisions of this Article in succession to the Trustee shall be a corporation eligible under Section 11.14, and qualified under Section 11.11.

Any trustee which has resigned or been removed shall nevertheless retain the lien upon the trust estate, including all property or funds held or collected by the Trustee as such, to secure the amounts due to it as compensation, reimbursement and expenses, afforded to it by Section 11.08 and retain the rights afforded to it by Section 11.09.

SECTION 11.18. *Acceptance by Successor Trustee.* Any successor trustee appointed hereunder shall execute, acknowledge and deliver to its predecessor trustee, and also to the Company, an instrument accepting such appointment hereunder, and thereupon such successor trustee, without any further act, deed or conveyance shall become fully vested with all the estates, properties, rights, powers, trusts, duties, and obligations of its predecessor in trust hereunder, with like effect as if originally named as trustee herein; but the Trustee ceasing to act shall nevertheless, on the written request of the Company, or of the successor trustee, or of the holders of 10% in aggregate principal amount of the bonds then outstanding under the Mortgage, execute, acknowledge and deliver such instruments of conveyance and further assurance and do such other things as may reasonably be required for more fully and certainly vesting and confirming in such successor trustee all the right, title and interest of the Trustee which it succeeds in and to the mortgaged property and such rights, powers, trusts, duties and obligations, and the Trustee ceasing to act shall also, upon like request, pay over, assign and deliver to the successor trustee any money or other property subject to the lien of the Mortgage which may then be in its possession, and thereupon the Trustee so ceasing to act shall be fully relieved and discharged from all liability or responsibility therefor, either to the Company or to the holder of any bonds or coupons outstanding under the Mortgage. Should any deed, conveyance

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or instrument in writing from the Company be required by the new trustee for more fully and certainly vesting in and confirming to such new trustee such estates, properties, rights, powers, trusts, duties and obligations, any and all such deeds, conveyances and instruments in writing shall, on request, be executed, acknowledged and delivered by the Company.

SECTION 11.19. *Successor Trustee by Merger or Consolidation*. Any company into which the Trustee, or any successor to it, may be merged or with which it, or any successor to it, may be consolidated or any company resulting from any merger or consolidation to which the Trustee, or any successor to it, shall be a party, provided such company shall be eligible under the provisions of Section 11.14 and qualified under the provisions of Section 11.11, shall be a successor trustee under the Mortgage, without the execution or filing of any paper or the performance of any further act on the part of any other parties hereto, anything herein to the contrary notwithstanding. In case any of the bonds contemplated to be issued hereunder shall have been authenticated but not delivered, any such successor trustee may adopt the certificate of authentication of the Trustee, or of any successor to it, as Trustee hereunder, and deliver the same so authenticated; and in case any of said bonds shall not have been authenticated, any successor trustee may authenticate such bonds either in the name of any predecessor hereunder or in the name of the successor trustee, and in all such cases such certificate of authentication shall have the full force which it is anywhere in said bonds or in the Mortgage provided that the certificate of authentication of the Trustee shall have.

SECTION 11.20. *Provisions of Article Control*. If and to the extent that any provisions of the Mortgage limit, qualify, conflict with, or are contrary to any of the provisions of Section 11.01 and Section 11.02, the provisions of said Sections shall be deemed to control and govern. Without limiting the generality of the foregoing, the provisions of the Mortgage first referred to in the preceding sentence shall be deemed to include the following provisions:

(i) the provision contained in Section 3.10 to the effect that the Trustee may accept certain resolutions, certificates and other instruments as conclusive evidence as to the statements therein contained and which shall be full authority to the Trustee for the authentication and delivery of bonds or payment of the proceeds thereof;

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(ii) the provision contained in Section 6.09 to the effect that the Trustee shall not be obliged to see to the application of the proceeds of insurance;

(iii) the provision contained in Section 7.02 that the Trustee may rely on an opinion of counsel with respect to the authority of a successor corporation to issue bonds under the Mortgage;

(iv) the provisions contained in Section 8.03 to the effect that the Trustee shall be under no duty to make inquiry as to whether the condition therein specified with respect to the sale, exchange or other disposition of property of the Company has been observed;

(v) the provisions contained in Section 8.04 concerning releases of mortgaged property, to the effect that the documents required to be furnished shall be full authority to the Trustee for its action thereon; (vi) the provisions contained in Section 10.14 respecting certain conditions precedent to action by the Trustee in the execution of powers and trusts under the Mortgage;

(vii) the provisions contained in Section 12.01 relating to the sufficiency and conclusive nature of the requests or other instruments therein mentioned signed and executed by bondholders or their agents.

## **ARTICLE II.**

### **Evidence of Rights of Bondholders.**

SECTION 12.01. *Execution of Instruments.* Any request or other instrument required by the Mortgage to be signed and executed by bondholders, may be in any number of concurrent instruments of similar tenor and may be signed or executed by such bondholders in person or by agent appointed in writing. Proof of execution of any such request or other instrument, or of a writing appointing any such agent, and of the holding by any person of coupon bonds transferable by delivery, shall be sufficient for any purpose of the Mortgage, and may be received by the Trustee as conclusive if made in the manner provided in this Article 12.

SECTION 12.02. *Proof of Execution.* The fact and date of the execution by any person of such request, instrument or other writing may be proved

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by the certificate of any notary public, or other officer authorized to take acknowledgments of deeds to be recorded in any state within the United States, certifying that the person signing such request or other instrument acknowledged to him the execution thereof, or by the affidavit of a witness to such execution.

SECTION 12.03. Proof of Ownership. The aggregate amount of the coupon bonds transferable by delivery held by any person executing any such request or other instrument as a bondholder, and the distinctive numbers of such bonds and the date of his holding the same, may be proved by a certificate executed by any trust company, bank, banker or other depository (wherever situated), if such certificate shall be deemed by the Trustee to be satisfactory, showing that at the date therein mentioned such person had on-deposit with such depository, or exhibited to it, the bonds therein described, or such facts may be proved by the certificate or affidavit of the person executing such request or other instrument as a bondholder, if any such certificate or instrument shall be deemed by the Trustee to be satisfactory. The fact and date of execution of any request or other instrument, and the amount and numbers of coupon bonds held by the person so executing such request or other instrument, may also be proved in any other manner which the Trustee may deem sufficient.

The ownership of registered coupon bonds or of registered bonds without coupons shall be proved by the registers of such bonds.

### **ARTICLE 13.**

#### **Defeasance.**

If the Company, its successors or assigns, shall pay or cause to be paid unto the holders of said bonds and coupons, the principal and interest to become due thereon at the times and in the manner stipulated therein, or shall provide for the payment of such bonds and coupons by depositing with the Trustee hereunder at any time at or before maturity the entire amount due thereon for principal and interest to maturity of all said bonds outstanding and premium, if any, and also shall pay all other sums payable hereunder by the Company, and shall keep, perform and observe all and singular the covenants, and promises in said bonds, and in the Mortgage expressed as to be kept, performed and observed by or on its part, then these presents and

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the estate and the rights hereby granted shall cease, determine and be void, and thereupon the Trustee shall, upon request and at the expense of the Company, cancel and discharge the lien of the Mortgage, and execute and deliver to the Company such deeds as shall be requisite to satisfy the lien hereof, and recovery to the Company the estate and title hereby conveyed, and assign and deliver to the Company any property subject to the lien of the Mortgage which may then be in its possession. Bonds for the payment or redemption of which money shall have been set apart by or paid to the Trustee shall be deemed to be paid within the meaning of this Article, upon proof of publishing of notice required to be given as provided in Article 4 hereof, being furnished to the Trustee.

As a further condition precedent to the Trustee's granting any request by the Company under and pursuant to this Article for the satisfaction and discharge of the Mortgage, there shall be delivered to the Trustee (i) an officers' certificate, stating that the conditions precedent specified in this Article have been complied with and (ii) an opinion of counsel stating that in his opinion said conditions precedent have been complied with.

#### **ARTICLE 14.**

##### **Supplemental Indenture.**

SECTION 14.01. *Supplemental Indentures Without Consent.* The Company, when authorized by resolution of its Board of Directors, and the Trustee, from time to time and at any time, may enter into an indenture or indentures supplemental to the Mortgage and which thereafter shall form a part of the Mortgage for any one or more of the following purposes:

(a) to convey, transfer and assign to the Trustee and to subject to the lien of the Mortgage, with the same force and effect as though specifically mentioned in the granting clause hereof, additional property then owned by the Company, acquired by it through consolidation, merger, by purchase, or otherwise;

(b) to specify and state the mortgage indebtedness, and the amount thereof of any company which hereafter shall be consolidated with or merged into, or whose property hereafter shall be acquired by, the Company, which indebtedness, if secured by mortgage on property which shall have been used as a basis for the authentication and delivery

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of bonds under Section 3.05 (or its predecessor Section), and if prior to the lien of the bonds issued hereunder, is to be regarded as forming a part of the underlying bonds of the Company, to retire which, at or before maturity, bonds may be issued as provided in Section 3.04;

(c) to add to the limitations on the authorized amount, date of maturity, issue and purposes of issue of bonds hereunder or of any series of bonds hereunder, other limitations to be thereafter observed;

(d) to evidence the succession of another corporation to the Company, or successive successions, and the assumption by a successor corporation of the covenants and obligations of the Company under the Mortgage;

(e) to make such provision in regard to matters or questions arising under the Mortgage as may be necessary or desirable and not inconsistent with the Mortgage.

SECTION 14.02. *Trustee Authorized to Join in Execution.* The Trustee is hereby authorized to join with the Company in the execution of any such supplemental indenture, to make the further agreements and stipulations which may be therein contained, and to accept the conveyance, transfer and assignment of any such property thereunder.

SECTION 14.03. *Supplemental Indentures With Consent.* In addition to any supplemental indenture authorized by Section 14.01, with the consent of the holders of not less than 66 2/3% in aggregate principal amount of the bonds at the time outstanding, or in case one or more, but less than all of the series Of bonds then outstanding would be affected, with the consent of the holders of not less than 66 2/3% in aggregate principal amount of the bonds of the series then outstanding which would be affected by the action proposed to be taken, the Company, when authorized by resolution of its Board of Directors, and the Trustee, from time to time and at any time, after (but not before) the First Effective Date, may enter into an indenture or indentures supplemental hereto and which thereafter shall form a part hereof, for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Mortgage or of any indenture supplemental hereto or of modifying in any manner the rights of the holders of the bonds and coupons issued hereunder; provided, however,

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that anything in this Section to the contrary notwithstanding, no such supplemental indenture shall operate (i) to extend the fixed maturity of any bonds, or reduce the rate or extend the time of payment of interest or premium, if any, thereon, or reduce the principal amount thereof, or otherwise modify or affect the terms of payment of such interest, premium or principal without the express consent of the holder of each bond which would be affected thereby, or (ii) to reduce the aforesaid percentage of bonds, the holders of which are required to consent to any such supplemental indenture, without the consent of the holders of all bonds outstanding, or (iii) to permit the creation by the Company of any mortgage or pledge or lien in the nature thereof, ranking prior to or equal with the lien of the Mortgage on any of the property which is subject to the lien hereof without the consent of the holders of all bonds outstanding, or (iv) to deprive the holder of any bond outstanding hereunder of the lien of the Mortgage on any of such property without the express consent of the holder of each bond affected thereby.

The Trustee is hereby authorized to join with the Company in the execution of any such supplemental indenture and to make the further agreements and stipulations which may be therein contained. The Trustee shall be entitled, to the extent permitted by Article 11, to receive and rely on an opinion of counsel as evidence that any supplemental indenture entered into under the provisions of this Section complies with and in no way violates the provisions hereof.

It shall not be necessary for the consent of the bondholders under this Section to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such consent shall approve the substance thereof.

Any consent may be in any number of concurrent instruments of similar tenor and may be signed or executed by bondholders in person or by attorney appointed in writing. Notwithstanding the provisions of Article 12, proof of the execution of any such consent, or of a writing appointing any such attorney, or of the holding by any person of the bonds or coupons, shall be sufficient if made in the following manner:

- (a) The fact and date of the execution by any person of such consent may be proved by the certificate of any notary public, or other officer authorized to take acknowledgments of deeds to be recorded in any State of the United States, that the person signing the same acknowledged to him the execution thereof, or by the affidavit, sworn to before such a notary public or other officer, of a witness to such execution.
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(b) The amount of bonds transferable by delivery held by any person executing such consent as a bondholder, and the issue and serial numbers thereof, held by such person, and the date of his holding the same, may be proved by a certificate of ownership executed by any trust company, bank, banker or other depository wheresoever situated; if such certificate shall be deemed by the Trustee to be satisfactory; showing that at the date therein mentioned such person had exhibited to or had on deposit with such depository the bonds described in such certificate. The Trustee may assume the continuance of any such ownership unless and until it receives proof, satisfactory to it, to the contrary. The fact and date of the execution of any such consent, and the fact of such holding, and the amount and numbers of any bonds may also be proved in any other manner which the Trustee may deem sufficient. The Trustee may nevertheless in its discretion require further proof of any matter referred to in this Section in cases where it deems further proof desirable.

(c) The ownership of coupon bonds registered as to principal and of registered bonds without coupons shall be proved by the registry books.

The Trustee shall not be bound to recognize any person as a bondholder unless and until his title to the bonds held by him is proved in the manner hereinabove provided.

Any consent of the holder of any bond shall bind all future holders of the same bond, or any bond or bonds issued in lieu thereof or in exchange therefor, in respect of anything done or suffered by the Company or Trustee in pursuance thereof.

SECTION 14.04. *Conformance With Trust Indenture Act*. No supplemental indenture authorized by the Mortgage shall contain provisions which, at the time of the execution of such supplemental indenture, are in conflict with any of the provisions then in force of the Trust Indenture Act of 1939.

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## ARTICLE 15.

### Miscellaneous Provisions.

SECTION 15.01. *Covenants to Bind Successors and Assigns.* All the covenants, stipulations, promises and agreements in the Mortgage contained, by or in behalf of the Company, shall bind, and inure to the benefit of, its successors and assigns, whether so expressed or not.

SECTION 15.02. *Benefits of Mortgage.* Nothing in the Mortgage expressed or implied is intended or shall be construed to give to any person or corporation other than the Company, the Trustee and the holders of the bonds and interest obligations hereby secured; any legal or equitable right, remedy or claim under or in respect of the Mortgage or any covenant, condition or provision herein contained. All its covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the Company, the Trustee and the holders of the bonds hereby secured.

SECTION 15.03. *Applications, Certificates, Opinions.* The same officer or officers of the Company, or the same engineer or counsel or other person, as the case may be, may, but need not, certify to all the matters required to be certified under any Article, Section, Subdivision or other portion hereof, but different officers, engineers, counsel or other persons may certify to different facts, respectively. Where any person or persons are required to make, give or execute two or more orders, requests, certificates, opinions or other instruments under the Mortgage, any such orders, requests, certificates, opinions or other instruments may, but need not, be consolidated and form one instrument.

Except as otherwise expressly provided in the Mortgage, any application, request, opinion, consent, demand, notice, order, appointment, or other direction required or permitted to be made or given by the Company shall be deemed to have been sufficiently made or given if executed on behalf of the Company by its President or any of its Vice-Presidents and its Secretary or any of its Assistant Secretaries or its Treasurer or any of its Assistant Treasurers.

Any opinion of counsel required to be furnished pursuant to any of the provisions of the Mortgage may, in lieu of stating the facts required by the

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provisions hereof, state that the required conditions will be fulfilled on the execution and delivery of designated instruments, which instruments shall be delivered in form approved by such counsel prior to or concurrently with the taking or suffering by the Trustee of the action as a condition precedent to which such opinion is required to be furnished under the terms of the Mortgage.

Upon any application by the Company to the Trustee to take any action under any of the provisions of the Mortgage, the Company shall furnish to the Trustee an officers' certificate and opinion of counsel, each stating that all conditions precedent provided for in the Mortgage (including any covenants compliance with which constitutes a condition precedent) with respect to such application have been complied with, and in the case of any such application to take action as to which there is a condition precedent provided for in the Mortgage (including any covenant compliance with which constitutes a condition precedent) compliance with which is subject to verification by accountants (such as conditions with respect to the preservation of specified ratios, the amount of net quick assets, negative-pledge clauses, and other similar specific conditions), the Company shall also furnish to the Trustee an accountant's certificate stating that each such condition precedent has been complied with, whether or not the furnishing of such documents shall be specifically required by the provisions of the Mortgage relating to such particular application.

Each certificate or opinion with respect to compliance with a condition or covenant provided for in the Mortgage shall include (1) a statement that the person making such certificate or opinion has read such covenant or condition and the definitions, if any, herein contained relative thereto; (2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based; (3) a statement that, in the opinion of such person, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with; and (4) a statement as to whether or not, in the opinion of such person, such condition or covenant has been complied with.

Any certificate or opinion of an officer of the Company or an engineer, appraiser, accountant or other expert may be based, in so far as it relates to legal matters, upon a certificate or opinion of or upon representations by counsel, unless such officer or engineer or appraiser or accountant or other expert knows that the certificates or opinion or representations with respect

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to the matters upon which his opinion may be based as aforesaid are erroneous, or in the exercise of reasonable care should have known that the same were erroneous.

Any certificate or opinion of counsel may be based, in so far as it relates to factual matters, information with respect to which is in the possession of the Company, upon the certificate or opinion of or representations by an officer or officers of the Company unless such counsel knows that the certificate or opinion or representations with respect to the matters upon which his opinion may be based as aforesaid are erroneous, or in the exercise of reasonable care should have known that the same were erroneous.

Any opinion of counsel given as to title to property or as to the rank of the lien of the Mortgage may be based, in whole or in part, upon a certified abstract of title or any torrens certificate, or upon any guaranty policy or certificate issued or rendered by any reputable person, firm or corporation engaged in the business of examining or insuring or guaranteeing titles to property or upon the opinion of other counsel (provided that in such case such opinion of counsel shall state that the signer believes such other counsel giving such certificate or opinion is reputable and one upon whom he may properly rely).

SECTION 15.04. *Undertaking to Pay Costs.* Any court may in its discretion require in any suit for the enforcement of any right or remedy under the Mortgage, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this Section shall not apply to any suit instituted by the Trustee, to any suit instituted by any bondholder, or group of bondholders, holding in the aggregate more than 10% in principal amount of the bonds then outstanding or to any suit instituted by any bondholder for the enforcement of the payment of the principal of or interest on any bond, on or after the respective due dates expressed in such bond.

SECTION 15.05. *Conflict With Trust Indenture Act.* If and to the extent that any provision of the Mortgage limits, qualifies, or conflicts with another provision required to be included therein by any of Sections 310 to

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317, inclusive, of the Trust Indenture Act of 1939, such required provision shall control.

SECTION 15.06. *Right of Bondholder not To Be Impaired Without His Consent.* The right of any holder of any bond to receive payment of the principal of and interest on such bond, on or after the respective due dates expressed in such bond, or to institute suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of such holder.

SECTION 15.07. *Headings.* The headings of the Articles and Sections of the Mortgage are inserted for convenience of reference only, and are not to be taken to be any part of the Mortgage or to control or affect the meaning, construction or effect of the same.

(The testimonium clause, signatures and acknowledgments to the original Indenture of Mortgage and Deed of Trust have been omitted herein.)

BOSTON EDISON COMPANY  
TO  
BANK OF MONTREAL TRUST COMPANY  
Trustee

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INDENTURE  
Dated as of September 1, 1988

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BOSTON EDISON COMPANY

Reconciliation and tie between Trust Indenture Act of 1939 and  
Indenture dated as of September 1, 1988

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Trust Indenture Act Section	Indenture Section
§ 310 (a)(1)	609
(a)(2)	609
(a)(3)	Not Applicable
(a)(4)	Not Applicable
(b)	608
	610
§ 311 (a)	613(a)
(b)	613(b)
(b)(2)	703(a)(2)
§ 312 (a)	701
	702(a)
(b)	702(b)
(c)	702(c)
§ 313 (a)	703(a)
(b)	703(b)
(c)	703Cc)
(d)	703(d)
§ 314 (a)	704
(b)	Not Applicable
(c)(1)	102
(c)(2)	102
(c)(3)	Not Applicable
(d)	Not Applicable
(e)	102
§ 315 (a)	601 (a)
(b)	602
	703(a)(6)
(c)	601(b)
(d)	601 (c)
(d)(1)	601(c)(1)
(d)(2)	601(c)(2)
(d)(3)	601 (c) (3)
(e)	514
§ 316 (a)	101
(a)(1)(A)	502
	512
(a)(1)(B)	513
(a)(2)	Not Applicable
(b)	508
§ 317 (a)(1)	503
(a)(2)	504
(b)	1003
§ 318 (a)	108

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NOTE: This reconciliation and tie shall not, for any purpose, be deemed to be a part of the Indenture.

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INDENTURE, dated as of September 1, 1988 between Boston Edison Company, a corporation duly organized and existing under the laws of the Commonwealth of Massachusetts (herein called the "Company»), having its principal office at 800 Boylston Street, Boston, Massachusetts 02199 and Bank of Montreal Trust Company, a corporation duly organized and existing under the laws of the State of New York, having its principal corporate trust office at 2 Wall Street, New York, New York 10005, as Trustee (herein called the "Trustee").

#### RECITALS OF THE COMPANY

The Company has duly authorized the execution and delivery of this Indenture to provide for the issuance from time to time of its unsecured debentures, notes or other evidences of indebtedness (herein called the "Securities"), to be issued in one or more series as in this Indenture provided.

All things necessary to make this Indenture a valid agreement of the Company, in accordance with its terms, have been done.

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

For and in consideration of the premises and the purchase of the Securities by the Holders thereof, it is mutually covenanted and agreed, for the equal and proportionate benefit of all Holders of the Securities or of series thereof, as follows:

#### ARTICLE ONE

##### Definitions and Other Provisions of General Application

##### SECTION 101. Definitions.

For all purposes of this Indenture, except as otherwise expressly provided or unless the context otherwise requires:

- (1) the terms defined in this Article have the meanings assigned to them in this Article and include the plural as well as the singular;
  - (2) all other terms used herein which are defined in the Trust Indenture Act, either directly or by reference therein, have the meanings assigned to them therein;
  - (3) all accounting terms not otherwise defined herein have the meanings assigned to them in accordance with generally accepted accounting principles In the United States of America, and, except as otherwise herein expressly provided, the term "generally accepted accounting principles with respect to any computation required or permitted hereunder shall mean such accounting principles as are generally accepted In the United States of America at the date of such computation; and
  - (4) the words "herein," "hereof" and "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision.
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Certain terms, used principally in Article Six, are defined in that Article Six, are defined in that Article.

"Act," when used with respect to any Holder of a Security has the meaning specified in Section 104.

"Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control" when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Authenticating Agent" means any Person or Persons authorized by the Trustee to act on behalf of the Trustee to authenticate one or more series of Securities.

"Authorized Newspaper" means a newspaper, in an official language of the country of publication or in the English language, customarily published on each Business Day. Whether or not published on Saturdays, Sundays or holidays, and of general circulation in the place in connection with which the term is used or in the financial community of such place. Where successive publications are required to be made in Authorized Newspapers, the successive publications may be made in the same or in different newspapers in the same city meeting the foregoing requirements and in each case on any Business Day.

"Bearer Security" means any Security in the form for Bearer Securities established pursuant to Section 201 which is payable to bearer.

"Board of Directors" means either the board of directors of the Company or any duly authorized committee of the officers and/or directors of the Company appointed by that board.

"Board Resolution" means a copy of a resolution certified by the Clerk or an Assistant Clerk of the Company to have been duly adopted by the Board of Directors and to be in full force and effect on the date of such certification, and delivered to the Trustee.

"Business Day," when used with respect to a particular location specified in the Securities or this Indenture, means each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which banking institutions in such location are authorized or obligated by law or executive order to close.

"Commission" means the Securities and Exchange Commission, as from time to time constituted, created under the Securities Exchange Act of 1934, or if at any time after the execution of this instrument such Commission is not existing and performing the duties now assigned to it under the Trust Indenture Act, then the body performing such duties at such time.

"Company" means the Person named as the "Company" in the first paragraph of this instrument until a successor corporation shall have become such pursuant to the applicable provisions of this Indenture, and thereafter "Company" shall mean such successor corporation.

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"Company Request" or "Company Order" means a written request or order signed in the name of the Company by its Chairman, its President or a Vice President, and by its Treasurer, an Assistant Treasurer, its Controller, an Assistant Controller, its Clerk or an Assistant Clerk, and delivered to the Trustee.

"Corporate Trust Officer" means the office of the Trustee in the Borough of Manhattan, The City of New York, at which at any particular time its corporate trust business shall be principally administered, which office at the date of the execution of this Indenture is located at 2 Hall Street, New York, New York 10005.

"Corporation" includes any corporation, association, company or business trust.

"Coupon" means any interest coupon appertaining to a Bearer Security.

"Defaulted Interest" has the meaning specified in Section 307.

"Dollar" or "\$" means a dollar or other equivalent unit in such coin or currency of the United States of America as at the time shall be legal tender for the payment of public and private debts.

"Event of Default" has the meaning specified in Section 501.

"Holder," when used with respect to any Security, means in the case of a Registered Security the Person in whose name the Security is registered in the Security Register and in the case of a Bearer Security the bearer thereof and, when used with respect to any coupon, means the bearer thereof.

"Indenture" means this Instrument as originally executed or as it may from time to time be supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof and shall include the terms of particular series of Securities established as contemplated by Section 301.

"Interest," when used with respect to an Original Issue Discount Security which by its terms bears Interest only after Maturity, means interest payable after Maturity.

"Interest Payment Date," when used with respect to any Security, means the Stated Maturity of an installment of interest on such Security.

"Maturity," when used with respect to any Security, means the date on which the principal of such Security or an installment of principal becomes due and payable as therein or herein provided, whether at the Stated Maturity or by declaration of acceleration, call for redemption or otherwise.

"Officers' Certificate" means a certificate signed by the Chairman, the President or a Vice President, and by the Treasurer, an Assistant Treasurer, the Controller, an Assistant Controller, the Clerk, or an Assistant Clerk, of the Company, and delivered to the Trustee.

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"Opinion of Counsel" means a written opinion of counsel, who may be counsel for the Company (including an employee or officer of the Company), and who shall be acceptable to the Trustee.

"Original Issue Discount Security" means any Security which provides for an amount less than the principal amount thereof to be due and payable upon a declaration of acceleration of the Maturity thereof pursuant to Section 502.

"Outstanding," when used with respect to Securities, means, as of the date of determination, all Securities theretofore authenticated and delivered under this Indenture, except:

(i) Securities theretofore cancelled by the Trustee or delivered to the Trustee for cancellation;

(ii) Securities for whose payment or redemption money in the necessary amount has been theretofore deposited with the Trustee or any Paying Agent (other than the Company) in trust or set aside and segregated in trust by the Company (if the Company shall act as its own Paying Agent) for the Holders of such Securities and any coupons thereto appertaining; provided that, if such Securities are to be redeemed, notice of such redemption has been duly given pursuant to this Indenture or provision therefor satisfactory to the Trustee has been made; and

(iii) Securities which have been paid pursuant to Section 306 or in exchange for or in lieu of which other Securities have been authenticated and delivered pursuant to this Indenture, other than any such Securities in respect of which there shall have been presented to the Trustee proof satisfactory to it that such Securities are held by a bona fide purchaser in whose hands such Securities are valid obligations of the Company;

provided, however, that in determining whether the Holders of the requisite principal amount of the Outstanding Securities have been given any request, demand, authorization, direction, notice, consent or waiver hereunder or are present at a meeting of Holders of Securities for quorum purposes, Securities owned by the Company or any other obligor upon the Securities or any Affiliate of the Company or of such other obligor shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver or upon any such determination as to the presence of a quorum, only Securities which the Trustee knows to be so owned shall be so disregarded. Securities so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to such Securities and that the pledgee is not the Company or any other obligor upon the Securities or any Affiliate of the Company or of such other obligor.

"Paying Agent" means any Person authorized by the Company to pay the principal of (and premium, if any) or interest on any Securities on behalf of the Company.

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"Person" means any individual, corporation, partnership, joint venture, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Place of Payment," when used with respect to the Securities of any series, means the place or places where the principal of (and premium, if any) and interest on the Securities of that series are payable as specified as contemplated by Section 301.

"Predecessor Security" of any particular Security means every previous Security evidencing all or a portion of the same debt as that evidenced by such particular Security; and, for the purposes of this definition, any Security authenticated and delivered under Section 306 in exchange for or in lieu of a mutilated, destroyed, lost or stolen Security shall be deemed to evidence the same debt as the mutilated, destroyed, lost or stolen Security.

"Redemption Date," when used with respect to any Security to be redeemed, means the date fixed for such redemption by or pursuant to this Indenture.

"Redemption Price," when used with respect to any Security to be redeemed, means the price at which it is to be redeemed pursuant to this Indenture.

"Registered Security" means any Security in the form for Registered Securities set forth in Section 202 or established pursuant to Section 201 which is registered in the Security Register.

"Regular Record Date" for the Interest payable on any Interest Payment Date on the Registered Securities of any series means the date specified for that purpose as contemplated by Section 301.

"Responsible Officer," when used with respect to the Trustee, means the chairman or any vice-chairman of the board of directors, the chairman or any vice-chairman of the executive committee of the board of directors, the chairman of the trust committee, the president, any vice president, the secretary, any assistant secretary, the treasurer, any assistant treasurer, the cashier, any assistant cashier, any trust officer or assistant trust officer, the controller or any assistant controller or any other officer of the Trustee customarily performing functions similar to those performed by any of the above designated officers and also means, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of his knowledge of and familiarity with the particular subject.

"Securities" has the meaning stated in the first recital of this Indenture and more particularly means any Securities authenticated and delivered under this Indenture.

"Security Register" and "Security Registrar" have the respective meanings specified in Section 305.

"Special Record Date" for the payment of any Defaulted Interest on the Registered Securities of any series means a date fixed by the Trustee pursuant to Section 307.

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"Stated Maturity," when used with respect to any Security or any installment of principal thereof or interest thereon, means the date specified in such Security or a coupon representing such installment of interest as the fixed date on which the principal of such Security or such installment of principal or interest is due and payable.

"Subsidiary" means a corporation more than 50% of the outstanding voting stock of which is owned, directly or indirectly, by the Company or by one or more other Subsidiaries, or by the Company and one or more other Subsidiaries. For the purposes of this definition, "voting stock" means stock which ordinarily has voting power for the election of directors, whether at all times or only so long as no senior class of stock has such voting power by reason of any contingency, but shall exclude stock having such power only by reason of the happening of a contingency.

"Trust Indenture Act" means the Trust Indenture Act of 1939 as in force at the date as of this instrument was executed and as from time to time amended, except as provided in Section 905.

"Trustee" means the Person named as the "Trustee" in the first paragraph of this instrument until a successor Trustee shall have become such with respect to one or more series of Securities pursuant to the applicable provisions of this Indenture, and thereafter "Trustee" shall mean or include each Person who is then a Trustee hereunder, and if at any time there is more than one such Person, "Trustee" as used with respect to the Securities of any series shall mean the Trustee with respect to Securities of that series.

"United States" means the United States of America (including the States and the District of Columbia), its territories and possessions and other areas subject to its jurisdiction.

"United States Alien" means any Person who, for United States Federal income tax purposes, is a foreign corporation, a non-resident alien individual, a non-resident alien fiduciary of a foreign estate or trust, or a foreign partnership one or more of the members of which is, for United States Federal Income tax purposes, a foreign corporation, a non-resident alien individual or a non-resident alien fiduciary of a foreign estate or trust.

"Vice President," when used with respect to the Company or the Trustee, means any vice president, whether or not designated by a number or a word or words added before or after the title "vice president."

#### SECTION 102. Compliance Certificates and Opinions.

Upon any application or request by the Company to the Trustee to take any action under any provision of this Indenture, the Company shall furnish to the Trustee an Officers' Certificate stating that all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with and an Opinion of Counsel stating that in the opinion of such counsel all such conditions precedent, if any, have been complied with, except that in the case of any such application or request as to which the furnishing of such documents is specifically required by any provision of this Indenture relating to such particular application or request, no additional certificate or opinion need be furnished.

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Every certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture shall include

- (1) a statement that each individual signing such certificate or opinion has read such covenant or condition and the definitions herein relating thereto;
- (2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;
- (3) a statement that, in the opinion of each such individual, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with; and
- (4) a statement as to whether, in the opinion of each such individual, such condition or covenant has been complied with.

SECTION 103. Form of Documents Delivered to Trustee.

In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

Any certificate or opinion of an officer of the Company may be based, insofar as it relates to legal matters, upon a certificate or opinion of, or representations by, counsel, unless such officer knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to the matters upon which his certificate or opinion is based are erroneous. Any such certificate or Opinion of Counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by an officer or officers of the Company stating that the information with respect to such factual matters is in the possession of the Company; unless such counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to such matters are erroneous.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Indenture, they may, but need not, be consolidated and form one instrument.

SECTION 104. Acts of Holders.

(a) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Holders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Holders in person or by an agent duly appointed in writing. If Securities of a series are issuable as Bearer Securities, any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by

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Holders may, alternatively, be embodied in and evidenced by the record of Holders of Securities voting in favor thereof, either in person or by proxies duly appointed in writing, at any meeting of Holders of Securities duly called and held in accordance with the provisions of Article Thirteen, or a combination of such instruments and any such record. Except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments or record or both are delivered to the Trustee and, where it is hereby expressly required, to the Company. Such instrument or instruments and any such record (and the action embodied therein and evidenced thereby) are herein sometimes-referred to as the "Act" of the Holders signing such instrument or instruments and so voting at any such meeting. Proof of execution of any such instrument or of a writing appointing any such agent, or of the holding by any Person of a Security, shall be sufficient for any purpose of this Indenture and (subject to Section 601) conclusive in favor of the Trustee and the Company, if made in the manner provided in this Section. The record of any meeting of Holders of Securities shall be proved in the manner provided in Section 1306.

(b) The fact and date of the execution by any Person of any such instrument or writing may be proved in any reasonable manner which the Trustee deems sufficient.

(c) The principal amount and serial numbers of Registered Securities held by any Person, and the date of holding the same, shall be proved by the Security Register.

(d) The principal amount and serial numbers of Bearer Securities held by any Person, and the date of holding the same, may be proved by the production of such Bearer Securities or by a certificate executed, as depositary, by any trust company, bank, banker or other depositary, wherever situated, if such certificate shall be deemed by the Trustee to be satisfactory, showing that at the date therein mentioned such Person had on deposit with such depositary, or exhibited to it, the Bearer Securities therein described; or such facts may be proved by the certificate or affidavit of the Person holding such Bearer Securities, if such certificate or affidavit is deemed by the Trustee to be satisfactory. The Trustee and the Company may assume that such ownership of any Bearer Security continues until (1) another certificate or affidavit bearing a later date issued in respect of the same Bearer Security is produced, or (2) such Bearer Security is produced to the Trustee by some other Person, or (3) such Bearer Security is surrendered in exchange for a Registered Security, or (4) such Bearer Security is no longer Outstanding.

(e) The fact and date of execution of any such instrument or writing, the authority of the Person executing the same and the principal amount and serial number of Bearer Securities held by the Person so executing such instrument or writing and the date of holding the same may also be proved in any reasonable manner which the Trustee deems sufficient; and the Trustee may in any instance require further proof with respect to any of the matters referred to in this Section.

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(f) Any request, demand, authorization, direction notice, consent, election, waiver or other Act of the Holder of any Security shall bind every future Holder of the same Security and the Holder of every Security issued upon the registration of transfer thereof or in exchange therefor or in lieu thereof in respect of anything done, omitted or suffered to be done by the Trustee or the Company in reliance thereon, whether or not notation of such action is made upon such Security.

**SECTION 105. Notices, etc., to Trustee and Company.**

Any request, demand, authorization, direction, notice, consent, election, waiver or Act of Holders or other document provided or permitted by this Indenture to be made upon, given or furnished to, or filed with,

(1) the Trustee by any Holder of a Security or by the Company shall be sufficient for every purpose hereunder if made, given, furnished or filed in writing to or with the Trustee at its Corporate Trust Office, Attention: Corporate Trust Department, or

(2) the Company by the trustee or by any Holder shall be sufficient for every purpose hereunder (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, to the Company addressed to the attention of its Clerk, at the address specified in the first paragraph of this Indenture, or at any other address previously furnished in writing to the Trustee by the Company.

**SECTION 106. Notice to Holders of Securities; Waiver.**

Except as otherwise expressly provided herein, where this Indenture provides for notice to Holders of Securities of any event.

(1) such notice shall be sufficiently given to Holders of Registered Securities if in writing and mailed, first-class postage prepaid, to each Holder of a Registered Security affected by such event, at his address as it appears in the Security Register, not later than the latest date, and not earlier than the earliest date, prescribed for the giving of such Notice; and

(2) such notice shall be sufficiently given to Holders of Bearer Securities If published in an Authorized Newspaper in The City of New York and, if the Securities of such series are then listed on The Stock Exchange of the United Kingdom and the Republic of Ireland and such stock exchange shall so require, in London and, if the Securities of such series are then listed on the Luxembourg Stock Exchange and such stock exchange shall so require, in Luxembourg and, if the Securities of such series are then listed on any other stock exchange outside the United States and such stock exchange shall so require, in any other required city outside the United States or, if not practicable, in Europe on a Business Day at least twice, the first such publication to be not earlier than the earliest date and the second publication be not later than the latest date prescribed for the giving of such notice.

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In case by reason of the suspension of regular mail service or by reason of any other cause it shall be impracticable to give such notice by mail, then such notification as shall be made with the approval of the Trustee shall constitute a sufficient notification for every purpose hereunder. In any case where notice to Holders of Registered Securities is given by mail, neither the failure to mail such notice, nor any defect in any notice so mailed, to any particular Holder of a Registered Security shall affect the sufficiency of such notice with respect to other Holders of Registered Securities or the sufficiency of any notice by publication to Holders of Bearer Securities given as provided above.

In case by reason of the suspension of publication of any Authorized Newspaper or Authorized Newspapers or by reason of any other cause it shall be impracticable to publish any notice to Holders of Bearer Securities as provided above, then such notification to Holders of Bearer Securities as shall be given with the approval of the Trustee shall constitute sufficient notice to such Holders for every purpose hereunder. Neither failure to give notice by publication to Holders of Bearer Securities as provided above, nor any defect in any notice so published, shall affect the sufficiency of any notice mailed to Holders of Registered Securities as provided above.

Where this Indenture provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders of Securities shall be filed with the Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

**SECTION 107. Language of Notices, etc.**

Any request, demand, authorization, direction, notice, consent, election or waiver required or permitted under this Indenture shall be in the English language, except that any published notice may be in an official language of the country of publication.

**SECTION 108. Conflict with Trust Indenture Act.**

If any provision hereof limits, qualifies or conflicts with another provision hereof which is required to be included in this Indenture by any of the provisions of the Trust Indenture Act, such required provision shall control.

**SECTION 109. Effect of Headings and Table of Contents.**

The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

**SECTION 110. Successors and Assigns.**

All covenants and agreements in this Indenture by the Company shall bind its successors and assigns, whether so expressed or not.

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SECTION 111. Separability Clause.

In case any provision in this Indenture or the Securities or coupons shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

SECTION 112. Benefits of Indenture.

Nothing in this Indenture or the Securities or coupons, express or implied, shall give to any Person, other than the parties hereto, their successors hereunder and the Holders of Securities and coupons, any benefit or any legal or equitable right, remedy or claim under this Indenture.

SECTION 113. Governing Law.

This Indenture and the Securities and coupons shall be governed by and construed in accordance with the laws of The Commonwealth of Massachusetts.

SECTION 114. Legal Holidays.

In any case where any Interest Payment Date, Redemption Date or Stated Maturity of any Security shall not be a Business Day at any Place of Payment or the Commonwealth of Massachusetts, then (except as otherwise provided in the Securities of any series which specifically state that such provision shall apply in lieu of this section) payment of interest or principal (and premium, if any) need not be made at such Place of Payment on such date but may be made on the next succeeding Business Day at such Place of Payment with the same force and effect as if made on the Interest Payment Date or Redemption Date, or at the Stated Maturity, provided that no interest shall accrue on the amount so payable for the period from and after such Interest Payment Date, Redemption Date or Stated Maturity, as the case may be.

SECTION 115. Appointment of Agent for Service.

By the execution and delivery of this Indenture, the Company hereby appoints the Trustee as its agent upon which process may be served in any legal action or proceeding which may be instituted in any federal or State court in the Borough of Manhattan, The City of New York, arising out of or relating to the Securities, the coupons or this Indenture. Service of process upon such agent at the office of such agent at 2 Wall Street, New York, New York 10005, Attention: Corporate Trust Department (or such other address in the Borough of Manhattan, The City of New York, as may be the Corporate Trust Office of the Trustee), and written notice of said service to the Company by the person serving the same addressed as provided in Section 105, shall be deemed in every respect effective service of process upon the Company in any such legal action or proceeding, and the Company hereby submits to the jurisdiction of any such court in which any such legal action or proceeding is so instituted. Such appointment shall be irrevocable so long as the Holders of Securities or coupons shall have any rights pursuant to the terms thereof or of this Indenture until the appointment of a successor by the Company with the consent of the Trustee and such successor's acceptance of such appointment. The Company further agrees to take any and all action, including the execution and filing of any and all such documents and instruments, as may be necessary to continue such designation and appointment of such agent or successor.

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By the execution and delivery of this Indenture, the Trustee hereby agrees to act as such agent and undertakes promptly to notify the Company of receipt by it of service of process in accordance with this Section.

ARTICLE TWO

Security Forms

SECTION 201. Forms Generally.

The Registered Securities, if any, of each series and the Bearer Securities, if any, of each series and related coupons shall be, in such form as shall be established by or pursuant to a Board Resolution or in one or more indentures supplemental hereto, in each case with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Indenture, and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may be required to comply with the rules of any securities exchange or as may, consistently herewith, be determined by the officers executing such Securities or coupons, as evidenced by their execution of the Securities or coupons. If the forms of Securities or coupons of any series are established by action taken pursuant to a Board Resolution, a copy of an appropriate record of such action shall be certified by the Clerk or an Assistant Clerk of the Company and delivered to the Trustee at or prior to the delivery of the Company Order contemplated by Section 303 for the authentication and delivery of such Securities or coupons.

The Trustee's certificates of authentication shall be in substantially the form set forth in this Article.

Unless otherwise provided as contemplated by Section 301 with respect to any series of Securities, the Securities of each series shall be issuable in registered form without coupons. If so provided as contemplated by Section 301. the Securities of a series also shall be issuable in bearer form, with or without interest coupons attached.

The definitive Securities and coupons, if any, shall be printed, lithographed or engraved on steel engraved borders or may be produced in any other manner, all as determined by the officers executing such Securities, as evidenced by their execution of such Securities or coupons.

SECTION 202. Form of Trustee's Certificate of Authentication.

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

Bank of Montreal Trust Company  
as Trustee

By: \_\_\_\_\_  
Authorized Officer

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## ARTICLE THREE

### The Securities

#### SECTION 301. Amount Unlimited; Issuable in Series.

The aggregate principal amount of Securities which may be authenticated and delivered under this Indenture is unlimited. The Securities may be issued in one or more series. There shall be established in or pursuant to a Board Resolution, and set forth in an Officers' Certificate, or established in one or more indentures supplemental hereto, prior to the issuance of Securities of any series,

- (1) the title of the Securities of the series (which shall distinguish the Securities of the series from Securities of all other series);
  - (2) any limit upon the aggregate principal amount of the Securities of the series which may be authenticated and delivered under this Indenture (except for Securities authenticated and delivered upon registration of transfer of, or in exchange for, or in lieu of other Securities of the series pursuant to Section 304, 305, 306, 906 or 1107);
  - (3) the date or dates on which the principal of the Securities of the series is payable;
  - (4) the Person to whom any interest on any Security of the series shall be payable, if other than the Person in whose name that Security (or one or more predecessor Securities) is registered at the close of business on the record date for such interest;
  - (5) the rate or rates at which the Securities of the series shall bear interest, if any, or any method by which such rate or rates shall be determined, the date or dates from which such interest shall accrue (or method for establishing such date or dates), the Interest Payment Dates on which such interest shall be payable and the Regular Record Date for the interest payable on Registered Securities on any Interest Payment Date;
  - (6) the place or places where the principal of (and premium, if any) and interest, if any, on Securities of the series shall be payable any Securities of the series may be surrendered for registration or transfer, Securities of the series may be surrendered for exchange;
  - (7) the period or periods within which, the price or prices at which and the terms and conditions upon which Securities of the series may be redeemed, in whole or in part, at the option of the Company;
  - (8) the obligation, if any, of the Company to redeem or purchase Securities of the series pursuant to any sinking fund or analogous provisions or at the option of a Holder thereof and the period or periods within which, the price or prices at which and the terms and conditions upon which Securities of the series shall be redeemed or purchased, in whole or in part, pursuant to such obligation;
  - (9) whether Bearer Securities of the series are to be issuable;
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(10) If Bearer Securities of the series are to be issuable, whether interest in respect of any portion of a temporary Bearer Security in global form (representing all of the Outstanding Bearer Securities of the series) payable in respect of an Interest Payment Date prior to the exchange of such temporary Bearer Security for definitive Securities of the series shall be paid to any clearing organization with respect to the portion of such temporary Bearer Security held for its account and, in such event, the terms and conditions (including any certification requirements) upon which any such interest payment received by a clearing organization will be credited to the Persons entitled to interest payable on such Interest Payment Date;

(11) the date as of which any Bearer Security of the series and any temporary Bearer Security in global form shall be dated if other than the date of original issuance of the first security of the series to be issued;

(12) the denominations in which Registered Securities of the series, if any, shall be issuable if other than denominations of \$1,000 and any integral multiple thereof, and the denominations in which Bearer Securities of the series, if any, shall be issuable if other than the denomination of \$5,000;

(13) the currency or currencies, including composite currencies, in which payment of the principal of (and premium, if any) and interest on the Securities of the series shall be payable (if other than the currency of the United States of America);

(14) the amount of payments of principal of (and premium, if any) or interest on the Securities of the series may be determined with reference to an index, the manner in which such amounts shall be determined;

(15) if other than the full principal amount thereof, the portion of the principal amount of Securities of the series which shall be payable upon declaration of acceleration of the Maturity thereof pursuant to Section 502;

(16) any additional Events of Default or covenants of the Company pertaining to the Securities of the series;

(17) whether and under what circumstances the Company will pay additional amounts on the Securities of the series held by a Person who is a United States Alien in respect of taxes or similar charges withheld or deducted and, if so, whether the Company will have the option to redeem such Securities rather than pay such additional amounts; and

(18) any other terms of the series.

All Securities of any one series and the coupons appertaining to Bearer Securities of such series, if any, shall be substantially identical except, as to interest rates, method for determining interest rates, Interest Payment Dates, Regular Record Dates, Redemption Dates, Stated Maturity, denomination, date of authentication, currency, any index for determining amounts payable,

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and except as may otherwise be provided in or pursuant to such Board Resolution and set forth in such Officers' Certificate or in any such indenture supplemental hereto; provided however that all Securities of any such series shall for all purposes under this Indenture, including but not limited to voting and Events of Default, be treated as Securities of a single series.

If any of the terms of the series are established by action taken pursuant to a Board Resolution, a copy of an appropriate record of such action shall be certified by the Clerk or an Assistant Clerk of the Company and delivered to the Trustee at or prior to the delivery of the Officers' Certificate setting forth the terms of the series. With respect to Securities of a series constituting a medium term note program, such Board Resolution may provide general terms or parameters for Securities of such series and may provide that the specific terms of Securities of such series, and the Persons authorized to determine such terms or parameters, may be determined in accordance with or pursuant to the Company Order referred to in the second proviso of Section 303.

SECTION 302. Denominations.

Unless otherwise provided as contemplated by Section 301 with respect to any series of Securities, the Registered Securities of each series shall be issuable in denominations of \$1,000 and any integral multiple thereof and the Bearer Securities of each series, if any, shall be issuable in the denomination of \$5,000.

SECTION 303. Execution, Authentication, Delivery and Dating.

The Securities shall be executed on behalf of the Company by its Chairman, its President or one of its Vice Presidents, under its corporate seal reproduced thereon attested by its Clerk or one of its Assistant Clerks. The signature of any of these officers on the Securities may be manual or facsimile. Coupons shall bear the facsimile signature of the Treasurer or any Assistant Treasurer of the Company.

Securities and coupons bearing the manual or facsimile signatures of individuals who were at any time relevant to the authorization thereof the proper officers of the Company shall bind the Company, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the authentication and delivery of such Securities or did not hold such offices at the date of such Securities.

At any time and from time to time after the execution and delivery of this Indenture, the Company may deliver Securities of any series executed on behalf of the Company to the Trustee for authentication by the Trustee together with a Company Order for the authentication and delivery of such Securities, and the Trustee in accordance with the Company Order shall authenticate and deliver such Securities; provided, however, that, in connection with its original issuance, a Bearer Security may be delivered only outside the United States and only if the Trustee shall have received from the person entitled to receive such Bearer Security a certificate in the form required by Section 311; provided, further, that, with respect to Securities of a series constituting a medium term note program, the Trustee shall authenticate and deliver Securities of such series for original issue from

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time to time in the aggregate principal amount established for such series pursuant to such procedures acceptable to the Trustee and to such recipients as may be specified from time to time by a Company Order. The maturity dates, original issue dates, interest rates and any other terms of the Securities of such series shall be determined by or pursuant to such Company Order and procedures. If provided for in such procedures, such Company Order may authorize authentication and delivery pursuant to oral instructions from the Company or its duly authorized agent, which instructions shall be promptly confirmed in writing.

In authenticating such Securities, and accepting the additional responsibilities under this Indenture in relation to such Securities, the Trustee shall be entitled to receive, and (subject to Section 601) shall be fully protected in relying upon:

(a) the Board Resolution or indenture supplemental hereto establishing the form of the Securities of that Series pursuant to Section 201 and the terms of the Securities of that series pursuant to Section 301;

(b) an Officer's Certificate pursuant to Sections 201 and 301 and complying with Section 102;

(c) an Opinion of Counsel complying with Section 102 stating,

(i) that the forms of such Securities and coupons, if any, have been established by or pursuant to a Board Resolution or by an indenture supplemental hereto, as permitted in conformity with the provisions of this Indenture;

(ii) that the terms of such Securities have been established by or pursuant to a Board Resolution or by an indenture supplemental hereto, as permitted by Section 301 in conformity with the provisions of this Indenture;

(iii) that such Securities, together with the coupons appertaining thereto, when authenticated and delivered by the Trustee and issued by the Company in the manner and subject to any conditions specified in such Opinion of Counsel, will constitute valid and legally binding obligations of the Company, enforceable in accordance with their terms, subject, as to enforcement, to bankruptcy, insolvency, reorganization and other laws of general applicability relating to or affecting the enforcement of creditors' rights and to general equity principles.

With respect to Securities of a series constituting a medium term note program, the Trustee may conclusively rely on the documents and opinion delivered pursuant to Sections 201 and 301 and this Section 303, as applicable (unless revoked by superseding comparable documents or opinions) as to the authorization of the Board of Directors of any Securities delivered hereunder, the form thereof and the legality, validity, binding effect and enforceability thereof.

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With respect to Securities of a series constituting a medium term note program. If the form and general terms of the Securities of such series have been established by or pursuant to one or more Board Resolutions or by an indenture supplemental hereto, as permitted by Sections 201 and 301 in authenticating such Securities, and accepting the additional responsibilities under the Indenture in relation to such Securities, the Trustee shall be entitled to receive, and (subject to Section 601) shall be fully protected in relying upon, in addition to the foregoing documents and opinions of counsel, or in lieu of clause (ii) above an Opinion of Counsel stating, that the Securities have been duly authorized by the Company and, when duly executed by the Company and completed and authenticated by the Trustee in accordance with the Indenture and issued, delivered and paid for in accordance with any applicable distribution agreement, will have been duly issued under the Indenture and will constitute valid and binding obligations of the Company entitled to the benefits provided by the Indenture, except that the enforceability thereof maybe limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally from time to time in force and general principles of equity.

If such forms or terms have been so established by or pursuant to a Board Resolution or by an indenture supplemental hereto as permitted by Sections 201 and 301, the Trustee shall have the right to decline to authenticate and deliver any Securities of such series:

(i) if the Trustee, being advised by counsel, determines that such action may not lawfully be taken;

(ii) if the Trustee in good faith by its Board of Directors, executive committee or a trust committee of directors and/or Responsible Officers of the Trustee in good faith determines that such action would expose the Trustee to personal liability to Holders of any outstanding series of Securities; or

(iii) if the issue of such Securities pursuant to this Indenture will affect the Trustee's own rights, duties and immunities under the Securities and this Indenture or otherwise in a manner which is not reasonably acceptable to the Trustee.

Each Registered Security shall be dated the date of its authentication. Each Bearer Security shall be dated as of the date specified as contemplated by Section 301.

No Security or coupon shall be entitled to any benefit under this Indenture or be valid or obligatory for any purpose unless there appears on such Security a certificate of authentication substantially in the form provided for herein executed by the Trustee by manual signature, and such certificate upon any Security shall be conclusive evidence, and the only evidence, that such Security has been duly authenticated and delivered hereunder and is entitled to the benefits of this Indenture. Except as permitted by Section 306 or 307, the Trustee shall not authenticate and deliver any Bearer Security unless all appurtenant coupons for Interest then matured and paid or payment duly provided for, have been detached and cancelled.

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SECTION 304. Temporary Securities.

Pending the preparation of definitive Securities of any series, the Company may execute, and upon Company Order the Trustee shall authenticate and deliver, temporary Securities which are printed, lithographed, typewritten, mimeographed or otherwise produced in any authorized denomination, substantially of the tenor of the definitive Securities in lieu of which they are issued, in registered form or, if authorized, in bearer form with one or more coupons or without coupons, and with such appropriate insertions, omissions, substitutions and other variations as the officers executing such Securities may determine, as evidenced by their execution of such Securities. In the case of Bearer Securities of any series, such temporary Securities may be in global form, representing all of the Outstanding Bearer Securities of such series.

If temporary Securities of any series are issued, the Company will cause definitive Securities of that series to be prepared without unreasonable delay. After the preparation of definitive Securities of such series, the temporary Securities of such series shall be exchangeable for definitive Securities of such series upon surrender of the temporary Securities of such series at the office or agency of the Company in a Place of Payment for that series, without charge to the Holder. Upon surrender for cancellation of any one or more temporary Securities of any series (accompanied by any unmatured coupons appertaining thereto), the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor (at an office or agency of the Company in the case of Bearer Securities) a like principal amount of definitive Securities of the same series of authorized denominations and of like tenor; provided, however, that no definitive Bearer Security shall be delivered in exchange for a temporary Registered Security; and provided, further, that no definitive Bearer Security shall be delivered in exchange for a temporary Bearer Security unless the Trustee shall have received from the person entitled to receive the definitive Bearer Security a certificate in the form required by Section 311. Until so exchanged, the temporary Securities of any series shall in all respects be entitled to the same benefits under this Indenture as definitive Securities of such series.

SECTION 305. Registration, Registration of Transfer and Exchange.

The Company shall cause to be kept at one of its offices or agencies designated pursuant to Section 1002 a register (referred to as the "Security Register") in which, subject to such reasonable regulations as it may prescribe, the Company shall provide for the registration of Registered Securities and of transfers of Registered Securities. Said office or agency is hereby appointed the Security Registrar for the purpose of registering Registered Securities and transfers of Registered Securities as herein provided.

Upon surrender for registration of transfer of any Registered Security of any series at the office or agency in a Place of Payment maintained for such purpose for such series, the Company shall execute, and the Trustee shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Registered Securities of the same series, Stated Maturity and original issue date, of any authorized denominations and of like tenor and aggregate principal amount.

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At the option of the Holder, Registered Securities of any series may be exchanged for Registered Securities of the same series, Stated Maturity and original issue date, of any authorized denominations and of like tenor and aggregate principal amount, upon surrender of the Securities to be exchanged at any such office or agency.

At the option of the Holder, Bearer Securities of any series may be exchanged for Registered Securities of the same series, Stated Maturity and original issue date, of any authorized denominations and of like tenor and aggregate principal amount, upon surrender of the Bearer Securities to be exchanged at any such office or agency, with all unmatured coupons and all matured coupons in default thereto appertaining. If the Holder of a Bearer Security is unable to produce any such unmatured coupon or coupons or matured coupon or coupons in default, such exchange may be effected if the Bearer Securities are accompanied by payment in funds acceptable to the Company and the Trustee in an amount equal to the face amount of such missing coupon or coupons, or the surrender of such missing coupon or coupons may be waived by the Company and the Trustee if there be furnished to them such security or indemnify as they may require to save each of them and any Paying Agent harmless. If thereafter the Holder of such Security shall surrender to any Paying Agent any such missing coupon in respect of which such a payment shall have been made, such Holder shall be entitled to receive the amount of such payment; provided, however, that, except as otherwise provided in Section 1002, interest represented by coupons shall be payable only upon presentation and surrender of those coupons at an office or agency located outside the United States. Notwithstanding the foregoing, in case a Bearer Security of any series is surrendered at any such office or agency in exchange for a Registered Security of the same series after the close of business at such office or agency on (i) any Regular Record Date and before the opening of business at such office or agency on the relevant Interest Payment Date, or (ii) any Special Record Date and before the opening of business at such office or agency on the related date for payment of Defaulted Interest, such Bearer Security shall be surrendered without the coupon relating to such Interest Payment Date or proposed date of payment, as the case may be.

Whenever any Securities are so surrendered for exchange, the Company shall execute, and the Trustee shall authenticate and deliver the Securities which the Holder making the exchange is entitled to receive.

All Securities issued upon any registration of transfer or exchange of Securities shall be the valid obligations of the Company, evidencing the same debt, and entitled to the same benefits under this Indenture, as the Securities surrendered upon such registration of transfer or exchange.

Every Registered Security presented or surrendered for registration of transfer or for exchange shall (if so required by the Company or the Trustee) be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed by the Holder thereof or his attorney duly authorized in writing.

No service charge shall be made for any registration of transfer or exchange of Securities, but the Company, may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any registration of transfer or exchange of Securities, other than exchanges pursuant to Section 304, 906 or 1107 not involving any transfer.

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The Company shall not be required (i) to issue, to register the transfer of or to exchange Securities of any series during a period beginning at the opening of business 15 days before the day of the first publication or mailing of a notice of redemption of Securities of that series selected for redemption under Section 1103 and ending at the close of business on the day of such publication or mailing, or (ii) to issue, to register the transfer of or to exchange any Registered Security so selected for redemption in whole or in part, except the unredeemed portion of any Security being redeemed in part, or (iii) to exchange any Bearer Security so selected for redemption except that such a Bearer Security may be exchanged for a Registered Security of that series, provided that such Registered Security shall be immediately surrendered for redemption with written instruction for payment consistent with the provisions of this Indenture.

SECTION 306. Mutilated. Destroyed. Lost and Stolen Securities.

If any mutilated Security or a Security with a mutilated coupon appertaining to it is surrendered to the Trustee, the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor a new Security of the same series, Stated Maturity and original issue date, and of like tenor and principal amount and bearing a number not contemporaneously outstanding, with coupons corresponding to the coupons, if any, appertaining to the surrendered Security.

If there shall be delivered to the Company and the Trustee (i) evidence to their satisfaction of the destruction, loss or theft of any Security or coupon and (ii) such security or indemnity as may be required by them to save each of them and any agent of either of them harmless, then, in the absence of notice to the Company or the Trustee that such Security or coupon has been acquired by a bona fide purchaser, the Company shall execute and upon its request the Trustee shall authenticate and deliver, in lieu of any such destroyed, lost or stolen Security or in exchange for the Security to which a destroyed, lost or stolen coupon appertains (with all appurtenant coupons not destroyed, lost or stolen), a new Security of the same series, Stated Maturity and original issue date, and of like tenor and principal amount and bearing a number not contemporaneously outstanding, with coupons corresponding to the coupons, if any, appertaining to such destroyed, lost or stolen Security or to the Security to which such destroyed, lost or stolen coupon appertains.

In case any such mutilated, destroyed, lost or stolen Security or coupon has become or is about to become due and payable, the Company in its discretion may, instead of issuing a new Security, pay such Security or coupon; provided, however, that payment of principal of (and premium, if any) and any interest on Bearer Securities shall, except as otherwise provided in Section 100, be payable only at an office or agency located outside the United States; and provided, further, that, with respect to any such coupons, interest represented thereby (but not any additional amounts payable as provided in Section 1004), shall be payable only upon presentation and surrender of the coupons appertaining thereto.

Upon the issuance of any new Security under this Section, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee) connected therewith.

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Every new Security of any series, with its coupons, if any, issued pursuant to this Section in lieu of any destroyed, lost or stolen Security, or in exchange for a Security to which a destroyed, lost or stolen coupon appertains, shall constitute an original additional contractual obligation of the Company, whether or not the destroyed, lost or stolen Security and its coupons, if any, or the destroyed, lost or stolen coupon shall be at any time enforceable by anyone, and any such new Security and coupons, if any, shall be entitled to all the benefits of this Indenture equally and proportionately with any and all other Securities of that series and their coupons, if any, duly issued hereunder.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities or coupons.

**SECTION 307. Payment of Interest; Interest Rights Preserved.**

Unless otherwise provided as contemplated by Section 301 with respect to any series of Securities, interest on any Registered Security which is payable, and is punctually paid or duly provided for, on any Interest Payment Date shall be paid to the Person in whose name that Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest. Interest is paid on Bearer Securities to holders of coupons. In case a Bearer Security of any series is surrendered in exchange for a Registered Security of such series after the close of business (at an office or agency in a Place of Payment for such series) on any Regular Record Date and before the opening of business (at such office or agency) on the next succeeding Interest Payment Date, such Bearer Security shall be surrendered without the coupon relating to such Interest Payment Date and interest will not be payable on such interest Payment Date in respect of the Registered Security issued in exchange for such Bearer Security, but will be payable only to the Holder of such coupon when due in accordance with the provisions of this Indenture.

Any interest on any Registered Security of any series which is payable, but is not punctually paid or duly provided for, on any Interest Payment Date (herein called "Defaulted Interest") shall forthwith cease to be payable to the Holder on the relevant Regular Record Date by virtue of having been such Holder, and such Defaulted Interest may be paid by the Company, at its election in each case, as provided in Clause (1) or (2) below:

(1) The Company may elect to make payment of any Defaulted Interest to the Persons in whose names the Registered Securities of such series (or their respective Predecessor Securities) are registered at the close of business on a Special Record Date for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Company shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each Registered Security of such series and the date of the proposed payment, and at the same time the Company shall deposit with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Interest as in this Clause provided. Thereupon the

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Trustee shall fix a Special Record Date for the payment of such Defaulted Interest which shall be not be more than 15 days and not less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Company of such Special Record Date and, in the name and at the expense of the Company, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be mailed, first-class postage prepaid, to each Holder of Registered Securities of such series at the address of such Holder as it appears in the Security Register, not less than 10 days prior to such Special Record Date. The Trustee may, in its discretion, in the name and at the expense of the Company, cause a similar notice to be published at least once in an Authorized Newspaper in each Place of Payment, but such publication shall not be a condition precedent to the establishment of such Special Record Date. Notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor having been so mailed, such Defaulted Interest shall be paid to the Persons in whose names the Registered Securities of such series (or their respective Predecessor Securities) are registered at the close of business on such Special Record Date and shall no longer be payable pursuant to the following Clause (2). In case a Bearer Security of any series is surrendered at the office or agency in a Place of Payment for such series in exchange for a Registered Security of such series after the close of business at such office or agency on any Special Record Date and before the opening of business at such office or agency on the related proposed date of payment of Defaulted Interest, such Bearer Security shall be surrendered without the coupon relating to such proposed date of payment and Defaulted Interest will not be payable on such proposed date of payment in respect of the Registered Security issued in exchange for such Bearer Security, but will be payable only to the Holder of such coupon when due in accordance with the provisions of this Indenture.

(2) The Company may make payment of any Defaulted Interest on the Securities of any series in any other lawful manner not inconsistent with the requirements of any securities exchange on which such Securities may be listed, and upon such notice as may be required by such exchange, if, after notice given by the Company to the Trustee of the proposed payment pursuant to this Clause, such manner of payment shall be deemed practicable by the Trustee.

Subject to the foregoing provisions of this Section, each Security delivered under this Indenture upon registration of transfer of or in exchange for or in lieu of any other Security shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Security.

#### SECTION 308. Persons Deemed Owners.

Prior to due presentment of a Registered Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name such Registered Security is registered as the absolute owner of such Registered Security for the purpose of receiving payment of principal of (and premium, if any) and (subject to Section 307) interest on such Security and for all other purposes whatsoever, whether or

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not such Security be overdue, and neither the Company, the Trustee nor any agent of the Company or the Trustee shall be affected by notice to the contrary.

The Company, the Trustee and any agent of the Company or the Trustee may treat the bearer of any Bearer Security and the bearer of any coupon as the absolute owner of such Security or coupon for the purpose of receiving payment thereof or on account thereof and for all other purposes whatsoever, whether or not such Security or coupon be overdue, and neither the Company, the Trustee nor any agent of the Company or the Trustee shall be affected by notice to the contrary.

SECTION 309. Cancellation.

All Securities and coupons surrendered for payment, redemption, registration of transfer or exchange or for credit against any sinking fund payment shall, if surrendered to any Person other than the Trustee, be delivered to the Trustee and shall be promptly cancelled by the Trustee. The Company may at anytime deliver to the Trustee for cancellation any Securities previously authenticated and delivered hereunder which the Company may have acquired in any manner whatsoever, and all Securities so delivered shall be promptly cancelled by the Trustee. No Securities shall be authenticated in lieu of or in exchange for any Securities cancelled as provided in this Section, except as expressly permitted by this Indenture. All cancelled Securities and coupons held by the Trustee shall be destroyed and certification of their destruction delivered to the Company, unless by a Company Order the Company shall direct that cancelled Securities be returned to it.

SECTION 310. Computation of Interest.

Except as otherwise specified as contemplated by Section 301 for Securities of any series, interest on the Securities of each series shall be computed on the basis of a 360-day year consisting of twelve 30-day months.

SECTION 311. Form of Certification by a Person Entitled to Receive a Bearer Security.

Whenever any provision of this Indenture or the form of Security contemplates that certification be given by a Person entitled to receive a Bearer Security, such certification shall be provided substantially in the form of the following certificate, with only such changes as shall be approved by the Company.

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[Form of Certificate to Be Given By  
Person Entitled to Receive Bearer Security]

Certificate

This is to certify that the above-captioned Security is not being acquired by or on behalf of a United States person, or for offer to resell or for resale to a United States person, or if a beneficial interest in the Security is being acquired by a United States person, that such person is a financial institution or is acquiring through a financial institution and that the Security is held by a financial institution that has agreed in writing to comply with the requirements of [Section 165(j)(3)(A), (B) or (C) of the Internal Revenue Code of 1986], as amended, and the regulations thereunder. If this certificate is being provided by a clearing organization, it is based on statements provided to it by its member organizations. As used herein, "United States" means the United States of America (including the States and the District of Columbia), its territories and possessions and other areas subject to its jurisdiction, and "United States person" means any citizen or resident of the United States, any corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof and any estate or trust the income of which is subject to United States Federal income taxation regardless of its source. If the undersigned is a dealer, the undersigned agrees to obtain a similar certificate from each person entitled to delivery of any of the above-captioned Securities in bearer form purchased from it; provided, however, that, if the undersigned has actual knowledge that the information contained in such a certificate is false, the undersigned will not deliver a Security in temporary or definitive bearer form to the person who signed such certificate notwithstanding the delivery of such certificate to the undersigned.

We undertake to advise you by telex if the above statement as to beneficial ownership is not correct on the date of delivery of the above-captioned Securities in bearer form as to all such Securities.

We understand that this certificate is required in connection with certain tax legislation in the United States. If administrative or legal proceedings are commenced or threatened in connection with which this certificate is or would be relevant, we irrevocably authorize you to produce this certificate or a copy thereof to any interested party in such proceedings.

Dated: \_\_\_\_\_, 19\_\_

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ARTICLE FOUR  
Satisfaction and Discharge

SECTION 401. Satisfaction and Discharge of Indenture.

This Indenture shall upon Company Request cease to be of further effect (except as to any surviving rights of registration of transfer or exchange of Securities herein expressly provided for, and any right to receive additional amounts, as provided in Section 1004), and the Trustee, at the expense of the Company, shall execute proper instruments acknowledging satisfaction and discharge of this Indenture, when

(1) either

(A) all Securities theretofore authenticated and delivered and all coupons appertaining thereto (other than (i) coupons appertaining to Bearer Securities surrendered for exchange for Registered Securities and maturing after such exchange, whose surrender is not required or has been waived as provided in Section 305, (ii) Securities and coupons which have been destroyed, lost or stolen and which have been replaced or paid as provided in Section 306, (iii) coupons appertaining to Securities called for redemption and maturing after the relevant Redemption Date, whose surrender has been waived as provided in Section 1106. and (iv) Securities and coupons for whose payment money has theretofore been deposited in trust or segregated and held in trust by the Company and thereafter repaid to the Company or discharged from such trust, as provided in Section 1003) have been delivered to the Trustee for cancellation; or

(B) all such Securities not theretofore delivered to the Trustee for cancellation

(i) have become due and payable, or

(ii) will become due and payable at their Stated Maturity within one year, or

(iii) are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the name, and at the expense, of the Company,

and the Company, in the case of (i), (ii) or (iii) above, has deposited or caused to be deposited with the Trustee as trust funds in trust for the purpose an amount sufficient to pay and discharge the entire indebtedness on such Securities and coupons not theretofore delivered to the Trustee for cancellation, for principal (and premium, if any) and interest to the date of such deposit (in the case of Securities which have become due and payable) or to the Stated Maturity or Redemption Date, as the case may be;

(2) the Company has paid or caused to be paid all other sums payable hereunder by the Company; and

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(3) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent herein provided for relating to the satisfaction and discharge of this Indenture have been complied with.

In the event there are Securities of two or more series hereunder, the Trustee shall be required to execute an instrument acknowledging satisfaction and discharge of this Indenture only if requested to do so with respect to Securities of all series as to which it is Trustee and if the other conditions thereto are met. In the event there are two or more Trustees hereunder, then the effectiveness of any such instrument shall be conditioned upon receipt of such instruments from all Trustees hereunder.

Notwithstanding the satisfaction and discharge of this Indenture, the obligations of the Company to the Trustee under Section 607, the obligations of the Trustee to any Authenticating Agent under Section 614 and, if money shall have been deposited with the Trustee pursuant to subclause (B) of clause (1) of this Section, the obligations of the Trustee under Sections 305, 306, 402, 1002 and 1003 shall survive.

SECTION 402. Allocation of Trust Money.

Subject to the provision of the last paragraph of Section 1003, all money deposited with the Trustee pursuant to Section 401 shall be held in trust and applied by it, in accordance with the provisions of the Securities, the coupons and this Indenture, to the payment, either directly or through any Paying Agent (including the Company acting as its own Paying Agent) as the Trustee may determine, to the Persons entitled thereto, of the principal (and premium, if any) and interest for whose payment such money has been deposited with the Trustee, but such money need not be segregated from other funds, except to the extent required by law.

ARTICLE FIVE

Remedies

SECTION 501. Events of Default.

"Event of Default," wherever used herein with respect to Securities of any series, means any one of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(1) default in the payment of the principal of (or premium, if any, on) any Security of that series at its Maturity and any additional amounts due under Section 1004 as specified therein, and continuance of such default for a period of 3 Business Days; or

(2) default in the payment of any interest upon any Security of that series when it becomes due and payable and any additional amounts due under Section 1004 as specified therein, and continuance of such default for a period of 30 days; or

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(3) default in the deposit of any sinking fund payment, when and as due by the terms of a Security of that series and continuance of such default for a period of 3 Business Days; or

(4) default in the performance or breach of any covenant or warranty of the Company in this Indenture (other than a covenant or warranty a default in whose performance or whose breach is elsewhere in this Section specifically dealt with or which has expressly been included in this Indenture solely for the benefit of one or more series of Securities other than that series), and continuance of such default or breach for a period of 60 days after there has been given, by registered or certified mail, to the Company by the Trustee, or to the Company and the Trustee by the Holders of at least 25% in principal amount of the Outstanding Securities of that series, a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a Notice of Default hereunder; or

(5) a default under any bond, debenture, note or other evidence of indebtedness for money borrowed by the Company (including a default with respect to Securities of any series other than that series) or under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any indebtedness for money borrowed by the Company (including this Indenture), whether such indebtedness now exists or shall hereafter be created, which default shall constitute a failure to pay in excess of \$10,000,000 of the principal or interest of such indebtedness when due and payable after the expiration of any applicable grace period with respect thereto or shall have resulted in such indebtedness in an amount in excess of \$10,000,000 becoming or being declared due and payable prior to the date on which it would otherwise have become due and payable, without such indebtedness having been discharged, or such acceleration having been rescinded or annulled within a period of 90 days after there shall have been given by registered or certified mail to the Company by the Trustee or to the Company and the Trustee by the Holders of at least 25% in principal amount of the Outstanding Securities of that series a written notice specifying such default and requiring the Company to cause such indebtedness to be discharged or cause such acceleration to be rescinded or annulled and stating that such notice is a "Notice of Default" hereunder; provided, however, that, subject to the provisions of Sections 601 and 602, the Trustee shall not be deemed to have knowledge of such default unless either (A) a Responsible Officer of the Trustee assigned to the Corporate Trust Department (or any successor division or department of the Trustee) shall have actual knowledge of such default or (B) the Trustee shall have received written notice thereof from the Company, from any Holder, from the holder of any such indebtedness or from the trustee under any such mortgage, indenture or other instrument; or

(6) the entry by a court having jurisdiction in the premises of (A) a decree or order for relief in respect of the Company in an involuntary case or proceeding under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law or (B) a decree or order adjudging the Company a bankrupt or insolvent; or approving as properly filed a petition by one or more Persons other than the Company seeking reorganization, arrangement, adjustment or composition of or in respect of the Company under any applicable Federal or State laws, or appointing a custodian, receiver, liquidator,

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assignee, trustee, sequestrator or other similar official for the Company or for any substantial part of its property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order for relief or any such other decree or order unstayed and in effect for a period of 90 consecutive days; or

(7) the commencement by the Company of a case or proceeding under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law or of any other case or proceeding to be adjudicated a bankrupt or insolvent, or the consent by it to the entry of a decree or order for relief in respect of the Company in a case or proceeding under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law or to the commencement of any bankruptcy or insolvency case or proceeding against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under any applicable Federal or State law, or the consent by it to the filing of such petition or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator or similar official of the Company or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due, or the taking of corporate action by the Company in furtherance of any such action; or

(8) any other Event of Default provided with respect to Securities of that series.

**SECTION 502. Acceleration of Maturity: Rescission and Annulment.**

If an Event of Default with respect to Securities of any series at the time Outstanding occurs and is continuing, then in every such case the Trustee or the Holders of not less than 33% in principal amount of the Outstanding Securities of that series may declare the principal amount (or, if the Securities of that series are Original Issue Discount Securities, such portion of the principal amount as may be specified in the terms of that series) of all of the Securities of that series to be due and payable immediately, by a notice in writing to the Company (and to the Trustee if given by Holders), and upon any such declaration such principal amount (or specified amount) shall become immediately due and payable.

At any time after such a declaration of acceleration with respect to Securities of any series has been made and before a judgment or decree for payment of the money due has been obtained by the Trustee as hereinafter in this Article provided, the Holders of a majority in principal amount of the Outstanding Securities of that series, by written notice to the Company and the Trustee, may rescind and annul such declaration and its consequences if

(1) the Company has paid or deposited with the Trustee a sum sufficient to pay

(A) all overdue interest on all Securities of that series,

(B) the principal of (and premium, if any, on) any Securities of that series which have become due otherwise than by such declaration of acceleration and interest thereon at the rate or rates prescribed therefor in such Securities, and

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(C) to the extent that payment of such interest is lawful, interest upon overdue interest at the rate or rates prescribed therefor in such Securities, and

(D) all sums paid or advanced by the Trustee hereunder and the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due to the Trustee under Section 607;

and

(2) an events of Default with respect to Securities of that series, other than, the non-payment of the principal of Securities of that series which have become due solely by such declaration of acceleration, have been cured or waived as provided in Section 513.

No such rescission shall affect any subsequent default or impair any right consequent thereon.

**SECTION 503. Collection of Indebtedness and Suits for Enforcement by Trustee.**

The Company covenants that if

(1) default is made in the payment of any interest on any Security when such interest becomes due and payable and such default continues for a period of 30 days, or

(2) default is made in the payment of the principal of (or premium, if any, on) any Security at the Maturity thereof and such default continues for a period of 3 Business Days,

the Company will, upon demand of the Trustee, pay to it, for the benefit of the Holders of such Securities and coupons, the whole amount then due and payable on such Securities and coupons for principal (and premium, if any) and interest, with interest on any overdue principal (and premium, if any) and on any overdue interest, to the extent that payment of such interest shall be legally enforceable, at the rate or rates prescribed therefor in such Securities, and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due to the Trustee under Section 607.

If the Company fails to pay such amounts forthwith upon such demand, the Trustee, in its own name and as trustee of an express trust, may institute a judicial proceeding for the collection of the sums so due and unpaid, may prosecute such proceeding to judgment or final decree, and may enforce the same against the Company or any other obligor upon such Securities and collect the moneys adjudged or decreed to be payable in the manner provided by law out of the property of the Company or any other obligor upon such Securities, wherever situated.

If an Event of Default with respect to Securities of any series occurs, and is continuing, the Trustee may in its discretion proceed to protect and enforce its rights and the rights of the Holders of Securities of such series and any related coupons by such appropriate judicial proceedings as the

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Trustee shall deem most effectual to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in this Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy.

SECTION 504. Trustee May File Proofs of Claim.

In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to the Company or any other obligor upon the Securities or the property of the Company or of such other obligor or their creditors, the Trustee (irrespective of whether the principal of the Securities shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Trustee shall have made any demand on the Company for the payment of overdue principal or interest) shall be entitled and empowered, by intervention in such proceeding or otherwise,

(i) to file and prove a claim for the whole amount of principal (and premium, if any) and interest owing and unpaid in respect of the Securities and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due to the Trustee under Section 607) and of the Holders of Securities and coupons allowed in such judicial proceeding, and

(ii) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same;

and any custodian, Receiver, assignee, trustee, Liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Holder of Securities and coupons to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Holders of Securities and coupons, to pay to the Trustee any amount due it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under Section 607.

Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder of a Security or coupon any plan of reorganization, arrangement, adjustment or composition affecting the Securities or coupons or the rights of any Holder thereof or to authorize the Trustee to vote in respect of the claim of any Holder of a Security or coupon in any such proceeding.

SECTION 505. Trustee May Enforce Claims: Without Possession of Securities or Coupons.

All rights of action and claims under this Indenture or the Securities or coupons may be prosecuted and enforced by the Trustee without the possession of any of the Securities or coupons or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the

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reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Holders of the Securities and coupons in respect of which such judgment has been recovered.

SECTION 506. Application of Money Collected.

Any money collected by the Trustee pursuant to this Article shall be applied in the following order, at the date or dates fixed by the Trustee and, in case of the distribution of such money on account of principal (or premium, if any) or interest, upon presentation of the Securities or coupons, or both, as the case may be, and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

FIRST: To the payment of all amounts due the Trustee under Section 607; and

SECOND: To the payment of the amounts then due and unpaid for principal of (and premium, if any) and interest on the Securities and coupons in respect of which or for the benefit of which such money has been collected, ratably, without preference or priority of any kind, according to the amounts due and payable on such Securities and coupons for principal (and premium, if any) and interest, respectively; and

THIRD; To the Company.

SECTION 507. Limitation on Suits.

No Holder of any Security of any series or any related coupons shall have any right to institute any proceeding, judicial or otherwise with respect to this Indenture, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless:

- (1) such Holder has previously given written notice to the Trustee of a continuing Event of Default with respect to the Securities of that series;
  - (2) the Holders of not less than 33% in principal amount of the Outstanding Securities of that series shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee hereunder;
  - (3) such Holder or Holders have offered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request;
  - (4) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and
  - (5) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Holders of a majority in principal amount of the Outstanding Securities of that series;
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it being understood and intended that no one or more of such Holders shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Indenture to affect, disturb or prejudice the rights of any other of such Holders or to obtain or to seek to obtain priority or preference over any other of such Holders or to enforce any right under this Indenture, except in the manner herein provided and for the equal and ratable benefit of all of such Holders.

**SECTION 508. Unconditional Right of Holders to Receive Principal, Premium and Interest.**

Notwithstanding any other provision in this Indenture, the Holder of any Security or coupon shall have the right, which is absolute and unconditional, to receive payment of the principal of (and premium, if any) and (subject to Section 307) interest on such Security or payment of such coupon on the Stated Maturity or Maturities expressed in such Security or coupon (or, in the case of redemption, on the Redemption Date) and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such Holder.

**SECTION 509. Restoration of Rights and Remedies.**

If the Trustee or any Holder of a Security or coupon has instituted any proceeding to enforce any right or remedy under this Indenture and such proceeding has been discontinued or abandoned for any reasons, or has been determined adversely to the Trustee or to such Holder, then and in every such case, subject to any determination in such proceeding, the Company, the Trustee and the Holders of Securities and coupons shall be restored severally and respectively to their former positions hereunder and thereafter all rights and remedies of the Trustee and the Holders shall continue as though no such proceeding had been instituted.

**SECTION 510. Rights and Remedies Cumulative.**

Except as otherwise provided with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities or coupons in the last paragraph of Section 306, no right or remedy herein conferred upon or reserved to the Trustee or to the Holders of Securities or coupons is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

**SECTION 511. Delay or Omission Not Waiver.**

No delay or omission of the Trustee or of any Holder of any Security or coupon to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Article or by law to the Trustee or to the Holders of Securities or coupons may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or by the Holders of Securities or coupons as the case may be.

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SECTION 512. Control by Holders of Securities.

The Holders of a majority in principal amount of the Outstanding Securities of any series shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee, with respect to the Securities of such series, provided that

(1) such direction shall not be in conflict with any rule of law or with this Indenture, expose the Trustee to personal liability or be unduly prejudicial to Holders not joined therein, and

(2) the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction.

SECTION 513. Waiver of Past Defaults.

The Holders of not less than a majority in principal amount of the Outstanding Securities of any series may on behalf of the Holders of all the Securities of such series and any related coupons waive any past default hereunder with respect to such series and its consequences, except a default

(1) in the payment of the principal of (or premium, if any) or interest on any Security of such series, or

(2) in respect of a covenant or provision hereof which under Article Nine cannot be modified or amended without the consent of the Holder of each Outstanding Security of such series affected. Upon any such waiver, such default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of this Indenture; but no such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

SECTION 514. Undertaking for Costs.

All parties to this Indenture agree, and each Holder of any Security or coupon by his acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken, suffered or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this Section shall not apply to any suit instituted by the Trustee, to any suit instituted by any Holder, or group of Holders, holding in the aggregate more than 10% in principal amount of the Outstanding Securities of any series, or to any suit instituted by any Holder of any Security or coupon for the enforcement of the payment of the principal of (or premium, if any) or interest on any Security or the payment of any coupon on or after the Stated Maturity or Maturities expressed in such Security (or, in the case of redemption, on or after the Redemption Date).

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SECTION 515. Waiver of Stay or Extension Laws.

The Company covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law wherever enacted, now or at any time hereafter in force which may affect the covenants or the performance of this Indenture; and the Company (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law and covenants that it will not hinder, delay or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

ARTICLE SIX

The Trustee

SECTION 601. Certain Duties and Responsibilities.

(a) Except during the continuance of an Event of Default with respect to Securities of any series:

(1) the Trustee undertakes to perform, with respect to Securities of such series, such duties and only such duties as are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against the Trustee; and

(2) in the absence of bad faith on its part, the Trustee may, with respect to Securities of such series, conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture; but in the case of any such certificates or opinions which by any provision hereof are specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Indenture.

(b) In case an Event of Default with respect to Securities of any series has occurred and is continuing, the Trustee shall exercise, with respect to Securities of such series, such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

(c) No provision of this Indenture shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that

(1) This Subsection shall not be construed to limit the effect of Subsection (a) of this Section;

(2) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts;

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(3) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction, determined as provided herein, of the Holders of a majority in principal amount, or such other percentage of principal amount as shall be required or permitted to take action hereunder, of the Outstanding Securities of any series relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under this Indenture with respect to the Securities of such series; and

(4) no provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(d) Whether or not therein expressly so provided, every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Section.

**SECTION 602. Notice of Defaults.**

Within 90 days after the occurrence of any default hereunder with respect to the Securities of any series, the Trustee shall transmit by mail to all Holders of Securities of such series entitled to receive reports pursuant to Section 703(c), notice of all such defaults hereunder known to the Trustee, unless such default shall have been cured or waived; provided, however, that, except in the case of a default in the payment of the principal of (or premium, if any) or interest on any Security of such series or in the payment of any sinking fund installment with respect to Securities of such series, the Trustee shall be protected in withholding such notice. If and so long as the board of directors, the executive committee or a trust committee of directors or Responsible Officers of the Trustee in good faith determine that the withholding of such notice is in the interest of the Holders of Securities of such series. For the purpose of this Section, the term "default" means any event which is, or after notice or lapse of time or both would become, an Event of Default with respect to Securities of such series.

**SECTION 603. Certain Rights of Trustee.**

Subject to the provisions of Section 601:

(a) the Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, coupon, other evidence of indebtedness or other paper or document believed, by it to be genuine and to have been signed or presented by the proper party or parties;

(b) any request or direction of the Company mentioned herein shall be sufficiently evidenced by a Company Request or Company Order and any resolution of the Board of Directors may be sufficiently evidenced by a Board Resolution;

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(c) whenever in the administration of this Indenture the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, rely upon an Officers' Certificate;

(d) the Trustee may consult with counsel and the written advice of such counsel or any opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon;

(e) the Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of any of the Holders of Securities of any series pursuant to this Indenture, unless such Holders shall have offered to the Trustee, reasonable security or Indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction;

(f) the Trustee shall not be bound to make any investigation into the facts of matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, coupon, other evidence of indebtedness or other paper or document, but, the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to reasonably examine the books, records and premises of the Company, personally or by agent or attorney on any Business Day;

(g) the Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder; and

(h) except as otherwise provided in Section 501(5), the Trustee shall not be charged with knowledge of any Event of Default with respect to the Securities of any series for which it is acting as Trustee unless either (1) a Responsible Officer of the Trustee assigned to the Corporate Trust Department (or any successor division or department of the Trustee) shall have actual knowledge of the Event of Default or (2) written notice of such Event of Default shall have been given to the Trustee by the Company, any other obligor on such Securities or by any Holder of such Securities.

SECTION 604. Not Responsible for Recitals or Issuance of Securities.

The recitals contained herein and in the Securities (except the Trustee's certificates of authentication) and in any coupons shall be taken as the statements of the Company, and the Trustee or any Authenticating Agent assumes no responsibility for their correctness. The Trustee makes no representations as to the validity or sufficiency of this Indenture or of the Securities or coupons. The Trustee or any Authenticating Agent shall not be accountable for the use or application by the Company of Securities or the proceeds thereof.

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SECTION 605. May Hold Securities.

The Trustee, any Authenticating Agent, any Paying Agent, any Security Registrar or any other agent of the Company, in its individual or any other capacity may become the owner or pledgee of Securities and coupons and subject to Sections 608 and 613, may otherwise deal with the Company with the same rights it would have if it were not Trustee, Authenticating Agent, Paying Agent, Security Registrar or such other agent.

SECTION 606. Money Held in Trust.

Money held by the Trustee in trust hereunder need not be segregated from other funds except to the extent required by law. The Trustee shall be under no liability for interest on any money received by it hereunder except as otherwise agreed with the Company.

SECTION 607. Compensation and Reimbursement.

The Company agrees

(1) to pay to the Trustee from time to time reasonable compensation for all services rendered by it hereunder (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust);

(2) except as otherwise expressly provided herein, to reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee in accordance with any provision of this Indenture (including the reasonable compensation and the expenses and disbursements of its agents and counsel and any Authenticating Agent), except any such expense, disbursement or advance as may be attributable to its negligence, willful misconduct or bad faith; and

(3) to indemnify the Trustee for, and to hold it harmless against, any loss, liability or expense incurred without negligence, willful misconduct or bad faith on its part, arising out of or in connection with the acceptance or administration of the trust or trusts hereunder, including the costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder.

As security for the performance of the obligations of the Company under this Section the Trustee shall have a lien prior to the Securities upon all property and funds held or collected by the Trustee as such, except funds held in trust for the payment of principal of, premium, if any, or interest, if any, on particular Securities.

SECTION 608. Disqualification: Conflicting Interest.

(a) If the Trustee has or shall acquire any conflicting interest, as defined in this Section, with respect to the Securities of any series, it shall within 90 days after ascertaining that it has such conflicting interest, either eliminate such conflicting interest or resign with respect to the Securities of that series in the manner and with the effect hereinafter specified in this Article.

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(b) In the event that the Trustee shall fail to comply with the provisions of Subsection (a) of this Section with respect to the Securities of any series, the Trustee shall, within 10 days after the expiration of such 90-day period, transmit, in the manner and to the extent provided in Section 703(c), to all Holders of Securities of that series notice of such failure.

(c) For the purposes of this Section, the Trustee shall be deemed to have a conflicting interest with respect to the Securities of any series if

(1) the Trustee is trustee under this Indenture with respect to the Outstanding Securities of any series other than that series or is trustee under another indenture under which any other securities, or certificates of interest or participation in any other securities, of the Company are outstanding, unless such other indenture is a collateral trust indenture under which the only collateral consists of Securities issued under this Indenture, provided that there shall be excluded from the operation of this paragraph this Indenture with respect to the Securities of any series other than that series or any indenture or indentures under which other securities or certificates of interest or participation in other securities of the Company are outstanding, if

(i) this Indenture and such other Indenture or indentures are wholly unsecured and such other indenture or indentures are hereafter qualified under the Trust Indenture Act, unless the Commission shall have found and declared by order pursuant to Section 305(b) or Section 307(c) of the Trust Indenture Act that differences exist between the provisions of this Indenture with respect to Securities of that series and one or more other series or the provisions of such other Indenture or indentures which are so likely to involve a material conflict of interest as to make it necessary in the public interest or for the protection of investors to disqualify the Trustee from acting as such under this Indenture with respect to the Securities of that series and such other series or under such other indenture or indentures, or

(ii) the Company shall have sustained the burden of proving, on application to the Commission and after opportunity for hearing thereon, that trusteeship under this Indenture with respect to the Securities of that series and such other series or such other indenture or indentures is not so likely to involve a material conflict of interest as to make it necessary in the public interest or for the protection of investors to disqualify the Trustee from acting as such under this Indenture with respect to the Securities of that series and such other series or under such other indenture or indentures;

(2) the Trustee or any of its directors or executive officers is an obligor upon the Securities or an underwriter for the Company;

(3) the Trustee directly or indirectly controls or is directly or indirectly controlled by or is under direct or indirect common control with the Company or an underwriter for the Company;

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(4) the Trustee or any of its directors or executive officers is a director, officer, partner, employee, appointee or representative of the Company, or of an underwriter (other than the Trustee itself) for the Company or is currently engaged in the business of underwriting, except that (i) one individual may be a director or an executive officer, or both, of the Trustee and director or an executive officer, or both, of the Company but may not be at the same time an executive officer of both the Trustee and the Company; (ii) if and so long as the number of directors of the Trustee in office is more than nine, one additional individual may be a director or an executive officer, or both, of the Trustee and a director of the Company; and (iii) the Trustee may be designated by the Company or by any underwriter for the Company to act in the capacity of transfer agent, registrar, custodian, paying agent, fiscal agent, escrow agent or depositary, or in any similar capacity or, subject to the provisions of paragraph (1) of this Subsection, to act as trustee, whether under an indenture or otherwise;

(5) 10% or more of the voting securities of the Trustee is beneficially owned either by the Company or by any director, partner or executive officer thereof, or 20% or more of such voting securities is beneficially owned, collectively, by any two or more of such persons; or 10% or more of the voting securities of the Trustee is beneficially owned either by an underwriter for the Company or by any director, partner or executive officer thereof, or is beneficially owned, collectively, by any two or more such persons;

(6) the Trustee is the beneficial owner of, or holds as collateral security for an obligation which is in default (as hereinafter in this Subsection defined), (i) 5% or more of the voting securities, or 10% or more of any other class of security of the Company not including the Securities issued under this Indenture and securities issued under any other indenture under which the Trustee is also trustee, or (ii) 10% or more of any class of security of an underwriter for the Company;

(7) the Trustee is the beneficial owner of, or holds as collateral security for an obligation which is in default (as hereinafter in this Subsection defined), 5%, or more of the voting securities of any person who, to the knowledge of the Trustee, owns 10%, or more of the voting securities of, or controls directly or indirectly or is under direct or indirect common control with, the Company;

(8) the Trustee is the beneficial owner of, or holds as collateral security for an obligation which is in default (as hereinafter in this Subsection defined), 10% or more of any class of security of any person who, to the knowledge of the Trustee, owns 50% or more of the voting securities of the Company; or

(9) the Trustee owns, on May 15 in any calendar year, in the capacity of executor, administrator, testamentary or inter vivos trustee, guardian, committee or conservator, or in any other similar capacity, in aggregate of 25% or more of the voting securities, or of any class of security, of any person, the beneficial ownership of a specified percentage of which would have constituted a conflicting interest under paragraph (6), (7) or (8) of this Subsection. As to any

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such securities of which the Trustee acquired ownership through becoming executor, administrator or testamentary trustee of an estate which included them, the provisions of the preceding sentence shall not apply for a period of two years from the date of such acquisition, to the extent that such securities included in such estate do not exceed 25% of such voting securities or 25% of any such class of security. Promptly after May 15 in each calendar year, the Trustee shall make a check of its holdings of such securities in any of the above-mentioned capacities as of such May 15. If the Company fails to make payment in full of the principal of (or premium, if any) or interest on any of the Securities when and as the same becomes due and payable, and such failure continues for 30 days thereafter, the Trustee shall make a prompt check of its holdings of such securities in any of the above-mentioned capacities as of the date of the expiration of such 30-day period, and after such date, notwithstanding the foregoing provisions of this paragraph, all such securities so held by the Trustee, with sole or joint control over such securities vested in it, shall, but only so long as such failure shall continue, be considered as though beneficially owned by the Trustee for the purposes of paragraphs (6), (7) and (8) of this Subsection.

The specification of percentages in paragraphs (5) to (9), inclusive, of this Subsection shall not be construed as indicating that the ownership of such percentages of the securities of a person is or is not necessary or sufficient, to constitute direct or indirect control for the purposes of paragraph (3) or (7) of this Subsection.

For the purposes of paragraphs (6), (7), (8) and (9) of this Subsection only, (1) the terms "security" and "securities" shall include only such securities as are generally known as corporate securities, but shall not include any note or other evidence of indebtedness issued to evidence an obligation to repay moneys lent to a person by one or more banks, trust companies or banking firms, or any certificate of interest or participation in any such note or evidence of indebtedness; (ii) an obligation shall be deemed to be in default when a default in payment of principal shall have continued for 30 days or more and shall not have been cured; and (iii) the Trustee shall not be deemed to be the owner or holder of (A) any security which it holds as collateral security, as trustee or otherwise, for an obligation which is not in default as defined in clause (ii) above, or (B) any security which it holds as collateral security under this Indenture, irrespective of any default hereunder, or (C) any security which it holds as agent for collection, or as custodian, escrow agent or depositary, or in any similar representative capacity.

(d) For the purposes of this Section:

(1) The term "underwriter," when used with reference to the Company, means every person who, within three years prior to the time as of which the determination is made, has purchased from the Company with a view to, or has offered or sold for the Company in connection with, the distribution of any security of the Company outstanding at such time, or has participated or has had a direct or indirect participation in any such undertaking, or has participated or has had a participation in the direct or indirect underwriting of any such undertaking, but such term shall not include a person whose interest was limited to a commission from an underwriter or dealer not in excess of the usual and customary distributors' or sellers' commission.

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(2) The term "director" means any director of a corporation or any individual performing similar functions with respect to any organization, whether incorporated or unincorporated.

(3) The term "person" means an individual, a corporation, a partnership, an association, a joint-stock company, a trust, an unincorporated organization, or a government or political subdivision thereof. As used in this paragraph, the term "trust" shall include only a trust where the interest or interests of the beneficiary or, beneficiaries are evidenced by a security.

(4) The term "voting security" means any security presently entitling the owner or holder thereof to vote in the direction or engagement of the affairs of a person, or any security issued under or pursuant to any trust, agreement or arrangement whereby a trustee or trustees or agent or agents for the owner or holder of such security are presently entitled to vote in the direction or management of the affairs of a person.

(5) The term "Company" means any obligor upon the Securities.

(6) The term "executive officer" means the president, every vice president, every trust officer, the cashier, the secretary and the treasurer of a corporation, and any individual customarily performing similar functions with respect to any organization whether incorporated or unincorporated, but shall not include the chairman of the board of directors.

(e) The percentages of voting securities and other securities specified in this Section shall be calculated in accordance with the following provisions:

(1) A specified percentage of the voting securities of the Trustee, the Company or any other person referred to in this Section (each of whom is referred to as a "person" in this paragraph) means such amount of the outstanding voting securities of such person as entitles the holder or holders thereof to cast such specified percentage of the aggregate votes which the holders of all the outstanding voting securities of such person are entitled to cast in the direction or management of the affairs of such person.

(2) A specified percentage of a class of securities of a person means such percentage of the aggregate amount of securities of the class outstanding.

(3) The term "amount," when used in regard to securities means the principal amount if relating to evidences of indebtedness, the number of shares if relating to capital shares and the number of units if relating to any other kind of security.

(4) The term "outstanding" means issued and not held by or for the account of the issuer. The following securities shall not be deemed outstanding within the meaning of this definition:

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- (i) securities of an issuer held in a sinking fund relating to securities of the issuer of the same class;
- (ii) securities of an issuer held in a sinking fund relating to another class of securities of the issuer, if the obligation evidenced by such other class of securities is not in default as to principal or interest or otherwise;
- (iii) securities pledged by the issuer thereof as security for an obligation of the issuer not in default as to principal or interest or otherwise; and
- (iv) securities held in escrow, if placed in escrow by the issuer thereof;

provided, however, that any voting securities of an issuer shall be deemed outstanding if any person other than the issuer is entitled to exercise the voting rights thereof.

(5) A security shall be deemed to be of the same class as another security if both securities confer upon the holder or holders thereof substantially the same rights and privileges, provided, however, that, in the case of secured evidences of indebtedness, all of which are issued under a single indenture, differences in the interest rates or maturity dates of various series thereof shall not be deemed sufficient to constitute such series different classes and provided, further, that, in the case of unsecured evidences of indebtedness differences in the interest rates or maturity dates thereof shall not be deemed sufficient to constitute them securities of different classes, whether or not they are issued under a single indenture.

**SECTION 609. Corporate Trustee Required; Eligibility.**

There shall at all times be a Trustee hereunder which shall be a corporation organized and doing business under the laws of the United States of America, any State thereof or the District of Columbia, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least \$5,000,000 and subject to supervision or examination by Federal or State authority, including the District of Columbia, and qualified and eligible under this Article. If such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of said supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect hereinafter specified in this Article.

**SECTION 610. Resignation and Removal; Appointment of Successor.**

(a) No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to the Article shall become effective until the acceptance of appointment by the successor Trustee in accordance with the applicable requirements of Section 611.

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(b) The Trustee may resign at any time with respect to the Securities of one or more series by giving written notice thereof to the Company. If the instrument of acceptance by a successor Trustee required by Section 611 shall not have been delivered to the Trustee within 30 days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction or the appointment of a successor Trustee with respect to the Securities of such series.

(c) The Trustee may be removed at any time with respect to the Securities of any series by Act of the Holders of a majority in principal amount of the Outstanding Securities of such series delivered to the Trustee and to the Company.

(d) If at any time:

(1) the Trustee shall fail to comply with Section 608(a) after written request therefor by the Company or by any Holder of a Security who has been a bona fide Holder of a Security for at least six months, or

(2) the Trustee shall cease to be eligible under Section 609 and shall fail to resign after written request therefor by the Company or by any such Holder, or

(3) the Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent or a receiver of the Trustee or of its property shall be appointed or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, (i) the Company by a Board Resolution may remove the Trustee with respect to all Securities, or (ii) subject to Section 514, any Holder of a Security who has been a bona fide Holder of a Security for at least six months may, on behalf of himself and all other similarly situated, petition any court of competent jurisdiction for the removal of the Trustee with respect to all Securities and the appointment of a successor Trustee or Trustees.

(e) If the Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of Trustee for any cause, with respect to the Securities of one or more series, the Company, by a Board Resolution, shall promptly appoint a successor Trustee or Trustees with respect to the Securities of that or those series (it being understood that any such successor Trustee may be appointed with respect to the Securities of one or more or all of such series and that at any time there shall be only one Trustee with respect to the Securities of any particular series) and shall comply with the applicable requirements of Section 611. If, within one year after such resignation, removal or incapability, or the occurrence of such vacancy, a successor Trustee with respect to the Securities of any series shall be appointed by Act of the Holders of a majority in principal amount of the Outstanding Securities of such series delivered to the Company and the retiring Trustee, the successor Trustee so appointed shall, forthwith upon its acceptance of such appointment in accordance with the applicable requirements of Section 611, become the successor Trustee with respect to the Securities of such series and to that extent supersede the successor Trustee appointed by the Company. If no successor Trustee with respect to the Securities of any

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series shall have been so appointed by the Company or the Holders of Securities and accepted appointment in the manner required by Section 611, any Holder of a Security who has been a bona fide Holder of a Security of such series for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Trustee with respect to the Securities of such series.

(f) The Company shall give notice of each resignation and each removal of the Trustee with respect to the Securities of any series and each appointment of a successor Trustee with respect to the Securities of any series by mailing written notice of such event by first-class mail, postage prepaid, to all Holders of Registered Securities, if any, of such series as, their names and addresses appear in the Security Register and, if Securities of such Series are issuable as Bearer Securities, by publishing notice of such event once in an Authorized Newspaper in each Place of Payment located outside the United States. Each notice shall include the name of the successor Trustee with respect to the Securities of such series and the address of its Corporate Trust Office.

**SECTION 611. Acceptance of Appointment by Successor.**

(a) In case of the appointment hereunder of a successor Trustee with respect to all Securities, every such successor Trustee so appointed shall execute, acknowledge and deliver to the Company and to the retiring Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance shall become vested with all the rights, powers, trusts and duties of the retiring Trustee; but, on the request of the Company or the successor Trustee, such retiring Trustee shall, upon payment of its charges, execute and deliver an instrument transferring to such successor Trustee all the rights, powers and trusts of the retiring Trustee and shall duly assign, transfer and deliver to such successor Trustee all property and money held by such retiring Trustee hereunder.

(b) In case of the appointment hereunder of a successor Trustee with respect to the Securities of one or more (but not all) series, the Company, the retiring Trustee and each successor Trustee with respect to the Securities of one or more series shall execute and deliver an Indenture supplemental hereto wherein each successor Trustee shall accept such appointment and which (1) shall contain such provisions as shall be necessary or desirable to transfer and confirm to, and to vest in, each successor Trustee all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series to which the appointment of such successor Trustee relates, (2) if the retiring Trustee is not retiring with respect to all Securities, shall contain such provisions as shall be deemed necessary or desirable to confirm that all the rights, powers, trusts and duties of the retiring Trustees with respect to the Securities of that or those series as to which the retiring Trustee is not retiring shall continue to be vested in the retiring Trustee, and (3) shall add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Trustee, it being understood that nothing herein or in such supplemental Indenture shall constitute such Trustees co-trustees of the same trust and that each such Trustee shall be trustee of a trust or trusts hereunder separate and apart from any trust or trusts hereunder administered by any other such Trustee; and

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upon the execution and delivery of such supplemental indenture the resignation or removal of the retiring Trustee shall become effective to the extent provided therein and each such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series to which the appointment of such successor Trustee relates; but, on request of the Company or any successor Trustee, such retiring Trustee shall duly assign, transfer and deliver to such successor Trustee all property and money held by such retiring Trustee hereunder, subject nevertheless to its lien-provided for in Section 607, with respect to the Securities of that or those series to which the appointment of such successor Trustee relates.

(c) Upon request of any such successor Trustee, the Company shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor Trustee all such rights, powers and trusts referred to in paragraph (a) or (b) of this Section, as the case may be.

(d) No successor Trustee shall accept its appointment unless at the time of such acceptance such successor Trustee shall be qualified and eligible under this article.

**SECTION 612. Merger, Conversion, Consolidation or Succession to Business.**

Any corporation into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation succeeding to all or substantially all the corporate trust business of the Trustee, shall be the successor of the Trustee hereunder, provided such corporation shall be otherwise Qualified and eligible under this Article, without the execution or filing of any paper or any further act on the part of any of the parties hereto. In case any Securities shall have been authenticated, but not delivered, by the Trustee then in office, any successor by merger, conversion or consolidation to such authenticating Trustee may adopt such authentication and deliver the Securities so authenticated with the same effect as if such successor Trustee had itself authenticated such Securities.

**SECTION 613. Preferential Collection of Claims Against Company.**

(a) Subject to Subsection (b) of this Section, if the Trustee shall be or shall become a creditor, directly or indirectly, secured or unsecured, of the Company within four months prior to a default, as defined in Subsection (c) of this Section, or subsequent to such a default, then, unless and until such default shall be cured, the Trustee shall set apart and hold in a special account for the benefit of the Trustee individually, the Holders of the Securities and coupons and the holders of other indenture securities, as defined in Subsection (c) of this Section:

(1) an amount equal to any and all reductions in the amount due and owing upon any claim as such creditor in respect of principal or interest, effected after the beginning of such four months' period and valid as against the Company and its other creditors, except any such reduction resulting from the receipt or disposition of any property described in paragraph (2) of this Subsection, or from the exercise of any right of set-off which the Trustee could have exercised if a petition in bankruptcy had been filed by or against the Company upon the date of such default; and

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(2) all property received by the Trustee in respect of any claims as such creditor, either as security therefor, or in satisfaction or composition thereof, or otherwise, after the beginning of such four months' period, or an amount equal to the proceeds of any such property, if disposed of, subject, however, to the rights, if any, of the Company and its other creditors in such property or such proceeds.

Nothing herein contained, however, shall affect the right or the Trustee:

(A) to retain for its own account (1) payments made on account of any such claim by any Person (other than the Company) who is liable thereon, and (ii) the proceeds of the bona fide sale of any such claim by the Trustee to a third Person, and (iii) distributions made in cash, securities or other property in respect of claims filed against the Company in bankruptcy or receivership or in proceedings for reorganization pursuant to the Federal Bankruptcy Act or applicable State law;

(B) to realize, for its own account, upon any property held its as security for any such claim, if such property was so held prior to the beginning of such four months' period;

(C) to realize, for its own account, but only to the extent of the claim hereinafter mentioned, upon any property held by it as security for any such claim, if such claim was created after the beginning of such four months' period and such property was received as security therefor simultaneously with the creation thereof, and if the Trustee shall sustain the burden of proving that at the time such property was so received the Trustee had no reasonable cause to believe that a default, as defined in Subsection (c) of this Section, would occur within four months; or

(D) to receive payment on any claim referred to in paragraph (B) or (C) against the release of any property held as security for such claims as provided in paragraph (B) or (C) as the case may be, to the extent of the fair value of such property.

For the purposes of paragraphs (B), (C), and (D), property substituted after the beginning of such four months' period for property held as security at the time of such substitution shall, to the extent of the fair value of the property released, have the same status as the property released, and to the extent that any claim referred to in any of such paragraphs is created in renewal of or in substitution for or for the purpose of repaying or refunding any pre-existing claim of the Trustee as such creditor, such claim shall have the same status as such pre-existing claim.

If the Trustee shall be required to account, the funds and property held in such special account and the proceeds thereof shall be apportioned among the Trustee, the Holders of Securities and the holders of other indenture securities in such manner that the Trustee, the Holders of Securities and the holders of other indenture securities realize, as a result of payments from such special account and payments of dividends on claims filed against the Company in bankruptcy or receivership or in proceedings for reorganization pursuant to the Federal Bankruptcy Act or applicable State law, the same percentage of their respective claims, figured before crediting to

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the claim of the Trustee anything on account of the receipt by it from the Company of the funds and property in such special account and before crediting to the respective claims of the Trustee and the Holders of Securities and the holders of other indenture securities dividends on claims filed against the Company in bankruptcy or receivership or in proceedings for reorganization pursuant to the Federal Bankruptcy Act or applicable State law, but after crediting thereon receipts on account of the indebtedness represented by their respective claims from all sources other than from such dividends and from the funds and property so held in such special account. As used in this paragraph, with respect to any claim, the term "dividends" shall include any distribution with respect to such claim, in bankruptcy or receivership or proceedings for reorganization pursuant to the federal Bankruptcy Act or applicable State law, whether such distribution is made in cash, securities or other property, but shall not include any such distribution with respect to the secured portion, if any, of such claim. The court in which such bankruptcy, receivership or proceedings for reorganization is pending shall have jurisdiction (i) to apportion among the Trustee, the Holders of Securities and the holders of other indenture securities, in accordance with the provisions of this paragraph, the funds and property held in such special account and proceeds thereof, or (ii) in lieu of such apportionment, in whole or in part, to give to the provisions of this paragraph due consideration in determining the fairness of the distributions to be made to the Trustee and the Holders of Securities and the holders of other indenture securities with respect to their respective claims, in which event it shall not be necessary to liquidate or to appraise the value of any securities or other property held in such special account or as security for any such claim, or to make a specific allocation of such distributions as between the secured and unsecured portions of such claims, or otherwise to apply the provisions of this paragraph as a mathematical formula.

Any Trustee which has resigned or been removed after the beginning of such four months' period shall be subject to the provisions of this Subsection as though such resignation or removal had not occurred. If any Trustee has resigned or been removed prior to the beginning of such four months' period, it shall be subject to the provisions of this Subsection if and only if the following conditions exist:

(i) the receipt of property or reduction of claim, which would have given rise to the obligation to account, if such Trustee had continued as Trustee, occurred after the beginning of such four months' period; and

(ii) such receipt of property or reduction of claim occurred within four months after such resignation or removal.

(b) There shall be excluded from the operation of Subsection (a) of this Section a creditor relationship arising from:

(1) the ownership or acquisition of securities issued under any indenture, or any security or securities having a maturity of one year or more at the time of acquisition by the Trustee;

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(2) advances authorized by a receivership or bankruptcy court of competent jurisdiction or by this Indenture, for the purpose of preserving any property which shall at any time be subject to the lien of this Indenture or of discharging tax liens or other prior liens or encumbrances thereon, if notice of such advances and of the circumstances surrounding the making thereof is given to the Holders of Securities at the time and in the manner provided in this Indenture;

(3) disbursements made in the ordinary course of business in the capacity of trustee under an indenture, transfer agent, registrar, custodian, paying agent, fiscal agent or depositary, or other similar capacity;

(4) an indebtedness created as a result of services rendered or premises rented; or an indebtedness created as a result of goods or securities sold in a cash transaction, as defined in Subsection (c) of this Section;

(5) the ownership of stock or of other securities of a corporation organized under the provisions of Section 25(a) of the Federal Reserve Act, as amended, which is directly or indirectly a creditor of the Company; and

(6) the acquisition, ownership, acceptance, or negotiation of any drafts, bills of exchange, acceptances or obligations which fall within the classification of self-liquidating paper, as defined in Subsection (c) of this Section.

(c) For purposes of this Section only:

(1) the term "default" means any failure to make payment in full of the principal of or interest on any of the Securities or upon the other indenture securities when and as such principal or interest becomes due and payable;

(2) the term "other Indenture securities" means securities upon which the Company is an obligor outstanding under any other indenture (i) under which the Trustee is also trustee, (ii) which contains provisions substantially similar to the provisions of this Section, and (iii) under which a default exists at the time of the apportionment of the funds and property held in such special account;

(3) the term "cash transaction" means any transaction in which full payment for goods or securities sold is made within seven days after delivery of the goods or securities in currency or in checks or other orders drawn upon banks or bankers and payable upon demand;

(4) the term "self-liquidating paper" means any draft, bill of exchange, acceptance or obligation which is made, drawn, negotiated or incurred by the Company for the purpose of financing the purchase, processing, manufacturing, shipment, storage or sale of goods, wares or merchandise and which is secured by documents evidencing title to, possession of, or a lien upon, the goods, wares or merchandise or the receivables or proceeds arising from the sale of the goods, wares or merchandise previously constituting the security, provided the security is received by the Trustee simultaneously with the creation of the

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creditor relationship with the Company arising from the making, drawing, negotiating or incurring of the draft, bill of exchange, acceptance or obligation;

(5) the term "Company" means any obligor upon the Securities; and

(6) the term "Federal Bankruptcy Act" means the Bankruptcy Act or Title 11 of the United States Code.

**SECTION 614. Appointment of Authenticating Agent.**

At any time when any of the Securities remain Outstanding the Trustee may appoint an Authenticating Agent or Agents with respect to one or more series of Securities which shall be authorized to act on behalf of the Trustee to authenticate Securities of such series issued upon exchange, registration of transfer or partial redemption thereof or pursuant to Section 306, and Securities so authenticated shall be entitled to the benefits of this Indenture and shall be valid and obligatory for all purposes as if authenticated by the Trustee hereunder. Wherever reference is made in this Indenture to the authentication and delivery of Securities by the Trustee or the Trustee's certificate of authentication, such reference shall be deemed to include authentication and delivery on behalf of the Trustee by an Authenticating Agent and a certificate of authentication executed on behalf of the Trustee by an Authenticating Agent. Each Authenticating Agent shall be acceptable to the Company and shall at all times be a corporation organized and doing business under the laws of the United States of America, any State thereof or the District of Columbia, authorized under such laws to act as Authenticating Agent, having a combined capital and surplus of not less than \$5,000,000 and subject to supervision or examination by Federal or State authority. If such Authenticating Agent publishes reports of condition at least annually, pursuant to law or to the requirements of said supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such Authenticating Agent shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time an Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section, such Authenticating Agent shall resign immediately in the manner and with the effect specified in this Section.

Any corporation into which an Authenticating Agent may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which such Authenticating Agent shall be a party, or any corporation succeeding to the corporate agency or corporate trust business of an Authenticating Agent, shall continue to be an Authenticating Agent, provided such corporation shall be otherwise eligible under this Section, without the execution or filing of any paper or any further act on the part of the Trustee or the Authenticating Agent.

An Authenticating Agent may resign at any time by giving written notice thereof to the Trustee and to the Company. The Trustee may at any time terminate the agency of an Authenticating Agent by giving written notice thereof to such Authenticating Agent and to the Company. Upon receiving such a notice of resignation or upon such termination, or in case at any time such

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Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section, the Trustee may appoint a successor Authenticating Agent which shall be acceptable to the Company and shall (i) mail written notice of such appointment by first-class mail, postage prepaid, to all Holders of Registered Securities, if any, of the series with respect to which such Authenticating Agent will serve, as their names and addresses appear in the Security Register, and (ii) if Securities of the series are issuable as Bearer Securities, publish notice of such appointment at least once in an Authorized Newspaper, in the place where such successor Authenticating Agent has its principal office if such office is located outside the United States. Any successor Authenticating Agent upon acceptance of its appointment hereunder shall become vested with all the rights, powers and duties of its predecessor hereunder, with like effect as if originally named as an Authenticating Agent. No successor Authenticating Agent shall be appointed unless eligible under the provisions of this Section.

The Trustee agrees to pay to each Authenticating Agent from time to time reasonable compensation for its services under this Section, and the Trustee shall be entitled to be reimbursed for such payments in accordance with the provisions of Section 607.

The provisions of Sections 308, 604 and 605 shall be applicable to each Authenticating Agent.

If an appointment with respect to one or more series is made pursuant to this Section, the Securities of such series may have endorsed thereon, in addition to the Trustee's certificate of authentication, an alternate certificate of authentication in the following form:

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

As Trustee Bank of Montreal Trust Company

By: \_\_\_\_\_  
As Authenticating Agent

By: \_\_\_\_\_  
Authorized Signatory

#### ARTICLE SEVEN

##### Holders' Lists and Reports by Trustee and Company

##### SECTION 701. Company to Furnish Trustee Names and Addresses by Holders.

The Company will furnish or cause to be furnished to the Trustee

(a) semi-annually, not later than January 15 and July 15, in each year, a list, in such form as the Trustee may reasonably require, containing all the information in the possession or control of the Company, or any of its Paying Agents other than the Trustee, as to the names and addresses of the Holders of Securities as of the preceding December 31 or June 30, as the case may be, and

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(b) at such other times as the Trustee may request in writing, within 30 days after the receipt by the Company of any such request, a list of similar form and content as of a date not more than 15 days prior to the time such list is furnished,

excluding from any such list names and addresses received by the Trustee in its capacity as Security Registrar.

**SECTION 702. Preservation of Information: Communications to Holders.**

(a) The Trustee shall preserve, in as current a form as is reasonably practicable, the names and addresses of Holders of Securities (i) contained in the most recent list furnished to the Trustee as provided in Section 701, (ii) received by the Trustee in its capacity as Security Registrar, (iii) filed with it within the two preceding years pursuant to Section 703(c)(2), and (iv) received by the Trustee in its capacity as Paying Agent (if so acting) hereunder. The Trustee may (i) destroy any list furnished to it as provided in Section 701 upon receipt of a new list so furnished, (ii) destroy any information received by it as Paying Agent (if so acting) hereunder upon delivering to itself as Trustee, not earlier than January 15 or July 15, a list containing the names and addresses of the Holders of Securities obtained from such information since the delivery of the next previous list, if any, (iii) destroy any list delivered to itself as Trustee which was compiled from information received by it as Paying Agent (if so acting) hereunder upon the receipt of a new list so delivered, and (iv) destroy not earlier than two years after filing, any information filed with it pursuant to Section 703(c)(2).

(b) If three or more Holders of Securities (herein referred to as "applicants") apply in writing to the Trustee, and furnish to the Trustee reasonable proof that each such applicant has owned a Security for a period of at least six months preceding the date of such application, and such application states that the applicants desire to communicate with other Holders of Securities with respect to their rights under this Indenture or under the Securities and is accompanied by a copy of the form of proxy or other communication which such applicants propose to transmit, then the Trustee shall, within five business days after the receipt of such application, at its election, either

(i) afford such applicants access to the information preserved at the time by the Trustee in accordance with Section 702(a), or

(ii) inform such applicants as to the approximate number of Holders of Securities whose names and addresses appear in the information preserved at the time by the Trustee in accordance with Section 702(a), and as to the approximate cost of mailing to such Holders the form of proxy or other communication, if any, specified in such application.

If the Trustee shall elect not to afford such applicants access to such information, the Trustee shall, upon the written request of such applicants, mail to each Holder of Securities whose name and address appear in the information preserved at the time by the Trustee in accordance with Section

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702(a) a copy of the form of proxy or other communication which is specified in such request, with reasonable promptness after a tender to the Trustee of the material to be mailed and of payment, or provision for the payment of the reasonable expenses of mailing, unless within five days after such tender the Trustee shall mail to such applicants and file with the Commission, together with a copy of the material to be mailed, a written statement to the effect that, in the opinion of the Trustee, such mailing would be contrary to the best interests of the Holders of Securities or would be in violation of applicable law. Such written statement shall specify the basis of such opinion. If the Commission, after opportunity for a hearing upon the objections specified in the written statement so filed, shall enter an order refusing to sustain any of such objections or if, after the entry of an order sustaining one or more of such objections, the Commission shall find, after notice and opportunity for hearing, that all the objections so sustained have been met and shall enter an order so declaring, the Trustee shall mail copies of such material to all such Holders of Securities with reasonable promptness after the entry of such order and the renewal of such tender; otherwise the Trustee shall be relieved of any obligation or duty to such applicants respecting their application.

(c) Every Holder of Securities or coupons, by receiving and holding the same, agrees with the Company and the Trustee that neither the Company nor the Trustee nor any agent of either of them shall be held accountable by reason of the disclosure of any such information as to the names and addresses of the Holders of Securities in accordance with Section 702(b), regardless of the source from which such information was derived, and that the Trustee shall not be held accountable by reason of mailing any material pursuant to a request made under Section 702(b).

#### SECTION 703. Reports by Trustee.

(a) Within 60 days after May 15 of each year commencing with the year 1989, the Trustee shall transmit by mail to the Holders of Securities, as provided in Subsection (c) of this Section, a brief report dated as of such May 15 with respect to:

(1) its eligibility under Section 609 and its qualifications under Section 608, or in lieu thereof, if to the best of its knowledge it has continued to be eligible and qualified under said sections, a written statement to such effect:

(2) the character and amount of any advances (and if the Trustee elects so to state, the circumstances surrounding the making thereof) made by the Trustee (as such) which remain unpaid on the date of such report, and for the reimbursement of which it claims or may claim a lien or charge, prior to that of the Securities, on any property or funds held or collected by it as Trustee, except that the Trustee shall not be required (but may elect) to report such advances if such advances so remaining unpaid aggregate not more than 1/2 of 1% of the principal amount of the Securities Outstanding on the date of such report;

(3) the amount, interest rate and maturity date of all other indebtedness owing by the Company (or by any other obligor on the Securities) to the Trustee in its individual capacity, on the date of

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such report, with a brief description of any property held as collateral security therefor, except an indebtedness based upon a creditor relationship arising in any manner described in Section 613(b)(2), (3), (4) or (6);

(4) the property and funds, if any, physically in the possession of the Trustee as such on the date of such report;

(5) any additional issue of Securities which the Trustee has not previously reported; and

(6) any action taken by the Trustee in the performance of its duties hereunder which it has not previously reported and which in its opinion materially affects the Securities or the Securities of any series, except action in respect of a default, notice of which has been or is to be withheld by the Trustee in accordance with Section 602.

(b) The Trustee shall transmit to the Holders of Securities, as provided in Subsection (c) of this Section, a brief report with respect to the character and amount of any advances (and if the Trustee elects so to state, the circumstances surrounding the making thereof) made by the Trustee (as such) since the date of the last report transmitted pursuant to Subsection (a) of this Section (or if no such report has yet been so transmitted, since the date of execution of this instrument) for the reimbursement of which it claims or may claim a lien or charge, prior to that of the Securities, on property or funds held or collected by it as Trustee and which it has not previously reported pursuant to this Subsection, except that the Trustee shall not be required (but may elect) to report such advances if such advances remaining unpaid at any time aggregate 10% or less of the principal amount of the Securities Outstanding at such time, such report to be transmitted within 90 days after such time.

(c) Reports pursuant to this Section shall be transmitted by mail:

(1) to all Holders of Registered Securities, as the names and addresses of such Holders appear in the Security Register;

(2) to such Holders of Securities as have, within the two years preceding such transmission, filed their names and addresses with the Trustee for that purpose; and

(3) except in the case of reports pursuant to Subsection (b) of this Section, to each Holder of a Security whose name and address is preserved at the time by the Trustee, as provided in Section 702(a).

(d) A copy of each such report shall, at the time of such transmission to Holders of Securities, be filed by the Trustee with each stock exchange upon which any Securities are listed, with the Commission and with the Company. The Company will notify the Trustee when any Securities are listed on any stock exchange.

SECTION 704. Reports by the Company.

The Company shall:

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(1) file with the Trustee, within 15 days after the Company is required to file the same with the Commission, copies of the annual reports and of the information, documents and other reports (or copies of such portions of any of the foregoing as the Commission may from time to time by rules and regulations prescribe) which the Company may be required to file with the Commission pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934; or, if the Company is not required to file information, documents or reports pursuant to either of said Sections, then it shall file with the Trustee and the Commission, in accordance with rules and regulations prescribed from time to time by the Commission, such of the supplementary and periodic information, documents and reports which may be required pursuant to Section 13 of the Securities Exchange Act of 1934 in respect of a security listed and registered on a national securities exchange as may be prescribed from time to time in such rules and regulations;

(2) file with the Trustee and the Commission, in accordance with rules and regulations prescribed from time to time by the Commission, such additional information, documents and reports with respect to compliance by the Company with the conditions and covenants of this Indenture as may be required from time to time by such rules and regulations; and

(3) transmit within 30 days after the filing thereof with the Trustee, to the Holders of Securities. In the manner and to the extent provided in Section 703(c) with respect to reports pursuant to Section 703Ca). such summaries of any information, documents and reports required to be filed by the Company pursuant to paragraphs (1) and (2) of this Section as may be required by rules and regulations prescribed from time to time by the Commission.

## ARTICLE EIGHT

### Consolidation, Merger. Conveyance. Transfer or Lease

#### SECTION 801. Company May Consolidate, Etc., Only on Certain Terms.

The Company shall not consolidate with or merge into any other corporation or convey, transfer or lease its properties and assets substantially as an entirety to any Person, unless

(1) the corporation formed by any consolidation or into which the Company is merged or the Person which acquires by conveyance or transfer, or which leases, the properties and assets of the Company substantially as an entirety shall be a corporation organized and existing under the laws of the United States of America, any State thereof or the District of Columbia and shall expressly assume, by an indenture supplemental hereto, executed and delivered to the Trustee, in form satisfactory to the Trustee, the due and punctual payment of the principal of (and premium, if any) and interest on all the Securities and the performance of every covenant of this Indenture on the part of the Company to be performed or observed;

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(2) immediately after giving effect to such transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have happened and be continuing; and

(3) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger, conveyance, transfer or lease complies with this Article and that all conditions precedent herein provided for relating to such transaction have been complied with.

SECTION 802. Successor Corporation Substituted.

Upon any consolidation by the Company with or merger by the Company into any other corporation or any conveyance, transfer or lease of the properties and assets of the Company substantially as an entirety in accordance with Section 801, the successor corporation formed by such consolidation or into which the Company is merged or to which such conveyance, transfer or lease is made shall succeed to, and be substituted for, and may exercise every right and power of, the Company under this Indenture with the same effect as if such successor corporation had been named as the Company herein, and thereafter, except in the case of a lease, the predecessor corporation shall be relieved of all obligations and covenants under this Indenture and the Securities and coupons.

ARTICLE NINE

Supplemental Indentures

SECTION 901. Supplemental Indentures Without Consent of Holders.

Without the consent of any Holders of Securities or coupons, the Company, when authorized by a Board Resolution, and the Trustee, at any time and from time to time, may enter into one or more indentures supplemental hereto, in form satisfactory to the Trustee, for any of the following purposes:

(1) to evidence the succession of another corporation to the Company and the assumption by any such successor of the covenants of the Company herein and in the Securities and coupons; or

(2) to add to the covenants of the Company for the benefit of the Holders of all or any series of Securities (and if such covenants are to be for the benefit of less than all series of Securities, stating that such covenants are expressly being included solely for the benefit of such series) or to surrender any right or power herein conferred upon the Company; or

(3) to add any additional Events of Defaults; or

(4) to add to or change any of the provisions of this Indenture to provide that Bearer Securities may be registrable as to principal, to change or eliminate any restrictions on the payment of principal (or premium, if any) on Registered Securities or of principal (or premium, if any) or any Interest on Bearer Securities, to permit Registered Securities to be exchanged for Bearer Securities or to permit the

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issuance of Securities in uncertificated form, provided any such action shall not adversely affect the interests of the Holders of Securities of any series or any related coupons in any material respect; or

(5) to change or eliminate any of the provisions of this Indenture, provided that any such change or elimination shall become effective only when there is no Security Outstanding of any series created prior to the execution of such supplemental indenture which is entitled to the benefit of such provision; or

(6) to secure the Securities; or

(7) to establish the form or terms of Securities of any series and any related coupons as permitted by Sections 201 and 301; or

(8) to evidence and provide for the acceptance of appointment hereunder by a successor Trustee with respect to the Securities of one or more series, to contain such provisions as shall be deemed necessary or desirable to confirm that all the rights, powers, trusts and duties of the predecessor Trustee with respect to the Securities of any series as to which the predecessor Trustee is not retiring shall continue to be vested in the predecessor Trustee, and to add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Trustee, pursuant to the requirements of Section 611(b); or

(9) to cure any ambiguity, to correct or supplement any provision herein which may be defective or inconsistent with any other provision herein, or to make any other provisions with respect to matters or questions arising under this Indenture, provided such action shall not adversely affect the interests of the Holders of Securities of any series or any related coupons in any material respect.

(10) to conform this Indenture to any amendments to the Trust Indenture Act.

SECTION 902. Supplemental Indentures with Consent of Holders.

The Company, when authorized by a Board Resolution, and the Trustee may enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or of modifying in any manner the rights of the Holders of Securities of such series and any related coupons under this Indenture, or with the consent of Holders of a majority in aggregate principal amount of the Outstanding Securities, if such supplemental indenture affects all of the series of Securities then outstanding under this Indenture, or with the consent of Holders of a majority in aggregate principal amount of the Outstanding Securities of any series specifically affected by such supplemental indenture in case one or more, but less than all, of the series of the Outstanding Securities under this Indenture are so affected; provided, however, that no such supplemental indenture shall, without the consent of the Holder of each Outstanding Security or coupon affected thereby,

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(1) change the Stated Maturity of the principal of, or of any installment of principal of or interest on, any Security, or reduce the principal amount thereof or the rate of interest thereon or any premium payable upon the redemption thereof, or change the method of calculating the rate of interest thereon, or change any obligation of the Company to pay additional amounts pursuant to Section 1004 (except as contemplated by Section 801(1) and permitted by Section 901(1)), or reduce the amount of the principal of an Original Issue Discount Security that would be due and payable upon a declaration of acceleration of the Maturity thereof pursuant to Section 502, or change any Place of Payment in the United States where, or the coin or currency in which, any Security or any premium or the interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof (or, in the case of redemption, on or after the Redemption Date), or

(2) reduce the percentage in principal amount of the Outstanding Securities of any series, the consent of whose Holders is required for any such supplemental indenture, or the consent of whose Holders is required for any waiver (of compliance with certain provisions of this Indenture or certain defaults hereunder and their consequences) provided for in this Indenture, or reduce the requirements of Section 1304 for quorum or voting, or

(3) change any obligation of the Company to maintain an office or agency in each Place of Payment, or any obligation of the Company to maintain an office or agency outside the United States pursuant to Section 1002, or

(4) modify any of the provisions of this Section, Section 513 or Section 1010, except to increase any such percentage or to provide that certain other provisions of this Indenture cannot be modified or waived without the consent of the Holder of each Outstanding Security affected thereby, provided, however, that this clause shall not be deemed to require the consent of any Holder of a Security or coupon with respect to changes in the references to "the Trustee" and concomitant changes in this Section and Section 1009, or the deletion of this proviso, in accordance with the requirements of Sections 611(b) and 901(8).

A supplemental indenture which changes or eliminates any covenant or other provision of this Indenture which has expressly been included solely for the benefit of one or more particular series of Securities, or which modifies the rights of the Holders of Securities of such series with respect to such covenant or other provision, shall be deemed not to affect the rights under this Indenture of the Holders of Securities of any other series.

It shall not be necessary for any Act of Holders of Securities under this Section to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such Act shall approve the substance thereof.

The Company shall have the right to set a Record Date for the solicitation of any consents under this Article 9.

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SECTION 903. Execution of Supplemental Indenture.

In executing, or accepting the additional trusts created by, any supplemental indenture permitted by this Article or the modifications thereby of the trusts created by this Indenture, the Trustee shall be entitled to receive, and (subject to Section 601) shall be fully protected in relying upon, an Opinion of Counsel stating that the execution of such supplemental indenture is authorized or permitted by this Indenture. The Trustee may, but shall not be obligated to enter into any such supplemental indenture which affects the Trustee's own rights, duties, immunities or liabilities under this Indenture or otherwise except to the extent required in the case of a supplemental indenture entered into under Section 901(10).

SECTION 904. Effect of Supplemental Indentures.

Upon the execution of any supplemental indenture under this Article, this Indenture shall be modified in accordance therewith, and such supplemental indenture shall form a part of this Indenture for all purposes; and every Holder of Securities theretofore or thereafter authenticated and delivered hereunder and of any coupons appertaining thereto shall be bound thereby.

SECTION 905. Conformity with Trust Indenture Act.

Every supplemental indenture executed pursuant to this Article shall conform to the requirements of the Trust Indenture Act as then in effect.

SECTION 906. Reference in Securities to Supplemental Indentures.

Securities of any series authenticated and delivered after the execution of any supplemental indenture pursuant to this Article may, and shall if required by the Trustee, bear a notation in form approved by the Trustee as to any matter provided for in such supplemental indenture. If the Company shall so determine, new Securities of any series so modified as to conform, in the opinion of the Trustee and the Company, to any such supplemental indenture may be prepared and executed by the Company and authenticated and delivered by the Trustee in exchange for Outstanding Securities of such series.

ARTICLE TEN

Covenants

SECTION 1001. Payments of Principal, Premium and Interest.

The Company covenants and agrees for the benefit of each series of Securities that it will duly and punctually pay the principal of (and premium, if any) and interest on the Securities of that series in accordance with the terms of the Securities, any coupons appertaining thereto and this Indenture. Any interest due of Bearer Securities on or before Maturity, other than additional amounts, if any payable as provided in Section 1004 in respect of principal of (or premium, if any, on) such a Security, shall be payable only upon presentation and surrender of the several coupons for such interest installments as are evidenced thereby as they severally mature.

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SECTION 1002. Maintenance of Office or Agency.

The Company will maintain in each Place of Payment for any series of Securities an office or agency where Securities of that series (but, except as otherwise provided below, unless such Place of Payment is located outside the United States, not Bearer Securities) may be presented or surrendered for payment, where Securities of that series may be surrendered for registration of transfer or exchange and where notices and demands to or upon the Company in respect of the Securities of that series and the Indenture may be served. The Company initially hereby appoints the Trustee, its office or agency for each of said purposes, if Securities of a series are Issuable as Bearer Securities, the Company will maintain, subject to any laws or regulations applicable thereto, an office or agency in a Place of Payment for such series which is located outside the United States where Securities of such series and the related coupons may be presented and surrendered for payment including payment of any additional amounts payable on Securities of such series pursuant to Section 1004; provided, however that if the Securities of such series are listed on The Stock Exchange of the United Kingdom and the Republic of Ireland or the Luxembourg Stock Exchange or any other stock exchange located outside the United States and such stock exchange shall so require, the Company will maintain a Paying Agent in London or Luxembourg or any other required city located outside the United States, as the case may be, so long as the Securities of such series are listed on such exchange. The Company will give prompt written notice to the Trustee of the location, and any change in the location, of such office or agency. If at any time the Company shall fail to maintain any such required office or agency in respect of any series of Securities or shall fail to furnish the Trustee with the address thereof, such presentations and surrenders of Securities of that series may be made and notices and demands may be made or served at the Corporate Trust Office of the Trustee, except that Bearer Securities of that series and the related coupons may be presented and surrendered for payment (including payment of any additional amounts payable on Bearer Securities of that series pursuant to Section 1004) at the place specified for the purpose pursuant to Section 301 or, if no such place is specified, at the main office of the Trustee in London, and the Company hereby appoints the Trustee as its agent to receive such respective presentations, surrenders, notices and demands.

No payment of principal, premium or interest on Bearer Securities shall be made at any office or agency of the Company in the United States or by check mailed to any address in the United States or by transfer to an account maintained with a bank located in the United States; provided, however, payment of principal of and any premium and interest in U.S. dollars (including additional amounts payable in respect thereof) on any Bearer Security may be made at the Corporate Trust Office of the Trustee in the Borough of Manhattan, The City of New York if (but only if) payment of the full amount of such principal premium. Interest or additional amounts at all offices outside the United States maintained for the purpose by the Company in accordance with this Indenture is illegal or effectively precluded by exchange controls or other similar restrictions.

The Company may also from time to time designate one or more other offices or agencies where the Securities of one or more series may be presented or surrendered for any or all such purposes and may from time to time rescind such designations; provided, however, that no such designation or rescission shall in any manner relieve the Company of its obligation to

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maintain an office or agency in each Plan of Payment in accordance with the requirements set forth above for Securities of any series for such purposes. The Company will give prompt written notice to the Trustee of any such designation or rescission and of any change in the location of any such other office or agency.

**SECTION 1003. Money for Securities Payments to Be Held in Trust.**

If the Company shall at any time act as its own Paying Agent with respect to any series of Securities, it will, on or before each due date of the principal of (and premium, if any) or interest on any of the Securities of that series, segregate and hold in trust for the benefit of the Persons entitled thereto a sum sufficient to pay the principal (and premium, if any) or interest so becoming due until such sums shall be paid to such Persons or otherwise disposed of as herein provided and will promptly notify the Trustee of its action or failure so to act.

Whenever the Company shall have one or more Paying Agents for any series of Securities, it will, prior to each due date of the principal of (and premium, if any) or interest on any Securities of that series, deposit with a Paying Agent a sum sufficient to pay the principal (and premium, if any) or interest so becoming due, such sum to be held in trust for the benefit of the Persons entitled to such principal, premium or interest, and, (unless such Paying Agent is the Trustee) the Company will promptly notify the Trustee of its action or failure so to act.

The Company will cause each Paying Agent for any series of Securities other than the Trustee to execute and deliver to the Trustee an instrument in which such Paying Agent shall agree with the Trustee, subject to the provisions of this Section, that such Paying Agent will:

(1) hold all sums held by it for the payment of the principal of (and premium, if any) or interest on Securities of that series in trust for the benefit of the Persons entitled thereto until such sums shall be paid to such Persons or otherwise disposed of as herein provided;

(2) give the Trustee notice of any default by the Company (or any other obligor upon the Securities of that series) in the making of any payment of principal of (and premium, if any) or interest on the Securities of that series; and

(3) at any time during the continuance of any such default, upon the written request of the Trustee, forthwith pay to the Trustee all sums so held in trust by such Paying Agent.

The Company may at any time, for the purpose of obtaining the satisfaction and discharge of this Indenture or for any other purpose, pay, or by Company Order direct any Paying Agent to pay, to the Trustee all sums held in trust by the Company or such Paying Agent, such sums to be held by the Trustee upon the same trusts as those upon which such sums were held by the Company or such Paying Agent; and, upon such payment by any Paying Agent to the Trustee, such Paying Agent shall be released from all further liability with respect to such money.

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SECTION 1002. Maintenance of Office or Agency.

Any money deposited with the Trustee or any Paying Agent, or then held by the Company, in trust for the payment of the principal of (and premium, if any) or interest on any Security of any series and remaining unclaimed for three years after such principal (and premium, if any) or interest has become due and payable shall be paid to the Company on Company Request, or (if then held by the Company) shall be discharged from such trust; and the Holder of such Security or any coupon appertaining thereto shall thereafter, as an unsecured general creditor, look only to the Company for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such trust money, and all liability of the Company as trustee thereof, shall thereupon cease; however, that the Trustee or such Paying Agent, before being required to make any such repayment, may at the expense of the Company cause to be published once, in an Authorized Newspaper in each Place of Payment or mailed to each such Holder, or both, notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such publication or mailing, any unclaimed balance of such money then remaining will be repaid to the Company.

SECTION 1004. Additional Amounts.

If the Securities of a series provide for the payment of additional amounts, the Company will pay to the Holder of any Security of any series or any coupon appertaining thereto additional amounts as provided therein. Whenever in this Indenture there is mentioned, in any context, the payment of principal of (or premium, if any) or interest on, or in respect of, any Security of any series or any related coupon or the net proceeds received on the sale or exchange of any Security of any series, such mention shall be deemed to include mention of the payment of additional amounts provided for in this Section to the extent that, in such context, additional amounts are, were or would be payable in respect thereof pursuant to the provisions of this Section and express mention of the payment of additional amounts (if applicable) in any provisions hereof shall not be construed as excluding additional amounts in those provisions hereof where such express mention is not made.

If the Securities of a series provide for the payment of additional amounts, at least 10 days prior to the first Interest Payment Date with respect to that series of Securities (or if the Securities of that series will not bear interest prior to Maturity, the first day on which a payment of principal (and premium, if any) is made), and at least 10 days prior to each date of payment of principal (and premium, if any) or interest if there has been any change with respect to the matters set forth in the below-mentioned Officers' Certificate, the Company will furnish the Trustee and the Company's principal Agent or Paying Agents, if other than the Trustee, with an Officers' Certificate instructing the Trustee and such Paying Agent or Paying Agents whether such payment of principal of (and premium, if any) or interest on the Securities of that series shall be made to Holders of Securities of that series or the related coupons who are United States Aliens without withholding for or on account of any tax, assessment or other governmental charge described in the Securities of that series, if any such withholding shall be required, then such Officers' Certificate shall specify by country the amount, if any, required to be withheld on such payments to such Holders of Securities or coupons and the Company will pay to the Trustee or such Paying Agent the additional amounts required by this Section. The Company covenants to indemnify the Trustee and any Paying Agent, for and to hold them

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harmless against, any loss, liability or expense reasonably incurred without negligence or bad faith on their part arising out of or in connection with actions taken or omitted by any of them in reliance on any Officers' Certificate furnished pursuant to this Section.

SECTION 1005. Corporate Existence.

Subject to Article Eight, the Company will do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence and that of each Subsidiary and the rights (charter and statutory) and franchises of the Company and its Subsidiaries; provided, however, that the Company shall not be required to preserve any such right or franchise if the Board of Directors shall determine that the preservation thereof is no longer desirable in the conduct of the business of the Company and its Subsidiaries considered as a whole and that the loss thereof is not disadvantageous in any material respect to the Holders.

SECTION 1006. Maintenance of Properties.

The Company will cause all properties used or useful in the conduct of its business or the business of any Subsidiary to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and will cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as in the sole judgment of the Company may be necessary so that the business carried on in connection therewith may be properly and advantageously conducted at all times; provided, however, that nothing in this Section shall prevent the Company from discontinuing the operation or maintenance of any of such properties, or disposing of them if such discontinuance or disposal is, in the judgment of the Company or of the Subsidiary concerned, desirable in the conduct of its business or the business of any Subsidiary and not disadvantageous in any material respect to the Holders of Securities.

SECTION 1007. Payment of Taxes and Other Claims.

The Company will pay or discharge or cause to be paid or discharged, before the same shall become delinquent, (1) all taxes, assessments and governmental charges levied or imposed upon the Company or any Subsidiary or upon the income, profits or property of the Company or any Subsidiary, and (2) all lawful claims for labor, materials and supplies which, if unpaid, might by law become a lien upon the property of the Company or any Subsidiary; provided, however, that the Company shall not be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim whose amount, applicability or validity is being contested in good faith by appropriate proceedings.

SECTION 1008. Intentionally Omitted.

SECTION 1009. Statement as to Compliance.

The Company will deliver to the Trustee, within 120 days after the end of each fiscal year (which on the date hereof, ends on December 31), a written statement, signed by the Chairman, the President, or a Vice President and by the Treasurer, an Assistant Treasurer, the Controller or an Assistant Controller of the Company, stating, as to each signer thereof, that

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(1) a review of the activities of the Company during such year and of performance under this Indenture has been made under his supervision, and

(2) to the best of his knowledge, based on such review, (a) the Company has fulfilled all its obligations under this Indenture throughout such year, or, if there has been a default in the fulfillment of any such obligation, specifying each such default known to him and the nature and status thereof, and (b) no event has occurred and is continuing which is, or after notice or lapse of time or both would become, an Event of Default, or, if such an event has occurred and is continuing, specifying each such event known to him and the nature and status thereof.

The Company will deliver to the Trustee within 30 days after the occurrence thereof written notice of any event which with the giving of notice and the lapse of time would become an Event of Default under clause (4) or (5) of Section 501.

SECTION 1010. Waiver of Certain Covenants.

The Company may omit in any particular instance to comply with any term, provision or condition set forth in Sections 1006 and 1007 with respect to the Securities of any series if before the time for such compliance the Holders of at least a majority in principal amount of the Outstanding Securities of such series shall, by Act of such Holders, either waive such compliance in such instance or generally waive compliance with such term, provision or condition, but no such waiver shall extend to or affect such term, provision or condition except to the extent so expressly waived, and, until such waiver shall become effective, the obligations of the Company and the duties of the Trustee in respect of any such term, provision or condition shall remain in full force and effect.

ARTICLE ELEVEN

Redemption of Securities

SECTION 1101. Applicability of Article.

Securities of any series which are redeemable before their Stated Maturity shall be redeemable in accordance with their terms and (except as otherwise specified as contemplated by Section 301 for Securities of any series) in accordance with this Article.

SECTION 1102. Election to Redeem: Notice to Trustee.

The election of the Company to redeem any Securities shall be evidenced by a Board Resolution. In case of any redemption at the election of the Company of all of the Securities of any series, the Company shall, at least 60 days prior to the Redemption Date fixed by the Company (unless a shorter notice shall be satisfactory to the Trustee), notify the Trustee in writing of such Redemption Date. In case of any redemption at the election of the Company of less than all the Securities of any series, the Company shall, at least 60 days prior to the Redemption Date fixed by the Company (unless a shorter notice shall be satisfactory to the Trustee), notify the Trustee in writing of such Redemption Date and of the principal amount of Securities of

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such series to be redeemed. In the case of any redemption of Securities (i) prior to the expiration of any restriction on such redemption provided in the terms of such Securities or elsewhere in this Indenture, or (ii) pursuant to an election of the Company which is subject to a condition specified in the terms of such Securities, the Company shall furnish the Trustee with an Officers' Certificate evidencing compliance with such restriction or condition.

**SECTION 1103. Selection by Trustee of Securities to be Redeemed.**

If less than all the Securities of any series are to be redeemed, the particular Securities to be redeemed shall be selected not more than 60 days prior to the Redemption Date by the Trustee, from the Outstanding Securities of such series not previously called for redemption, by such method as the Trustee shall deem fair and appropriate and which may provide for the selection for redemption of portions (equal to the minimum authorized denomination for Securities of that series or any integral multiple thereof) of the principal amount of Registered Securities of such series of a denomination larger than the minimum authorized denomination, for Securities of that series. Unless otherwise provided in the Securities of a series, partial redemptions must be in an amount not less than \$1,000,000 principal amount of Securities.

The Trustee shall promptly notify the Company in writing of the Securities selected for redemption and, in the case of any Securities selected for partial redemption, the principal amount thereof to be redeemed.

For all purposes of this Indenture, unless the context otherwise requires, all provisions relating to the redemption of Securities shall relate, in the case of any Securities redeemed or to be redeemed only in part, to the portion of the principal amount of such Securities which has been or is to be redeemed.

**SECTION 1104. Notice of Redemption.**

Notice of redemption shall be given in the manner provided in Section 106 to the Holders of Securities to be redeemed not less than 30 nor more than 60 days prior to the Redemption Date.

All notices of redemption shall state:

- (1) the Redemption Date,
  - (2) the Redemption Price,
  - (3) if less than all the Outstanding Securities of any series are to be redeemed, the identification (and, in the case of partial redemption, the principal amounts) of the particular Securities to be redeemed,
  - (4) that on the Redemption Date the Redemption Price will become due and payable upon each such Security to be redeemed and, if applicable, that interest thereon will cease to accrue on and after said date.
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(5) the place or places where such Securities, together in the case of Bearer Securities with all coupons appertaining thereto, if any, maturing after the Redemption Date, are to be surrendered for payment of the Redemption Price, and

(6) that the redemption is for a sinking fund, if such is the case.

A notice of redemption published, as contemplated by Section 106 need not identify particular Registered Securities to be redeemed.

Notice of redemption of Securities to be redeemed at the election of the Company shall be given by the Company or, at the Company's request, by the Trustee in the name and at the expense of the Company.

SECTION 1105. Deposit of Redemption Price.

On or prior to any Redemption Date, the Company shall deposit with the Trustee or with a Paying Agent (or, if the Company is acting as its own Paying Agent, segregate and hold in trust as provided in Section 1003) an amount of money sufficient to pay the Redemption Price of, and (except if the Redemption Date shall be an Interest Payment Date) accrued interest on, all the Securities which are to be redeemed on that date.

SECTION 1106. Securities Payable on Redemption Date.

Notice of redemption having been given as aforesaid, the Securities so to be redeemed shall, on the Redemption Date, become due and payable at the Redemption Price therein specified, and from and after such date (unless the Company shall default in the payment of the Redemption Price and accrued interest) such Securities shall cease to bear interest and the coupons for such interest appertaining to any Bearer Securities so to be redeemed, except to the extent provided below, shall be void. Upon surrender of any such security for redemption in accordance with said notice, together with all coupons, if any, appertaining thereto maturing after the Redemption Date, such Security shall be paid by the Company at the Redemption Price, together with accrued interest to the Redemption Date; provided, however, that installments of interest on Bearer Securities whose Stated Maturity is on or prior to the a Redemption Date shall be payable only upon presentation and surrender of coupons for such interest (at an office or agency located outside the United States except as otherwise provided in Section 1002), and provided, further, that installments of interest on Registered Securities whose Stated Maturity is on or prior to the Redemption Date shall be payable to the Holders of such Securities, or one or more Predecessor Securities, registered as such at the close of business on the relevant Record Dates according to their terms and the provisions of Section 307.

If any Bearer Security surrendered for redemption shall not be accompanied by all appurtenant coupons maturing after the Redemption Date, such Security may be paid after deducting from the Redemption Price an amount equal to the face amount of all such missing coupons, or the surrender of such missing coupon or coupons may be waived by the Company and the Trustee if there be furnished to them such security or indemnity as they may require to save each of them and any Paying Agent harmless, if thereafter the Holder of such Security shall surrender to the Trustee or any Paying Agent any such missing coupon in respect of which a deduction shall have been made from the

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Redemption Price, such Holder shall be entitled to receive the amount so deducted; provided, however, that interest represented by coupons shall be payable only upon presentation and surrender of those coupons at an office or agency located outside of the United States except as otherwise provided in Section 1002.

If any Security called for redemption shall not be so paid upon surrender thereof for redemption, the principal (and premium, if any) shall, until paid, bear interest from the Redemption Date at the rate prescribed therefor in the Security.

SECTION 1107. Securities Redeemed in Part.

Any Registered Security which is to be redeemed only in part shall be surrendered at a Place of Payment therefor (with, if the Company or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Company and the Trustee duly executed by the Holder thereof or his attorney duly authorized in writing), and the Company shall execute, and the Trustee shall authenticate and deliver to the Holder of such Security without service charge, a new Registered Security or Securities of the same series, Stated Maturity and of any authorized denomination as requested by such holder, in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Security so surrendered.

ARTICLE TWELVE

Sinking Funds

SECTION 1201. Applicability of Article.

The provisions of this Article shall be applicable to any sinking fund for the retirement of Securities of a series except as otherwise specified as contemplated by Section 301 for Securities of such series.

The minimum amount of any sinking fund payment provided for by the terms of Securities of any series is herein referred to as a "mandatory sinking fund payment," and any payment in excess of such minimum amount provided for by the terms of Securities of any series is herein referred to as an "optional sinking fund payment." If provided for by the terms of Securities of any series, the cash amount of any sinking fund payment may be subject to reduction as provided in Section 1202. Each sinking fund payment shall be applied to the redemption of Securities of any series as provided for by the terms of Securities of such series.

SECTION 1202. Satisfaction of Sinking Fund Payments with Securities.

The Company (1) may deliver Outstanding Securities of a series (other than any previously called for redemption), together in the case of any Bearer Securities of such series with all unmatured coupons appertaining thereto, and (2) may apply as a credit Securities of a series which have been redeemed either at the election of the Company pursuant to the terms of such Securities or through the application of permitted optional sinking fund payments pursuant to the terms of such Securities, in each case in satisfaction of all or any part of any sinking fund payment with respect to the Securities of such series required to be made pursuant to the terms of such Securities as

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provided for by the terms of such series, provided that such Securities have not been previously so credited. Such Securities shall be received and credited for such purpose by the Trustee at the Redemption Price specified in such Securities for redemption through operation of the sinking fund and the amount of such sinking fund payment shall be reduced accordingly.

SECTION 1203. Redemption of Securities for Sinking Fund.

Not less than 60 days prior to each sinking fund payment date for any series of Securities, the Company will deliver to the Trustee an Officers' Certificate specifying the amount of the next ensuing sinking fund payment for that series pursuant to the terms of that series, the portion thereof, if any, which is to be satisfied by payment of cash and the portion thereof, if any, which is to be satisfied by delivering and crediting Securities of that series pursuant to Section 1202 and stating the basis for such credit and that such Securities have not previously been so credited and will also deliver to the Trustee any Securities to be so delivered. Not less than 30 days before each such sinking fund payment date the Trustee shall select the Securities to be redeemed upon such sinking fund payment date in the manner specified in Section 1103 and cause notice of the redemption thereof to be given in the name of and at the expense of the Company in the manner provided in Section 1104. Such notice having been duly given, the redemption of such Securities shall be made upon the terms and in the manner stated in Sections 1106 and 1107.

ARTICLE THIRTEEN

Meetings of Holders of Securities

SECTION 1301. Purposes for Which Meetings May be Called.

If Securities of a series are issuable as Bearer Securities, a meeting of Holders of Securities of such series may be called at any time and from time to time pursuant to this Article to make, give or take any request, demand, authorization, directions, notice, consent, waiver or other action provided by this Indenture to be made, given or taken by Holders of Securities of such series.

SECTION 1302 . Call Notice and Place of Meeting.

(a) The Trustee may at any time call a meeting of Holders of Securities of any series for any purpose specified in Section 1301, to be held at such time and at such place in the Borough of Manhattan, The City of New York, or in London as the Trustee shall determine. Notice of every meeting of Holders of Securities of any series, setting forth the time and the place of such meeting and in general terms the action proposed to be taken at such meeting, shall be given in the manner provided in Section 106, not less than 21 more than 180 days prior to the date fixed for the meeting.

(b) In case at any time the Company, pursuant to a Board Resolution, or the Holders of at least 10% in principal amount of the Outstanding Securities of any series shall have requested the Trustee to call a meeting of the Holders of Securities of such series for any purpose specified in Section 1301, by written request setting forth in reasonable detail the action proposed to be taken at the meeting, and the Trustee shall not have made the first publication of the notice of such meeting within 21 days after receipt of such request or shall not thereafter proceed to cause the meeting to be

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held as provided herein, then the Company or the Holders of Securities of such series in the amount above specified, as the case may be, may determine the time and the place in the Borough of Manhattan, The City of New York, or in London for such meeting and may call such meeting for such purposes by giving notice thereof as provided in Subsection (a) of this Section.

**SECTION 1303. Persons Entitled to Vote at Meetings.**

To be entitled to vote at any meeting of Holders of Securities of any series, a Person shall be (1) a Holder of one or more Outstanding Securities of such series, or (2) a Person appointed by an instrument in writing as proxy for a Holder or Holders of one or more Outstanding Securities of such series by such Holder or Holders. The only Persons who shall be entitled to be present or to speak at any meeting of Holders of Securities of any series shall be the Persons entitled to vote at such meeting and their counsel, any representatives of the Trustee and its counsel and any representatives of the Company and its counsel.

**SECTION 1304. Quorum; Action.**

The Persons entitled to vote a majority in principal amount of the Outstanding Securities of a series shall constitute a quorum for a meeting of Holders of Securities of such series. In the absence of a Quorum within 30 minutes of the time appointed for any such meeting, the meeting shall, if convened at the request of Holders of Securities of such series, be dissolved. In any other case the meeting may be adjourned for a period of not less than 10 days as determined by the chairman of the meeting prior to the adjournment of such meeting. In the absence of a quorum at any such adjourned meeting, such adjourned meeting may be further adjourned for a period of not less than 10 days as determined by the chairman of the meeting prior to the adjournment of such adjourned meeting. Except as provided by Section 1305(d), notice of the reconvening of any adjourned meeting shall be given as provided in Section 1302(a), except that such notice need be given only once not less than five days prior to the date on which the meeting is scheduled to be reconvened. Notice of the reconvening of an adjourned meeting shall state expressly the percentage, as provided above, of the principal amount of the Outstanding Securities of such series which shall constitute a quorum.

Except as limited by the proviso to Section 902, any resolution presented to a meeting or adjourned meeting duly reconvened at which a quorum is present as aforesaid may be adopted only by the affirmative vote of the Holders of a majority in principal amount of the Outstanding Securities of that series; provided, however, that, except as limited by the proviso to Section 902, any resolution with respect to any request, demand, authorization, direction, notice, consent, waiver or other action which this Indenture expressly provides may be made, given or taken by the Holders of a specified percentage, which is less than a majority, in principal amount of the Outstanding Securities of a series may be adopted at a meeting or an adjourned meeting duly reconvened and at which a quorum is present as aforesaid by the affirmative vote of the Holders of such specified percentage in principal amount of the Outstanding Securities of that series.

Any resolution passed or decision taken at any meeting of Holders of Securities of any series duly held in accordance with this Section shall be binding on all the Holders of Securities of such series and the related coupons, whether or not present or represented at the meeting.

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SECTION 1305. Determination of Voting Rights; Conduct and Adjournment of Meetings.

(a) Notwithstanding any other provisions of this Indenture, the Trustee may make such reasonable regulations as it may deem advisable for any meeting of Holders of Securities of such series in regard to proof of the holding of Securities of such series and of the appointment of proxies and in regard to the appointment and duties of Inspectors of votes, the submission and examination of proxies, certificates and other evidence of the right to vote, and such other matters concerning the conduct of the meeting as it shall deem appropriate. Except as otherwise permitted or required by any such regulations, the holding of Securities shall be proved in the manner specified in Section 104 and the appointment of any proxy shall be proved in the manner specified in Section 104. Such regulations may provide that written instruments appointing proxies, regular on their face, may be presumed valid and genuine without the proof specified in Section 104 or other proof.

(b) The Trustee shall, by an instrument in writing, appoint a temporary chairman of the meeting, unless the meeting shall have been called by the Company or by Holders of Securities as provided in Section 1302(b), in which case the Company or the Holders of Securities of the series calling the meeting, as the case may be, shall in like manner appoint a temporary chairman. A permanent chairman and a permanent secretary of the meeting shall be elected by vote of the Persons entitled to vote a majority in principal amount of the Outstanding Securities of such series represented at the meeting.

(c) At any meeting each Holder of a Security of such series or proxy shall be entitled to one vote for each \$1,000 principal amount of Securities of such series held or represented by him; provided, however, that no vote shall be cast or counted at any meeting in respect of any Security challenged as not Outstanding and ruled by the chairman of the meeting to be not Outstanding. The chairman of the meeting shall have no right to vote, except as a Holder of a Security of such series or proxy.

(d) Any meeting of Holders of Securities of any series duly called pursuant to Section 1302 at which a quorum is present may be adjourned from time to time by Persons entitled to vote a majority in principal amount of the Outstanding Securities of such series represented at the meeting; and the meeting may be held as so adjourned without further notice.

SECTION 1306. Counting Votes and Recording Action of Meetings.

The vote upon any resolution submitted to any meeting of Holders of Securities of any series shall be by written ballots on which shall be subscribed the signatures of the Holders of Securities of such series or of their Representatives by proxy and the principal amounts and serial numbers of the Outstanding Securities of such series held or represented by them. The permanent chairman of the meeting shall appoint two inspectors of votes who shall count all votes cast at the meeting for or against any resolution and who shall make and file with the secretary of the meeting their verified written reports in triplicate of all votes cast at the meeting. A record, at least in triplicate, of the proceedings of each meeting of Holders of Securities of any series shall be prepared by the secretary of the meeting and there shall be attached to said record the original reports of the inspectors

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of votes on any vote by ballot taken thereat and affidavits by one or more persons having knowledge of the facts setting forth a copy of the notice of the meeting and showing that said notice was given as provided in Section 1302 and, if applicable, Section 1304. Each copy shall be signed and verified by the affidavits of the permanent chairman and secretary of the meeting and one such copy shall be delivered to the Company, and another to the Trustee to be preserved by the Trustee, the latter to have attached thereto the ballots voted at the meeting. Any record so signed and verified shall be conclusive evidence of the matters therein stated.

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This instrument may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute hut one and the same instrument.

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AMENDED AND RESTATED CREDIT AGREEMENT

Dated as of December 8, 2017

among

NSTAR ELECTRIC COMPANY  
(DOING BUSINESS AS EVERSOURCE ENERGY),  
as the Borrower,

BARCLAYS BANK PLC,  
as Administrative Agent and Swing Line Lender,

and

THE OTHER LENDERS PARTY HERETO

MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED,  
BARCLAYS BANK PLC,  
CITIGROUP GLOBAL MARKETS INC.,  
THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.,  
WELLS FARGO SECURITIES, LLC,  
MIZUHO BANK, LTD.,  
TD SECURITIES (USA) LLC

and

U.S. BANK NATIONAL ASSOCIATION,  
as Joint Lead Arrangers and Joint Bookrunners

BANK OF AMERICA, N.A.,  
as Syndication Agent

CITIBANK, N.A.,  
THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.,  
WELLS FARGO BANK, NATIONAL ASSOCIATION,  
MIZUHO BANK, LTD.,  
TD BANK, N.A.

and

U.S. BANK NATIONAL ASSOCIATION,  
as Co-Documentation Agents

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### **AMENDED AND RESTATED CREDIT AGREEMENT**

This AMENDED AND RESTATED CREDIT AGREEMENT is entered into as of December 8, 2017 among NSTAR Electric Company, a Massachusetts corporation doing business as Eversource Energy (the “Borrower”), the Lenders (defined herein) and

BARCLAYS BANK PLC, as Administrative Agent and Swing Line Lender.

The Borrower has requested that the Lenders provide \$650,000,000 in revolving credit facilities for the purposes set forth herein, and the Lenders are willing to do so on the terms and conditions set forth herein.

This Agreement is given in amendment to, restatement of and substitution for the Existing Credit Agreement (as hereinafter defined).

In consideration of the mutual covenants and agreements herein contained, the parties hereto covenant and agree as follows:

Article I.

DEFINITIONS AND ACCOUNTING TERMS

1.01 Defined Terms.

As used in this Agreement, the following terms shall have the meanings set forth below:

“Additional Arranger Fee Letter” means the letter agreement, dated as of December 1, 2017 among Eversource, the Borrower, Citigroup Global Markets Inc., The Bank of Tokyo-Mitsubishi UFJ, Ltd., Wells Fargo Securities, LLC, Mizuho Bank, Ltd., TD Securities (USA) LLC and U.S. Bank National Association.

“Additional Commitment Lender” has the meaning specified in Section 2.17(d).

“Administrative Agent” means Barclays in its capacity as administrative agent under any of the Loan Documents, or any successor administrative agent.

“Administrative Agent’s Office” means the Administrative Agent’s address and, as appropriate, account as set forth on Schedule 11.02 or such other address or account as the Administrative Agent may from time to time notify the Borrower and the Lenders.

“Administrative Questionnaire” means an Administrative Questionnaire in a form supplied by the Administrative Agent.

“Affiliate” means, with respect to any Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified.

“Aggregate Revolving Commitments” means the Revolving Commitments of all the Lenders. The aggregate principal amount of the Aggregate Revolving Commitments in effect on the Effective Date is SIX HUNDRED FIFTY MILLION DOLLARS (\$650,000,000).

“Agreement” means this Amended and Restated Credit Agreement.

“Applicable Margin” means, with respect to Revolving Loans, Swing Line Loans and the Facility Fee, for any day, the following percentages per annum in effect on such day, based upon the Reference Rating of the Borrower:

Pricing Level	Reference Rating	Eurodollar Rate Loans	Base Rate Loans	Facility Fee
1	≥A+/A1	0.800%	0.000%	0.075%
2	A/A2	0.900%	0.000%	0.100%
3	A-/A3	1.000%	0.000%	0.125%
4	BBB+/Baa1	1.075%	0.075%	0.175%
5	BBB/Baa2	1.275%	0.275%	0.225%
6	≤BBB-/Baa3	1.475%	0.475%	0.275%

Any increase or decrease in the Applicable Margin resulting from a change in any Reference Rating shall take effect at the time of such change in such Reference Rating. For purposes of the foregoing, (x) in the case of a split in the Reference Ratings of one level, the higher level shall apply, (y) in the case of a split in the Reference Ratings of more than one level, the Reference Rating that is one level lower than the higher level shall apply, and (z) if there is no Reference Rating then the rating Pricing Level 6 shall apply.

“Applicable Percentage” means with respect to any Lender at any time, the percentage of the Aggregate Revolving Commitments represented by such Lender’s Revolving Commitment at such time, subject to adjustment as provided in Section 2.15; provided that if the commitment of each Lender to make Revolving Loans has been terminated in its entirety pursuant to Section 9.02 or if the Aggregate Revolving Commitments have expired, then the Applicable Percentage of each Lender shall be determined based on the Applicable Percentage of such Lender most recently in effect, giving effect to any subsequent assignments. The initial Applicable

Percentage of each Lender is set forth opposite the name of such Lender on Schedule 2.01 or in the Assignment and Assumption pursuant to which such Lender becomes a party hereto, as applicable.

“Approved Fund” means any Fund that is administered or managed by (a) a Lender, (b) an Affiliate of a Lender or (c) an entity or an Affiliate of an entity that administers or manages a Lender.

“Approving Lenders” has the meaning specified in Section 2.17(e).

“Assignee Group” means two or more Eligible Assignees that are Affiliates of one another or two or more Approved Funds managed by the same investment advisor.

“Assignment and Assumption” means an assignment and assumption entered into by a Lender and an Eligible Assignee (with the consent of any party whose consent is required by Section 11.06(b)), and accepted by the Administrative Agent, in substantially the form of Exhibit 11.06(b) or any other form approved by the Administrative Agent.

“Audited Financial Statements” means the audited consolidated balance sheet of the Borrower and its Subsidiaries for the fiscal years ended December 31, 2014, December 31, 2015 and December 31, 2016 and the related consolidated statements of income or operations, shareholders’ equity and cash flows for such fiscal year of such Person, including the notes thereto, audited by independent public accountants of recognized national standing and prepared in conformity with GAAP.

“Availability Period” means, with respect to the Revolving Commitments, the period from and including the Effective Date to the earliest of (a) the Revolving Loan Maturity Date and (b) the date of termination in full of the remaining unused portion of the Aggregate Revolving Commitments pursuant to Section 2.06.

“Bail-In Action” means the exercise of any Write-Down and Conversion Powers by the applicable EEA Resolution Authority in respect of any liability of an EEA Financial Institution.

“Bail-In Legislation” means, with respect to any EEA Member Country implementing Article 55 of Directive 2014/59/EU of the European Parliament and of the Council of the European Union, the implementing law for such EEA Member Country from time to time which is described in the EU Bail-In Legislation Schedule.

“Bank of America” means Bank of America, N.A. and its successors.

“Barclays” means Barclays Bank PLC and its successors.

“Barclays Agency Fee Letter” means the letter agreement, dated as of December 8, 2017 among the Borrower and Barclays.

“Bank of America and Barclays Fee Letter” means the letter agreement, dated as of November 3, 2017 among Eversource, the Borrower, Bank of America, Barclays and MLPFS.

“Base Rate” means for any day a fluctuating rate per annum equal to the highest of (a) the Federal Funds Rate plus one-half of one percent (0.50%), (b) the “prime rate” and (c) the Eurodollar Rate for an Interest Period of one (1) month plus one percent (1.00%), and if the Base Rate shall be less than zero, such rate shall be deemed to be zero for purposes of this Agreement. The “prime rate” is the rate of interest last quoted by The Wall Street Journal as the “Prime Rate” in the U.S. or, if The Wall Street Journal ceases to quote such rate, the highest per annum interest rate published by the Federal Reserve Board in Federal Reserve Statistical Release H.15 (519) (Selected Interest Rates) as the “bank prime loan” rate or, if such rate is no longer quoted therein, any similar rate quoted therein (as determined by the Administrative Agent) or any similar release by the Federal Reserve Board (as determined by the Administrative Agent).

“Base Rate Loan” means a Loan that bears interest based on the Base Rate.

“Benefit Plan” means any of (a) an “employee benefit plan” (as defined in ERISA) that is subject to Title I of ERISA, (b) a “plan” as defined in Section 4975 of the Code or (c) any Person whose assets include (for purposes of ERISA Section 3(42) or otherwise for purposes of Title I of ERISA or Section 4975 of the Code) the assets of any such “employee benefit plan” or “plan”.

“Borrower” has the meaning specified in the introductory paragraph hereto.

“Borrower Materials” has the meaning specified in Section 7.02.

“Borrower Secured Debt” has the meaning specified in the definition of “Reference Ratings”.

“Borrower Unsecured Debt” has the meaning specified in the definition of “Reference Ratings”.

“Borrowing” means each of the following: (a) a borrowing of Swing Line Loans pursuant to Section 2.04 and (b) a borrowing consisting of simultaneous Loans of the same Type and, in the case of Eurodollar Rate Loans, having the same Interest Period made by

each of the Lenders pursuant to Section 2.01.

“Business Day” means any day other than a Saturday, Sunday or other day on which commercial banks are authorized to close under the Laws of, or are in fact closed in, the state where the Administrative Agent’s Office is located or New York and, if such day relates to any Eurodollar Rate Loan, means any such day that is also a London Banking Day.

“Cash Collateralize” means to pledge and deposit with or deliver to the Administrative Agent, for the benefit of the Administrative Agent or Swing Line Lender (as applicable) and the Lenders, as collateral for Obligations in respect of Swing Line Loans or obligations of Lenders to fund participations in respect of Swing Line Loans, cash or deposit account balances or, if the Swing Line Lender benefitting from such collateral shall agree in its sole discretion, other credit support, in each case pursuant to documentation in form and substance reasonably satisfactory to (a) the Administrative Agent and (b) the Swing Line Lender. “Cash Collateral” shall have a meaning correlative to the foregoing and shall include the proceeds of such cash collateral and other credit support.

“Certifying Officer” has the meaning specified in Section 7.02(b).

“Change in Law” means the occurrence, after the date of this Agreement, of any of the following: (a) the adoption or taking effect of any law, rule, regulation or treaty, (b) any change in any law, rule, regulation or treaty or in the administration, interpretation, implementation or application thereof by any Governmental Authority or (c) the making or issuance of any request, rule, guideline or directive (whether or not having the force of law) by any Governmental Authority; provided, that, notwithstanding anything herein to the contrary, (x) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines or directives thereunder or issued in connection therewith and (y) all requests, rules, guidelines or directives promulgated by the Bank for International settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States regulatory authorities, in each case pursuant to Basel III, shall in each case be deemed to be a “Change in Law”, regardless of the date enacted, adopted or issued.

“Change of Control” means the occurrence of any of the following events,

(a) (i) any “person” or “group” (as such terms are used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, but excluding any employee benefit plan of such person or its subsidiaries, and any person or entity acting in its capacity as trustee, agent or other fiduciary or administrator of any such plan) either (A) becomes the “beneficial owner” (as defined in Rules 13d-3 and 13d-5 under the Securities Exchange Act of 1934, except that a person or group shall be deemed to have “beneficial ownership” of all securities that such person or group has the right to acquire (such right, an “option right”), whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of more than fifty percent (50%) of the Equity Interests of Eversource entitled to vote for trustees of Eversource or equivalent governing body of Eversource on a fully diluted basis (and taking into account all such securities that such person or group has the right to acquire pursuant to any option right) or (B) obtains the power (whether or not exercised) to elect a majority of Eversource’s trustees; or

(ii) the board of trustees of Eversource shall not consist of a majority of Continuing Trustees. For purposes of this definition, the term “Continuing Trustees” means trustees of Eversource on the date hereof and each other trustee of Eversource, if such other trustee’s nomination for election to the board of trustees of Eversource is recommended by a majority of the then Continuing Trustees.

(b) Eversource shall cease to own and control, of record and beneficially, free and clear of all Liens except for Liens permitted under Section 8.01 of the Eversource Credit Agreement, one hundred percent (100%) of the outstanding Equity Interests of the Borrower entitled to vote (currently exercisable in the case of any preferred Equity Interests) for the election of directors; or

(c) the Borrower shall cease to own and control, of record and beneficially, free and clear of all Liens except for Liens permitted under Section 8.01, eighty-five percent (85%) of the outstanding Equity Interests entitled to vote (currently exercisable in the case of any preferred Equity Interests) for the election of directors of any Principal Subsidiary.

“Compliance Certificate” has the meaning specified in Section 7.02(b).

“Consolidated Capitalization” means, at any date of determination, the sum of (a) Consolidated Indebtedness of the Borrower, (b) the aggregate of the par value of, or stated capital represented by, the outstanding shares of all classes of common and preferred shares of the Borrower and its Subsidiaries excluding, however, from such calculation, amounts identified as “Accumulated Other Comprehensive Income (Loss)” in the financial statements of the Borrower set forth in the Borrower’s Report on Form 10-K or 10-Q, as the case may be, most recently filed with the SEC prior to the date of such determination and (c) the consolidated surplus of the Borrower and its Subsidiaries, paid-in, earned and other capital, if any, in each case as determined on a consolidated basis in accordance with GAAP.

“Consolidated Indebtedness” means Indebtedness of the Borrower and its Subsidiaries on a consolidated basis determined in accordance with GAAP, excluding, however, from such calculation, (a) in the case of Refinancing Indebtedness, any amounts as to which the Borrower or its Subsidiaries have, (i) in accordance with the terms of the applicable agreements, and on or prior to the date of incurring such Refinancing Indebtedness, sent the holders of the Indebtedness to be refinanced, or their trustee, as applicable, a notice of redemption and (ii) within fourteen (14) days after incurrence of such Refinancing Indebtedness, segregated with the trustee therefor or with such other financial institution as may be acceptable to the Administrative Agent, in accordance with the terms of the applicable agreements relating to such Indebtedness, sufficient funds to redeem such Indebtedness and fully discharge the Borrower’s obligations with respect thereto.

“Consolidated Indebtedness to Capitalization Ratio” means, as of any date of determination, the ratio of (a) Consolidated Indebtedness to (b) Consolidated Capitalization.

“Contractual Obligation” means, as to any Person, any provision of any security issued by such Person or of any agreement, instrument or other undertaking to which such Person is a party or by which it or any of its property is bound.

“Control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. “Controlling” and “Controlled” have meanings correlative thereto. Without limiting the generality of the foregoing, a Person shall be deemed to be Controlled by another Person if such other Person possesses, directly or indirectly, power to vote ten percent (10%) or more of the securities having ordinary voting power for the election of directors, managing general partners or the equivalent.

“Debtor Relief Laws” means the Bankruptcy Code of the United States, and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief Laws of the United States or other applicable jurisdictions from time to time in effect and affecting the rights of creditors generally.

“Default” means any event or condition that constitutes an Event of Default or that, with the giving of any notice, the passage of time, or both, would be an Event of Default.

“Default Rate” means an interest rate equal to (a) the Base Rate plus (b) the Applicable Margin, if any, applicable to Base Rate Loans plus (c) two percent (2%) per annum; provided, however, that with respect to a Eurodollar Rate Loan, the Default Rate shall be an interest rate equal to the interest rate (including any Applicable Margin) otherwise applicable to such Loan plus two percent (2%) per annum, in each case to the fullest extent permitted by applicable Laws.

“Defaulting Lender” means any Lender, as determined by the Administrative Agent, that (a) has failed to perform any of its funding obligations hereunder, including in respect of its Revolving Loans or participations in respect of Swing Line Loans, within three (3) Business Days of the date required to be funded by it hereunder, unless (other than in respect of fundings of participations of Swing Line Loans) such Lender notifies the Administrative Agent and the Borrower in writing that such failure is the result of such Lender’s good faith determination that one or more conditions precedent to funding (each of which conditions precedent, together with any applicable default, shall be specifically identified in such writing) has not been satisfied, (b) has notified the Borrower or the Administrative Agent that it does not intend to comply with its funding obligations hereunder or has made a public statement to that effect with respect to its funding obligations hereunder (unless (other than in respect of fundings of participations of Swing Line Loans) such writing or public statement relates to such Lender’s obligation to fund a Loan hereunder and states that such position is based on such Lender’s good faith determination that a condition precedent to funding (which condition precedent, together with any applicable default, shall be specifically identified in such writing or public statement) cannot be satisfied) or under other agreements in which it commits to extend credit, (c) has failed, within three (3) Business Days after request by the Administrative Agent, to confirm in a manner satisfactory to the Administrative Agent that it will comply with its funding obligations hereunder (provided that such Lender shall cease to be a Defaulting Lender pursuant to this clause (c) upon receipt of such written confirmation by the Administrative Agent and the Borrower) or (d) has, or has a direct or indirect parent company that has, (i) become the subject of a proceeding under any Debtor Relief Law, (ii) had a receiver, conservator, trustee, administrator, assignee for the benefit of creditors or similar Person charged with reorganization or liquidation of its business or a custodian appointed for it, (iii) taken any action in furtherance of, or indicated its consent to, approval of or acquiescence in any such proceeding or appointment or (iv) become the subject of a Bail-In Action; provided, that, a Lender shall not be a Defaulting Lender solely by virtue of the ownership or acquisition of any Equity Interests in that Lender or any direct or indirect parent company thereof by a Governmental Authority so long as such ownership interest does not result in or provide such Lender with immunity from the jurisdiction of courts within the United States or from the enforcement of judgments or writs of attachment on its assets or permit such Lender (or such Governmental Authority) to reject, repudiate, disavow or disaffirm any contracts or agreements made with such Lender. Such Lender shall cease to be a Defaulting Lender when the provisions of Section 2.15(b) shall have been satisfied.

“Designated Jurisdiction” means any country, region or territory to the extent that such country, region or territory is the subject of any Sanction.

“Disclosure Documents” means for the Borrower and each Principal Subsidiary, as applicable: (a) such Person’s Annual Report on Form 10-K for the fiscal year ended December 31, 2016; (b) its Quarterly Report on Form 10-Q for the fiscal quarter ended

September 30, 2017; and (c) such Person's Current Reports on Form 8-K filed after December 31, 2016 but prior to the date hereof.

“Dollar” and “\$” mean lawful money of the United States.

“Domestic Subsidiary” means any Subsidiary that is organized under the laws of any state of the United States or the District of Columbia.

“DPU” means the Massachusetts Department of Public Utilities and any successor agency thereto.

“EEA Financial Institution” means (a) any credit institution or investment firm established in any EEA Member Country which is subject to the supervision of an EEA Resolution Authority, (b) any entity established in an EEA Member Country which is a parent of an institution described in clause (a) of this definition, or (c) any financial institution established in an EEA Member Country which is a Subsidiary of an institution described in clauses (a) or (b) of this definition and is subject to consolidated supervision with its parent.

“EEA Member Country” means any of the member states of the European Union, Iceland, Liechtenstein, and Norway.

“EEA Resolution Authority” means any public administrative authority or any Person entrusted with public administrative authority of any EEA Member Country (including any delegee) having responsibility for the resolution of any EEA Financial Institution.

“Effective Date” means the date hereof.

“Eligible Assignee” means any Person that meets the requirements to be an assignee under Section 11.06(b)(ii) and (iv) (subject to such consents, if any, as may be required under Section 11.06(b)(ii)).

“Environmental Laws” means any and all federal, state, local, foreign and other applicable statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses, agreements or governmental restrictions relating to pollution and the protection of the environment or the release of any materials into the environment, including those related to hazardous substances or wastes, air emissions and discharges to waste or public systems.

“Environmental Liability” means any liability, contingent or otherwise (including any liability for damages, costs of environmental remediation, fines, penalties or indemnities), of the Borrower or any of its Subsidiaries directly or indirectly resulting from or based upon (a) violation of any Environmental Law, (b) the generation, use, handling, transportation, storage, treatment or disposal of any Hazardous Materials, (c) exposure to any Hazardous Materials, (d) the release or threatened release of any Hazardous Materials into the environment or (e) any contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

“Equity Interests” means, with respect to any Person, all of the shares of capital stock of (or other ownership or profit interests in) such Person, all of the warrants, options or other rights for the purchase or acquisition from such Person of shares of capital stock of (or other ownership or profit interests in) such Person, all of the securities convertible into or exchangeable for shares of capital stock of (or other ownership or profit interests in) such Person or warrants, rights or options for the purchase or acquisition from such Person of such shares (or such other interests), and all of the other ownership or profit interests in such Person (including partnership, member or trust interests therein), whether voting or nonvoting, and whether or not such shares, warrants, options, rights or other interests are outstanding on any date of determination.

“ERISA” means the Employee Retirement Income Security Act of 1974.

“ERISA Affiliate” means any trade or business (whether or not incorporated) under common control with the Borrower within the meaning of Section 414(b) or (c) of the Internal Revenue Code (and Sections 414(m) and (o) of the Internal Revenue Code for purposes of provisions relating to Section 412 of the Internal Revenue Code).

“ERISA Event” means (a) a Reportable Event with respect to a Pension Plan; (b) the withdrawal of the Borrower or any ERISA Affiliate from a Pension Plan subject to Section 4063 of ERISA during a plan year in which such entity was a “substantial employer” as defined in Section 4001(a)(2) of ERISA or a cessation of operations that is treated as such a withdrawal under Section 4062(e) of ERISA; (c) a complete or partial withdrawal by the Borrower or any ERISA Affiliate from a Multiemployer Plan; (d) the filing of a notice of intent to terminate, the treatment of a Pension Plan amendment as a termination under Sections 4041 of ERISA; (e) the institution by the PBGC of proceedings to terminate a Pension Plan; (f) any event or condition which constitutes grounds under Section 4042(a)(1)-(a)(3) of ERISA for the termination of, or the appointment of a trustee to administer, any Pension Plan; (g) the determination that any Pension Plan is considered an at-risk plan or a plan in endangered or critical status within the meaning of Sections 430, 431 and 432 of the Internal Revenue Code or Sections 303, 304 and 305 of ERISA in a manner that would affect the Borrower's ability to perform its Obligations hereunder; or (h) the imposition of any liability under Title IV of ERISA, other than for PBGC premiums due but not delinquent under Section 4007 of ERISA, upon the Borrower or any ERISA Affiliate in a manner that would affect the Borrower's ability to perform its Obligations hereunder.

“EU Bail-In Legislation Schedule” means the EU Bail-In Legislation Schedule published by the Loan Market Association (or any successor person), as in effect from time to time.

“Eurodollar Base Rate” means, for any Interest Period with respect to any Eurodollar Rate Loan, (a) the rate per annum determined by the Administrative Agent to be the offered rate which appears on the page of the Reuters Screen which displays the London interbank offered rate (such page currently being the LIBOR01 page) (the “LIBO Rate”) for deposits (for delivery on the first day of such Interest Period) with a term equivalent to such Interest Period in Dollars, determined as of approximately 11:00 a.m. (London, England time), two Business Days prior to the commencement of such Interest Period, or (b) in the event the rate referenced in the preceding clause (a) does not appear on such page or service or if such page or service shall cease to be available, the rate determined by the Administrative Agent to be the offered rate on such other page or other service which displays the LIBO Rate for deposits (for delivery on the first day of such Interest Period) with a term equivalent to such Interest Period in Dollars, determined as of approximately 11:00 a.m. (London, England time) two Business Days prior to the commencement of such Interest Period; provided that if any such rate determined pursuant to the preceding clauses (a) or (b) is less than zero, the Eurodollar Base Rate will be deemed to be zero.

“Eurodollar Rate” means (a) for any Interest Period with respect to any Eurodollar Rate Loan, a rate per annum determined by the Administrative Agent to be equal to the quotient obtained by dividing (i) the Eurodollar Base Rate for such Eurodollar Rate Loan for such Interest Period by (ii) one minus the Eurodollar Reserve Percentage for such Eurodollar Rate Loan as in effect from time to time during such Interest Period and (b) for any day with respect to any Base Rate Loan bearing interest at a rate based on the Eurodollar Rate, a rate per annum determined by the Administrative Agent to be equal to the quotient obtained by dividing (i) the Eurodollar Base Rate for such Base Rate Loan for such day by (ii) one minus the Eurodollar Reserve Percentage for such Base Rate Loan for such day.

“Eurodollar Rate Loan” means a Loan that bears interest at a rate based on clause (a) of the definition of “Eurodollar Rate”.

“Eurodollar Reserve Percentage” means, for any day during any Interest Period, the reserve percentage (expressed as a decimal, carried out to five decimal places) in effect on such day, whether or not applicable to any Lender, under regulations issued from time to time by the FRB for determining the maximum reserve requirement (including any emergency, supplemental or other marginal reserve requirement) with respect to Eurocurrency funding (currently referred to as “Eurocurrency liabilities”). The Eurodollar Rate for each outstanding Eurodollar Rate Loan and for each outstanding Base Rate Loan the interest on which is determined by reference to the Eurodollar Rate, in each case, shall be adjusted automatically as of the effective date of any change in the Eurodollar Reserve Percentage.

“Event of Default” has the meaning specified in Section 9.01.

“Eversource” means Eversource Energy, an unincorporated voluntary business association organized under the laws of the Commonwealth of Massachusetts.

“Eversource Credit Agreement” means that certain Amended and Restated Credit Agreement dated as of the date hereof by and among Eversource, NSTAR Gas Company, a Massachusetts corporation, The Connecticut Light and Power Company, a Connecticut corporation, Public Service Company of New Hampshire, a New Hampshire corporation, Western Massachusetts Electric Company, a Massachusetts corporation, and Yankee Gas Services Company, a Connecticut corporation, as borrowers, the lenders party thereto and Bank of America, as administrative agent, as amended or modified from time to time.

“Excluded Taxes” means, with respect to the Administrative Agent, any Lender or any other recipient of any payment to be made by or on account of any obligation of the Borrower hereunder, (a) Taxes imposed on or measured by its overall income (however denominated), and franchise (and similar) Taxes imposed on it (in lieu of income Taxes), (i) by the jurisdiction (or any political subdivision thereof) under the Laws of which such recipient is organized or in which its principal office is located or, in the case of any Lender, in which its applicable Lending Office is located or (ii) as a result of a present or former connection between such recipient and the jurisdiction of the Governmental Authority imposing such Tax (other than a connection arising solely from such recipient having executed, delivered, become a party to, perform its obligations under, received a payment under, received or perfected a security interest under or engaged in any other transaction pursuant to or enforced under any Loan Document), (b) any branch profits Taxes imposed by the United States or any similar Tax imposed by any other jurisdiction in which the Borrower is located, (c) in the case of a Foreign Lender (other than an assignee pursuant to a request by the Borrower under Section 11.13), any United States withholding Tax that is required to be imposed on amounts payable to such Foreign Lender pursuant to the Laws in force at the time such Foreign Lender becomes a party hereto (or designates a new Lending Office or changes its place of organization), except to the extent that such Foreign Lender (or its assignor, if any) was entitled, at the time of designation of a new Lending Office (or assignment) or change in its place of organization, to receive additional amounts from the Borrower with respect to such withholding Tax pursuant to Section 3.01(a)(i) or (c), (d) Taxes attributable to such recipient’s failure or inability to comply with Section 3.01(e) and (e) any U.S. federal withholding taxes imposed under FATCA.

“Existing Credit Agreement” means that certain Amended and Restated Credit Agreement dated October 26, 2015 by and among the Borrower, the lenders party thereto and Barclays, as administrative agent.

“Facility Fee” has the meaning set forth in Section 2.09(a).

“FATCA” means Sections 1471 through 1474 of the Internal Revenue Code, as of the date of this Agreement (or any amended or successor version that is substantively comparable and not materially more onerous to comply with) and any current or future regulations or official interpretations thereof, any agreements entered into pursuant to Section 1471(b)(1) of the Internal Revenue Code and any intergovernmental agreements entered into pursuant to such provisions of the Internal Revenue Code.

“Federal Funds Rate” means, for any day, the rate per annum equal to the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided that (a) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (b) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average rate (rounded upward, if necessary, to a whole multiple of 1/100 of 1%) charged to Barclays on such day on such transactions as determined by the Administrative Agent.

“Fee Letters” means the Bank of America and Barclays Fee Letter, the Additional Arranger Fee Letter and the Barclays Agency Fee Letter.

“FERC” means the Federal Energy Regulatory Commission or any successor agency thereto.

“Financing Agreements” has the meaning specified in Section 8.09.

“Foreign Lender” means any Lender that is not a U.S. Person.

“FRB” means the Board of Governors of the Federal Reserve System of the United States.

“Fronting Exposure” means, at any time there is a Defaulting Lender, with respect to the Swing Line Lender, such Defaulting Lender’s Applicable Percentage of Swing Line Loans other than Swing Line Loans as to which such Defaulting Lender’s participation obligation has been reallocated to other Lenders or Cash Collateralized in accordance with the terms hereof.

“Fund” means any Person (other than a natural person) that is (or will be) engaged in making, purchasing, holding or otherwise investing in commercial loans and similar extensions of credit in the ordinary course of its activities.

“GAAP” means generally accepted accounting principles in the United States set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board, consistently applied and as in effect from time to time.

“Governmental Approval” means any authorization, consent, approval, license, permit, certificate, exemption of, or filing or registration with, any governmental authority or other legal regulatory body (including, without limitation, the SEC, FERC, the Nuclear Regulatory Commission, the Connecticut Public Utility Regulatory Authority, the New Hampshire Public Utilities Commission and the DPU) required in connection with (i) the execution, delivery or performance of any Loan Document, or (ii) the nature of the Borrower’s or any Subsidiary’s business as conducted or the nature of the property owned or leased by it.

“Governmental Authority” means the government of the United States or any other nation, or of any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government (including any supra-national bodies such as the European Union or the European Central Bank).

“Hazardous Materials” means all explosive or radioactive substances or wastes and all hazardous or toxic substances, wastes or other pollutants, including petroleum or petroleum distillates, asbestos or asbestos-containing materials, polychlorinated biphenyls, radon gas, infectious or medical wastes and all other substances or wastes of any nature identified as hazardous, dangerous or toxic and regulated pursuant to any Environmental Law.

“Indebtedness” of any Person means at any date, without duplication, (a) all obligations of such Person for borrowed money or for the deferred purchase price of property or services other than trade accounts payable, (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments (excluding Stranded Cost Recovery Obligations that are non-recourse to such Person), (c) all obligations of such Person upon which interest charges are customarily paid, (d) all obligations under leases that shall have been or should be, in accordance with GAAP, recorded as capital leases in respect of which such Person is liable as lessee, (e) liabilities in respect of unfunded vested benefits incurred under any Multiemployer Plan that is reasonably likely to result in a direct obligation of the Borrower to pay money, (f) reimbursement obligations of such Person (whether contingent or otherwise) in respect of letters of credit, bankers acceptances, surety or other bonds and similar instruments that are not cash collateralized, (g) all Indebtedness of others secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person, up to the greater of (x) the extent of the book value of any such asset so pledged and (y) the amount of any liability of such Person for any deficiency

and (h) obligations of such Person under direct or indirect guaranties in respect of, and obligations (contingent or otherwise) to purchase or otherwise acquire, or otherwise to assure a creditor against loss in respect of, indebtedness or obligations of others of the kinds referred to above.

“Indemnified Taxes” means (a) Taxes other than Excluded Taxes imposed on or with respect to any payment made by or on account of any obligation of the Borrower under any Loan Document and (b) Other Taxes.

“Indemnitees” has the meaning specified in Section 11.04(b).

“Information” has the meaning specified in Section 11.07.

“Interest Payment Date” means (a) as to any Eurodollar Rate Loan, the last day of each Interest Period applicable to such Loan and the Revolving Loan Maturity Date; provided, however, that if any Interest Period for a Eurodollar Rate Loan exceeds three (3) months, the respective dates that fall every three months after the beginning of such Interest Period shall also be Interest Payment Dates; and (b) as to any Base Rate Loan (including a Swing Line Loan), the last Business Day of each March, June, September and December and the Revolving Loan Maturity Date.

“Interest Period” means, as to each Eurodollar Rate Loan, the period commencing on the date such Eurodollar Rate Loan is disbursed or converted to or continued as a Eurodollar Rate Loan and ending on the date one (1), two (2), three (3) or six (6) months thereafter (in each case, subject to availability), as selected by the Borrower in its Revolving Loan Notice, or such other period that is twelve months or less requested by the Borrower and consented to by all of the applicable Lenders, provided that:

(a) any Interest Period that would otherwise end on a day that is not a Business Day shall be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Business Day;

(b) any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of the calendar month at the end of such Interest Period; and

(c) no Interest Period with respect to any Revolving Loan shall extend beyond the Revolving Loan Maturity Date.

“Interim Financial Statements” has the meaning set forth in Section 5.01(c)(ii).

“Internal Revenue Code” means the Internal Revenue Code of 1986, as amended.

“Internal Revenue Service” means the United States Internal Revenue Service.

“Joint Lead Arrangers” means, collectively, MLPFS, Barclays, Citigroup Global Markets Inc., The Bank of Tokyo-Mitsubishi UFJ, Ltd., Wells Fargo Securities, LLC, Mizuho Bank, Ltd., TD Securities (USA) LLC and U.S. Bank National Association, in their capacities as joint lead arrangers and joint bookrunners, in each case together with their respective successors and assigns.

“Laws” means, collectively, all international, foreign, federal, state and local statutes, treaties, rules, guidelines, regulations, ordinances, codes and administrative or judicial precedents or authorities, including the interpretation or administration thereof by any Governmental Authority charged with the enforcement, interpretation or administration thereof, and all applicable administrative orders, directed duties, licenses, authorizations and permits of, and agreements with, any Governmental Authority, in each case having the force of law.

“Lenders” means each of the Persons identified as a “Lender” on the signature pages hereto and their successors and assigns and, as the context requires, includes the Swing Line Lender.

“Lending Office” means, as to any Lender, the office or offices of such Lender described as such in such Lender’s Administrative Questionnaire, or such other office or offices as a Lender may from time to time notify the Borrower and the Administrative Agent.

“Lien” means any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), charge, or preference, priority or other security interest or preferential arrangement in the nature of a security interest of any kind or nature whatsoever (including any conditional sale or other title retention agreement, any easement, right of way or other encumbrance on title to real property, and any financing lease having substantially the same economic effect as any of the foregoing).

“Loan” means an extension of credit by a Lender to the Borrower under Article II in the form of a Revolving Loan or Swing Line Loan.

“Loan Documents” means this Agreement, each Note and any agreement creating or perfecting rights in Cash Collateral

pursuant to the provisions of [Section 2.14](#) of this Agreement.

“[London Banking Day](#)” means any day on which dealings in Dollar deposits are conducted by and between banks in the London interbank eurodollar market.

“[Long-Term Indebtedness Approvals](#)” has the meaning specified in the definition of “Revolving Loan Maturity Date”.

“[Material Adverse Effect](#)” means, with respect to the Borrower, (a) a material adverse change in, or a material adverse effect upon, the operations, business, properties or financial condition of the Borrower and its Subsidiaries taken as a whole; (b) a material impairment of the rights and remedies of the Administrative Agent or any Lender under the Loan Documents or of the ability of the Borrower to perform its obligations under any Loan Document to which it is a party; or (c) a material adverse effect upon the legality, validity, binding effect or enforceability against the Borrower of any Loan Document to which it is a party.

“[MLPFS](#)” means Merrill Lynch, Pierce, Fenner & Smith Incorporated (or any other registered broker-dealer wholly-owned by Bank of America Corporation to which all or substantially all of Bank of America Corporation’s or any of its subsidiaries’ investment banking, commercial lending services or related businesses may be transferred following the date of this Agreement).

“[Moody’s](#)” means Moody’s Investors Service, Inc. and any successor thereto.

“[Multiemployer Plan](#)” means any employee benefit plan of the type described in Section 4001(a)(3) of ERISA, to which the Borrower or any ERISA Affiliate makes or is obligated to make contributions, or during the preceding five plan years, has made or been obligated to make contributions.

“[Non-Consenting Lender](#)” has the meaning set forth in [Section 11.13](#).

“[Non-Extending Lender](#)” has the meaning specified in [Section 2.17\(b\)](#).

“[Note](#)” or “[Notes](#)” means the Revolving Notes or the Swing Line Note, individually or collectively, as appropriate.

“[Notice Date](#)” has the meaning specified in [Section 2.17\(b\)](#).

“[Obligations](#)” means, without duplication, all of the obligations of the Borrower to the Lenders and the Administrative Agent, whenever arising, under this Agreement, any Notes or any of the other Loan Documents.

“[Organization Documents](#)” means, (a) with respect to any corporation, the certificate or articles of incorporation and the bylaws (or equivalent or comparable constitutive documents with respect to any non-U.S. jurisdiction); (b) with respect to any limited liability company, the certificate or articles of formation or organization and operating agreement; and (c) with respect to any partnership, joint venture, trust or other form of business entity, the partnership, joint venture or other applicable agreement of formation or organization and any agreement, instrument, filing or notice with respect thereto filed in connection with its formation or organization with the applicable Governmental Authority in the jurisdiction of its formation or organization and, if applicable, any certificate or articles of formation or organization of such entity.

“[Other Taxes](#)” means all present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies arising from any payment made hereunder or under any other Loan Document or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement or any other Loan Document. For the avoidance of doubt, “Other Taxes” shall not include any Excluded Taxes.

“[Outstanding Amount](#)” means with respect to any Loans on any date, the aggregate outstanding principal amount thereof after giving effect to any borrowings and prepayments or repayments of any Loans occurring on such date.

“[Participant](#)” has the meaning specified in [Section 11.06\(d\)](#).

“[Participant Register](#)” has the meaning specified in [Section 11.06\(d\)](#).

“[PBGC](#)” means the Pension Benefit Guaranty Corporation or any successor thereto.

“[Pension Act](#)” means the Pension Protection Act of 2006.

“[Pension Funding Rules](#)” means the rules of the Internal Revenue Code and ERISA regarding minimum required contributions (including any installment payment thereof) to Pension Plans and set forth in Section 412, 430, 431, 432 and 436 of the Internal Revenue Code and Sections 302, 303, 304 and 305 of ERISA.

“[Pension Plan](#)” means any employee pension benefit plan as defined in Section 3(2) of ERISA (other than a Multiemployer Plan) that is maintained or is contributed to by the Borrower and any ERISA Affiliate and is either covered by Title IV of ERISA or is subject to minimum funding standards under Section 412 of the Internal Revenue Code.

“Person” means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

“Platform” has the meaning specified in Section 7.02.

“Prepayment Notice” means a notice of prepayment pursuant to Section 2.05(a), which shall be substantially in the form of Exhibit 2.05 or such other form as may be reasonably approved by the Administrative Agent (including any form on an electronic platform or electronic transmission system as shall be approved by the Administrative Agent), appropriately completed and signed by a Responsible Officer.

“Principal Subsidiary” means (a) any Subsidiary that during any fiscal quarter, with respect to the Borrower and its Subsidiaries taken as a whole, represents at least (i) ten percent (10%) of the Borrower’s consolidated assets (calculated as an average of such consolidated assets over the preceding four fiscal quarters) and (ii) ten percent (10%) of the Borrower’s consolidated net income (or loss) (calculated as a sum of such net income (or loss) over the preceding four fiscal quarters), whether such Subsidiary is owned directly or indirectly by the Borrower or (b) any Person deemed to be a “Principal Subsidiary” pursuant to Section 8.02.

“PTE” means a prohibited transaction class exemption issued by the U.S. Department of Labor, as any such exemption may be amended from time to time.

“Public Lender” has the meaning specified in Section 7.02.

“Recipient” means the Administrative Agent, any Lender or any other recipient of any payment to be made by or on account of any obligation of the Borrower hereunder.

“Reference Ratings” means the rating(s) assigned by S&P and/or Moody’s to the long-term senior unsecured non-credit enhanced debt (the “Borrower Unsecured Debt”) of the Borrower; provided, that:

(a) if neither S&P nor Moody’s maintains a rating on the Borrower Unsecured Debt of the Borrower because no such Borrower Unsecured Debt is outstanding, then the “Reference Ratings” shall be based on the rating(s) assigned by S&P and/or Moody’s to the long-term senior secured debt (the “Borrower Secured Debt”) of the Borrower, but such rating(s) shall be deemed to be one rating category lower than the rating assigned to the Borrower Secured Debt by S&P or Moody’s for purposes of determining the Pricing Level as set forth in the definition of “Applicable Margin” (e.g. a Borrower Secured Debt of AA-/Aa3 shall be deemed to be A+/A1 and a Borrower Secured Debt of A-/A3 shall be deemed to be BBB+/Baa1).

(b) if neither S&P nor Moody’s (A) maintains a rating on the Borrower Unsecured Debt of the Borrower because no such Borrower Unsecured Debt is outstanding and (B) maintains a rating on the Borrower Secured Debt of the Borrower because no such Borrower Secured Debt is outstanding, then the “Reference Ratings” shall be based on the Borrower’s long-term corporate/issuer rating(s) as maintained by S&P and/or Moody’s, if such rating(s) exist.

“Refinancing Indebtedness” means Consolidated Indebtedness incurred for the purpose of refinancing existing Consolidated Indebtedness.

“Register” has the meaning specified in Section 11.06(c).

“Related Parties” means, with respect to any Person, such Person’s Affiliates and the partners, directors, officers, employees, agents, trustees and advisors of such Person and of such Person’s Affiliates.

“Reportable Event” means any of the events set forth in Section 4043(c) of ERISA, other than events for which the thirty-day notice period has been waived.

“Request for Borrowing” means (a) with respect to a Borrowing, conversion or continuation of Revolving Loans, a Revolving Loan Notice and (b) with respect to a Swing Line Loan, a Swing Line Loan Notice.

“Required Lenders” means, at any time, Lenders having Total Credit Exposures representing more than fifty percent (50%) of the Total Credit Exposures of all Lenders. The Total Credit Exposure of any Defaulting Lender shall be disregarded in determining Required Lenders at any time; provided that the amount of any participation in any Swing Line Loan that such Defaulting Lender has failed to fund that have not been reallocated to and funded by another Lender shall be deemed to be held by the Lender that is the Swing Line Lender in making such determination.

“Responsible Officer” means the chief executive officer, president, chief financial officer, treasurer, assistant treasurer or controller of the Borrower and, solely for purposes of the delivery of certificates pursuant to Section 5.01, the secretary or any assistant secretary of the Borrower. Any document delivered hereunder that is signed by a Responsible Officer of the Borrower shall be conclusively presumed to have been authorized by all necessary corporate, partnership and/or other action on the part of the Borrower

and such Responsible Officer shall be conclusively presumed to have acted on behalf of the Borrower.

“Revolving Commitment” means, as to each Lender, its obligation to (a) make Revolving Loans to the Borrower pursuant to Section 2.01 and (b) purchase participations in Swing Line Loans, in an aggregate principal amount at any one time outstanding not to exceed the amount set forth opposite such Lender’s name on Schedule 2.01 or in the Assignment and Assumption pursuant to which such Lender becomes a party hereto, as applicable, as such amount may be adjusted from time to time in accordance with this Agreement.

“Revolving Credit Exposure” means, as to any Lender at any time, the sum of (i) the aggregate Outstanding Amount of such Lender’s Revolving Loans at such time plus (ii) such Lender’s Applicable Percentage of the Outstanding Amount of all Swing Line Loans at such time.

“Revolving Loan” has the meaning specified in Section 2.01.

“Revolving Loan Notice” means a notice of (a) a Borrowing of Revolving Loans, (b) a conversion of Revolving Loans from one Type to the other, or (c) a continuation of Eurodollar Rate Loans, in each case pursuant to Section 2.02(a), which shall be substantially in the form of Exhibit 2.02(a) or such other form as may be approved by the Administrative Agent (including any form on an electronic platform or electronic transmission system as shall be approved by the Administrative Agent), appropriately completed and signed by a Responsible Officer.

“Revolving Loan Maturity Date” means (a) the later of (i) December 8, 2022 and (ii) with respect to some or all of the Lenders if the Revolving Loan Maturity Date is extended pursuant to Section 2.17, such extended Revolving Loan Maturity Date or (b) such earlier date on which the Loans are due and payable pursuant to the terms of this Agreement; provided, that if the Borrower is unable to obtain all required Governmental Approvals, such approvals to be reasonably satisfactory to the Administrative Agent, for the Borrower’s incurrence of indebtedness payable more than one (1) year from the incurrence thereof (“Long-Term Indebtedness Approvals”) prior to the initial making of any Loan hereunder, then the Revolving Loan Maturity Date for the Borrower shall be the date that is the 364<sup>th</sup> day to occur following the date of the initial Borrowing by the Borrower hereunder (the “364-Day Maturity Date”), provided that in no event shall the 364-Day Maturity Date be later than the Revolving Loan Maturity Date set forth in clause (a) above; provided further that if the Borrower shall obtain such Long-Term Indebtedness Approvals prior to the 364-Day Maturity Date, then, at the request of the Borrower and provided that (x) no Default or Event of Default exists with respect to the Borrower and (y) the representations and warranties of the Borrower contained in Article VI (other than Sections 6.05(c) and 6.06) or in any other Loan Document shall be true and correct in all material respects on and as of the date, such 364-Day Maturity Date shall automatically extend to the extent permitted by such Governmental Approval but in no event later than the Revolving Loan Maturity Date set forth in clause (a) above.

“Revolving Note” has the meaning specified in Section 2.11(a).

“S&P” means Standard & Poor’s Financial Services LLC, a subsidiary of McGraw-Hill Financial Inc., and any successor thereto.

“Sanctions” means any international economic sanction administered or enforced by the United States government (including, without limitation, OFAC), the United Nations Security Council, the European Union, Her Majesty’s Treasury or other relevant sanctions authority.

“SEC” means the Securities and Exchange Commission, or any Governmental Authority succeeding to any of its principal functions.

“Solvent” or “Solvency” means, with respect to any Person as of a particular date, that on such date (a) such Person is able to pay its debts and other liabilities, including contingent obligations as they mature, (b) such Person is not engaged in a business or a transaction, and is not about to engage in a business or a transaction, for which such Person’s property would constitute unreasonably small capital, (c) the fair value of the property of such Person is greater than the total amount of liabilities, including contingent liabilities, of such Person and (d) the present fair salable value of the assets of such Person is not less than the amount that will be required to pay the probable liability of such Person on its debts as they become absolute and matured. In computing the amount of contingent liabilities at any time, it is intended that such liabilities will be computed at the amount which, in light of all the facts and circumstances existing at such time, represents the amount that can reasonably be expected to become an actual or matured liability.

“Stranded Cost Recovery Obligations” means, with respect to any Person, such Person’s obligations to make principal, interest or other payments to the issuer of stranded cost recovery bonds pursuant to a loan agreement or similar arrangement whereby the issuer has loaned the proceeds of such bonds to such Person.

“Subsidiary” of a Person means a corporation, partnership, joint venture, limited liability company or other business entity of which a majority of the shares of Voting Stock is at the time beneficially owned, or the management of which is otherwise controlled, directly, or indirectly through one or more intermediaries, or both, by such Person. Unless otherwise specified, all references herein to a “Subsidiary” or to “Subsidiaries” shall refer to a Subsidiary or Subsidiaries of the Borrower.

“Swap Contract” means (a) any and all rate swap transactions, basis swaps, credit derivative transactions, forward rate transactions, commodity swaps, commodity options, forward commodity contracts, equity or equity index swaps or options, bond or bond price or bond index swaps or options or forward bond or forward bond price or forward bond index transactions, interest rate options, forward foreign exchange transactions, cap transactions, floor transactions, collar transactions, currency swap transactions, cross-currency rate swap transactions, currency options, spot contracts, or any other similar transactions or any combination of any of the foregoing (including any options to enter into any of the foregoing), whether or not any such transaction is governed by or subject to any master agreement, and (b) any and all transactions of any kind, and the related confirmations, which are subject to the terms and conditions of, or governed by, any form of master agreement published by the International Swaps and Derivatives Association, Inc., any International Foreign Exchange Master Agreement, or any other master agreement (any such master agreement, together with any related schedules, a “Master Agreement”), including any such obligations or liabilities under any Master Agreement, but excluding in all instances obligations under default service and standard offer power supply agreements entered into in the ordinary course of business.

“Swap Termination Value” means, in respect of any one or more Swap Contracts, after taking into account the effect of any legally enforceable netting agreement relating to such Swap Contracts, (a) for any date on or after the date such Swap Contracts have been closed out and termination value(s) determined in accordance therewith, such termination value(s) and (b) for any date prior to the date referenced in clause (a), the amount(s) determined as the mark-to-market value(s) for such Swap Contracts, as determined based upon one or more mid-market or other readily available quotations provided by any recognized dealer in such Swap Contracts (which may include a Lender or any Affiliate of a Lender).

“Swing Line Lender” means Barclays in its capacity as provider of Swing Line Loans, or any successor swing line lender hereunder.

“Swing Line Loan” has the meaning specified in Section 2.04(a).

“Swing Line Loan Notice” means a notice of a Borrowing of Swing Line Loans pursuant to Section 2.04(b), which shall be substantially in the form of Exhibit 2.04(b) or such other form as approved by the Administrative Agent (including any form on an electronic platform or electronic transmission system as shall be approved by the Administrative Agent), appropriately completed and signed by a Responsible Officer.

“Swing Line Note” has the meaning specified in Section 2.11(a).

“Swing Line Sublimit” means an amount equal to the lesser of (a) \$50,000,000 and (b) the Aggregate Revolving Commitments. The Swing Line Sublimit is part of, and not in addition to, the Aggregate Revolving Commitments.

“Synthetic Lease” means any synthetic lease, tax retention operating lease, off-balance sheet loan or similar off-balance sheet financing arrangement whereby the arrangement is considered borrowed money indebtedness for tax purposes but is classified as an operating lease or does not otherwise appear on a balance sheet under GAAP.

“Taxes” means all present or future taxes, levies, imposts, duties, deductions, withholdings (including backup withholding), assessments, fees or other charges imposed by any Governmental Authority, including any interest, additions to tax or penalties applicable thereto.

“Threshold Amount” means \$50,000,000.

“364-Day Maturity Date” has the meaning specified in the definition of “Revolving Loan Maturity Date”.

“Total Credit Exposure” means, as to any Lender at any time, the unused Revolving Commitments and Revolving Credit Exposure of such Lender at such time.

“Total Revolving Outstandings” means the aggregate Outstanding Amount of all Revolving Loans and all Swing Line Loans.

“Type” means, with respect to any Loan, its character as a Base Rate Loan or a Eurodollar Rate Loan.

“United States” and “U.S.” mean the United States of America.

“U.S. Person” means any Person that is a “United States person” as defined in Section 7701(a)(30) of the Internal Revenue Code.

“U.S. Tax Compliance Certificate” has the meaning specified in Section 3.01(e)(ii)(B)(III).

“Voting Stock” means, with respect to any Person, Equity Interests issued by such Person the holders of which are ordinarily, in the absence of contingencies, entitled to vote for the election of directors (or persons performing similar functions) of such Person, even though the right so to vote has been suspended by the happening of such a contingency.

“WMECO” means Western Massachusetts Electric Company, a Massachusetts corporation.

“Write-Down and Conversion Powers” means, with respect to any EEA Resolution Authority, the write-down and conversion powers of such EEA Resolution Authority from time to time under the Bail-In Legislation for the applicable EEA Member Country, which write-down and conversion powers are described in the EU Bail-In Legislation Schedule.

#### 1.02 Other Interpretive Provisions.

With reference to this Agreement and each other Loan Document, unless otherwise specified herein or in such other Loan Document:

(a) The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words “include,” “includes” and “including” shall be deemed to be followed by the phrase “without limitation.” The word “will” shall be construed to have the same meaning and effect as the word “shall.” Unless the context requires otherwise, (i) any definition of or reference to any agreement, instrument or other document (including any Organization Document) shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein or in any other Loan Document), (ii) any reference herein to any Person shall be construed to include such Person’s successors and assigns, (iii) the words “hereto,” “herein,” “hereof” and “hereunder,” and words of similar import when used in any Loan Document, shall be construed to refer to such Loan Document in its entirety and not to any particular provision thereof, (iv) all references in a Loan Document to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, the Loan Document in which such references appear, (v) any reference to any law shall include all statutory and regulatory provisions consolidating, amending, replacing or interpreting such law and any reference to any law or regulation shall, unless otherwise specified, refer to such law or regulation as amended, modified or supplemented from time to time, and (vi) the words “asset” and “property” shall be construed to have the same meaning and effect and to refer to any and all real and personal property and tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

(b) In the computation of periods of time from a specified date to a later specified date, the word “from” means “from and including,” the words “to” and “until” each mean “to but excluding,” and the word “through” means “to and including.”

(c) Section headings herein and in the other Loan Documents are included for convenience of reference only and shall not affect the interpretation of this Agreement or any other Loan Document.

#### 1.03 Accounting Terms.

(a) Generally. Except as otherwise specifically prescribed herein, all accounting terms not specifically or completely defined herein shall be construed in conformity with, and all financial data (including financial ratios and other financial calculations) required to be submitted pursuant to this Agreement shall be prepared in conformity with, GAAP applied on a consistent basis, as in effect from time to time, applied in a manner consistent with that used in preparing the Audited Financial Statements; provided, however, that calculations of attributable Indebtedness under any Synthetic Lease or the implied interest component of any Synthetic Lease shall be made by the Borrower in accordance with accepted financial practice and consistent with the terms of such Synthetic Lease.

(b) Changes in GAAP. If at any time any change in GAAP would affect the computation of any financial ratio or requirement set forth in any Loan Document, and either the Borrower or the Required Lenders shall so request, the Administrative Agent, the Lenders and the Borrower shall negotiate in good faith to amend such ratio or requirement to preserve the original intent thereof in light of such change in GAAP (subject to the approval of the Required Lenders); provided that, until so amended, (i) such ratio or requirement shall continue to be computed in accordance with GAAP prior to such change therein and (ii) the Borrower shall provide to the Administrative Agent and the Lenders financial statements and other documents required under this Agreement or as requested hereunder setting forth a reconciliation between calculations of such ratio or requirement made before and after giving effect to such change in GAAP. Without limiting the foregoing, leases shall continue to be classified and accounted for on a basis consistent with that reflected in the Audited Financial Statements for all purposes of this Agreement, notwithstanding any change in GAAP relating thereto, unless the parties hereto shall enter into a mutually acceptable amendment addressing such changes, as provided for above.

(c) FASB ASC 825 and FASB ASC 470-20. Notwithstanding the above, for purposes of determining compliance with any covenant (including the computation of any financial covenant) contained herein, Indebtedness of the Borrower and its Subsidiaries shall be deemed to be carried at one hundred percent (100%) of the outstanding principal amount thereof, and the effects of FASB ASC 825 and FASB ASC 470-20 on financial liabilities shall be disregarded.

#### 1.04 Rounding.

Any financial ratios required to be maintained by the Borrower pursuant to this Agreement shall be calculated by dividing the appropriate component by the other component, carrying the result to one place more than the number of places by which such ratio is expressed herein and rounding the result up or down to the nearest number (with a rounding-up if there is no nearest number).

#### 1.05 Times of Day.

Unless otherwise specified, all references herein to times of day shall be references to Eastern time (daylight or standard, as applicable).

#### 1.06 Rates.

The Administrative Agent does not warrant, nor accept responsibility, nor shall the Administrative Agent have any liability with respect to the administration, submission or any other matter related to the rates in the definition of "Eurodollar Rate" or with respect to any comparable or successor rate thereto.

## ARTICLE II.

### THE COMMITMENTS AND BORROWINGS

#### 2.01 Revolving Commitments.

Subject to the terms and conditions set forth herein, each Lender severally agrees to make loans (each such loan, a "Revolving Loan") to the Borrower in Dollars from time to time on any Business Day during the Availability Period in an aggregate amount not to exceed at any time outstanding the amount of such Lender's Revolving Commitment; provided, however, that after giving effect to any Borrowing of Revolving Loans, (a) the Total Revolving Outstandings shall not exceed the Aggregate Revolving Commitments, and (b) the Revolving Credit Exposure of any Lender shall not exceed such Lender's Revolving Commitment. Within the limits of each Lender's Revolving Commitment, and subject to the other terms and conditions hereof, the Borrower may borrow under this Section 2.01, prepay under Section 2.05, and reborrow under this Section 2.01. Revolving Loans may be Base Rate Loans or Eurodollar Rate Loans, or a combination thereof, as further provided herein, provided, however, all Borrowings made on the Effective Date shall be made as Base Rate Loans.

#### 2.02 Borrowings, Conversions and Continuations of Loans.

(a) Each Borrowing, each conversion of Loans from one Type to the other, and each continuation of Eurodollar Rate Loans shall be made upon the Borrower's irrevocable notice to the Administrative Agent, which may be given by (a) a Revolving Loan Notice or (b) telephone. Each such notice must be received by the Administrative Agent not later than 11:00 a.m. (i) three (3) Business Days prior to the requested date of any Borrowing of, conversion to or continuation of, Eurodollar Rate Loans or of any conversion of Eurodollar Rate Loans to Base Rate Loans prior to the end of the applicable Interest Period, and (ii) on the requested date of any Borrowing of Base Rate Loans. Each telephonic notice by the Borrower pursuant to this Section 2.02(a) must be confirmed promptly by delivery to the Administrative Agent of a Revolving Loan Notice. Each Borrowing of, conversion to or continuation of Eurodollar Rate Loans shall be in a principal amount of \$5,000,000 or a whole multiple of \$1,000,000 in excess thereof. Except as provided in Section 2.04(c), each Borrowing of or conversion to Base Rate Loans shall be in a principal amount of \$5,000,000 or a whole multiple of \$1,000,000 in excess thereof. Each Revolving Loan Notice and each telephonic notice shall specify (i) whether the Borrower is requesting a Borrowing, a conversion of Loans from one Type to the other, or a continuation of Eurodollar Rate Loans, (ii) the requested date of the Borrowing, conversion or continuation, as the case may be (which shall be a Business Day), (iii) the principal amount of Loans to be borrowed, converted or continued, (iv) the Type of Loans to be borrowed or to which existing Loans are to be converted, and (v) if applicable, the duration of the Interest Period with respect thereto. If the Borrower fails to specify a Type of a Loan in a Revolving Loan Notice or if the Borrower fails to give a timely notice requesting a conversion or continuation, then the applicable Loans shall be made as, or converted to, Base Rate Loans. Any such automatic conversion to Base Rate Loans shall be effective as of the last day of the Interest Period then in effect with respect to the applicable Eurodollar Rate Loans. If the Borrower requests a Borrowing of, conversion to, or continuation of Eurodollar Rate Loans in any Revolving Loan Notice, but fails to specify an Interest Period, it will be deemed to have specified an Interest Period of one month.

(b) Following receipt of a Revolving Loan Notice, the Administrative Agent shall promptly notify each Lender of the amount of its Applicable Percentage of the applicable Loans, and if no timely notice of a conversion or continuation is provided by the Borrower, the Administrative Agent shall notify each Lender of the details of any automatic conversion to Base Rate Loans as described in the preceding subsection. In the case of a Borrowing, each Lender shall make the amount of its Loan available to the Administrative Agent in immediately available funds at the Administrative Agent's Office not later than 1:00 p.m. on the Business Day specified in the applicable Revolving Loan Notice. Upon satisfaction of the applicable conditions set forth in Section 5.02 (and, if such Borrowing is the initial Borrowing, Section 5.01), the Administrative Agent shall make all funds so received available to the Borrower in like funds as received by the Administrative Agent either by (i) crediting the account of the Borrower on the books of Barclays with the amount of such funds or (ii) wire transfer of such funds, in each case

in accordance with instructions provided to (and acceptable to) the Administrative Agent by the Borrower.

(c) Except as otherwise provided herein, a Eurodollar Rate Loan may be continued or converted only on the last day of the Interest Period for such Eurodollar Rate Loan. During the existence of a Default, no Loans may be requested as, converted to or continued as Eurodollar Rate Loans without the consent of the Required Lenders.

(d) The Administrative Agent shall promptly notify the Borrower and the Lenders of the interest rate applicable to any Interest Period for Eurodollar Rate Loans upon determination of such interest rate. At any time that Base Rate Loans are outstanding, the Administrative Agent shall notify the Borrower and the Lenders of any change in Barclays' prime rate used in determining the Base Rate promptly following the public announcement of such change.

(e) After giving effect to all Borrowings, all conversions of Loans from one Type to the other, and all continuations of Loans as the same Type, there shall not be more than eight (8) Interest Periods in effect with respect to all Loans.

### 2.03 [Reserved].

### 2.04 Swing Line Loans.

(a) Swing Line Facility. Subject to the terms and conditions set forth herein, the Swing Line Lender, in reliance upon the agreements of the other Lenders set forth in this Section 2.04, shall make loans (each such loan, a "Swing Line Loan") to the Borrower in Dollars from time to time on any Business Day during the Availability Period in an aggregate amount not to exceed at any time outstanding the amount of the Swing Line Sublimit; provided, however, that after giving effect to any Swing Line Loan, (i) the Total Revolving Outstandings shall not exceed the Aggregate Revolving Commitments, and (ii) the Revolving Credit Exposure of any Lender shall not exceed such Lender's Revolving Commitment, and provided, further, that the Borrower shall not use the proceeds of any Swing Line Loan to refinance any outstanding Swing Line Loan. Within the foregoing limits, and subject to the other terms and conditions hereof, the Borrower may borrow under this Section 2.04, prepay under Section 2.05, and reborrow under this Section 2.04. Each Swing Line Loan shall be a Base Rate Loan. Immediately upon the making of a Swing Line Loan, each Lender shall be deemed to, and hereby irrevocably and unconditionally agrees to, purchase from the Swing Line Lender a risk participation in such Swing Line Loan in an amount equal to the product of such Lender's Applicable Percentage times the amount of such Swing Line Loan.

(b) Borrowing Procedures. Each Borrowing of Swing Line Loans shall be made upon the Borrower's irrevocable notice to the Swing Line Lender and the Administrative Agent, which may be given by (a) a Swing Line Loan Notice or (b) telephone. Each such notice must be received by the Swing Line Lender and the Administrative Agent not later than 2:00 p.m. on the requested borrowing date, and shall specify (i) the amount to be borrowed, which shall be a minimum principal amount of \$500,000 and integral multiples of \$100,000 in excess thereof, and (ii) the requested borrowing date, which shall be a Business Day. Each such telephonic notice must be confirmed promptly by delivery to the Swing Line Lender and the Administrative Agent of a Swing Line Loan Notice. Promptly after receipt by the Swing Line Lender of any Swing Line Loan Notice, the Swing Line Lender will confirm with the Administrative Agent (by telephone or in writing) that the Administrative Agent has also received such Swing Line Loan Notice and, if not, the Swing Line Lender will notify the Administrative Agent (by telephone or in writing) of the contents thereof. Unless the Swing Line Lender has received notice (by telephone or in writing) from the Administrative Agent (including at the request of any Lender) prior to 2:00 p.m. on the date of the proposed Borrowing of Swing Line Loans (A) directing the Swing Line Lender not to make such Swing Line Loan as a result of the limitations set forth in the first proviso to the first sentence of Section 2.04(a), or (B) that one or more of the applicable conditions specified in Article V is not then satisfied, then, subject to the terms and conditions hereof, the Swing Line Lender will, not later than 3:00 p.m. on the borrowing date specified in such Swing Line Loan Notice, make the amount of its Swing Line Loan available to the Borrower.

### (c) Refinancing of Swing Line Loans.

(i) The Swing Line Lender at any time in its sole discretion may request, on behalf of the Borrower (which hereby irrevocably requests and authorizes the Swing Line Lender to so request on its behalf), that each Lender make a Base Rate Loan in an amount equal to such Lender's Applicable Percentage of the amount of Swing Line Loans then outstanding. Such request shall be made in writing (which written request shall be deemed to be a Revolving Loan Notice for purposes hereof) and in accordance with the requirements of Section 2.02, without regard to the minimum and multiples specified therein for the principal amount of Base Rate Loans, but subject to the conditions set forth in Section 5.02 (other than the delivery of a Revolving Loan Notice) and provided that, after giving effect to such Borrowing, the Total Revolving Outstandings shall not exceed the Aggregate Revolving Commitments. The Swing Line Lender shall furnish the Borrower with a copy of the applicable Revolving Loan Notice promptly after delivering such notice to the Administrative Agent. Each Lender shall make an amount equal to its Applicable Percentage of the amount specified in such Revolving Loan Notice available to the Administrative Agent in immediately available funds (and the Administrative Agent may apply Cash Collateral available with respect to the applicable Swing Line Loan) for the account of the Swing Line Lender at the Administrative Agent's Office not later than 1:00 p.m. on the day specified in

such Revolving Loan Notice, whereupon, subject to Section 2.04(c)(ii), each Lender that so makes funds available shall be deemed to have made a Base Rate Loan to the Borrower in such amount. The Administrative Agent shall remit the funds so received to the Swing Line Lender.

(ii) If for any reason any Swing Line Loan cannot be refinanced by such a Borrowing of Revolving Loans in accordance with Section 2.04(c)(i), the request for Base Rate Loans submitted by the Swing Line Lender as set forth herein shall be deemed to be a request by the Swing Line Lender that each of the Lenders fund its risk participation in the relevant Swing Line Loan and each Lender's payment to the Administrative Agent for the account of the Swing Line Lender pursuant to Section 2.04(c)(i) shall be deemed payment in respect of such participation.

(iii) If any Lender fails to make available to the Administrative Agent for the account of the Swing Line Lender any amount required to be paid by such Lender pursuant to the foregoing provisions of this Section 2.04(c) by the time specified in Section 2.04(c)(i), the Swing Line Lender shall be entitled to recover from such Lender (acting through the Administrative Agent), on demand, such amount with interest thereon for the period from the date such payment is required to the date on which such payment is immediately available to the Swing Line Lender at a rate per annum equal to the greater of the Federal Funds Rate and a rate determined by the Swing Line Lender in accordance with banking industry rules on interbank compensation. A certificate of the Swing Line Lender submitted to any Lender (through the Administrative Agent) with respect to any amounts owing under this clause (iii) shall be conclusive absent manifest error.

(iv) Each Lender's obligation to make Revolving Loans or to purchase and fund risk participations in Swing Line Loans pursuant to this Section 2.04(c) shall be absolute and unconditional and shall not be affected by any circumstance, including (A) any setoff, counterclaim, recoupment, defense or other right that such Lender may have against the Swing Line Lender, the Borrower or any other Person for any reason whatsoever, (B) the occurrence or continuance of a Default, or (C) any other occurrence, event or condition, whether or not similar to any of the foregoing; provided, however, that each Lender's obligation to make Revolving Loans pursuant to this Section 2.04(c) is subject to the conditions set forth in Section 5.02. No such purchase or funding of risk participations shall relieve or otherwise impair the obligation of the Borrower to repay Swing Line Loans, together with interest as provided herein.

(d) Repayment of Participations.

(i) At any time after any Lender has purchased and funded a risk participation in a Swing Line Loan, if the Swing Line Lender receives any payment on account of such Swing Line Loan, the Swing Line Lender will distribute to such Lender its Applicable Percentage of such payment (appropriately adjusted, in the case of interest payments, to reflect the period of time during which such Lender's risk participation was funded) in the same funds as those received by the Swing Line Lender.

(ii) If any payment received by the Swing Line Lender in respect of principal or interest on any Swing Line Loan is required to be returned by the Swing Line Lender under any of the circumstances described in Section 11.05 (including pursuant to any settlement entered into by the Swing Line Lender in its discretion), each Lender shall pay to the Swing Line Lender its Applicable Percentage thereof on demand of the Administrative Agent, plus interest thereon from the date of such demand to the date such amount is returned, at a rate per annum equal to the Federal Funds Rate. The Administrative Agent will make such demand upon the request of the Swing Line Lender. The obligations of the Lenders under this clause shall survive the payment in full of the Obligations and the termination thereof.

(e) Interest for Account of Swing Line Lender. The Swing Line Lender shall be responsible for invoicing the Borrower for interest on the Swing Line Loans. Until each Lender funds its Revolving Loans that are Base Rate Loans or risk participation pursuant to this Section 2.04 to refinance such Lender's Applicable Percentage of any Swing Line Loan, interest in respect of such Applicable Percentage shall be solely for the account of the Swing Line Lender.

(f) Payments Directly to Swing Line Lender. The Borrower shall make all payments of principal and interest in respect of the Swing Line Loans directly to the Swing Line Lender.

## 2.05 Prepayments.

(a) Voluntary Prepayments.

(i) Revolving Loans. The Borrower may, upon delivery of a Prepayment Notice from the Borrower to the Administrative Agent, at any time or from time to time voluntarily prepay Revolving Loans, in whole or in part without premium or penalty; provided that (A) such Prepayment Notice must be received by the Administrative Agent not later than 11:00 a.m. (1) three (3) Business Days prior to any date of prepayment of Eurodollar Rate Loans (prior to the end of an applicable Interest Period) and (2) on the date of prepayment of Base Rate Loans; (B) any such prepayment of Eurodollar Rate Loans shall be in a principal amount of \$2,000,000 or a whole multiple of \$1,000,000 in excess thereof

(or, if less, the entire principal amount thereof then outstanding); and (C) any prepayment of Base Rate Loans shall be in a principal amount of \$1,000,000 or a whole multiple of \$500,000 in excess thereof (or, if less, the entire principal amount thereof then outstanding). Each such Prepayment Notice shall specify the date and amount of such prepayment and the Type(s) of Loans to be prepaid. The Administrative Agent will promptly notify each Lender of its receipt of each such Prepayment Notice, and of the amount of such Lender's Applicable Percentage of such prepayment. If such Prepayment Notice is given by the Borrower, the Borrower shall make such prepayment and the payment amount specified in such Prepayment Notice shall be due and payable on the date specified therein. Any prepayment of a Eurodollar Rate Loan shall be accompanied by all accrued interest on the amount prepaid, together with any additional amounts required pursuant to Section 3.05. Subject to Section 2.15, each such prepayment shall be applied to the Loans of the Lenders in accordance with their respective Applicable Percentages.

(ii) Swing Line Loans. The Borrower may, upon delivery of a Prepayment Notice to the Swing Line Lender (with a copy to the Administrative Agent), at any time or from time to time, voluntarily prepay Swing Line Loans in whole or in part without premium or penalty; provided that (A) such Prepayment Notice must be received by the Swing Line Lender and the Administrative Agent not later than 1:00 p.m. on the date of the prepayment, and (B) any such prepayment shall be in a minimum principal amount of \$500,000 or a whole multiple of \$100,000 in excess thereof (or, if less, the entire principal thereof then outstanding). Each such Prepayment Notice shall specify the date and amount of such prepayment. If such Prepayment Notice is given by the Borrower, the Borrower shall make such prepayment and the payment amount specified in such Prepayment Notice shall be due and payable on the date specified therein.

(b) Mandatory Prepayments of Loans.

(i) Revolving Commitments. If for any reason the Total Revolving Outstandings at any time exceed the Aggregate Revolving Commitments then in effect, the Borrower shall immediately prepay Revolving Loans and/or the Swing Line Loans in an aggregate amount equal to such excess.

(ii) Application of Mandatory Prepayments. All amounts required to be paid pursuant to Section 2.05(b)(i) shall be applied ratably to Revolving Loans and Swing Line Loans. Within the parameters of the applications set forth above, prepayments shall be applied first to Base Rate Loans and then to Eurodollar Rate Loans in direct order of Interest Period maturities. All prepayments under this Section 2.05(b) shall be subject to Section 3.05, but otherwise without premium or penalty, and shall be accompanied by interest on the principal amount prepaid through the date of prepayment.

2.06 Termination or Reduction of Aggregate Revolving Commitments.

(a) Optional Reductions. The Borrower shall have the right, upon at least three (3) Business Days' notice to the Administrative Agent, to terminate in whole or, upon same day notice, from time to time to permanently reduce ratably in part the unused portion of the Aggregate Revolving Commitments; provided that each partial reduction shall be in the aggregate amount of \$5,000,000 or in an integral multiple of \$1,000,000 in excess thereof. Each such notice of termination or reduction shall be irrevocable; provided, further, that, if, after giving effect to any reduction, the Swing Line Sublimit exceeds the amount of the Aggregate Revolving Commitments, such sublimit shall be automatically reduced by the amount of such excess. Any Aggregate Revolving Commitment reduced or terminated pursuant to this Section may not be reinstated

(b) Notice. The Administrative Agent will promptly notify the Lenders of any termination or reduction of the Swing Line Sublimit or the Aggregate Revolving Commitments under this Section 2.06. Upon any reduction of the Aggregate Revolving Commitments, the Revolving Commitment of each Lender shall be reduced by such Lender's Applicable Percentage of such reduction amount. All fees in respect of the Aggregate Revolving Commitments accrued until the effective date of any termination of the Aggregate Revolving Commitments shall be paid on the effective date of such termination.

2.07 Repayment of Loans.

(a) Revolving Loans. The Borrower shall repay to the Lenders on the Revolving Loan Maturity Date the aggregate principal amount of all Revolving Loans outstanding on such date.

(b) Swing Line Loans. The Borrower shall repay each Swing Line Loan on the earlier to occur of (i) the date within one (1) Business Day of demand therefor by the Swing Line Lender and (ii) the Revolving Loan Maturity Date.

2.08 Interest.

(a) Subject to the provisions of subsection (b) below, (i) each Eurodollar Rate Loan shall bear interest on the outstanding principal amount thereof for each Interest Period at a rate per annum equal to the sum of the Eurodollar Rate for such Interest Period plus the Applicable Margin, (ii) each Base Rate Loan shall bear interest on the outstanding principal amount thereof from the applicable borrowing date at a rate per annum equal to the Base Rate plus the Applicable Margin and (iii) each

Swing Line Loan shall bear interest on the outstanding principal amount thereof from the applicable borrowing date at a rate per annum equal to the Base Rate plus the Applicable Margin.

(b) (i) If any amount of principal of any Loan is not paid when due (without regard to any applicable grace periods), whether at stated maturity, by acceleration or otherwise, all outstanding Obligations shall thereafter bear interest at a fluctuating interest rate per annum at all times equal to the Default Rate to the fullest extent permitted by applicable Laws.

(i) If any amount (other than principal of any Loan) is not paid when due (after giving effect to any applicable grace periods), whether at stated maturity, by acceleration or otherwise, then upon the request of the Required Lenders, such amount shall thereafter bear interest at a fluctuating interest rate per annum at all times equal to the Default Rate to the fullest extent permitted by applicable Laws.

(ii) Accrued and unpaid interest on past due amounts (including interest on past due interest) shall be due and payable upon demand.

(c) Interest on each Loan shall be due and payable in arrears on each Interest Payment Date applicable thereto and at such other times as may be specified herein. Interest hereunder shall be due and payable in accordance with the terms hereof before and after judgment, and before and after the commencement of any proceeding under any Debtor Relief Law.

#### 2.09 Fees.

(a) Facility Fee. The Borrower shall pay to the Administrative Agent, for the account of each Lender in accordance with its Applicable Percentage, a facility fee (the "Facility Fee") at a rate per annum equal to the product of (i) the Facility Fee rate specified in the definition of "Applicable Margin" times (ii) the Aggregate Revolving Commitments. The Facility Fee shall accrue at all times during the Availability Period, including at any time during which one or more of the conditions in Article V is not met, and shall be due and payable quarterly in arrears on the last Business Day of each March, June, September and December, commencing with the first such date to occur after the Effective Date, and on the Revolving Loan Maturity Date; provided, that each Defaulting Lender shall be entitled to receive fees payable under this Section 2.09(a) for any period during which that Lender is a Defaulting Lender only to extent allocable to the outstanding principal amount of the Loans funded by it. The Facility Fee shall be calculated quarterly in arrears, and if there is any change in the Applicable Margin during any quarter, the actual daily amount shall be computed and multiplied by the Applicable Margin separately for each period during such quarter that such Applicable Margin was in effect.

(b) Fee Letters. The Borrower shall pay to the Joint Lead Arrangers and the Administrative Agent for their own respective accounts fees in the amounts and at the times specified in the Fee Letters. Such fees shall be fully earned when paid and shall be non-refundable for any reason whatsoever.

#### 2.10 Computation of Interest and Fees.

All computations of interest for Base Rate Loans determined by reference to clause (b) of the definition of "Base Rate" in Section 1.01 shall be made on the basis of a year of 365 or 366 days, as the case may be, and actual days elapsed. All other computations of fees and interest (including without limitation computations of interest for Base Rate Loans determined by reference to clauses (a) and (c) of the definition of "Base Rate" in Section 1.01) shall be made on the basis of a 360-day year and actual days elapsed (which results in more fees or interest, as applicable, being paid than if computed on the basis of a 365-day year). Interest shall accrue on each Loan for the day on which the Loan is made, and shall not accrue on a Loan, or any portion thereof, for the day on which the Loan or such portion is paid, provided that any Loan that is repaid on the same day on which it is made shall, subject to Section 2.12(a), bear interest for one day. Each determination by the Administrative Agent of an interest rate or fee hereunder shall be conclusive and binding for all purposes, absent manifest error.

#### 2.11 Evidence of Debt.

(a) The Borrowings made by each Lender shall be evidenced by one or more accounts or records maintained by such Lender and by the Administrative Agent in the ordinary course of business. The accounts or records maintained by the Administrative Agent and each Lender shall be conclusive absent manifest error of the amount of the Borrowings made by the Lenders to the Borrower and the interest and payments thereon. Any failure to so record or any error in doing so shall not, however, limit or otherwise affect the obligation of the Borrower hereunder to pay any amount owing with respect to the Loans. In the event of any conflict between the accounts and records maintained by any Lender and the accounts and records of the Administrative Agent in respect of such matters, the accounts and records of the Administrative Agent shall control in the absence of manifest error. Upon the request of any Lender made through the Administrative Agent, the Borrower shall execute and deliver to such Lender (through the Administrative Agent) a promissory note, which shall evidence such Lender's Loans in addition to such accounts or records. Each such promissory note shall (i) in the case of Revolving Loans, be in the form of Exhibit 2.11(a)-1 (a "Revolving Note") and (ii) in the case of Swing Line Loans, be in the form of Exhibit 2.11(a)-2 (a "Swing Line Note"). Each Lender may attach schedules to its Note and endorse thereon the date, Type (if applicable), amount and

maturity of its Loans and payments with respect thereto.

(b) In addition to the accounts and records referred to in subsection (a), each Lender and the Administrative Agent shall maintain in accordance with its usual practice accounts or records evidencing the purchases and sales by such Lender of participations in Swing Line Loans. In the event of any conflict between the accounts and records maintained by the Administrative Agent and the accounts and records of any Lender in respect of such matters, the accounts and records of the Administrative Agent shall control in the absence of manifest error.

#### 2.12 Payments Generally; Administrative Agent's Clawback.

(a) General. All payments to be made by the Borrower shall be made without condition or deduction for any counterclaim, defense, recoupment or setoff. Except as otherwise expressly provided herein, all payments by the Borrower hereunder shall be made to the Administrative Agent, for the account of the respective Lenders to which such payment is owed, at the Administrative Agent's Office in Dollars and in immediately available funds not later than 2:00 p.m. on the date specified herein. The Administrative Agent will promptly distribute to each Lender its Applicable Percentage (or other applicable share as provided herein) of such payment in like funds as received by wire transfer to such Lender's Lending Office. All payments received by the Administrative Agent after 2:00 p.m. shall be deemed received on the next succeeding Business Day and any applicable interest or fee shall continue to accrue. Subject to the definition of "Interest Period", if any payment to be made by the Borrower shall come due on a day other than a Business Day, payment shall be made on the next following Business Day, and such extension of time shall be reflected in computing interest or fees, as the case may be.

(b) (i) Funding by Lenders; Presumption by Administrative Agent. Unless the Administrative Agent shall have received notice from a Lender prior to the proposed date of any Borrowing of Eurodollar Rate Loans (or, in the case of any Borrowing of Base Rate Loans, prior to 12:00 noon on the date of such Borrowing) that such Lender will not make available to the Administrative Agent such Lender's share of such Borrowing, the Administrative Agent may assume that such Lender has made such share available on such date in accordance with Section 2.02 (or, in the case of any Borrowing of Base Rate Loans, that such Lender has made such share available in accordance with and at the time required by Section 2.02) and may, in reliance upon such assumption, make available to the Borrower a corresponding amount. In such event, if a Lender has not in fact made its share of the applicable Borrowing available to the Administrative Agent, then the applicable Lender and the Borrower severally agree to pay to the Administrative Agent forthwith on demand such corresponding amount in immediately available funds with interest thereon, for each day from and including the date such amount is made available to the Borrower to but excluding the date of payment to the Administrative Agent, at (A) in the case of a payment to be made by such Lender, the greater of the Federal Funds Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation and (B) in the case of a payment to be made by the Borrower, the interest rate applicable to Base Rate Loans. If the Borrower and such Lender shall pay such interest to the Administrative Agent for the same or an overlapping period, the Administrative Agent shall promptly remit to the Borrower the amount of such interest paid by the Borrower for such period. If such Lender pays its share of the applicable Borrowing to the Administrative Agent, then the amount so paid shall constitute such Lender's Loan included in such Borrowing. Any payment by the Borrower shall be without prejudice to any claim the Borrower may have against a Lender that shall have failed to make such payment to the Administrative Agent.

(i) Payments by Borrower; Presumptions by Administrative Agent. Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Administrative Agent for the account of the Lenders hereunder that the Borrower will not make such payment, the Administrative Agent may assume that the Borrower has made such payment on such date in accordance herewith and may, in reliance upon such assumption, distribute to the Lenders the amount due. In such event, if the Borrower has not in fact made such payment, then each of the Lenders severally agrees to repay to the Administrative Agent forthwith on demand the amount so distributed to such Lender in immediately available funds with interest thereon, for each day from and including the date such amount is distributed to it to but excluding the date of payment to the Administrative Agent, at the greater of the Federal Funds Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation.

A notice of the Administrative Agent to any Lender or the Borrower with respect to any amount owing under this subsection (b) shall be conclusive, absent manifest error.

(c) Failure to Satisfy Conditions Precedent. If any Lender makes available to the Administrative Agent funds for any Loan to be made by such Lender as provided in the foregoing provisions of this Article II, and such funds are not made available to the Borrower by the Administrative Agent because the conditions to the applicable Borrowing set forth in Article V are not satisfied or waived in accordance with the terms hereof, the Administrative Agent shall promptly return such funds (in like funds as received from such Lender) to such Lender, without interest.

(d) Obligations of Lenders Several. The obligations of the Lenders hereunder to make Loans, to fund participations in

Swing Line Loans and to make payments pursuant to Section 11.04(c) are several and not joint. The failure of any Lender to make any Loan, to fund any such participation or to make any payment under Section 11.04(c) on any date required hereunder shall not relieve any other Lender of its corresponding obligation to do so on such date, and no Lender shall be responsible for the failure of any other Lender to so make its Loan, to purchase its participation or to make its payment under Section 11.04(c).

(e) Funding Source. Nothing herein shall be deemed to obligate any Lender to obtain the funds for any Loan in any particular place or manner or to constitute a representation by any Lender that it has obtained or will obtain the funds for any Loan in any particular place or manner.

### 2.13 Sharing of Payments by Lenders.

If any Lender shall, by exercising any right of setoff or counterclaim or otherwise, obtain payment in respect of any principal of or interest on any of the Loans made by it, or the participations in Swing Line Loans held by it (excluding any amounts applied by the Swing Line Lender to outstanding Swing Line Loans) resulting in such Lender's receiving payment of a proportion of the aggregate amount of such Loans or participations and accrued interest thereon greater than its pro rata share thereof as provided herein, then the Lender receiving such greater proportion shall (a) notify the Administrative Agent of such fact, and (b) purchase (for cash at face value) participations in the Loans and subparticipations in Swing Line Loans of the other Lenders, or make such other adjustments as shall be equitable, so that the benefit of all such payments shall be shared by the Lenders ratably in accordance with the aggregate amount of principal of and accrued interest on their respective Loans and other amounts owing them, provided that:

(a) if any such participations or subparticipations are purchased and all or any portion of the payment giving rise thereto is recovered, such participations or subparticipations shall be rescinded and the purchase price restored to the extent of such recovery, without interest; and

(b) the provisions of this Section shall not be construed to apply to (x) any payment made by or on behalf of the Borrower pursuant to and in accordance with the express terms of this Agreement (including the application of funds arising from the existence of a Defaulting Lender), (y) the application of Cash Collateral provided for in Section 2.14 or (z) any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Loans or subparticipations Swing Line Loans to any assignee or participant, other than an assignment to the Borrower or any Subsidiary thereof (as to which the provisions of this Section shall apply).

The Borrower consents to the foregoing and agrees, to the extent it may effectively do so under applicable law, that any Lender acquiring a participation pursuant to the foregoing arrangements may exercise against the Borrower rights of setoff and counterclaim with respect to such participation as fully as if such Lender were a direct creditor of the Borrower in the amount of such participation.

### 2.14 Cash Collateral.

(a) Certain Credit Support Events. At any time that there shall exist a Defaulting Lender, immediately upon the request of the Administrative Agent or the Swing Line Lender, the Borrower shall deliver to the Administrative Agent Cash Collateral in an amount sufficient to cover all Fronting Exposure (after giving effect to Section 2.15(a)(iv) and any Cash Collateral provided by the Defaulting Lender).

(b) Grant of Security Interest. All Cash Collateral (other than credit support not constituting funds subject to deposit) shall be maintained in blocked, non-interest bearing deposit accounts at the Administrative Agent. The Borrower, and to the extent provided by any Lender, such Lender, hereby grants to (and subjects to the control of) the Administrative Agent, for the benefit of the Administrative Agent and the Lenders (including the Swing Line Lender) and agrees to maintain, a first priority security interest in all such cash, deposit accounts and all balances therein, and all other property so provided as collateral pursuant hereto, and in all balances therein, and all other property so provided as collateral pursuant hereto, and in all proceeds of the foregoing, all as security for the obligations to which such Cash Collateral may be applied pursuant to Section 2.14(c). If at any time the Administrative Agent determines that Cash Collateral is subject to any right or claim of any Person other than the Administrative Agent as herein provided, or that the total amount of such Cash Collateral is less than the applicable Fronting Exposure and other obligations secured thereby, the Borrower will, promptly upon demand by the Administrative Agent, pay or provide to the Administrative Agent additional Cash Collateral in an amount sufficient to eliminate such deficiency.

(c) Application. Notwithstanding anything to the contrary contained in this Agreement, Cash Collateral provided under any of this Section 2.14, Section 2.04, or Section 2.15 in respect of Swing Line Loans shall be held and applied in satisfaction of the specific Swing Line Loans, obligations to fund participations therein (including, as to Cash Collateral provided by a Defaulting Lender, any interest accrued on such obligation) and other obligations for which the Cash Collateral was so provided, prior to any other application of such property as may be provided herein.

(d) Release. Cash Collateral (or the appropriate portion thereof) provided to reduce Fronting Exposure or other obligations shall be released promptly following (i) the elimination of the applicable Fronting Exposure or other obligations giving rise thereto (including by the termination of Defaulting Lender status of the applicable Lender) or (ii) the Administrative

Agent's good faith determination that there exists excess Cash Collateral; provided, however, (x) that Cash Collateral furnished by or on behalf of the Borrower shall not be released during the continuance of a Default or Event of Default (and following application as provided in this Section 2.14 may be otherwise applied in accordance with Section 9.03) and (y) the Person providing Cash Collateral and the Swing Line Lender may agree that Cash Collateral shall not be released but instead held to support future anticipated Fronting Exposure or other obligations.

## 2.15 Defaulting Lenders.

(a) Adjustments. Notwithstanding anything to the contrary contained in this Agreement, if any Lender becomes a Defaulting Lender, then, until such time as that Lender is no longer a Defaulting Lender, to the extent permitted by applicable Law:

(i) Waivers and Amendment. The Defaulting Lender's right to approve or disapprove any amendment, waiver or consent with respect to this Agreement shall be restricted as set forth in Section 11.01.

(ii) Reallocation of Payments. Any payment of principal, interest, fees or other amount received by the Administrative Agent for the account of that Defaulting Lender (whether voluntary or mandatory, at maturity, pursuant to Article IX or otherwise, and including any amounts made available to the Administrative Agent by that Defaulting Lender pursuant to Section 11.08), shall be applied at such time or times as may be determined by the Administrative Agent as follows: first, to the payment of any amounts owing by that Defaulting Lender to the Administrative Agent hereunder; second, to the payment on a pro rata basis of any amounts owing by that Defaulting Lender to the Swing Line Lender hereunder; third, if so determined by the Administrative Agent or requested by the Swing Line Lender, to be held as Cash Collateral for future funding obligations of that Defaulting Lender of any participation in any Swing Line Loan; fourth, as the Borrower may request (so long as no Default or Event of Default exists), to the funding of any Loan in respect of which that Defaulting Lender has failed to fund its portion thereof as required by this Agreement, as determined by the Administrative Agent; fifth, if so determined by the Administrative Agent and the Borrower, to be held in a non-interest bearing deposit account and released in order to satisfy obligations of that Defaulting Lender to fund Loans under this Agreement; sixth, to the payment of any amounts owing to the Lenders, the Swing Line Lender as a result of any judgment of a court of competent jurisdiction obtained by any Lender, the Swing Line Lender against that Defaulting Lender as a result of that Defaulting Lender's breach of its obligations under this Agreement; seventh, so long as no Default or Event of Default exists, to the payment of any amounts owing to the Borrower as a result of any judgment of a court of competent jurisdiction obtained by the Borrower against that Defaulting Lender as a result of that Defaulting Lender's breach of its obligations under this Agreement; and eighth, to that Defaulting Lender or as otherwise directed by a court of competent jurisdiction; provided, that, if (x) such payment is a payment of the principal amount of any Loans in respect of which that Defaulting Lender has not fully funded its appropriate share and (y) such Loans were made at a time when the conditions set forth in Section 5.02 were satisfied or waived, such payment shall be applied solely to the pay the Loans of all non-Defaulting Lenders on a pro rata basis prior to being applied to the payment of any Loans of that Defaulting Lender. Any payments, prepayments or other amounts paid or payable to a Defaulting Lender that are applied (or held) to pay amounts owed by a Defaulting Lender or to post Cash Collateral pursuant to this Section 2.15(a)(ii) shall be deemed paid to and redirected by that Defaulting Lender, and each Lender irrevocably consents hereto.

(iii) Certain Fees. The Defaulting Lender shall not be entitled to receive any Facility Fee pursuant to Section 2.09(a) for any period during which such Lender is a Defaulting Lender (and the Borrower shall not be required to pay any such fee that otherwise would have been required to have been paid to such Defaulting Lender).

(iv) Reallocation of Applicable Percentages to Reduce Fronting Exposure. During any period in which there is a Defaulting Lender, for purposes of computing the amount of the obligation of each non-Defaulting Lender to acquire, refinance or fund participations in Swing Line Loans pursuant to Section 2.04, the "Applicable Percentage" of each non-Defaulting Lender shall be computed without giving effect to the Revolving Commitment of that Defaulting Lender; provided, that, each such reallocation (x) shall be given effect only if, at the date the applicable Lender becomes a Defaulting Lender, no Default or Event of Default exists; and (y) does not cause the aggregate Revolving Credit Exposure of any non-Defaulting Lender to exceed such non-Defaulting Lender's Revolving Commitment.

(b) Defaulting Lender Cure. If the Borrower, the Administrative Agent and the Swing Line Lender agree in writing in their sole discretion that a Defaulting Lender should no longer be deemed to be a Defaulting Lender, the Administrative Agent will so notify the parties hereto, whereupon as of the effective date specified in such notice and subject to any conditions set forth therein (which may include arrangements with respect to any Cash Collateral), that Lender will, to the extent applicable, purchase at par that portion of outstanding Loans of the other Lenders or take such other actions as the Administrative Agent may determine to be necessary to cause the Revolving Loans and funded and unfunded participations in Swing Line Loans to be held on a pro rata basis by the Lenders in accordance with their Applicable Percentages (without giving effect to Section 2.15(a)(iv)), whereupon that Lender will cease to be a Defaulting Lender; provided, that, no adjustments will be made retroactively with respect to fees accrued or payments made by or on behalf of the Borrower while that Lender was a Defaulting

Lender; provided, further, that, except to the extent otherwise expressly agreed by the affected parties and subject to Section 11.22, no change hereunder from Defaulting Lender to Lender will constitute a waiver or release of any claim of any party hereunder arising from that Lender having been a Defaulting Lender.

#### 2.16 Additional Revolving Commitments.

The Borrower may, at any time and from time to time, upon prior written notice by the Borrower to the Administrative Agent increase the Aggregate Revolving Commitments (but not the Swing Line Sublimit) by a maximum aggregate amount of up to FIFTY MILLION DOLLARS (\$50,000,000) with additional Revolving Commitments from any existing Lender with a Revolving Commitment or new Revolving Commitments from any other Person selected by the Borrower and acceptable to the Administrative Agent and the Swing Line Lender; provided that:

(a) any such increase shall be in a minimum principal amount of \$10,000,000 and in integral multiples of \$5,000,000 in excess thereof;

(b) no Default or Event of Default shall exist and be continuing at the time of any such increase or would result from any Borrowing on the day of such increase;

(c) no existing Lender shall be under any obligation to increase its Revolving Commitment and any such decision whether to increase its Revolving Commitment shall be in such Lender's sole and absolute discretion;

(d) any new Lender shall join this Agreement by executing such joinder documents required by the Administrative Agent and/or any existing Lender electing to increase its Revolving Commitment shall have executed a commitment agreement satisfactory to the Administrative Agent;

(e) any existing Lender or any new Lender providing a portion of the increase in Revolving Commitments shall be reasonably acceptable to the Administrative Agent and the Swing Line Lender; and

(f) as a condition precedent to such increase, the Borrower shall deliver to the Administrative Agent (A) a certificate of the Borrower dated as of the date of such increase (in sufficient copies for each Lender) signed by a Responsible Officer of the Borrower (1) certifying and attaching the resolutions adopted by the Borrower approving or consenting to such increase, and (2) certifying that, before and after giving effect to such increase, the representations and warranties contained in Article VI and the other Loan Documents are true and correct in all material respects on and as of the date of such increase, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they are true and correct in all material respects as of such earlier date, and except that for purposes of this Section 2.16, the representations and warranties contained in subsections (a) and (b) of Section 6.05 shall be deemed to refer to the most recent statements furnished pursuant to clauses (a) and (b), respectively, of Section 7.01, and (B) legal opinions and other documents reasonably requested by the Administrative Agent.

The Borrower shall prepay any Loans owing by it and outstanding on the date of any such increase (and pay any additional amounts required pursuant to Section 3.05) to the extent necessary to keep the outstanding Loans ratable with any revised Revolving Commitments arising from any nonratable increase in the Revolving Commitments under this Section.

#### 2.17 Extension of Revolving Loan Maturity Date.

(a) Request for Extension. The Borrower may by written notice to the Administrative Agent (who shall promptly notify the Lenders) given not less than forty-five (45) days prior to any anniversary of the Effective Date, request that each Lender extend the Revolving Loan Maturity Date for an additional one (1) year from the then existing Revolving Loan Maturity Date; provided, that the Borrower shall only be permitted to exercise this extension option two (2) times during the term of this Agreement; provided, further, that in no case shall the Revolving Loan Maturity Date exceed five (5) years from any date.

(b) Lenders Election to Extend. Each Lender, acting in its sole and individual discretion, shall, by notice to the Administrative Agent given not later than fifteen (15) days following the receipt of notice of such request from the Administrative Agent (the "Notice Date"), advise the Administrative Agent in writing whether or not such Lender agrees to such extension (and each Lender that determines not to so extend its Revolving Loan Maturity Date (a "Non-Extending Lender") shall notify the Administrative Agent of such fact promptly after such determination (but in any event no later than the Notice Date) and any Lender that does not so advise the Administrative Agent on or before the Notice Date shall be deemed to be a Non-Extending Lender. The election of any Lender to agree to such extension shall not obligate any other Lender to so agree.

(c) Notification by Administrative Agent. The Administrative Agent shall notify the Borrower of each Lender's determination under this Section 2.17 promptly and in any event no later than the date fifteen (15) days after the Notice Date (or, if such date is not a Business Day, on the next preceding Business Day).

(d) Additional Commitment Lenders. The Borrower shall have the right on or before the applicable anniversary of the Effective Date to replace each Non-Extending Lender with, and add as “Lenders” under this Agreement in place thereof, one or more Eligible Assignees (each, an “Additional Commitment Lender”) as provided in Section 11.13, each of which Additional Commitment Lenders shall have entered into an Assignment and Assumption pursuant to which such Additional Commitment Lender shall, undertake a Revolving Commitment (and, if any such Additional Commitment Lender is already a Lender, its Revolving Commitment shall be in addition to such Lender’s Revolving Commitment hereunder on such date) and shall be a “Lender” for all purposes of this Agreement.

(e) Minimum Extension Requirement. If all of the Lenders agree to any such request for extension of the Revolving Loan Maturity Date then the Revolving Loan Maturity Date for all Lenders shall be extended for the additional one (1) year, as applicable. If there exists any Non-Extending Lenders that are not being replaced by Additional Commitment Lenders, then the Borrower shall (i) withdraw its extension request and the Revolving Loan Maturity Date will remain unchanged or (ii) provided that the Required Lenders (but for the avoidance of doubt, not including any Additional Commitment Lenders) have agreed to the extension request (such Lenders agreeing to such extension, the “Approving Lenders”) no later than fifteen (15) days prior to such anniversary of the Effective Date, then the Borrower may extend the Revolving Loan Maturity Date solely as to the Approving Lenders and the Additional Commitment Lenders with a reduced amount of Aggregate Revolving Commitments during such extension period equal to the aggregate Revolving Commitments of the Approving Lenders and the Additional Commitment Lenders; it being understood that (A) the Revolving Loan Maturity Date relating to any Non-Extending Lenders not replaced by an Additional Commitment Lender shall not be extended and the repayment of all obligations owed to them and the termination of their Revolving Commitments shall occur on the already existing Revolving Loan Maturity Date and (B) the Revolving Loan Maturity Date relating to the Approving Lenders and the Additional Commitment Lenders shall be extended for an additional year, as applicable.

(f) Conditions to Effectiveness of Extensions. Notwithstanding the foregoing, any extension of the Revolving Loan Maturity Date pursuant to this Section 2.17 shall not be effective with respect to any Lender unless:

(i) on the date of such extension, the conditions for a Borrowing provided in Section 5.02(a) and (b) shall be satisfied;

(ii) the Administrative Agent shall have received a certificate of a Responsible Officer of the Borrower certifying that as of the date of such extension, (A) there are no actions, suits, proceedings, or disputes pending or, to the knowledge of the Borrower after due and diligent investigation, threatened or contemplated, at law, in equity, in arbitration or before any Governmental Authority, by or against the Borrower or any of its Principal Subsidiaries or against any of their properties or revenues that (1) purport to affect or pertain to this Agreement or any other Loan Document, or any of the transactions contemplated hereby or (2) could reasonably be expected to have a Material Adverse Effect, except as specifically disclosed in the Disclosure Documents and (B) since December 31, 2016, there has been no event or circumstance, either individually or in the aggregate, that has had a Material Adverse Effect, except as specifically disclosed in the Disclosure Documents; and

(iii) on the date of such extension, the Borrower shall prepay any Loans outstanding on such date (and pay any additional amounts required pursuant to Section 3.05) to the extent necessary to keep outstanding Loans ratable with any revised Applicable Percentages of the respective Lenders effective as of such date.

## ARTICLE III.

### TAXES, YIELD PROTECTION AND ILLEGALITY

#### 3.01 Taxes.

(a) Payments Free of Taxes; Obligation to Withhold; Payments on Account of Taxes.

(i) Any and all payments by or on account of any obligation of the Borrower under any Loan Document shall be made without deduction or withholding for any Taxes, except as required by applicable Laws. If any applicable Laws (as determined in the good faith discretion of the Administrative Agent) require the deduction or withholding of any Tax from any such payment by the Administrative Agent or the Borrower, then the Administrative Agent or the Borrower shall be entitled to make such deduction or withholding, upon the basis of the information and documentation to be delivered pursuant to subsection (e) below.

(ii) If the Borrower or the Administrative Agent shall be required by the Internal Revenue Code to withhold or deduct any Taxes, including both United States Federal backup withholding and withholding taxes, from any payment, then (A) the Administrative Agent shall withhold or make such deductions as are determined by the Administrative Agent to be required based upon the information and documentation it has received pursuant to subsection (e) below, (B) the Administrative Agent shall timely pay the full amount withheld or deducted to the relevant Governmental

Authority in accordance with the Internal Revenue Code, and (C) to the extent that the withholding or deduction is made on account of Indemnified Taxes, the sum payable by the Borrower shall be increased as necessary so that after any required withholding or the making of all required deductions (including deductions applicable to additional sums payable under this Section 3.01) the applicable Recipient receives an amount equal to the sum it would have received had no such withholding or deduction been made.

(iii) If the Borrower or the Administrative Agent shall be required by any applicable Laws other than the Internal Revenue Code to withhold or deduct any Taxes from any payment, then (A) the Borrower or the Administrative Agent, as required by such Laws, shall withhold or make such deductions as are determined by it to be required based upon the information and documentation it has received pursuant to subsection (e) below, (B) the Borrower or the Administrative Agent, to the extent required by such Laws, shall timely pay the full amount withheld or deducted to the relevant Governmental Authority in accordance with such Laws, and (C) to the extent that the withholding or deduction is made on account of Indemnified Taxes, the sum payable by the Borrower shall be increased as necessary so that after any required withholding or the making of all required deductions (including deductions applicable to additional sums payable under this Section 3.01) the applicable Recipient receives an amount equal to the sum it would have received had no such withholding or deduction been made.

(b) Payment of Other Taxes by the Borrower. Without limiting the provisions of subsection (a) above, the Borrower shall timely pay to the relevant Governmental Authority in accordance with applicable law, or at the option of the Administrative Agent timely reimburse it for the payment of, any Other Taxes.

(c) Tax Indemnifications.

(i) Without limiting the provisions of subsection (a) or (b) above, but without duplication, the Borrower shall and does hereby indemnify each Recipient, and shall make payment in respect thereof within ten days after written demand therefor, for the full amount of any Indemnified Taxes (including Indemnified Taxes imposed or asserted on or attributable to amounts payable under this Section 3.01) payable or paid by such Recipient or required to be withheld or deducted from a payment to such Recipient, and any reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to the Borrower by a Lender (with a copy to the Administrative Agent), or by the Administrative Agent on its own behalf or on behalf of a Lender, shall be conclusive absent manifest error. The Borrower shall and does hereby indemnify the Administrative Agent, and shall make payment in respect thereof within ten days after demand therefor, for any amount which a Lender for any reason fails to pay indefeasibly to the Administrative Agent as required pursuant to Section 3.01(c)(ii) below.

(ii) Each Lender shall, and does hereby, severally indemnify, and shall make payment in respect thereof within ten days after demand therefor, (A) the Administrative Agent against any Indemnified Taxes attributable to such Lender (but only to the extent that the Borrower has not already indemnified the Administrative Agent for such Indemnified Taxes and without limiting the obligation of the Borrower to do so), (B) the Administrative Agent and the Borrower, as applicable, against any Taxes attributable to such Lender's failure to comply with the provisions of Section 11.06(d) relating to the maintenance of a Participant Register and (C) the Administrative Agent and the Borrower, as applicable, against any Excluded Taxes attributable to such Lender, in each case, that are payable or paid by the Administrative Agent or the Borrower in connection with any Loan Document, and any reasonable expenses arising therefrom or with respect thereto, whether or not such Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to any Lender by the Administrative Agent shall be conclusive absent manifest error. Each Lender hereby authorizes the Administrative Agent to set off and apply any and all amounts at any time owing to such Lender under this Agreement or any other Loan Document against any amount due to the Administrative Agent under this clause (ii).

(d) Evidence of Payments. Upon request by the Borrower or the Administrative Agent, as the case may be, after any payment of Taxes by the Borrower or by the Administrative Agent to a Governmental Authority as provided in this Section 3.01, the Borrower shall deliver to the Administrative Agent or the Administrative Agent shall deliver to the Borrower, as the case may be, the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of any return required by Laws to report such payment or other evidence of such payment reasonably satisfactory to the Borrower or the Administrative Agent, as the case may be.

(e) Status of Lenders; Tax Documentation.

(i) Any Lender that is entitled to an exemption from or reduction of withholding Tax with respect to payments made under any Loan Document shall deliver to the Borrower and the Administrative Agent, at the time or times reasonably requested by the Borrower or the Administrative Agent, such properly completed and executed documentation reasonably requested by the Borrower or the Administrative Agent as will permit such payments to be made without withholding or at a reduced rate of withholding. In addition, any Lender, if reasonably requested by the

Borrower or the Administrative Agent, shall deliver such other documentation prescribed by applicable Law or reasonably requested by the Borrower or the Administrative Agent as will enable the Borrower or the Administrative Agent to determine whether or not such Lender is subject to backup withholding or information reporting requirements. Notwithstanding anything to the contrary in the preceding two sentences, the completion, execution and submission of such documentation (other than such documentation set forth in Section 3.01(e)(ii)(A), (ii)(B) and (ii)(D) below) shall not be required if in the Lender's reasonable judgment such completion, execution or submission would subject such Lender to any material unreimbursed cost or expense or would materially prejudice the legal or commercial position of such Lender; *provided*, that this sentence shall not apply to documentation described in Section 3.01(e)(ii)(C) if such documentation is in substance essentially equivalent to, and not materially more onerous to provide, than the documentation set forth in Section 3.01(e)(ii)(A), (ii)(B), or (ii)(D).

(ii) Without limiting the generality of the foregoing, in the event that the Borrower is a U.S. Person,

(A) any Lender that is a U.S. Person shall deliver to the Borrower and the Administrative Agent on or prior to the date on which such Lender becomes a Lender under this Agreement (and from time to time thereafter upon the reasonable request of the Borrower or the Administrative Agent), executed copies of Internal Revenue Service Form W-9 certifying that such Lender is exempt from U.S. federal backup withholding Tax;

(B) any Foreign Lender shall, to the extent it is legally entitled to do so, deliver to the Borrower and the Administrative Agent (in such number of copies as shall be requested by the recipient) on or prior to the date on which such Foreign Lender becomes a Lender under this Agreement (and from time to time thereafter upon the reasonable request of the Borrower or the Administrative Agent), whichever of the following is applicable (together with any required schedules and attachments):

(1) in the case of a Foreign Lender claiming the benefits of an income tax treaty to which the United States is a party (x) with respect to payments of interest under any Loan Document, executed copies of Internal Revenue Service Form W-8BEN or W-8BEN-E establishing an exemption from, or reduction of, U.S. federal withholding Tax pursuant to the "interest" article of such tax treaty and (y) with respect to any other applicable payments under any Loan Document, Internal Revenue Service Form W-8BEN or W-8BEN-E establishing an exemption from, or reduction of, U.S. federal withholding Tax pursuant to the "business profits" or "other income" article of such tax treaty;

(2) executed copies of Internal Revenue Service Form W-8ECI;

(3) in the case of a Foreign Lender claiming the benefits of the exemption for portfolio interest under Section 881(c) of the Internal Revenue Code, (x) a certificate substantially in the form of Exhibit 3.01(e)-1 to the effect that such Foreign Lender is not a "bank" within the meaning of Section 881(c)(3)(A) of the Internal Revenue Code, a "10 percent shareholder" of the Borrower within the meaning of Section 881(c)(3)(B) of the Internal Revenue Code, or a "controlled foreign corporation" described in Section 881(c)(3)(C) of the Internal Revenue Code (a "U.S. Tax Compliance Certificate") and (y) executed copies of Internal Revenue Service Form W-8BEN or W-8BEN-E; or

(4) to the extent a Foreign Lender is not the beneficial owner, executed copies of Internal Revenue Service Form W-8IMY, accompanied by Internal Revenue Service Form W-8ECI, Internal Revenue Service Form W-8BEN or W-8BEN-E, a U.S. Tax Compliance Certificate substantially in the form of Exhibit 3.01(e)-2 or Exhibit 3.01(e)-3, Internal Revenue Service Form W-9, and/or other certification documents from each beneficial owner, as applicable; *provided* that if the Foreign Lender is a partnership and one or more direct or indirect partners of such Foreign Lender are claiming the portfolio interest exemption, such Foreign Lender may provide a U.S. Tax Compliance Certificate substantially in the form of Exhibit 3.01(e)-4 on behalf of each such direct and indirect partner;

(C) any Foreign Lender shall, to the extent it is legally entitled to do so, deliver to the Borrower and the Administrative Agent (in such number of copies as shall be requested by the recipient) on or prior to the date on which such Foreign Lender becomes a Lender under this Agreement (and from time to time thereafter upon the reasonable request of the Borrower or the Administrative Agent), executed copies of any other form prescribed by applicable Law as a basis for claiming exemption from or a reduction in U.S. federal withholding Tax, duly completed, together with such supplementary documentation as may be prescribed by applicable Law to permit the Borrower or the Administrative Agent to determine the withholding or deduction required to be made; and

(D) if a payment made to a Lender under any Loan Document would be subject to U.S. federal withholding Tax imposed by FATCA if such Lender were to fail to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471(b) or 1472(b) of the Internal Revenue Code, as applicable), such Lender shall deliver to the Borrower and the Administrative Agent at the time or times

prescribed by Law and at such time or times reasonably requested by the Borrower or the Administrative Agent such documentation prescribed by applicable Law (including as prescribed by Section 1471(b)(3)(C)(i) of the Internal Revenue Code) and such additional documentation reasonably requested by the Borrower or the Administrative Agent as may be necessary for the Borrower and the Administrative Agent to comply with their obligations under FATCA and to determine that such Lender has complied with such Lender's obligations under FATCA or to determine the amount to deduct and withhold from such payment. Solely for purposes of this clause (D), "FATCA" shall include any amendments made to FATCA after the date of this Agreement.

(iii) Each Lender agrees that if any form or certification it previously delivered pursuant to this Section 3.01 expires or becomes obsolete or inaccurate in any respect, it shall update such form or certification or promptly notify the Borrower and the Administrative Agent in writing of its legal inability to do so.

(f) Treatment of Certain Refunds. Unless required by applicable Laws, at no time shall the Administrative Agent have any obligation to file for or otherwise pursue on behalf of a Lender, or have any obligation to pay to any Lender, any refund of Taxes withheld or deducted from funds paid for the account of such Lender. If any Recipient determines, in its sole discretion exercised in good faith, that it has received a refund of any Taxes as to which it has been indemnified by the Borrower or with respect to which the Borrower has paid additional amounts pursuant to this Section 3.01, it shall pay to the Borrower an amount equal to such refund (but only to the extent of indemnity payments made, or additional amounts paid, by the Borrower under this Section 3.01 with respect to the Taxes giving rise to such refund), net of all out-of-pocket expenses (including Taxes) incurred by such Recipient, and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund), provided that the Borrower, upon the request of the Recipient, agrees to repay the amount paid over to the Borrower (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) to the Recipient in the event the Recipient is required to repay such refund to such Governmental Authority. Notwithstanding anything to the contrary in this subsection, in no event will the applicable Recipient be required to pay any amount to the Borrower pursuant to this subsection the payment of which would place the Recipient in a less favorable net after-Tax position than such Recipient would have been in if the indemnification payments or additional amounts giving rise to such refund had never been paid. This subsection shall not be construed to require any Recipient to make available its Tax returns (or any other information relating to its Taxes that it deems confidential) to the Borrower or any other Person.

(g) Survival. Each party's obligations under this Section 3.01 shall survive the resignation or replacement of the Administrative Agent or any assignment of rights by, or the replacement of, a Lender, the termination of the Aggregate Revolving Commitments and the repayment, satisfaction or discharge of all other Obligations.

### 3.02 Illegality.

If any Lender determines that any Law has made it unlawful, or that any Governmental Authority has asserted that it is unlawful, for any Lender or its applicable Lending Office to make, maintain or fund Loans whose interest is determined by reference to the Eurodollar Rate, or to determine or charge interest rates based upon the Eurodollar Rate, or any Governmental Authority has imposed material restrictions on the authority of such Lender to purchase or sell, or to take deposits of, Dollars in the London interbank market, then, on notice thereof by such Lender to the Borrower through the Administrative Agent, (i) any obligation of such Lender to make or continue Eurodollar Rate Loans or to convert Base Rate Loans to Eurodollar Rate Loans shall be suspended and (ii) if such notice asserts the illegality of such Lender making or maintaining Base Rate Loans the interest rate on which is determined by reference to the Eurodollar Rate component of the Base Rate, the interest rate on which Base Rate Loans of such Lender shall, if necessary to avoid such illegality, be determined by the Administrative Agent without reference to the Eurodollar Rate component of the Base Rate, in each case until such Lender notifies the Administrative Agent and the Borrower that the circumstances giving rise to such determination no longer exist. Upon receipt of such notice, (x) the Borrower shall, upon demand from such Lender (with a copy to the Administrative Agent), prepay or, if applicable, convert all Eurodollar Rate Loans of such Lender to Base Rate Loans (the interest rate on which Base Rate Loans of such Lender shall, if necessary to avoid such illegality, be determined by the Administrative Agent without reference to the Eurodollar Rate component of the Base Rate), either on the last day of the Interest Period therefor, if such Lender may lawfully continue to maintain such Eurodollar Rate Loans to such day, or immediately, if such Lender may not lawfully continue to maintain such Eurodollar Rate Loans and (y) if such notice asserts the illegality of such Lender determining or charging interest rates based upon the Eurodollar Rate, the Administrative Agent shall during the period of such suspension compute the Base Rate applicable to such Lender without reference to the Eurodollar Rate component thereof until the Administrative Agent is advised in writing by such Lender that it is no longer illegal for such Lender to determine or charge interest rates based upon the Eurodollar Rate. Upon any such prepayment or conversion, the Borrower shall also pay accrued interest on the amount so prepaid or converted.

### 3.03 Inability to Determine Rates.

If in connection with any request for a Eurodollar Rate Loan or a conversion to or continuation thereof, (a) the Administrative Agent determines that (i) Dollar deposits are not being offered to banks in the applicable offshore interbank market for such currency for the applicable amount and Interest Period of such Eurodollar Rate Loan, or (ii) adequate and reasonable means do not exist for determining the Eurodollar Rate for any requested Interest Period with respect to a proposed Eurodollar Rate Loan or in connection with an existing or proposed Base Rate Loan, or (b) the Administrative Agent or the Required Lenders determine that for any reason the

Eurodollar Rate for any requested Interest Period with respect to a proposed Eurodollar Rate Loan does not adequately and fairly reflect the cost to the Lenders of funding such Eurodollar Rate Loan, the Administrative Agent will promptly so notify the Borrower and each Lender. Thereafter, (x) the obligation of the Lenders to make or maintain Eurodollar Rate Loans shall be suspended, (to the extent of the affected Eurodollar Rate Loans or Interest Periods), and (y) in the event of a determination described in the preceding sentence with respect to the Eurodollar Rate component of the Base Rate, the utilization of the Eurodollar Rate component in determining the Base Rate shall be suspended, in each case until the Administrative Agent upon the instruction of the Required Lenders revokes such notice. Upon receipt of such notice, the Borrower may revoke any pending request for a Borrowing of, conversion to or continuation of Eurodollar Rate Loans (to the extent of the affected Eurodollar Rate Loans or Interest Periods) or, failing that, will be deemed to have converted such request into a request for a Borrowing of Base Rate Loans in the amount specified therein.

If at any time the Administrative Agent determines (which determination shall be conclusive absent manifest error) that (i) the circumstances set forth in clause (a) of this Section 3.03 have arisen and such circumstances are unlikely to be temporary or (ii) the circumstances set forth in clause (a) of this Section 3.03 have not arisen but the supervisor for the administrator of the Eurodollar Base Rate or a Governmental Authority having jurisdiction over the Administrative Agent has made a public statement identifying a specific date after which the Eurodollar Base Rate shall no longer be used for determining interest rates for loans, then the Administrative Agent shall promptly notify the Borrower and the Lenders in writing of such determination, and the Administrative Agent and the Borrower shall endeavor to establish an alternate rate of interest to the Eurodollar Base Rate that gives due consideration to the then prevailing market convention for determining a rate of interest for syndicated loans in the United States at such time, and shall enter into an amendment to this Agreement to reflect such alternate rate of interest (including any mathematical or other adjustments to the benchmark (if any) incorporated therein) and such other related changes to this Agreement as may be applicable; provided that, if such alternate rate of interest shall be less than zero, such rate shall be deemed to be zero for the purposes of this Agreement. Notwithstanding anything to the contrary in Section 11.01, such amendment shall become effective without any further action or consent of any other party to this Agreement so long as the Administrative Agent shall not have received, within five (5) Business Days of the date such amendment is provided to the Lenders, written notice from the Required Lenders stating that such Required Lenders object to such amendment.

#### 3.04 Increased Costs.

(a) Increased Costs Generally. If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit, compulsory loan, insurance charge or similar requirement against assets of, deposits with or for the account of, or credit extended or participated in by, any Lender (except any reserve requirement reflected in the Eurodollar Rate);

(ii) subject any Lender to any Tax of any kind whatsoever with respect to this Agreement or any Eurodollar Rate Loan made by it, or change the basis of taxation of payments to such Lender in respect thereof (in each case except for Indemnified Taxes and Excluded Taxes); or

(iii) impose on any Lender or the London interbank market any other condition, cost or expense affecting this Agreement or Eurodollar Rate Loans made by such Lender;

and the result of any of the foregoing shall be to increase the cost to such Lender of making or maintaining any Loan the interest on which is determined by reference to the Eurodollar Rate (or of maintaining its obligation to make any such Loan), or to reduce the amount of any sum received or receivable by such Lender hereunder (whether of principal, interest or any other amount) then, upon request of such Lender, the Borrower will pay to such Lender such additional amount or amounts as will compensate such Lender for such additional costs incurred or reduction suffered.

(b) Capital Requirements. If any Lender determines that any Change in Law affecting such Lender or any Lending Office of such Lender or such Lender's holding company, if any, regarding capital or liquidity requirements has or would have the effect of reducing the rate of return on such Lender's capital or on the capital of such Lender's holding company, if any, as a consequence of this Agreement, the Revolving Commitments of such Lender or the Loans made by such Lender to a level below that which such Lender or such Lender's holding company could have achieved but for such Change in Law (taking into consideration such Lender's policies and the policies of such Lender's holding company with respect to capital adequacy and liquidity), then from time to time the Borrower will pay to such Lender such additional amount or amounts as will compensate such Lender or such Lender's holding company for any such reduction suffered.

(c) Certificates for Reimbursement. A certificate of a Lender setting forth the amount or amounts necessary to compensate such Lender or its holding company, as the case may be, as specified in subsection (a) or (b) of this Section and delivered to the Borrower shall be conclusive absent manifest error. The Borrower shall pay such Lender the amount shown as due on any such certificate within ten (10) days after receipt thereof.

(d) Delay in Requests. Failure or delay on the part of any Lender to demand compensation pursuant to the foregoing provisions of this Section shall not constitute a waiver of such Lender's right to demand such compensation, provided that the

Borrower shall not be required to compensate a Lender pursuant to the foregoing provisions of this Section for any increased costs incurred or reductions suffered more than nine (9) months prior to the date that such Lender notifies the Borrower of the Change in Law giving rise to such increased costs or reductions and of such Lender's intention to claim compensation therefor (except that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the nine-month period referred to above shall be extended to include the period of retroactive effect thereof).

### 3.05 Compensation for Losses.

Upon demand of any Lender (with a copy to the Administrative Agent) from time to time, the Borrower shall promptly compensate such Lender for, and hold such Lender harmless from, any loss, cost or expense incurred by it as a result of:

(a) any continuation, conversion, payment or prepayment of any Loan other than a Base Rate Loan on a day other than the last day of the Interest Period for such Loan (whether voluntary, mandatory, automatic, by reason of acceleration, or otherwise);

(b) any failure by the Borrower (for a reason other than the failure of such Lender to make a Loan) to prepay, borrow, continue or convert any Loan other than a Base Rate Loan on the date or in the amount notified by the Borrower; or

(c) any assignment of a Eurodollar Rate Loan on a day other than the last day of the Interest Period therefor as a result of a request by the Borrower pursuant to Section 11.13;

including any loss (other than any loss of anticipated profits) or expense arising from the liquidation or redeployment of funds obtained by it to maintain such Loan or from fees payable to terminate the deposits from which such funds were obtained. The Borrower shall also pay any customary administrative fees charged by such Lender in connection with the foregoing.

For purposes of calculating amounts payable by the Borrower to the Lenders under this Section 3.05, each Lender shall be deemed to have funded each Eurodollar Rate Loan made by it at the Eurodollar Base Rate used in determining the Eurodollar Rate for such Loan by a matching deposit or other borrowing in the London interbank eurodollar market for a comparable amount and for a comparable period, whether or not such Eurodollar Rate Loan was in fact so funded.

### 3.06 Mitigation Obligations; Replacement of Lenders.

(a) If any Lender requests compensation under Section 3.04, or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 3.01, or if any Lender gives a notice pursuant to Section 3.02, then such Lender shall use reasonable efforts to designate a different Lending Office for funding or booking its Loans hereunder or to assign its rights and obligations hereunder to another of its offices, branches or affiliates, if, in the judgment of such Lender, such designation or assignment (i) would eliminate or reduce amounts payable pursuant to Section 3.01 or 3.04, as the case may be, in the future, or eliminate the need for the notice pursuant to Section 3.02, as applicable, and (ii) in each case, would not subject such Lender to any unreimbursed cost or expense and would not otherwise be disadvantageous to such Lender. The Borrower hereby agrees to pay its all reasonable costs and expenses incurred by any Lender in connection with any such designation or assignment.

(b) If any Lender requests compensation under Section 3.04, or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 3.01, the Borrower may replace such Lender in accordance with Section 11.13.

### 3.07 Survival.

All of the Borrower's obligations under this Article III shall survive termination of the Aggregate Revolving Commitments, repayment of all other Obligations and resignation of the Administrative Agent.

### 3.08 Withholding Taxes.

For purposes of determining withholding Taxes imposed under FATCA, from and after the Effective Date, the Borrower and the Administrative Agent shall treat (and the Lenders hereby authorize the Administrative Agent to treat) the Loans under this Agreement as not qualifying as "grandfathered obligations" within the meaning of Treasury Regulation Section 1.1471-2(b)(2)(i).

ARTICLE IV.

[RESERVED]

ARTICLE V.

CONDITIONS PRECEDENT TO BORROWINGS

## 5.01 Conditions of Initial Borrowings.

This Agreement shall become effective upon, and the obligation of each Lender to make Loans to the Borrower hereunder is subject to, satisfaction of the following conditions precedent:

(a) Loan Documents. Receipt by the Administrative Agent of executed counterparts of this Agreement and a Note for each Lender that has requested a Note, each properly executed by a Responsible Officer of the Borrower and, in the case of this Agreement, by each Lender.

(b) Opinions of Counsel. Receipt by the Administrative Agent of favorable opinions of legal counsel to the Borrower, addressed to the Administrative Agent and each Lender, dated as of the Effective Date, and in form and substance reasonably satisfactory to the Administrative Agent.

(c) Financial Statements. The Administrative Agent shall have received:

(i) the Audited Financial Statements; and

(ii) unaudited consolidated financial statements of the Borrower and its Subsidiaries for the fiscal quarter ended September 30, 2017, including balance sheets and statements of income or operations, shareholders' equity and cash flows (the "Interim Financial Statements").

(d) No Material Adverse Change. Since December 31, 2016, there has been no event or circumstance, either individually or in the aggregate, that has had a Material Adverse Effect with respect to the Borrower, other than as specifically disclosed in the Disclosure Documents.

(e) Litigation. There shall not exist any action, suit, investigation or proceeding pending or, to the knowledge of the Borrower, threatened in any court or before an arbitrator or Governmental Authority that could reasonably be expected to have a Material Adverse Effect, other than as specifically disclosed in the Disclosure Documents.

(f) Organization Documents, Resolutions, Etc. Receipt by the Administrative Agent of the following, each of which shall be originals or facsimiles (followed promptly by originals), in form and substance reasonably satisfactory to the Administrative Agent and its legal counsel:

(i) copies of the Organization Documents of the Borrower certified to be true and complete as of a recent date by the appropriate Governmental Authority of the state or other jurisdiction of its incorporation or organization, where applicable, and certified by a secretary or assistant secretary of the Borrower to be true and correct as of the Effective Date;

(ii) such certificates of resolutions or other action, incumbency certificates and/or other certificates of Responsible Officers of the Borrower as the Administrative Agent may require evidencing the identity, authority and capacity of each Responsible Officer thereof authorized to act as a Responsible Officer in connection with this Agreement and the other Loan Documents to which the Borrower is a party; and

(iii) such documents and certifications as the Administrative Agent may require to evidence that the Borrower is duly organized or formed, and is validly existing, in good standing and qualified to engage in business in its state of organization or formation.

(g) Closing Certificate. Receipt by the Administrative Agent of a certificate signed by a Responsible Officer of the Borrower certifying that (i) the conditions specified in Sections 5.01(d) and (e) and Sections 5.02(a) and (b) have been satisfied and (ii) the Borrower and its Subsidiaries (after giving effect to the transactions contemplated hereby and the incurrence of Indebtedness related thereto) are Solvent on a consolidated basis.

(h) OFAC, Patriot Act, Etc. Receipt by the Administrative Agent of all documentation and other information that any Lender has reasonably requested in order to comply with its ongoing obligations under applicable "know your customer", OFAC and anti-corruption laws, including the Patriot Act.

(i) Repayment of Existing Credit Agreement. Receipt by the Administrative Agent of evidence that (i) all obligations owed to lenders under the Existing Credit Agreement- who are not Lenders hereunder, if any, shall have been paid in full and (ii) the obligations owed to lenders under the Existing Credit Agreement who are Lenders hereunder shall be paid to the extent necessary so that the Obligations of such Lenders to do not exceed their Revolving Commitments hereunder.

(j) Fees. Receipt by the Administrative Agent, the Joint Lead Arrangers and the Lenders of any fees required to be paid on or before the Effective Date.

(k) Attorney Costs. The Borrower shall have paid all reasonable fees, charges and disbursements of counsel to the Administrative Agent to the extent invoiced prior to or on the Effective Date, plus such additional amounts of such fees, charges and disbursements as shall constitute its reasonable estimate of such fees, charges and disbursements incurred or to be incurred by it through the closing proceedings (provided that such estimate shall not thereafter preclude a final settling of accounts between the Borrower and the Administrative Agent).

(l) Other. Receipt by the Administrative Agent and the Lenders of such other documents, instruments, agreements and information as reasonably requested by the Administrative Agent or any Lender, including, but not limited to, information regarding litigation, tax, accounting, labor, insurance, pension liabilities (actual or contingent), real estate leases, material contracts, debt agreements, property ownership, environmental matters, contingent liabilities and management of the Borrower and its Subsidiaries.

Without limiting the generality of the provisions of the last paragraph of Section 10.03, for purposes of determining compliance with the conditions specified in this Section 5.01, each Lender that has signed this Agreement shall be deemed to have consented to, approved or accepted or to be satisfied with, each document made available to it for review prior to the Effective Date or other matter required thereunder to be consented to or approved by or acceptable or satisfactory to a Lender unless the Administrative Agent shall have received notice from such Lender prior to the proposed Effective Date specifying its objection thereto.

#### 5.02 Conditions to all Borrowings.

The obligation of each Lender to honor any Request for Borrowing from the Borrower is subject to the following conditions precedent:

(a) The representations and warranties of the Borrower contained in Article VI (other than Sections 6.05(c) and 6.06) or any other Loan Document, or which are contained in any document furnished at any time under or in connection herewith or therewith, shall be true and correct in all material respects on and as of the date of such Borrowing (other than any representation and warranty that is expressly qualified by materiality, in which case such representation and warranty shall be true and correct in all respects), except to the extent that such representations and warranties specifically refer to an earlier date, in which case they shall be true and correct in all material respects (other than any representation and warranty that is expressly qualified by materiality, in which case such representation and warranty shall be true and correct in all respects) as of such earlier date, and except that for purposes of this Section 5.02, the representations and warranties contained in clauses (a) and (b) of Section 6.05 shall be deemed to refer to the most recent statements furnished pursuant to clauses (a) and (b), respectively, of Section 7.01.

(b) No Default shall exist, or would result from such proposed Borrowing or from the application of the proceeds thereof, with respect to the Borrower.

(c) The Administrative Agent and, if applicable, the Swing Line Lender shall have received a Request for Borrowing from the Borrower in accordance with the requirements hereof.

Each Request for Borrowing submitted by the Borrower shall be deemed to be a representation and warranty that the conditions specified in Sections 5.02(a) and (b) have been satisfied on and as of the date of the applicable Borrowing.

### ARTICLE VI.

#### REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants to the Administrative Agent and the Lenders that:

##### 6.01 Existence, Qualification and Power.

The Borrower and each Principal Subsidiary thereof (a) is duly organized or formed, validly existing and in good standing under the Laws of the jurisdiction of its incorporation or organization, (b) has all requisite power and authority and all requisite governmental licenses, authorizations, consents and approvals to (i) own its assets and carry on its business and (ii) execute, deliver and perform its obligations under the Loan Documents to which it is a party, (c) is duly qualified and is licensed and in good standing under the Laws of each jurisdiction where its ownership, lease or operation of properties or the conduct of its business requires such qualification or license, and (d) is in compliance with all Laws; except in each case referred to in clause (b)(i), (c) or (d), to the extent that failure to do so would not have a Material Adverse Effect.

##### 6.02 Authorization; No Contravention.

The execution, delivery and performance by the Borrower of each Loan Document to which such Person is party, have been duly authorized by all necessary corporate or other organizational action, and do not and will not (a) contravene the terms of any of

such Person's Organization Documents; (b) conflict with or result in any breach or contravention of, or the creation of any Lien under, or require any payment to be made under (i) any Contractual Obligation to which such Person is a party or affecting such Person or the properties of such Person or any of its Principal Subsidiaries or (ii) any order, injunction, writ or decree of any Governmental Authority or any arbitral award to which such Person or its property is subject; or (c) violate any Law. The Borrower and its Principal Subsidiaries are in compliance with all Contractual Obligations referred to in clause (b)(i), except to the extent that failure to do so would not have a Material Adverse Effect.

#### 6.03 Governmental Authorization; Other Consents.

No approval, consent, exemption, authorization, or other action by, or notice to, or filing with, any Governmental Authority (including FERC and DPU) is necessary or required in connection with the execution, delivery or performance by, or enforcement against, the Borrower of this Agreement or any other Loan Document, other than those approvals, consents or filings already obtained or made and in full force and effect.

#### 6.04 Binding Effect.

This Agreement has been, and each other Loan Document, when delivered hereunder, will have been, duly executed and delivered by the Borrower. This Agreement constitutes, and each other Loan Document when so delivered will constitute, a legal, valid and binding obligation of the Borrower, enforceable against the Borrower that is party thereto in accordance with its terms, subject to bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to creditors' rights and general principles of equity.

#### 6.05 Financial Statements; No Material Adverse Effect.

(a) The Audited Financial Statements of the Borrower and its Subsidiaries (i) were prepared in accordance with GAAP consistently applied throughout the period covered thereby, except as otherwise expressly noted therein; (ii) fairly present in all material respects the financial condition of the Borrower and its Subsidiaries as of the date thereof and their results of operations for the period covered thereby in accordance with GAAP consistently applied throughout the period covered thereby, except as otherwise expressly noted therein; and (iii) show to the extent required by GAAP all material indebtedness and other liabilities, direct or contingent, of the Borrower and its Subsidiaries as of the date thereof, including liabilities for taxes, material commitments and Indebtedness.

(b) The unaudited consolidated balance sheet of the Borrower and its Subsidiaries dated September 30, 2017, and the related consolidated statements of income or operations, shareholders' equity and cash flows for the fiscal quarter ended on that date (i) were prepared in accordance with GAAP consistently applied throughout the period covered thereby, except as otherwise expressly noted therein, and (ii) fairly present in all material respects the financial condition of the Borrower and its Subsidiaries as of the date thereof and their results of operations for the period covered thereby, subject, in the case of clauses (i) and (ii), to the absence of footnotes and to normal year-end audit adjustments.

(c) Since December 31, 2016, there has been no event or circumstance, either individually or in the aggregate, that has had a Material Adverse Effect, except as specifically disclosed in the Disclosure Documents.

#### 6.06 Litigation.

There are no actions, suits, proceedings, or disputes pending or, to the knowledge of the Borrower after due and diligent investigation, threatened or contemplated, at law, in equity, in arbitration or before any Governmental Authority, by or against the Borrower or any of its Principal Subsidiaries or against any of their properties or revenues that (a) purport to affect or pertain to this Agreement or any other Loan Document, or any of the transactions contemplated hereby or (b) could reasonably be expected to have a Material Adverse Effect, except as specifically disclosed in the Disclosure Documents.

#### 6.07 No Default.

Neither the Borrower nor any of its Principal Subsidiaries is in default under or with respect to any indebtedness for borrowed money in excess of the Threshold Amount. No Default has occurred and is continuing or would result from the consummation of the transactions contemplated by this Agreement or any other Loan Document.

#### 6.08 Ownership of Property; Liens.

The Borrower and its Principal Subsidiaries have good record and marketable title in fee simple to, or valid leasehold interests in, all real property necessary or used in the ordinary conduct of its business, except for such defects in title as would not, individually or in the aggregate have a Material Adverse Effect. As of the date of this Agreement, the Borrower and its Principal Subsidiaries enjoy peaceful and undisturbed possession under all leases of real property on which facilities operated by it are situated, and all such leases are valid and subsisting and in full force and effect. The property of the Borrower and its Principal Subsidiaries is subject to no Liens, other than Liens permitted by Section 8.01.

#### 6.09 Environmental Compliance.

The Borrower and its Principal Subsidiaries conduct in the ordinary course of business a review of the effect of existing Environmental Laws and claims alleging potential liability or responsibility for violation of any Environmental Law on their respective businesses, operations and properties, and as a result thereof the Borrower has reasonably concluded that such Environmental Laws and claims would not, individually or in the aggregate have a Material Adverse Effect.

#### 6.10 Insurance.

The properties of the Borrower and its Principal Subsidiaries are insured with financially sound and reputable insurance companies not Affiliates of the Borrower, in such amounts, with such deductibles and covering such risks as are customarily carried by companies engaged in similar businesses and owning similar properties in localities where the Borrower or the applicable Principal Subsidiary operates. All of such policies (a) are in full force and effect, (b) are sufficient for compliance by the Borrower and its Principal Subsidiaries with all written agreements or instruments to which the Borrower or any such Principal Subsidiary is a party and all applicable requirements of law, (c) provide that they will remain in full force and effect through the respective dates set forth in such policies and (d) will not in any way be affected by, or terminate or lapse by reason of, the transactions contemplated by this Agreement. Neither the Borrower nor any of its Principal Subsidiaries is in default with respect to its obligations under any of such insurance policies and have not received any notification of cancellation of any such insurance policies.

#### 6.11 Taxes.

The Borrower and its Principal Subsidiaries have filed all federal, state and other material tax returns and reports required to be filed, and have paid all federal, state and other material taxes, assessments, fees and other governmental charges levied or imposed upon them or their properties, income or assets otherwise due and payable, except those which are being contested in good faith by appropriate proceedings diligently conducted and for which adequate reserves have been provided in accordance with GAAP and those where the failure to file or pay would not have a Material Adverse Effect. There is no unpaid tax claimed by any governmental Authority to be due against the Borrower or its Principal Subsidiaries that would, if made, have a Material Adverse Effect. As of the Effective Date, neither the Borrower nor any of its Principal Subsidiaries is party to any tax sharing agreements other than as set forth on Schedule 6.11.

#### 6.12 ERISA Compliance.

(a) Except as would not reasonably be likely to result in a Material Adverse Effect, each Pension Plan sponsored or maintained by the Borrower is in substantial compliance in all material respects with the applicable provisions of ERISA, the Internal Revenue Code and other federal or state Laws. Each Pension Plan that is intended to qualify under Section 401(a) of the Internal Revenue Code has received a favorable determination letter from the Internal Revenue Service or an application for such a letter is currently being processed by the Internal Revenue Service with respect thereto and, to the best knowledge of the Borrower, nothing has occurred which has not been or cannot be corrected that would prevent, or cause the loss of, such qualification. The Borrower, and to the best knowledge of the Borrower, each ERISA Affiliate have made all required contributions to each Pension Plan or, any delinquent contributions, have been corrected pursuant to a government sponsored correction program, and no application for a funding waiver or an extension of any amortization period pursuant to Section 412 of the Internal Revenue Code has been made with respect to any Pension Plan.

(b) There are no pending or, to the best knowledge of the Borrower, threatened claims, actions or lawsuits, or action by any Governmental Authority, with respect to any Pension Plan that would reasonably be expected to result in a Material Adverse Effect. There has been no prohibited transaction or violation of the fiduciary responsibility rules with respect to any Pension Plan that has resulted in a Material Adverse Effect.

(c) (i) No ERISA Event has occurred or is reasonably expected to occur; (ii) the Borrower, and to the best knowledge of the Borrower, each ERISA Affiliate has met all applicable requirements under the Pension Funding Rules in respect of each Pension Plan, and no waiver of the minimum funding standards under the Pension Funding Rules has been applied for or obtained; (iii) neither the Borrower, nor to the knowledge of the Borrower, any ERISA Affiliate has incurred, or reasonably expects to incur, any liability (and no event has occurred which, with the giving of notice under Section 4219 of ERISA, would result in such liability) under Sections 4201 or 4243 of ERISA with respect to a Multiemployer Plan; and (iv) the Borrower, or to the best knowledge of the Borrower, any ERISA Affiliate has not engaged in a transaction that could be subject to Sections 4069 or 4212(c) of ERISA.

(d) The Borrower is not or will not be using "plan assets" (within the meaning of 29 CFR § 2510.3-101, as modified by Section 3(42) of ERISA) of one or more Benefit Plans in connection with the Loans or the Revolving Commitments.

#### 6.13 Subsidiaries.

As of the Effective Date, the Borrower does not have any Principal Subsidiaries other than those specifically disclosed in Part (a)

of Schedule 6.13, and all of the outstanding Equity Interests entitled to vote for the election of directors or other governing Persons in such Principal Subsidiaries have been validly issued, are fully paid and nonassessable and are owned by the Borrower in the amounts specified on Part (a) of Schedule 6.13 free and clear of all Liens. All of the outstanding Equity Interests entitled to vote in the Borrower have been validly issued and are fully paid and nonassessable, and the Equity Interests of the Borrower are owned by Eversource to the extent specified, as of the Effective Date, on Part (b) of Schedule 6.13 free and clear of all Liens.

#### 6.14 Use of Proceeds; Margin Regulations; Investment Company Act.

(a) The proceeds of the Loans will be used for working capital, capital expenditures and other general corporate purposes (including the repayment of Indebtedness). The proceeds of the Loans will not be used in any way which would violate the provisions of Regulation U or X of the Board of Governors of the Federal Reserve System. The Borrower is not engaged or will engage, principally or as one of its important activities, in the business of purchasing or carrying margin stock (within the meaning of Regulation U issued by the FRB), or extending credit for the purpose of purchasing or carrying margin stock.

(b) Neither the Borrower nor any of its Subsidiaries is a “registered investment company” or an “affiliated company” or a “principal underwriter” of a “registered investment company”, as such terms are defined in the Investment Company Act of 1940, as amended.

#### 6.15 Disclosure.

The Borrower has disclosed to the Administrative Agent and the Lenders all agreements, instruments and corporate or other restrictions to which it or any of its Principal Subsidiaries is subject, and all other matters known to it, that, individually or in the aggregate, could reasonably be expected to result in a Material Adverse Effect. No report, financial statement, certificate or other information furnished (whether in writing or orally) by or on behalf of the Borrower to the Administrative Agent or any Lender in connection with the transactions contemplated hereby and the negotiation of this Agreement or delivered hereunder or under any other Loan Document (in each case, as modified or supplemented by other information so furnished) contains any material misstatement of fact or omits to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

#### 6.16 Compliance with Laws.

The Borrower and its Principal Subsidiaries are in compliance in all material respects with the requirements of all Laws and all orders, writs, injunctions and decrees applicable to it or to its properties, except in such instances in which (a) such requirement of Law or order, writ, injunction or decree is being contested in good faith by appropriate proceedings diligently conducted or (b) the failure to comply therewith, either individually or in the aggregate, would not have a Material Adverse Effect.

#### 6.17 Solvency.

The Borrower, together with its Subsidiaries on a consolidated basis, are and, upon the incurrence of any Borrowing on any date on which this representation and warranty is made, will be, Solvent.

#### 6.18 Taxpayer Numbers and Other Information.

The Borrower’s (a) true and correct U.S. taxpayer identification number, (b) full legal name, (c) state of incorporation, formation or organization and (d) the address of its principal place of business are set forth on Schedule 6.18.

#### 6.19 Sanctions Concerns and Anti-Corruption Laws.

(a) Sanctions Concerns. Neither the Borrower nor any Subsidiary of the Borrower, nor, to the knowledge of the Borrower and its Subsidiaries, any director, officer, employee, agent, affiliate or representative thereof, is an individual or entity that is, or is owned or controlled by any individual or entity that is (i) currently the subject or target of any Sanctions, (ii) included on OFAC’s List of Specially Designated Nationals, HMT’s Consolidated List of Financial Sanctions Targets and the Investment Ban List, or any similar list enforced by any other relevant sanctions authority or (iii) located, organized or resident in a Designated Jurisdiction so as to result in a violation of Sanctions.

(b) Anti-Corruption Laws. The Borrower and its Subsidiaries and, to the knowledge of the Borrower and its Subsidiaries, all directors, officers, employees, agents, affiliates and representatives thereof, have conducted their business in compliance with the United States Foreign Corrupt Practices Act of 1977, the UK Bribery Act 2010 and other similar anti-corruption legislation in other jurisdictions, and have instituted and maintained policies and procedures designed to promote and achieve compliance with such laws.

#### 6.20 EEA Financial Institutions.

The Borrower is not an EEA Financial Institution.

## ARTICLE VII.

### AFFIRMATIVE COVENANTS

So long as any Lender shall have any commitment hereunder, any Loan or other obligation hereunder shall remain unpaid or unsatisfied, the Borrower hereby agrees that it shall, and shall (except in the case of the covenants set forth in Sections 7.01, 7.02, and 7.03) cause each of its Principal Subsidiaries to:

#### 7.01 Financial Statements.

Deliver to the Administrative Agent and each Lender, in form and detail reasonably satisfactory to the Administrative Agent and the Required Lenders:

(a) with respect to the Borrower, as soon as available, but in any event within one hundred five (105) days after the end of each fiscal year of the Borrower, a consolidated balance sheet of the Borrower and its Subsidiaries as at the end of such fiscal year, and the related consolidated statements of income or operations, shareholders' equity and cash flows for such fiscal year, setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail and prepared in accordance with GAAP, audited and accompanied by a report and opinion of an independent certified public accountant of nationally recognized standing reasonably acceptable to the Required Lenders, which report and opinion shall be prepared in accordance with generally accepted auditing standards and shall not be subject to any "going concern" or like qualification or exception or any qualification or exception as to the scope of such audit and to the effect that such financial statements have been prepared in accordance with GAAP applied on a basis consistent with prior years (except as to changes with which such accountants concur and which shall be disclosed in the notes thereto or in a letter) and fairly present in all material respects the financial condition of the Borrower and its Subsidiaries at the dates thereof and the results of its consolidated operations for the periods covered thereby; and

(b) with respect to the Borrower, as soon as available, but in any event within fifty (50) days after the end of each of the first three (3) fiscal quarters of each fiscal year of the Borrower, a consolidated balance sheet of the Borrower and its Subsidiaries as at the end of such fiscal quarter, and the related consolidated statements of income or operations, shareholders' equity and cash flows for such fiscal quarter and for the portion of the Borrower's fiscal year then ended, setting forth in each case in comparative form the figures for the corresponding fiscal quarter of the previous fiscal year and the corresponding portion of the previous fiscal year, all in reasonable detail, certified by a Responsible Officer of the Borrower as fairly presenting in all material respects the financial condition, results of operations, shareholders' equity and cash flows of the Borrower and its Subsidiaries in accordance with GAAP, subject only to normal year-end audit adjustments and the absence of footnotes.

As to any information contained in materials furnished pursuant to Section 7.02(d), the Borrower shall not be separately required to furnish such information under clause (a) or (b) above, but the foregoing shall not be in derogation of the obligation of the Borrower to furnish the information and materials described in clauses (a) and (b) above at the times specified therein.

#### 7.02 Certificates; Other Information.

Deliver to the Administrative Agent and each Lender, in form and detail reasonably satisfactory to the Administrative Agent and the Required Lenders:

(a) concurrently with the delivery of the financial statements referred to in Sections 7.01(a) and (b), a certificate substantially in the form of Exhibit 7.02(a) signed by a Responsible Officer of the Borrower (the "Compliance Certificate") (i) stating that no Default or Event of Default has occurred and is continuing on the date of such certificate, and if a Default or an Event of Default has then occurred and is continuing, specifying the details thereof and the action that the Borrower has taken or proposes to take with respect thereto, (ii) setting forth in reasonable detail computations evidencing compliance with Section 8.06 hereof as determined on the last day of the fiscal quarter immediately preceding the fiscal quarter during which such certifications are to be delivered pursuant to this clause (a) and (iii) stating whether any change in GAAP or the application thereof has occurred since the date of the audited financial statements referred to in Section 7.01 and, if any change has occurred, specifying the effect of such change on the financial statements accompanying such certificate;

(b) concurrently with the delivery of the financial statements referred to in clauses (a) and (b) of Section 7.01, a copy of the certification (if any) signed by the principal executive officer and the principal financial officer of the Borrower (each a "Certifying Officer") as required by Rule 13A-14 under the Securities Exchange Act of 1934 and a copy of the internal controls disclosure statement by such Certifying Officer as required by Rule 13A-15 under the Securities Exchange Act of 1934, each as included in the Borrower's Annual Report on Form 10-K or Quarterly Report on Form 10-Q, for the applicable fiscal period;

(c) contemporaneously with the filing or mailing thereof, copies of all financial statements sent by the Borrower to

shareholders and all reports, notices, proxy statements or other communications sent by the Borrower to its shareholders, and all reports under Sections 12, 13 and 14 and under any rules promulgated with respect to such sections (including all reports on Forms 8-K, 10-K and 10-Q, along with all amendments and supplements thereto) of the Securities and Exchange Act of 1934, as amended, all Schedules 13D and 13G and all amendments thereto, and registration statements filed by the Borrower with any securities exchange or with the SEC or any successor;

(d) promptly, and in any event within five (5) Business Days after receipt thereof by the Borrower or any Subsidiary thereof, copies of each formal notice received from the SEC (or comparable agency in any applicable non-U.S. jurisdiction) concerning any investigation or possible investigation or other inquiry by such agency regarding financial or other operational results of the Borrower or such Subsidiary thereof that could reasonably be expected to result in a Material Adverse Effect; and

(e) promptly, such additional information regarding the business, financial or corporate affairs of the Borrower or any Principal Subsidiary, or compliance with the terms of the Loan Documents, as the Administrative Agent or any Lender may from time to time reasonably request.

Documents required to be delivered pursuant to Section 7.01(a) or (b) or Section 7.02(d) (to the extent any such documents are included in materials otherwise filed with the SEC) may be delivered electronically and if so delivered, shall be deemed to have been delivered on the date (i) on which the Borrower posts such documents, or provides a link thereto on the Borrower's website on the Internet at the website address listed on Schedule 11.02; or (ii) on which such documents are posted on the Borrower's behalf on an Internet or intranet website, if any, to which each Lender and the Administrative Agent have access (whether a commercial, third-party website or whether sponsored by the Administrative Agent); provided that: (i) the Borrower shall deliver paper copies of such documents to the Administrative Agent or any Lender that requests the Borrower to deliver such paper copies until a written request to cease delivering paper copies is given by the Administrative Agent or such Lender and (ii) the Borrower shall notify the Administrative Agent and each Lender (by telecopier or electronic mail) of the posting of any such documents and provide to the Administrative Agent by electronic mail electronic versions (i.e., soft copies) of such documents. Except for such Compliance Certificates, the Administrative Agent shall have no obligation to request the delivery or to maintain copies of the documents referred to above, and in any event shall have no responsibility to monitor compliance by the Borrower with any such request for delivery, and each Lender shall be solely responsible for requesting delivery to it or maintaining its copies of such documents.

The Borrower hereby acknowledges that (a) the Administrative Agent and/or the Joint Lead Arrangers will make available to the Lenders materials and/or information provided by or on behalf of the Borrower hereunder (collectively, "Borrower Materials") by posting the Borrower Materials on SyndTrak or another similar electronic system (the "Platform") and (b) certain of the Lenders may be "public-side" Lenders (i.e., Lenders that do not wish to receive material non-public information with respect to the Borrower or its securities) (each, a "Public Lender"). The Borrower hereby agrees that (w) all Borrower Materials that are to be made available to Public Lenders shall be clearly and conspicuously marked "PUBLIC" which, at a minimum, shall mean that the word "PUBLIC" shall appear prominently on the first page thereof; (x) by marking Borrower Materials "PUBLIC," the Borrower shall be deemed to have authorized the Administrative Agent, the Joint Lead Arrangers, and the Lenders to treat such Borrower Materials as either publicly available information or not material information (although it may be sensitive and proprietary) with respect to the Borrower or its securities for purposes of United States Federal and state securities laws; (y) all Borrower Materials marked "PUBLIC" are permitted to be made available through a portion of the Platform designated "Public Investor;" and (z) the Administrative Agent and the Joint Lead Arrangers shall be entitled to treat any Borrower Materials that are not marked "PUBLIC" as being suitable only for posting on a portion of the Platform not designated "Public Investor."

### 7.03 Notices.

Promptly notify the Administrative Agent and each Lender of:

(a) the occurrence of any Default;

(b) any matter that has resulted or could reasonably be expected to result in a Material Adverse Effect, including as a result of: (i) breach or non-performance of, or any default under, a Contractual Obligation of the Borrower or any Principal Subsidiary; (ii) any dispute, litigation, investigation, proceeding or suspension between the Borrower or any Principal Subsidiary and any Governmental Authority; or (iii) the commencement of, or any material development in, any litigation or proceeding affecting the Borrower or any Principal Subsidiary, including pursuant to any applicable Environmental Laws;

(c) the occurrence of any ERISA Event;

(d) any announcement by Moody's or S&P of any change in a Reference Rating; and

(e) the consummation of the merger described in Section 8.02(c) (and deliver a copy of the articles of merger (or similar documentation) related thereto in connection with such notice).

Each notice pursuant to this Section shall be accompanied by a statement of a Responsible Officer of the Borrower setting forth

details of the occurrence referred to therein and stating what action the Borrower has taken and proposes to take with respect thereto. Each notice pursuant to Section 7.03(a) shall describe with particularity any and all provisions of this Agreement and any other Loan Document that have been breached.

#### 7.04 Payment of Taxes.

Pay and discharge as the same shall become due and payable, all its tax liabilities, assessments and governmental charges or levies upon it or its properties or assets, unless the same are being contested in good faith by appropriate proceedings diligently conducted and adequate reserves in accordance with GAAP are being maintained by the Borrower or such Subsidiary and all lawful claims which, if unpaid, would by Law become a Lien upon its property, except in each case where the failure to pay such amounts would not have a Material Adverse Effect.

#### 7.05 Preservation of Existence, Etc.

Preserve, renew and maintain in full force and effect its legal existence and good standing under the Laws of the jurisdiction of its organization except in a transaction permitted by Section 8.02; (b) take all reasonable action to maintain all rights, privileges, permits, licenses and franchises necessary or desirable in the normal conduct of its business, except to the extent that failure to do so would not have a Material Adverse Effect; and (c) preserve or renew all of its registered patents, trademarks, trade names and service marks, the non-preservation of which would not have a Material Adverse Effect.

#### 7.06 Maintenance of Properties.

Maintain, preserve and protect all of its material properties and equipment necessary in the operation of its business in good working order and condition, ordinary wear and tear excepted; (b) make all necessary repairs thereto and renewals and replacements thereof except where the failure to do so would not have a Material Adverse Effect; and (c) use the standard of care typical in the industry in the operation and maintenance of its facilities; provided, however, that in each of the foregoing cases described in clauses (a), (b), and (c), neither Borrower nor its Principal Subsidiaries will be prevented from discontinuing the operation and maintenance of any such properties if such discontinuance is, in the reasonable judgment of the Borrower or Principal Subsidiary, as applicable, desirable in the operation or maintenance of its business and would not result, or be reasonably likely to result, in a Material Adverse Effect.

#### 7.07 Maintenance of Insurance.

Maintain with financially sound and reputable insurance companies not Affiliates of the Borrower, insurance with respect to its properties and business against loss or damage of the kinds customarily insured against by Persons engaged in the same or similar business, of such types and in such amounts as are customarily carried under similar circumstances by such other Persons.

#### 7.08 Compliance with Laws.

Comply (a) with the Patriot Act, OFAC rules and regulations and all Sanctions and laws related thereto, (b) in all material respects, with the requirements of all other Laws (including Environmental Laws and anti-money laundering laws) applicable to it or to its business or property, except in such instances in which such requirement of Law or order, writ, injunction or decree is being contested in good faith by appropriate proceedings diligently conducted, (c) all material provisions of its charter documents, by-laws, operating agreement, certificate and other constituent documents, as applicable, and (d) all material applicable decrees, orders, and judgments, except where the failure to comply with clauses (b) through (c) above would not have a Material Adverse Effect.

#### 7.09 Books and Records.

Maintain proper books of record and account, in which full, true and correct entries in conformity with GAAP consistently applied shall be made of all financial transactions and matters involving the assets and business of the Borrower or such Principal Subsidiary, as the case may be, in material conformity with all applicable requirements of any Governmental Authority having regulatory jurisdiction over the Borrower or such Subsidiary, as the case may be.

#### 7.10 Inspection Rights.

Permit representatives and independent contractors of the Administrative Agent and each Lender to visit and inspect any of its properties, to examine its corporate, financial and operating records, and make copies thereof or abstracts therefrom, and to discuss its affairs, finances and accounts with its directors, officers, and independent public accountants, all at such reasonable times during normal business hours and as often as may be reasonably desired, upon reasonable advance notice to the Borrower.

#### 7.11 Use of Proceeds.

Use the proceeds of the Borrowings for working capital, capital expenditures and other general corporate purposes (including the repayment of Indebtedness) not in contravention of any Law or of any Loan Document. The proceeds of the Loans will not be used

in any way which would violate the provisions of Regulation U or X of the Board of Governors of the Federal Reserve System.

#### 7.12 Further Assurances.

(a) Promptly execute and deliver, or cause to be promptly executed and delivered, all further instruments and documents, and take and cause to be taken all further actions, that may be necessary or that the Required Lenders through the Administrative Agent may reasonably request to enable the Lenders and the Administrative Agent to carry out to their reasonable satisfaction the transactions contemplated by this Agreement and enforce the terms and provisions of this Agreement and to exercise their rights and remedies hereunder or under the Notes, and

(b) Use all commercially reasonable efforts to duly obtain governmental approvals required in connection with this Agreement from time to time on or prior to such date as the same may become legally required, and thereafter to maintain all such governmental approvals in full force and effect.

#### 7.13 Conduct of Business.

Except as permitted by Section 8.02, conduct its primary business in substantially the same manner and in substantially the same fields as such business is conducted on the date hereof.

#### 7.14 Governmental Approvals.

Duly obtain on or prior to such date as the same may become legally required, and thereafter maintain in effect at all times, all Governmental Approvals on its part to be obtained, except in the case of those Governmental Approvals referred to in clause (ii) of the definition of "Governmental Approval", (i) those the absence of which could not reasonably be expected to result in a Material Adverse Effect, and (ii) those that the Borrower or such Principal Subsidiary is diligently attempting in good faith to obtain, renew or extend, or the requirement for which the Borrower or such Principal Subsidiary is contesting in good faith by appropriate proceedings or by other appropriate means; provided, however, that the exception afforded by clause (ii), above, shall be available only if and for so long as such attempt or contest, and any delay resulting therefrom, could not reasonably be expected to result in a Material Adverse Effect.

#### 7.15 Anti-Corruption Laws.

Conduct its business in compliance with the United States Foreign Corrupt Practices Act of 1977, the UK Bribery Act 2010 and other similar anti-corruption legislation in other jurisdictions and maintain policies and procedures designed to promote and achieve compliance with such laws.

### ARTICLE VIII.

#### NEGATIVE COVENANTS

So long as any Lender shall have any Revolving Commitment hereunder, any Loan or other Obligation hereunder shall remain unpaid or unsatisfied, the Borrower hereby agrees that it shall not, nor shall it permit any of its Principal Subsidiaries to (except in the case of the covenant set forth in Section 8.06, which shall apply only to the Borrower), directly or indirectly:

#### 8.01 Liens.

Create, incur, assume or suffer to exist any Lien upon any of its property, assets or revenues, whether now owned or hereafter acquired, other than the following:

(a) Liens granted, incurred or existing in the ordinary course of business not in connection with the borrowing of money or the obtaining of credit and not otherwise described below,

(b) Liens arising in connection with the sale of accounts receivable,

(c) Liens existing on acquired property at the time of acquisition thereof by the Borrower or Subsidiary which liens do not extend to any property other than such acquired properties,

(d) any purchase money Lien or construction mortgage on assets hereafter acquired or constructed by the Borrower or any Subsidiary, and any Lien on any assets existing at the time of acquisition thereof by the Borrower or a Subsidiary or created within one hundred eighty (180) days from the date of completion of such acquisition or construction; provided that such Lien or construction mortgage shall at all times be confined solely to the assets so acquired or constructed and any additions thereto;

(e) Liens existing on the date hereof and disclosed on Schedule 8.01;

(f) [Reserved];

(g) [Reserved];

(h) Liens resulting from legal proceedings being contested in good faith by appropriate legal or administrative proceedings by the Borrower or any Subsidiary, and as to which the Borrower or such Subsidiary, to the extent required by GAAP, shall have set aside on its books adequate reserves;

(i) Liens created in favor of the other contracting party in connection with advance or progress payments;

(j) any Liens in favor of any Governmental Authority, or trustee acting on behalf of holders of obligations issued by any Governmental Authority or any financial institutions lending to or purchasing obligations of any Governmental Authority, which Lien is created or assumed for the purpose of financing all or part of the cost of acquiring or constructing the property subject thereto;

(k) Liens resulting from conditional sale agreements, capital leases or other title retention agreements;

(l) with respect to sewage facility and pollution control bond financings, Liens on funds, accounts and other similar intangibles of the Borrower or any Subsidiary created or arising under the relevant indenture, pledges of the related loan agreement with the relevant issuing authority and pledges of the Borrower's or any Subsidiary's interest, if any, in any bonds issued pursuant to such financings to a letter of credit bank or bond issuer or similar credit enhancer;

(m) Liens granted on accounts receivable in connection with financing transactions, whether denominated as sales or borrowings;

(n) Liens on the assets of, the stock issued by or other equity of, any Subsidiary of the Borrower created to hold generating or transmission assets if such Liens are created to secure Indebtedness that is nonrecourse to the Borrower and is incurred to acquire, construct or otherwise develop such generating or transmission assets;

(o) Liens created to secure Indebtedness of a transmission company Subsidiary of the Borrower with respect to assets transferred to such transmission company by another Subsidiary of the Borrower;

(p) any extension, renewal or replacement of Liens permitted by clauses (c), (d), (e) and (k) through (n); *provided, however*, that the principal amount of Indebtedness secured thereby shall not, at the time of such extension, renewal or replacement, exceed the principal amount of Indebtedness so secured and that such extension, renewal or replacement shall be limited to all or a part of the property that secured the Lien so extended, renewed or replaced or to other property of no greater value than the property that secured the Lien so extended, renewed or replaced;

(q) Liens on the assets of the Borrower and its Principal Subsidiaries granted by the Borrower and its Principal Subsidiaries to secure long term Indebtedness of the Borrower (exclusive of those granted under clauses (c), (d), (e) and (k) through (o) above) provided that at the time of granting such Liens (and after giving effect thereto), the aggregate amount of all such long term Indebtedness of the Borrower and its Principal Subsidiaries taken together shall not exceed \$400,000,000; and

(r) Stranded Cost Recovery Obligations securitization transactions.

#### 8.02 Fundamental Changes.

Merge, amalgamate, dissolve, liquidate, wind-up or consolidate (or suffer any liquidation or dissolution) with or into another Person, or dispose of (whether in one transaction or in a series of transactions) all or substantially all of its assets (including Equity Interests in Subsidiaries) (whether now owned or hereafter acquired) to or in favor of any Person unless:

(a) a Subsidiary of the Borrower merges, amalgamates or consolidates with the Borrower or any Subsidiary of the Borrower; provided that (i) if the Borrower is party to such transaction, the Borrower shall be the surviving entity, and (ii) subject to clause (i), if a Principal Subsidiary is party to such transaction, a Principal Subsidiary that is a Domestic Subsidiary shall be the surviving entity,

(b) a Subsidiary of the Borrower liquidates or dissolves into, or makes an asset disposition to, the Borrower or any Subsidiary of the Borrower; provided that (i) if the Borrower is party to such transaction, the Borrower shall be the entity into which assets are transferred, and (ii) subject to clause (i), if a Principal Subsidiary is party to such transaction, a Principal Subsidiary that is a Domestic Subsidiary shall be the entity into which assets are transferred in,

(c) the merger, amalgamation or consolidation of WMECO with the Borrower, with the Borrower being the surviving entity, shall be permitted,

(d) all corporate and regulatory approvals therefor have been received,

(e) no Default or Event of Default would exist hereunder after giving effect to such transaction, and

(f) the senior unsecured debt ratings of S&P and Moody's applicable to (i) the Borrower, (ii) to the extent applicable, such Principal Subsidiary that is the surviving entity in a transaction permitted under clause (a) above, (iii) to the extent applicable, the entity to which assets are transferred, in such a transaction permitted under clause (b) and (iv) to the extent applicable, the Principal Subsidiary disposing of assets to a Person other than the Borrower or any of its Subsidiaries in a transaction permitted under clause (b) above, in each case after giving effect to such transaction, shall be at least BBB- and Baa3.

Notwithstanding the foregoing, any disposition of assets permitted by the foregoing provisions of this Section 8.02 to a Person other than the Borrower and its Subsidiaries may be consummated by way of merger, amalgamation or consolidation.

#### 8.03 Change in Nature of Business.

Engage in any material line of business substantially different from those lines of business conducted by the Borrower and its Subsidiaries on the date hereof or any business substantially related or incidental thereto.

#### 8.04 Transactions with Affiliates and Insiders.

Enter into any transaction of any kind with any officer, director or Affiliate of the Borrower, whether or not in the ordinary course of business, other than (a) except as otherwise specifically limited in this Agreement, transactions which are on terms and conditions substantially as favorable to such Person as would be obtainable by it in a comparable arms-length transaction with a Person other than an officer, director or Affiliate, (b) any transaction for which the Borrower or Subsidiary has obtained the approval of the DPU, (c) immaterial incidental transactions among Borrower and its Affiliates which are substantially on arm's length basis, such as cash management, facility sharing, tax sharing, management services or other overhead sharing matters, (d) intercompany transactions, including loans and advances and the provision of services, not prohibited under this Agreement or required under the Federal Power Act and the rules of the FERC or state utility commissions, in each case to the extent applicable thereto, (e) normal and reasonable compensation and reimbursement expenses of officers and directors in the ordinary course of business and (f) Stranded Cost Recovery Obligations securitization transactions.

#### 8.05 Use of Proceeds.

Use the proceeds of any Borrowing, whether directly or indirectly, and whether immediately, incidentally or ultimately, to purchase or carry margin stock (within the meaning of Regulation U of the FRB) or to extend credit to others for the purpose of purchasing or carrying margin stock or to refund indebtedness originally incurred for such purpose.

#### 8.06 Consolidated Indebtedness to Capitalization Ratio.

Permit the Consolidated Indebtedness to Capitalization Ratio of the Borrower as of the end of any fiscal quarter of the Borrower to be greater than 0.65:1.00.

#### 8.07 Compliance with ERISA.

Terminate, or permit any of its ERISA Affiliates to terminate, any Pension Plan so as to result in any direct liability of the Borrower or any Principal Subsidiary to the PBGC in an amount greater than the Threshold Amount, or (b) permit to exist any occurrence of any Reportable Event which, alone or together with any other Reportable Event with respect to the same or another Pension Plan, has a reasonable possibility of resulting in direct liability of the Borrower or any Subsidiary to the PBGC in an aggregate amount exceeding the Threshold Amount, or any other event or condition that presents a material risk of such a termination by the PBGC of any Pension Plan or has a reasonable possibility of resulting in a liability of the Borrower or any Subsidiary to the PBGC or a Multiemployer Plan in an aggregate amount exceeding the Threshold Amount.

#### 8.08 Interests in Nuclear Plants.

Acquire any nuclear plant or any interest therein not held on the date hereof, other than so called "power entitlements" acquired for use in the ordinary course of business.

#### 8.09 Financing Agreements.

With respect to the Borrower only, permit any Principal Subsidiary to enter into any agreement, contract, indenture or similar obligation, or issue any security (all of the foregoing being referred to as "Financing Agreements"), that is not in effect on the date hereof, or amend or modify any existing Financing Agreement, if the effect of such Financing Agreement (or amendment or modification thereof) is to impose any additional restriction not in effect on the date hereof on the ability of such Principal Subsidiary to pay dividends to the Borrower; provided, that the foregoing shall not restrict the right of any Principal Subsidiary of the Borrower

created to hold generating or transmission assets, to enter into any such Financing Agreement in connection with the incurrence of Indebtedness that is nonrecourse to the Borrower and is incurred to acquire, construct or otherwise develop generating or transmission assets.

#### 8.10 Sanctions.

Directly or indirectly, use any Borrowing or the proceeds of any Borrowing, or lend, contribute or otherwise make available such Borrowing or the proceeds of any Borrowing to any Person, to fund any activities of or business with any Person, or in any Designated Jurisdiction, that, at the time of such funding, is the subject of Sanctions, or in any other manner that will result in a violation by any Person (including any Person participating in the transaction, whether as Lender, Arranger, Administrative Agent, Swing Line Lender, or otherwise) of Sanctions.

#### 8.11 Anti-Corruption Laws.

Directly or indirectly, use any Borrowing or the proceeds of any Borrowing for any purpose which would breach the United States Foreign Corrupt Practices Act of 1977, the UK Bribery Act 2010 and other similar anti-corruption legislation in other jurisdictions.

### ARTICLE IX.

#### EVENTS OF DEFAULT AND REMEDIES

##### 9.01 Events of Default.

Any of the following shall constitute an Event of Default:

(a) Non-Payment. The Borrower fails to pay (i) when and as required to be paid herein any amount of principal of any Loan, or (ii) within five (5) days after the same becomes due, any interest on any Loan, or any fee due hereunder, or (iii) within five (5) days after the same becomes due, any other amount payable hereunder or under any other Loan Document, whether at the stated maturity or any accelerated date of maturity or at any other date fixed for payment; or

(b) Specific Covenants. The Borrower fails to perform or observe any term, covenant or agreement contained in any of Section 7.01, 7.02(a), 7.03(a), 7.05, 7.10, or 7.11 or Article VIII; or

(c) Other Defaults. The Borrower fails to perform or observe any other covenant or agreement (not specified in subsection (a) or (b) above) contained in any Loan Document on its part to be performed or observed and such failure continues for thirty (30) days after written notice from the Administrative Agent; or

(d) Representations and Warranties. Any representation or warranty, made or deemed made by or on behalf of the Borrower or any Principal Subsidiary herein, in any other Loan Document, or in any document required to be delivered in connection herewith or therewith shall be incorrect or misleading in any material respect (or, with respect to any representation and warranty that is expressly qualified by materiality, in any respect) when made or deemed made; or

(e) Cross-Default. (i) The Borrower or any Principal Subsidiary (A) fails to make any payment when due (whether by scheduled maturity, required prepayment, acceleration, demand, or otherwise and after giving effect to applicable grace periods) in respect of any Indebtedness (other than (x) Indebtedness of the Borrower under this Agreement, but including Indebtedness of its Principal Subsidiaries hereunder and (y) Indebtedness under Swap Contracts) having an aggregate principal amount (including undrawn committed or available amounts and including amounts owing to all creditors under any combined or syndicated credit arrangement) of more than the Threshold Amount, or (B) fails to observe or perform any other agreement or condition relating to any such Indebtedness or contained in any instrument or agreement evidencing, securing or relating thereto, or any other event occurs, the effect of which default or other event is to cause, or to permit the holder or holders of such Indebtedness (or a trustee or agent on behalf of such holder or holders) to cause, with the giving of notice if required, such Indebtedness to be demanded (or commitments to lend with respect to such Indebtedness to be terminated) or to become due or to be repurchased, prepaid, defeased or redeemed (automatically or otherwise), or an offer to repurchase, prepay, defease or redeem such Indebtedness to be made, prior to its stated maturity, or cash collateral in respect thereof to be demanded; or (ii) there occurs under any Swap Contract an Early Termination Date (as defined in such Swap Contract) resulting from any event of default under such Swap Contract as to which the Borrower or any Principal Subsidiary is the Defaulting Party (as defined in such Swap Contract) the Swap Termination Value owed by the Borrower or such Principal Subsidiary as a result thereof is greater than the Threshold Amount; or

(f) Insolvency Proceedings, Etc. The Borrower or any of its Principal Subsidiaries institutes or consents to the institution of any proceeding under any Debtor Relief Law, or makes an assignment for the benefit of creditors; or applies for or consents to the appointment of any receiver, trustee, custodian, conservator, liquidator, rehabilitator or similar officer for it or

for all or any material part of its property; or any receiver, trustee, custodian, conservator, liquidator, rehabilitator or similar officer is appointed without the application or consent of such Person and the appointment continues undischarged or unstayed for ninety (90) calendar days; or any proceeding under any Debtor Relief Law relating to any such Person or to all or any material part of its property is instituted without the consent of such Person and continues undismissed or unstayed for ninety (90) calendar days, or an order for relief is entered in any such proceeding; or

(g) Inability to Pay Debts; Attachment. (i) The Borrower or any Principal Subsidiary becomes unable or admits in writing its inability or fails generally to pay its debts as they become due, or (ii) any writ or warrant of attachment or execution or similar process is issued or levied against all or any material part of the property of the Borrower and its Principal Subsidiaries and is not released, vacated or fully bonded within ninety (90) days after its issue or levy; or

(h) Judgments. There is entered against the Borrower or any Principal Subsidiary (i) a final judgment or order for the payment of money in an aggregate amount exceeding the Threshold Amount (to the extent not covered by independent third-party insurance as to which the insurer does not dispute coverage), or (ii) any one or more non-monetary final judgments that have individually or in the aggregate, a Material Adverse Effect and, in either case, (A) enforcement proceedings are commenced by any creditor upon such judgment or order and not stayed within thirty (30) days, or (B) there is a period of thirty (30) consecutive days during which a stay of enforcement of such judgment, by reason of a pending appeal or otherwise, is not in effect; or

(i) ERISA. (i) An ERISA Event occurs with respect to a Pension Plan or Multiemployer Plan which has resulted or could reasonably be expected to result in direct liability of the Borrower under Title IV of ERISA to the Pension Plan, Multiemployer Plan or the PBGC in an aggregate amount in excess of the Threshold Amount, or (ii) the Borrower or any ERISA Affiliate fails to pay when due, after the expiration of any applicable grace period, any installment payment with respect to its withdrawal liability under Section 4201 of ERISA under a Multiemployer Plan in an aggregate amount in excess of the Threshold Amount; or

(j) Invalidity of Loan Documents. Any material provision of any Loan Document, at any time after its execution and delivery and for any reason other than as expressly permitted hereunder or thereunder or satisfaction in full of all the obligations under this Agreement, ceases to be in full force and effect; or the Borrower or any other Person contests in any manner the validity or enforceability of any provision of any Loan Document; or the Borrower denies that it has any or further liability or obligation under any Loan Document, or purports to revoke, terminate or rescind any provision of any Loan Document; or

(k) Change of Control. There occurs any Change of Control with respect to the Borrower.

#### 9.02 Remedies Upon Event of Default.

If any Event of Default with respect to the Borrower occurs and is continuing, the Administrative Agent shall, at the request of, or may, with the consent of, the Required Lenders, take any or all of the following actions with respect to the Borrower:

(a) declare the commitment of each Lender to make Loans to the Borrower to be terminated, whereupon such commitments and obligation shall be terminated;

(b) declare the unpaid principal amount of all outstanding Loans, all interest accrued and unpaid thereon, and all other amounts owing or payable by the Borrower hereunder or under any other Loan Document to be immediately due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by the Borrower;

(c) exercise on behalf of itself and the Lenders all rights and remedies against the Borrower and its property available to it and the Lenders under the Loan Documents;

provided, however, that upon the occurrence of an actual or deemed entry of an order for relief with respect to the Borrower or any of its Principal Subsidiaries under the Bankruptcy Code of the United States, the obligation of each Lender to make Loans to the Borrower shall automatically terminate, the unpaid principal amount of all outstanding Loans of the Borrower and all interest and other amounts as aforesaid of the Borrower shall automatically become due and payable without further act of the Administrative Agent or any Lender.

#### 9.03 Application of Funds.

After the exercise of remedies provided for in Section 9.02 (or after the Loans have automatically become immediately due and payable as set forth in the proviso to Section 9.02), any amounts received on account of the Obligations of the Borrower shall be applied by the Administrative Agent to the then outstanding Obligations of the Borrower in the following order:

First, to payment of that portion of the Obligations constituting fees, indemnities, expenses and other amounts (including fees, charges and disbursements of counsel to the Administrative Agent and amounts payable under Article III) payable to the Administrative Agent in its capacity as such;

Second, to payment of that portion of the Obligations constituting fees, indemnities and other amounts (other than principal and interest) payable to the Lenders (including fees, charges and disbursements of counsel to the respective Lenders) arising under the Loan Documents and amounts payable under Article III, ratably among them in proportion to the respective amounts described in this clause Second payable to them;

Third, to payment of that portion of the Obligations constituting accrued and unpaid interest on the Loans, ratably among the Lenders in proportion to the respective amounts described in this clause Third held by them;

Fourth, to payment of that portion of the Obligations constituting accrued and unpaid principal of the Loans, ratably among the Lenders in proportion to the respective amounts described in this clause Fourth held by them; and

Last, the balance, if any, after all of the Obligations have been indefeasibly paid in full, to the Borrower or as otherwise required by Law.

## ARTICLE X.

### ADMINISTRATIVE AGENT

#### 10.01 Appointment and Authority.

Each of the Lenders hereby irrevocably appoints Barclays to act on its behalf as the Administrative Agent hereunder and under the other Loan Documents and authorizes the Administrative Agent to take such actions on its behalf and to exercise such powers as are delegated to the Administrative Agent by the terms hereof or thereof, together with such actions and powers as are reasonably incidental thereto. The provisions of this Article are solely for the benefit of the Administrative Agent, the Lenders, and the Borrower shall not have rights as a third party beneficiary of any of such provisions.

#### 10.02 Rights as a Lender.

The Person serving as the Administrative Agent hereunder shall have the same rights and powers in its capacity as a Lender as any other Lender and may exercise the same as though it were not the Administrative Agent and the term “Lender” or “Lenders” shall, unless otherwise expressly indicated or unless the context otherwise requires, include the Person serving as the Administrative Agent hereunder in its individual capacity. Such Person and its Affiliates may accept deposits from, lend money to, act as the financial advisor or in any other advisory capacity for and generally engage in any kind of business with the Borrower or any Subsidiary or other Affiliate thereof as if such Person were not the Administrative Agent hereunder and without any duty to account therefor to the Lenders.

#### 10.03 Exculpatory Provisions.

The Administrative Agent shall not have any duties or obligations except those expressly set forth herein and in the other Loan Documents. Without limiting the generality of the foregoing, the Administrative Agent:

(a) shall not be subject to any fiduciary or other implied duties, regardless of whether a Default has occurred and is continuing;

(b) shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated hereby or by the other Loan Documents that the Administrative Agent is required to exercise as directed in writing by the Required Lenders (or such other number or percentage of the Lenders as shall be expressly provided for herein or in the other Loan Documents), provided that the Administrative Agent shall not be required to take any action that, in its opinion or the opinion of its counsel, may expose the Administrative Agent to liability or that is contrary to any Loan Document or applicable law; and

(c) shall not, except as expressly set forth herein and in the other Loan Documents, have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to the Borrower or any of its Affiliates that is communicated to or obtained by the Person serving as the Administrative Agent or any of its Affiliates in any capacity.

The Administrative Agent shall not be liable for any action taken or not taken by it (i) with the consent or at the request of the Required Lenders (or such other number or percentage of the Lenders as shall be necessary, or as the Administrative Agent shall believe in good faith shall be necessary, under the circumstances as provided in Sections 11.01 and 9.02) or (ii) in the absence of its own gross negligence or willful misconduct. The Administrative Agent shall be deemed not to have knowledge of any Default unless and until notice describing such Default is given to the Administrative Agent by the Borrower or a Lender.

The Administrative Agent shall not be responsible for or have any duty to ascertain or inquire into (i) any statement, warranty or representation made in or in connection with this Agreement or any other Loan Document, (ii) the contents of any certificate, report or other document delivered hereunder or thereunder or in connection herewith or therewith, (iii) the performance or observance of any of

the covenants, agreements or other terms or conditions set forth herein or therein or the occurrence of any Default, (iv) the validity, enforceability, effectiveness or genuineness of this Agreement, any other Loan Document or any other agreement, instrument or document or (v) the satisfaction of any condition set forth in Article V or elsewhere herein, other than to confirm receipt of items expressly required to be delivered to the Administrative Agent.

#### 10.04 Reliance by Administrative Agent.

The Administrative Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing (including any electronic message, Internet or intranet website posting or other distribution) believed by it to be genuine and to have been signed, sent or otherwise authenticated by the proper Person. The Administrative Agent also may rely upon any statement made to it orally or by telephone and believed by it to have been made by the proper Person, and shall not incur any liability for relying thereon. In determining compliance with any condition hereunder to the making of a Loan that by its terms must be fulfilled to the satisfaction of a Lender, the Administrative Agent may presume that such condition is satisfactory to such Lender unless the Administrative Agent shall have received notice to the contrary from such Lender prior to the making of such Loan. The Administrative Agent may consult with legal counsel (who may be counsel for the Borrower), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts.

#### 10.05 Delegation of Duties.

The Administrative Agent may perform any and all of its duties and exercise its rights and powers hereunder or under any other Loan Document by or through any one or more sub-agents appointed by the Administrative Agent. The Administrative Agent and any such sub-agent may perform any and all of its duties and exercise its rights and powers by or through their respective Related Parties. The exculpatory provisions of this Article shall apply to any such sub-agent and to the Related Parties of the Administrative Agent and any such sub-agent, and shall apply to their respective activities in connection with the syndication of the credit facilities provided for herein as well as activities as Administrative Agent.

#### 10.06 Resignation of Administrative Agent.

(a) The Administrative Agent may at any time give notice of its resignation to the Lenders and the Borrower. Upon receipt of any such notice of resignation, the Required Lenders shall have the right, with the consent of the Borrower so long as no Event of Default has occurred and continues, which consent shall not be unreasonably withheld or delayed, to appoint a successor, which shall be a bank with an office in the United States, or an Affiliate of any such bank with an office in the United States. If no such successor shall have been appointed by the Required Lenders and shall have accepted such appointment within thirty (30) days after the retiring Administrative Agent gives notice of its resignation (or such earlier day as shall be agreed by the Required Lenders) (the "Resignation Effective Date"), then the retiring Administrative Agent may (but shall not be obligated to) on behalf of the Lenders, appoint a successor Administrative Agent meeting the qualifications set forth above. Whether or not a successor has been appointed, such resignation shall become effective in accordance with such notice on the Resignation Effective Date.

(b) If the Person serving as Administrative Agent is a Defaulting Lender pursuant to clause (d) of the definition thereof, the Required Lenders may, to the extent permitted by applicable Law by notice in writing to the Borrower and such Person remove such Person as the Administrative Agent and, with the consent of the Borrower so long as no Event of Default has occurred and continues, which consent shall not be unreasonably withheld or delayed, appoint a successor. If no such successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within thirty (30) days (or such earlier day as shall be agreed by the Required Lenders) (the "Removal Effective Date"), then such removal shall nonetheless become effective in accordance with such notice on the Removal Effective Date.

(c) With effect from the Resignation Effective Date or the Removal Effective Date (as applicable) (1) the retiring or removed Administrative Agent shall be discharged from its duties and obligations hereunder and under the other Loan Documents and (2) all payments, communications and determinations provided to be made by, to or through the Administrative Agent shall instead be made by or to each Lender directly, until such time as the Required Lenders appoint a successor Administrative Agent as provided for above in this Section. Upon the acceptance of a successor's appointment as Administrative Agent hereunder, such successor shall succeed to and become vested with all of the rights, powers, privileges and duties of the retiring or removed Administrative Agent, and the retiring or removed Administrative Agent shall be discharged from all of its duties and obligations hereunder or under the other Loan Documents (if not already discharged therefrom as provided above in this Section). The fees payable by the Borrower to a successor Administrative Agent shall be the same as those payable to its predecessor unless otherwise agreed between the Borrower and such successor. After the retiring or removed Administrative Agent's resignation hereunder and under the other Loan Documents, the provisions of this Article and Section 11.04 shall continue in effect for the benefit of such retiring or removed Administrative Agent, its sub-agents and their respective Related Parties in respect of any actions taken or omitted to be taken by any of them while the retiring Administrative Agent was acting as Administrative Agent.

Any resignation by or removal of Barclays as Administrative Agent pursuant to this Section shall also constitute its resignation or removal as Swing Line Lender. Upon the acceptance of a successor's appointment as Administrative Agent hereunder, (a) such successor shall succeed to and become vested with all of the rights, powers, privileges and duties of the retiring Swing Line Lender, and (b) the retiring Swing Line Lender shall be discharged from all of their respective duties and obligations hereunder or under the other Loan Documents.

10.07 Non-Reliance on Administrative Agent and Other Lenders.

Each Lender acknowledges that it has, independently and without reliance upon the Administrative Agent or any other Lender or any of their Related Parties and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Administrative Agent or any other Lender or any of their Related Parties and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement, any other Loan Document or any related agreement or any document furnished hereunder or thereunder.

10.08 No Other Duties; Etc.

Anything herein to the contrary notwithstanding, none of the bookrunners, arrangers, syndication agents, documentation agents or co-agents shall have any powers, duties or responsibilities under this Agreement or any of the other Loan Documents, except in its capacity, as applicable, as the Administrative Agent or a Lender hereunder.

10.09 Administrative Agent May File Proofs of Claim.

In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to the Borrower, the Administrative Agent (irrespective of whether the principal of any Loan shall then be due and payable as herein expressed or by declaration or otherwise and irrespective of whether the Administrative Agent shall have made any demand on the Borrower) shall be entitled and empowered, by intervention in such proceeding or otherwise:

(a) to file and prove a claim for the whole amount of the principal and interest owing and unpaid in respect of the Loans and all other Obligations that are owing and unpaid and to file such other documents as may be necessary or advisable in order to have the claims of the Lenders and the Administrative Agent (including any claim for the reasonable compensation, expenses, disbursements and advances of the Lenders and the Administrative Agent and their respective agents and counsel and all other amounts due the Lenders and the Administrative Agent under Sections 2.09 and 11.04) allowed in such judicial proceeding; and

(b) to collect and receive any monies or other property payable or deliverable on any such claims and to distribute the same;

and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Lender to make such payments to the Administrative Agent and, in the event that the Administrative Agent shall consent to the making of such payments directly to the Lenders, to pay to the Administrative Agent any amount due for the reasonable compensation, expenses, disbursements and advances of the Administrative Agent and its agents and counsel, and any other amounts due the Administrative Agent under Sections 2.09 and 11.04.

Nothing contained herein shall be deemed to authorize the Administrative Agent to authorize or consent to or accept or adopt on behalf of any Lender any plan of reorganization, arrangement, adjustment or composition affecting the Obligations or the rights of any Lender or to authorize the Administrative Agent to vote in respect of the claim of any Lender in any such proceeding.

10.10 Lender ERISA Representations.

(a) Each Lender (x) represents and warrants, as of the date such Person became a Lender party hereto, to, and (y) covenants, from the date such Person became a Lender party hereto to the date such Person ceases being a Lender party hereto, for the benefit of, the Administrative Agent and each Joint Lead Arranger and their respective Affiliates, and not, for the avoidance of doubt, to or for the benefit of the Borrower, that at least one of the following is and will be true:

(i) such Lender is not using "plan assets" (within the meaning of 29 CFR § 2510.3-101, as modified by Section 3(42) of ERISA) of one or more Benefit Plans in connection with the Loans or the Revolving Commitments;

(ii) the transaction exemption set forth in one or more PTEs, such as PTE 84-14 (a class exemption for certain transactions determined by independent qualified professional asset managers), PTE 95-60 (a class exemption for certain transactions involving insurance company general accounts), PTE 90-1 (a class exemption for certain transactions involving insurance company pooled separate accounts), PTE 91-38 (a class exemption for certain transactions involving bank collective investment funds) or PTE 96-23 (a class exemption for certain transactions determined by in-

house asset managers), is applicable with respect to such Lender's entrance into, participation in, administration of and performance of the Loans, the Revolving Commitments and this Agreement;

(iii) (A) such Lender is an investment fund managed by a "Qualified Professional Asset Manager" (within the meaning of Part VI of PTE 84-14), (B) such Qualified Professional Asset Manager made the investment decision on behalf of such Lender to enter into, participate in, administer and perform the Loans, the Letters of Credit, the Revolving Commitments and this Agreement, (C) the entrance into, participation in, administration of and performance of the Loans, the Revolving Commitments and this Agreement satisfies the requirements of sub-sections (b) through (g) of Part I of PTE 84-14 and (D) to the best knowledge of such Lender, the requirements of subsection (a) of Part I of PTE 84-14 are satisfied with respect to such Lender's entrance into, participation in, administration of and performance of the Loans, the Revolving Commitments and this Agreement; or

(iv) such other representation, warranty and covenant as may be agreed in writing between the Administrative Agent, in its sole discretion, and such Lender.

(b) In addition, unless sub-clause (i) in the immediately preceding clause (a) is true with respect to a Lender or such Lender has not provided another representation, warranty and covenant as provided in sub-clause (iv) in the immediately preceding clause (a), such Lender further (x) represents and warrants, as of the date such Person became a Lender party hereto, to, and (y) covenants, from the date such Person became a Lender party hereto to the date such Person ceases being a Lender party hereto, for the benefit of, the Administrative Agent and each Joint Lead Arranger and their respective Affiliates, and not, for the avoidance of doubt, to or for the benefit of the Borrower, that:

(i) none of the Administrative Agent or any Joint Lead Arranger or any of their respective Affiliates is a fiduciary with respect to the assets of such Lender (including in connection with the reservation or exercise of any rights by the Administrative Agent under this Agreement, any Loan Document or any documents related to hereto or thereto);

(ii) the Person making the investment decision on behalf of such Lender with respect to the entrance into, participation in, administration of and performance of the Loans, the Revolving Commitments and this Agreement is independent (within the meaning of 29 CFR § 2510.3-21) and is a bank, an insurance carrier, an investment adviser, a broker-dealer or other person that holds, or has under management or control, total assets of at least \$50 million, in each case as described in 29 CFR § 2510.3-21(c)(1)(i)(A)-(E);

(iii) the Person making the investment decision on behalf of such Lender with respect to the entrance into, participation in, administration of and performance of the Loans, the Revolving Commitments and this Agreement is capable of evaluating investment risks independently, both in general and with regard to particular transactions and investment strategies (including in respect of the Obligations);

(iv) the Person making the investment decision on behalf of such Lender with respect to the entrance into, participation in, administration of and performance of the Loans, the Revolving Commitments and this Agreement is a fiduciary under ERISA or the Code, or both, with respect to the Loans, the Revolving Commitments and this Agreement and is responsible for exercising independent judgment in evaluating the transactions hereunder; and

(v) no fee or other compensation is being paid directly to the Administrative Agent or any Joint Lead Arranger or any their respective Affiliates for investment advice (as opposed to other services) in connection with the Loans, the Revolving Commitments or this Agreement.

(c) The Administrative Agent and each Joint Lead Arranger hereby informs the Lenders that each such Person is not undertaking to provide impartial investment advice, or to give advice in a fiduciary capacity, in connection with the transactions contemplated hereby, and that such Person has a financial interest in the transactions contemplated hereby in that such Person or an Affiliate thereof (i) may receive interest or other payments with respect to the Loans, the Revolving Commitments and this Agreement, (ii) may recognize a gain if it extended the Loans or the Revolving Commitments for an amount less than the amount being paid for an interest in the Loans or the Revolving Commitments by such Lender or (iii) may receive fees or other payments in connection with the transactions contemplated hereby, the Loan Documents or otherwise, including structuring fees, commitment fees, arrangement fees, facility fees, upfront fees, underwriting fees, ticking fees, agency fees, administrative agent or collateral agent fees, utilization fees, minimum usage fees, letter of credit fees, fronting fees, deal-away or alternate transaction fees, amendment fees, processing fees, term out premiums, banker's acceptance fees, breakage or other early termination fees or fees similar to the foregoing.

## ARTICLE XI.

### MISCELLANEOUS

#### 11.01 Amendments, Etc.

No amendment or waiver of any provision of this Agreement or any other Loan Document, and no consent to any departure by the Borrower or therefrom, shall be effective unless in writing signed by the Required Lenders and the Borrower and acknowledged by the Administrative Agent, and each such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, further, that

(a) no such amendment, waiver or consent shall:

(i) extend (except as provided for in Section 2.17) or increase the Revolving Commitment of a Lender (or reinstate any Revolving Commitment terminated pursuant to Section 9.02) without the written consent of such Lender whose Revolving Commitment is being extended or increased (it being understood and agreed that a waiver of any condition precedent set forth in Section 5.02 or of any Default or a mandatory reduction in Revolving Commitments is not considered an extension or increase in Revolving Commitments of any Lender);

(ii) postpone any date fixed by this Agreement or any other Loan Document for any payment of principal, interest, fees or other amounts due to the Lenders (or any of them) or any scheduled or mandatory reduction of the Revolving Commitments hereunder or under any other Loan Document without the written consent of each Lender entitled to receive such payment or whose Revolving Commitments are to be reduced;

(iii) reduce the principal of, or the rate of interest specified herein on, any Loan, or (subject to clause (i) of the final proviso to this Section 11.01) any fees or other amounts payable hereunder or under any other Loan Document without the written consent of each Lender entitled to receive such payment of principal, interest, fees or other amounts; provided, however, that only the consent of the Required Lenders shall be necessary to amend the definition of "Default Rate" or to waive any obligation of the Borrower to pay interest at the Default Rate;

(iv) change any provision of this Section 11.01(a) or the definition of "Required Lenders" without the written consent of each Lender;

(v) change Section 2.13 or Section 9.03 in a manner that would alter the pro rata sharing of payments required thereby without the written consent of each Lender directly affected thereby;

(b) unless also signed by the Swing Line Lender, no amendment, waiver or consent shall affect the rights or duties of the Swing Line Lender under this Agreement; and

(c) unless also signed by the Administrative Agent, no amendment, waiver or consent shall affect the rights or duties of the Administrative Agent under this Agreement or any other Loan Document;

provided, however, that notwithstanding anything to the contrary herein, (i) the Fee Letters may be amended, or rights or privileges thereunder waived, in a writing executed only by the parties thereto, (ii) no Defaulting Lender shall have any right to approve or disapprove any amendment, waiver or consent hereunder (and any amendment, waiver or consent which by its terms requires the consent of all Lenders or each affected Lender may be effected with the consent of the applicable Lenders other than Defaulting Lenders), except that (x) the Revolving Commitment of any Defaulting Lender may not be increased or extended without the consent of such Lender and (y) any waiver, amendment or modification requiring the consent of all Lenders or each affected Lender that by its terms affects any Defaulting Lender more adversely than other affected Lenders shall require the consent of such Defaulting Lender, (iii) each Lender is entitled to vote as such Lender sees fit on any bankruptcy reorganization plan that affects the Loans, and each Lender acknowledges that the provisions of Section 1126(c) of the Bankruptcy Code of the United States supersedes the unanimous consent provisions set forth herein, (iv) the Required Lenders shall determine whether or not to allow the Borrower to use cash collateral in the context of a bankruptcy or insolvency proceeding and such determination shall be binding on all of the Lenders, (v) subject to Section 2.17, this Agreement may be amended (or amended and restated) with the written consent of the Required Lenders, the Administrative Agent, the Borrower and the relevant Lenders providing such additional credit facilities (x) to add one or more additional credit facilities to this Agreement, to permit the extensions of credit from time to time outstanding hereunder and the accrued interest and fees in respect thereof to share ratably in the benefits of this Agreement and the other Loan Documents and the Loans and the accrued interest and fees in respect thereof and to include appropriately the Lenders holding such credit facilities in any determination of the Required Lenders and (y) to change, modify or alter Section 2.13 or Section 9.03 or any other provision hereof relating to the pro rata sharing of payments among the Lenders solely to the extent necessary to effectuate any of the amendments (or amendments and restatements) enumerated in this clause (v) and for no other purpose, and (vi) if following the Effective Date, the Administrative Agent and the Borrower shall have jointly identified an inconsistency, obvious error or omission of a technical or immaterial nature, in each case, in any provision of the Loan Documents, then the Administrative Agent and the Borrower shall be permitted to amend such provision and such amendment shall become effective without any further action or consent of any other party to any Loan Documents if the same is not objected to in writing by the Required Lenders within five (5) Business Days following receipt of notice thereof.

#### 11.02 Notices and Other Communications; Facsimile Copies.

(a) Notices Generally. Except in the case of notices and other communications expressly permitted to be given by telephone (and except as provided in subsection (b) below), all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopier as follows, and all notices and other communications expressly permitted hereunder to be given by telephone shall be made to the applicable telephone number, as follows:

(i) if to the Borrower, the Administrative Agent or the Swing Line Lender, to the address, telecopier number, electronic mail address or telephone number specified for such Person on Schedule 11.02; and

(ii) if to any other Lender, to the address, telecopier number, electronic mail address or telephone number specified in its Administrative Questionnaire (including, as appropriate, notices delivered solely to the Person designated by a Lender on its Administrative Questionnaire then in effect for the delivery of notices that may contain material non-public information relating to the Borrower).

Notices and other communications sent by hand or overnight courier service, or mailed by certified or registered mail, shall be deemed to have been given when received; notices and other communications sent by telecopier shall be deemed to have been given when sent (except that, if not given during normal business hours for the recipient, shall be deemed to have been given at the opening of business on the next business day for the recipient). Notices and other communications delivered through electronic communications to the extent provided in subsection (b) below, shall be effective as provided in such subsection (b).

(b) Electronic Communications. Notices and other communications to the Lenders hereunder may be delivered or furnished by electronic communication (including e-mail, FPML messaging and Internet or intranet websites) pursuant to procedures approved by the Administrative Agent, provided that the foregoing shall not apply to notices to any Lender pursuant to Article II if such Lender, as applicable, has notified the Administrative Agent that it is incapable of receiving notices under such Article by electronic communication. The Administrative Agent or the Borrower may, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it, provided that approval of such procedures may be limited to particular notices or communications.

Unless the Administrative Agent otherwise prescribes, (i) notices and other communications sent to an e-mail address shall be deemed received upon the sender's receipt of an acknowledgement from the intended recipient (such as by the "return receipt requested" function, as available, return e-mail or other written acknowledgement), provided that if such notice or other communication is not sent during the normal business hours of the recipient, such notice or communication shall be deemed to have been sent at the opening of business on the next business day for the recipient, and (ii) notices or communications posted to an Internet or intranet website shall be deemed received upon the deemed receipt by the intended recipient at its e-mail address as described in the foregoing clause (i) of notification that such notice or communication is available and identifying the website address therefor.

(c) The Platform. THE PLATFORM IS PROVIDED "AS IS" AND "AS AVAILABLE." THE AGENT PARTIES (AS DEFINED BELOW) DO NOT WARRANT THE ACCURACY OR COMPLETENESS OF THE BORROWER MATERIALS OR THE ADEQUACY OF THE PLATFORM, AND EXPRESSLY DISCLAIM LIABILITY FOR ERRORS IN OR OMISSIONS FROM THE BORROWER MATERIALS. NO WARRANTY OF ANY KIND, EXPRESS, IMPLIED OR STATUTORY, INCLUDING ANY WARRANTY OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, NON-INFRINGEMENT OF THIRD PARTY RIGHTS OR FREEDOM FROM VIRUSES OR OTHER CODE DEFECTS, IS MADE BY ANY AGENT PARTY IN CONNECTION WITH THE BORROWER MATERIALS OR THE PLATFORM. In no event shall the Administrative Agent or any of its Related Parties (collectively, the "Agent Parties") have any liability to the Borrower, any Lender or any other Person for losses, claims, damages, liabilities or expenses of any kind (whether in tort, contract or otherwise) arising out of the Borrower's or the Administrative Agent's transmission of Borrower Materials or notices through the Platform, any other electronic platform or electronic messaging service or through the Internet, except to the extent that such losses, claims, damages, liabilities or expenses are determined by a court of competent jurisdiction by a final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Agent Party; provided, however, that in no event shall any Agent Party have any liability to the Borrower, any Lender or any other Person for indirect, special, incidental, consequential or punitive damages (as opposed to direct or actual damages).

(d) Change of Address, Etc. The Borrower, the Administrative Agent and the Swing Line Lender may change its address, telecopier or telephone number for notices and other communications hereunder by notice to the other parties hereto. Each other Lender may change its address, telecopier or telephone number for notices and other communications hereunder by notice to the Borrower, the Administrative Agent and the Swing Line Lender. In addition, each Lender agrees to notify the Administrative Agent from time to time to ensure that the Administrative Agent has on record (i) an effective address, contact name, telephone number, telecopier number and electronic mail address to which notices and other communications may be sent and (ii) accurate wire instructions for such Lender. Furthermore, each Public Lender agrees to cause at least one individual at or on behalf of such Public Lender to at all times have selected the "Private Side Information" or similar designation on the content declaration screen of the Platform in order to enable such Public Lender or its delegate, in accordance with such Public

Lender's compliance procedures and applicable Law, including United States Federal and state securities Laws, to make reference to Borrower Materials that are not made available through the "Public Side Information" portion of the Platform and that may contain material non-public information with respect to the Borrower or its securities for purposes of United States Federal or state securities laws.

(e) Reliance by Administrative Agent and Lenders. The Administrative Agent and the Lenders shall be entitled to rely and act upon any notices (including telephonic Revolving Loan Notices, Swing Line Loan Notices and Prepayment Notices) purportedly given by or on behalf of the Borrower even if (i) such notices were not made in a manner specified herein, were incomplete or were not preceded or followed by any other form of notice specified herein, or (ii) the terms thereof, as understood by the recipient, varied from any confirmation thereof. The Borrower shall indemnify the Administrative Agent, each Lender and the Related Parties of each of them from all losses, costs, expenses and liabilities resulting from the reliance by such Person on each notice purportedly given by or on behalf of the Borrower. All telephonic notices to and other telephonic communications with the Administrative Agent may be recorded by the Administrative Agent, and each of the parties hereto hereby consents to such recording.

#### 11.03 No Waiver; Cumulative Remedies; Enforcement.

No failure by any Lender or the Administrative Agent to exercise, and no delay by any such Person in exercising, any right, remedy, power or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein provided are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law.

Notwithstanding anything to the contrary contained herein or in any other Loan Document, the authority to enforce rights and remedies hereunder and under the other Loan Documents against the Borrower or any of them shall be vested exclusively in, and all actions and proceedings at law in connection with such enforcement shall be instituted and maintained exclusively by, the Administrative Agent in accordance with Section 9.02 for the benefit of all the Lenders; provided, however, that the foregoing shall not prohibit (a) the Administrative Agent from exercising on its own behalf the rights and remedies that inure to its benefit (solely in its capacity as Administrative Agent) hereunder and under the other Loan Documents, (b) the Swing Line Lender from exercising the rights and remedies that inure to its benefit (solely in its capacity as Swing Line Lender) hereunder and under the other Loan Documents, (c) any Lender from exercising setoff rights in accordance with Section 11.08 (subject to the terms of Section 2.13), or (d) any Lender from filing proofs of claim or appearing and filing pleadings on its own behalf during the pendency of a proceeding relative to the Borrower under any Debtor Relief Law; and provided, further, that if at any time there is no Person acting as Administrative Agent hereunder and under the other Loan Documents, then (i) the Required Lenders shall have the rights otherwise ascribed to the Administrative Agent pursuant to Section 9.02 and (ii) in addition to the matters set forth in clauses (b), (c) and (d) of the preceding proviso and subject to Section 2.13, any Lender may, with the consent of the Required Lenders, enforce any rights and remedies available to it and as authorized by the Required Lenders.

#### 11.04 Expenses; Indemnity; and Damage Waiver.

(a) Costs and Expenses. The Borrower shall pay (i) all reasonable out-of-pocket expenses incurred by the Administrative Agent, the Joint Lead Arrangers and their respective Affiliates (including the reasonable fees, charges and disbursements of counsel for the Administrative Agent), in connection with the syndication of the credit facilities provided for herein, the preparation, negotiation, execution, delivery and administration of this Agreement and the other Loan Documents or any amendments, modifications or waivers of the provisions hereof or thereof (whether or not the transactions contemplated hereby or thereby shall be consummated), and (ii) all reasonable out-of-pocket expenses incurred by the Administrative Agent, any Lender (including the reasonable fees, charges and disbursements of one counsel and, to the extent reasonably necessary, special and one local counsel in each jurisdiction for the Administrative Agent and for all of the Lenders as a group (and in the event of any actual or potential conflict of interest, one additional counsel for the Administrative Agent and/or each Lender subject to such conflict)) in connection with the enforcement or protection of its rights (A) in connection with this Agreement and the other Loan Documents, including its rights under this Section, or (B) in connection with the Loans made, including all such out-of-pocket expenses incurred during any workout, restructuring or negotiations in respect of such Loans.

(b) Indemnification by the Borrower. The Borrower shall indemnify the Administrative Agent (and any sub-agent thereof), each Joint Lead Arranger, each Lender, and each Related Party of any of the foregoing Persons (each such Person being called an "Indemnitee") against, and hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities, penalties and reasonable related expenses (including the reasonable fees, charges and disbursements of one counsel and, to the extent reasonably necessary, special and one local counsel in each jurisdiction for the Indemnitees (and in the event of any actual or potential conflict of interest, one additional counsel for the Administrative Agent and/or each Lender subject to such conflict)) incurred by any Indemnitee or asserted against any Indemnitee by any third party or by the Borrower arising out of, in connection with, or as a result of (i) the execution or delivery of this Agreement, any other Loan Document or any agreement or instrument contemplated hereby or thereby, the performance by the parties hereto of their respective obligations hereunder or thereunder or the consummation of the transactions contemplated hereby or thereby, or, in the case of the Administrative Agent

(and any sub-agent thereof) and its Related Parties only, the administration of this Agreement and the other Loan Documents, (ii) any Loan or the use or proposed use of the proceeds therefrom, (iii) any actual or alleged presence or release of Hazardous Materials on or from any property owned or operated by the Borrower or any of its Subsidiaries, or any Environmental Liability related in any way to the Borrower or any of its Subsidiaries, or (iv) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory, whether brought by a third party or by the Borrower, and regardless of whether any Indemnitee is a party thereto, in all cases, whether or not caused by or arising, in whole or in part, out of the comparative, contributory or sole negligence of the Indemnitee; provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnitee.

(c) Reimbursement by Lenders. To the extent that the Borrower for any reason fails to indefeasibly pay any amount required under subsection (a) or (b) of this Section to be paid by them to the Administrative Agent (or any sub-agent thereof) or any Related Party of any of the foregoing, each Lender severally agrees to pay to the Administrative Agent (or any such sub-agent) or such Related Party, as the case may be, such Lender's Applicable Percentage (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought) of such unpaid amount, provided that the unreimbursed expense or indemnified loss, claim, damage, liability or related expense, as the case may be, was incurred by or asserted against the Administrative Agent (or any such sub-agent) in its capacity as such, or against any Related Party of any of the foregoing acting for the Administrative Agent (or any such sub-agent) in connection with such capacity. The obligations of the Lenders under this subsection (c) are subject to the provisions of Section 2.12(d).

(d) Waiver of Consequential Damages, Etc. To the fullest extent permitted by applicable law, the Borrower shall not assert, and the Borrower hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document or any agreement or instrument contemplated hereby, the transactions contemplated hereby or thereby, any Loan or the use of the proceeds thereof. No Indemnitee referred to in subsection (b) above shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed by it through telecommunications, electronic or other information transmission systems in connection with this Agreement or the other Loan Documents or the transactions contemplated hereby or thereby.

(e) Payments. All amounts due under this Section shall be payable not later than ten (10) Business Days after demand therefor.

(f) Survival. The agreements in this Section shall survive the resignation of the Administrative Agent, the replacement of any Lender, the termination of the Revolving Commitments and the repayment, satisfaction or discharge of all the other Obligations.

#### 11.05 Payments Set Aside.

To the extent that any payment by or on behalf of the Borrower is made to the Administrative Agent or any Lender, or the Administrative Agent or any Lender exercises its right of setoff, and such payment or the proceeds of such setoff or any part thereof is subsequently invalidated, declared to be fraudulent or preferential, set aside or required (including pursuant to any settlement entered into by the Administrative Agent or such Lender in its discretion) to be repaid to a trustee, receiver or any other party, in connection with any proceeding under any Debtor Relief Law or otherwise, then (a) to the extent of such recovery, the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such setoff had not occurred, and (b) each Lender severally agrees to pay to the Administrative Agent upon demand its applicable share (without duplication) of any amount so recovered from or repaid by the Administrative Agent, plus interest thereon from the date of such demand to the date such payment is made at a rate per annum equal to the Federal Funds Rate from time to time in effect. The obligations of the Lenders under clause (b) of the preceding sentence shall survive the payment in full of the Obligations and the termination of this Agreement.

#### 11.06 Successors and Assigns.

(a) Successors and Assigns Generally. The provisions of this Agreement and the other Loan Documents shall be binding upon and inure to the benefit of the parties hereto and thereto and their respective successors and assigns permitted hereby, except that the Borrower may not assign or otherwise transfer any of its rights or obligations hereunder or thereunder without the prior written consent of the Administrative Agent and each Lender and no Lender may assign or otherwise transfer any of its rights or obligations hereunder except (i) to an assignee in accordance with the provisions of subsection (b) of this Section, (ii) by way of participation in accordance with the provisions of subsection (d) of this Section or (iii) by way of pledge or assignment of a security interest subject to the restrictions of subsection (f) of this Section (and any other attempted assignment or transfer by any party hereto shall be null and void). Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby, Participants to the extent provided in subsection (d) of this Section and, to the extent expressly contemplated hereby, the Related

Parties of each of the Administrative Agent and the Lenders) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) Assignments by Lenders. Any Lender may at any time assign to one or more assignees all or a portion of its rights and obligations under this Agreement and the other Loan Documents (including all or a portion of its Revolving Commitment and the Loans (including for purposes of this subsection (b), participations in Swing Line Loans) at the time owing to it); provided that any such assignment shall be subject to the following conditions:

(i) Minimum Amounts.

(A) in the case of an assignment of the entire remaining amount of the assigning Lender's Revolving Commitment and the Loans at the time owing to it or in the case of an assignment to a Lender, an Affiliate of a Lender or an Approved Fund, no minimum amount need be assigned; and

(B) in any case not described in subsection (b)(i)(A) of this Section, the aggregate amount of the Revolving Commitment (which for this purpose includes Loans outstanding thereunder) or, if the Revolving Commitment is not then in effect, the principal outstanding balance of the Loans of the assigning Lender subject to each such assignment, determined as of the date the Assignment and Assumption with respect to such assignment is delivered to the Administrative Agent or, if "Trade Date" is specified in the Assignment and Assumption, as of the Trade Date, shall not be less than \$5,000,000 in the case of an assignment of Revolving Loans unless each of the Administrative Agent and, so long as no Event of Default has occurred and is continuing, the Borrower otherwise consents (each such consent not to be unreasonably withheld or delayed); provided, however, that concurrent assignments to members of an Assignee Group and concurrent assignments from members of an Assignee Group to a single assignee (or to an assignee and members of its Assignee Group) will be treated as a single assignment for purposes of determining whether such minimum amount has been met;

(ii) Required Consents. No consent shall be required for any assignment except to the extent required by subsection (b)(i)(B) of this Section and, in addition:

(A) the consent of the Borrower (such consent not to be unreasonably withheld or delayed) shall be required unless (1) an Event of Default has occurred and is continuing at the time of such assignment or (2) such assignment is to a Lender, an Affiliate of a Lender or an Approved Fund;

(B) the consent of the Administrative Agent (such consent not to be unreasonably withheld or delayed) shall be required for assignments in respect of any Revolving Commitment if such assignment is to a Person that is not a Lender with a Revolving Commitment in respect of the Revolving Commitment subject to such assignment, an Affiliate of such Lender or an Approved Fund with respect to such Lender; and

(C) the consent of the Swing Line Lender (such consent not to be unreasonably withheld or delayed) shall be required for any assignment in respect of the Revolving Commitment.

(c) Assignment and Assumption. The parties to each assignment shall execute and deliver to the Administrative Agent an Assignment and Assumption, together with a processing and recordation fee in the amount of \$3,500; provided, however, that the Administrative Agent may, in its sole discretion, elect to waive such processing and recordation fee in the case of any assignment. The assignee, if it is not a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire.

(d) No Assignment to Certain Persons. No such assignment shall be made (A) to the Borrower or any of the Borrower's Affiliates or Subsidiaries, or (B) to any Defaulting Lender or any of its Subsidiaries, or any Person who, upon becoming a Lender hereunder, would constitute any of the foregoing Persons described in this clause (B) or (C) to a natural person.

(e) Certain Additional Payments. In connection with any assignment of rights and obligations of any Defaulting Lender hereunder, no such assignment shall be effective unless and until, in addition to the other conditions thereto set forth herein, the parties to the assignment shall make such additional payments to the Administrative Agent in an aggregate amount sufficient, upon distribution thereof as appropriate (which may be outright payment, purchases by the assignee of participations or subparticipations, or other compensating actions, including funding, with the consent of the Borrower and the Administrative Agent, the applicable pro rata share of Loans previously requested but not funded by the Defaulting Lender, to each of which the applicable assignee and assignor hereby irrevocably consent), to (x) pay and satisfy in full all payment liabilities then owed by such Defaulting Lender to the Administrative Agent or any Lender hereunder (and interest accrued thereon) and (y) acquire (and fund as appropriate) its full pro rata share of all Loans and participations in Swing Line Loans in accordance with its Applicable Percentage. Notwithstanding the foregoing, in the event that any assignment of rights and obligations of any Defaulting Lender hereunder shall become effective under applicable Law without compliance with the provisions of this paragraph, then the assignee of such interest shall be deemed to be a Defaulting Lender for all purposes of this Agreement until such compliance occurs.

Subject to acceptance and recording thereof by the Administrative Agent pursuant to subsection (c) of this Section, from and after the effective date specified in each Assignment and Assumption, the assignee thereunder shall be a party to this Agreement and, to the extent of the interest assigned by such Assignment and Assumption, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Assumption, be released from its obligations under this Agreement (and, in the case of an Assignment and Assumption covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto) but shall continue to be entitled to the benefits of Sections 3.01, 3.04, 3.05 and 11.04 with respect to facts and circumstances occurring prior to the effective date of such assignment. Upon request, the Borrower (at its expense) shall execute and deliver a Note to the assignee Lender. Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this subsection shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with subsection (d) of this Section.

(f) Register. The Administrative Agent, acting solely for this purpose as an agent of the Borrower (and such agency being solely for tax purposes), shall maintain at the Administrative Agent's Office a copy of each Assignment and Assumption delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Revolving Commitments of, and principal amounts (and stated interest) of the Loans owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive absent manifest error, and the Borrower, the Administrative Agent and the Lenders shall treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. In addition, the Administrative Agent shall maintain on the Register information regarding the designation, and revocation of designation, of any Lender as a Defaulting Lender. The Register shall be available for inspection by the Borrower and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

(g) Participations. Any Lender may at any time, without the consent of, or notice to, the Borrower or the Administrative Agent, sell participations to any Person (other than a natural person, a Defaulting Lender or the Borrower or any of the Borrower's Affiliates or Subsidiaries) (each, a "Participant") in all or a portion of such Lender's rights and/or obligations under this Agreement (including all or a portion of its Revolving Commitment and/or the Loans (including such Lender's participations in Swing Line Loans) owing to it); provided that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations and (iii) the Borrower, the Administrative Agent, the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, waiver or other modification described in clauses (i) through (v) of Section 11.01(a) that affects such Participant. Subject to subsection (e) of this Section, the Borrower agrees that each Participant shall be entitled to the benefits of Sections 3.01, 3.04 and 3.05 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to subsection (b) of this Section. To the extent permitted by law, each Participant also shall be entitled to the benefits of Section 11.08 as though it were a Lender, provided such Participant agrees to be subject to Section 2.13 as though it were a Lender. Each Lender that sells a participation shall, acting solely for this purpose as a non-fiduciary agent of the Borrower, maintain a register on which it enters the name and address of each Participant and the principal amounts (and stated interest) of each Participant's interest in the Loans or other obligations under the Loan Documents (the "Participant Register"); provided that no Lender shall have any obligation to disclose all or any portion of the Participant Register (including the identity of any Participant or any information relating to a Participant's interest in any commitments, loans, letters of credit or its other obligations under any Loan Document) to any Person except to the extent that such disclosure is necessary to establish that such commitment, loan, letter of credit or other obligation is in registered form under Section 5f.103-1(c) of the United States Treasury Regulations. The entries in the Participant Register shall be conclusive absent manifest error, and such Lender shall treat each Person whose name is recorded in the Participant Register as the owner of such participation for all purposes of this Agreement notwithstanding any notice to the contrary. For the avoidance of doubt, the Administrative Agent (in its capacity as Administrative Agent) shall have no responsibility for maintaining a Participant Register. No sale of a participation shall be effective unless and until it has been recorded in the Participant Register as provided in this paragraph (d).

(h) Limitation on Participant Rights. A Participant shall not be entitled to receive any greater payment under Section 3.01 or 3.04 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Borrower's prior written consent. Furthermore, a Participant that would be a Foreign Lender if it were a Lender shall not be entitled to the benefits of Section 3.01 unless the Borrower is notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Borrower, to comply with Section 3.01(e) as though it were a Lender.

(i) Certain Pledges. Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement (including under its Note, if any) to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank or other central banking authority; provided that no such pledge or assignment shall release such Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such

Lender as a party hereto.

(j) Resignation as Swing Line Lender after Assignment. Notwithstanding anything to the contrary contained herein, if at any time Barclays assigns all of its Revolving Commitment and Loans pursuant to subsection (b) above, Barclays may, upon thirty (30) days' notice to the Borrower, resign as Swing Line Lender. In the event of any such resignation as Swing Line Lender, the Borrower shall be entitled to appoint from among the Lenders a successor Swing Line Lender hereunder; provided, however, that no failure by the Borrower to appoint any such successor shall affect the resignation of Barclays as Swing Line Lender, as the case may be. If Barclays resigns as Swing Line Lender, it shall retain all the rights of the Swing Line Lender provided for hereunder with respect to Swing Line Loans made by it and outstanding as of the effective date of such resignation, including the right to require the Lenders to make Base Rate Loans or fund risk participations in outstanding Swing Line Loans pursuant to Section 2.04(c). Upon the appointment of a successor Swing Line Lender, such successor shall succeed to and become vested with all of the rights, powers, privileges and duties of the retiring Swing Line Lender, as the case may be.

Notice by the Administrative Agent to the Borrower of any assignment made under this Section 11.06 shall be provided as may be agreed in writing from time to time between the Borrower and the Administrative Agent.

#### 11.07 Treatment of Certain Information; Confidentiality.

Each of the Administrative Agent and the Lenders agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (a) to its Affiliates and to its and its Affiliates' respective partners, directors, officers, employees, agents, advisors and representatives (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential), (b) to the extent requested by any regulatory authority purporting to have jurisdiction over it or its Affiliates (including any self-regulatory authority, such as the National Association of Insurance Commissioners), (c) to the extent required by applicable laws or regulations or by any subpoena or similar legal process, (d) to any other party hereto, (e) in connection with the exercise of any remedies hereunder or under any other Loan Document or any action or proceeding relating to this Agreement or any other Loan Document or the enforcement of rights hereunder or thereunder, (f) subject to an agreement containing provisions substantially the same as those of this Section, to (i) any assignee of or Participant in, or any prospective assignee of or Participant in, any of its rights or obligations under this Agreement or (ii) any actual or prospective counterparty (or its advisors) to any swap or derivative transaction relating to the Borrower and its obligations, (g) with the consent of the Borrower, (h) to the extent such Information (x) becomes publicly available other than as a result of a breach of this Section or (y) becomes available to the Administrative Agent, any Lender or any of their respective Affiliates on a nonconfidential basis from a source other than the Borrower, (i) to rating agencies if requested or required by such agency in connection with a rating relating to the Loans hereunder and (j) on a confidential basis to the CUSIP Service Bureau or any similar agency in connection with the issuance and monitoring of CUSIP numbers with respect to this Agreement.

For purposes of this Section, "Information" means all information received from the Borrower or any Subsidiary relating to the Borrower or any Subsidiary or any of their respective businesses, other than any such information that is available to the Administrative Agent, any Lender on a nonconfidential basis prior to disclosure by the Borrower or any Subsidiary, provided that, in the case of information received from the Borrower or any Subsidiary after the date hereof, such information is clearly identified at the time of delivery as confidential. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

Each of the Administrative Agent and the Lenders acknowledges that (a) the Information may include material non-public information concerning the Borrower or a Subsidiary, as the case may be, (b) it has developed compliance procedures regarding the use of material non-public information and (c) it will handle such material non-public information in accordance with applicable Law, including United States federal and state securities Laws.

#### 11.08 Set-off.

If an Event of Default shall have occurred and be continuing, each Lender and each of their respective Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by applicable law, to set off and apply any and all deposits (general or special, time or demand, provisional or final, in whatever currency) at any time held and other obligations (in whatever currency) at any time owing by such Lender or any such Affiliate to or for the credit or the account of the Borrower against any and all of the obligations of the Borrower now or hereafter existing under this Agreement or any other Loan Document to such Lender, irrespective of whether or not such Lender shall have made any demand under this Agreement or any other Loan Document and although such obligations of the Borrower may be contingent or unmatured or are owed to a branch or office of such Lender different from the branch or office holding such deposit or obligated on such indebtedness; provided, that, in the event that any Defaulting Lender shall exercise any such right of setoff, (x) all amounts so set off shall be paid over immediately to the Administrative Agent for further application in accordance with the provisions of Section 2.15 and, pending such payment, shall be segregated by such Defaulting Lender from its other funds and deemed held in trust for the benefit of the Administrative Agent and the Lenders and (y) the Defaulting Lender shall provide promptly to the Administrative Agent a statement describing in reasonable detail the Obligations owing to such Defaulting Lender as to which it exercised such right of setoff. The rights of each Lender and its respective Affiliates under this

Section are in addition to other rights and remedies (including other rights of setoff) that such Lender or its respective Affiliates may have. Each Lender agrees to notify the Borrower and the Administrative Agent promptly after any such setoff and application, provided that the failure to give such notice shall not affect the validity of such setoff and application.

#### 11.09 Interest Rate Limitation.

Notwithstanding anything to the contrary contained in any Loan Document, the interest paid or agreed to be paid under the Loan Documents shall not exceed the maximum rate of non-usurious interest permitted by applicable Law (the "Maximum Rate"). If the Administrative Agent or any Lender shall receive interest in an amount that exceeds the Maximum Rate, the excess interest shall be applied to the principal of the Loans or, if it exceeds such unpaid principal, refunded to the Borrower. In determining whether the interest contracted for, charged, or received by the Administrative Agent or a Lender exceeds the Maximum Rate, such Person may, to the extent permitted by applicable Law, (a) characterize any payment that is not principal as an expense, fee, or premium rather than interest, (b) exclude voluntary prepayments and the effects thereof, and (c) amortize, prorate, allocate, and spread in equal or unequal parts the total amount of interest throughout the contemplated term of the Obligations hereunder.

#### 11.10 Counterparts; Integration; Effectiveness.

This Agreement may be executed in counterparts (and by different parties hereto in different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement and the other Loan Documents constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. Except as provided in Section 5.01, this Agreement shall become effective when it shall have been executed by the Administrative Agent and when the Administrative Agent shall have received counterparts hereof that, when taken together, bear the signatures of each of the other parties hereto. Delivery of an executed counterpart of a signature page of this Agreement by telecopy or other electronic imaging means shall be effective as delivery of a manually executed counterpart of this Agreement.

#### 11.11 Survival of Representations and Warranties.

All representations and warranties made hereunder and in any other Loan Document or other document delivered pursuant hereto or thereto or in connection herewith or therewith shall survive the execution and delivery hereof and thereof. Such representations and warranties have been or will be relied upon by the Administrative Agent and each Lender, regardless of any investigation made by the Administrative Agent or any Lender or on their behalf and notwithstanding that the Administrative Agent or any Lender may have had notice or knowledge of any Default at the time of any Borrowing, and shall continue in full force and effect as long as any Loan or any other Obligation hereunder shall remain unpaid or unsatisfied.

#### 11.12 Severability.

If any provision of this Agreement or the other Loan Documents is held to be illegal, invalid or unenforceable, (a) the legality, validity and enforceability of the remaining provisions of this Agreement and the other Loan Documents shall not be affected or impaired thereby and (b) the parties shall endeavor in good faith negotiations to replace the illegal, invalid or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the illegal, invalid or unenforceable provisions. The invalidity of a provision in a particular jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction. Without limiting the foregoing provisions of this Section 11.12, if and to the extent that the enforceability of any provisions in this Agreement relating to Defaulting Lenders shall be limited by Debtor Relief Laws, as determined in good faith by the Administrative Agent or the Swing Line Lender, as applicable, then such provisions shall be deemed to be in effect only to the extent not so limited.

#### 11.13 Replacement of Lenders.

If (i) any Lender requests compensation under Section 3.04, (ii) the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 3.01, (iii) a Lender (a "Non-Consenting Lender") does not consent to a proposed change, waiver, discharge or termination with respect to any Loan Document that has been approved by the Required Lenders as provided in Section 11.01 but requires unanimous consent of all Lenders or all Lenders directly affected thereby (as applicable), (iv) any Lender is a Non-Extending Lender pursuant to Section 2.17(b) or (v) any Lender is a Defaulting Lender, then the Borrower may, at its sole expense and effort, upon notice to such Lender and the Administrative Agent, require such Lender to assign and delegate, without recourse (in accordance with and subject to the rights and restrictions contained in, and consents required by, Section 11.06), all of its interests, rights and obligations under this Agreement and the related Loan Documents to an assignee that shall assume such obligations (which assignee may be another Lender, if a Lender accepts such assignment), provided that:

- (a) the Borrower shall have paid to the Administrative Agent the assignment fee specified in Section 11.06(b);
- (b) such Lender shall have received payment of an amount equal to one hundred percent (100%) of the outstanding principal of its Loans, accrued interest thereon, accrued fees and all other amounts payable to it hereunder and under the other

Loan Documents (including any amounts under Section 3.05) from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Borrower (in the case of all other amounts);

(c) in the case of any such assignment resulting from a claim for compensation under Section 3.04 or payments required to be made pursuant to Section 3.01, such assignment will result in a reduction in such compensation or payments thereafter;

(d) such assignment does not conflict with applicable Laws; and

(e) in the case of any such assignment resulting from a Non-Consenting Lender's or a Non-Extending Lender's failure to consent to a proposed change, waiver, discharge or termination with respect to any Loan Document, the applicable replacement bank, financial institution or Fund consents to the proposed change, waiver, discharge or termination; provided that the failure by such Non-Consenting Lender or such Non-Extending Lender, as applicable, to execute and deliver an Assignment and Assumption shall not impair the validity of the removal of such Non-Consenting Lender or such Non-Extending Lender and the mandatory assignment of such Non-Consenting Lender's or such Non-Extending Lender's, as applicable, Revolving Commitments and outstanding Loans and participations in Swing Line Loans pursuant to this Section 11.13 shall nevertheless be effective without the execution by such Non-Consenting Lender or such Non-Extending Lender, as applicable, of an Assignment and Assumption.

A Lender shall not be required to make any such assignment or delegation if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling the Borrower to require such assignment and delegation cease to apply.

#### 11.14 Governing Law; Jurisdiction; Etc.

(a) GOVERNING LAW. THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS (EXCEPT, AS TO ANY OTHER LOAN DOCUMENT, AS EXPRESSLY SET FORTH THEREIN) AND ANY CLAIMS, CONTROVERSY, DISPUTE OR CAUSE OF ACTION (WHETHER IN CONTRACT OR TORT OR OTHERWISE) BASED UPON, ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT (EXCEPT, AS TO ANY OTHER LOAN DOCUMENT, AS EXPRESSLY SET FORTH THEREIN) AND THE TRANSACTIONS CONTEMPLATED HEREBY AND THEREBY SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.

(b) SUBMISSION TO JURISDICTION. THE BORROWER IRREVOCABLY AND UNCONDITIONALLY SUBMITS, FOR ITSELF AND ITS PROPERTY, TO THE NONEXCLUSIVE JURISDICTION OF THE COURTS OF THE STATE OF NEW YORK SITTING IN NEW YORK COUNTY AND OF THE UNITED STATES DISTRICT COURT OF THE SOUTHERN DISTRICT OF NEW YORK, AND ANY APPELLATE COURT FROM ANY THEREOF, IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT, OR FOR RECOGNITION OR ENFORCEMENT OF ANY JUDGMENT, AND EACH OF THE PARTIES HERETO IRREVOCABLY AND UNCONDITIONALLY AGREES THAT ALL CLAIMS IN RESPECT OF ANY SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN SUCH NEW YORK STATE COURT OR, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, IN SUCH FEDERAL COURT. EACH OF THE PARTIES HERETO AGREES THAT A FINAL JUDGMENT IN ANY SUCH ACTION OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY LAW. NOTHING IN THIS AGREEMENT OR IN ANY OTHER LOAN DOCUMENT SHALL AFFECT ANY RIGHT THAT THE ADMINISTRATIVE AGENT, ANY LENDER MAY OTHERWISE HAVE TO BRING ANY ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT AGAINST THE BORROWER OR ITS PROPERTIES IN THE COURTS OF ANY JURISDICTION.

(c) WAIVER OF VENUE. THE BORROWER IRREVOCABLY AND UNCONDITIONALLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT IN ANY COURT REFERRED TO IN PARAGRAPH (B) OF THIS SECTION. EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, THE DEFENSE OF AN INCONVENIENT FORUM TO THE MAINTENANCE OF SUCH ACTION OR PROCEEDING IN ANY SUCH COURT.

(d) SERVICE OF PROCESS. EACH PARTY HERETO IRREVOCABLY CONSENTS TO SERVICE OF PROCESS IN THE MANNER PROVIDED FOR NOTICES IN SECTION 11.02. NOTHING IN THIS AGREEMENT WILL AFFECT THE RIGHT OF ANY PARTY HERETO TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY APPLICABLE LAW.

#### 11.15 Waiver of Right to Trial by Jury.

EACH PARTY HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE

LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PERSON HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PERSON WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

#### 11.16 Electronic Execution.

The words “delivery,” “execute,” “execution,” “signed,” “signature,” and words of like import in any Loan Document or any other document executed in connection herewith shall be deemed to include electronic signatures, the electronic matching of assignment terms and contract formations on electronic platforms approved by the Administrative Agent, or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature, physical delivery thereof or the use of a paper-based recordkeeping system, as the case may be, to the extent and as provided for in any applicable Law, including the Federal Electronic Signatures in Global and National Commerce Act, the New York State Electronic Signatures and Records Act, or any other similar state laws based on the Uniform Electronic Transactions Act; provided that notwithstanding anything contained herein to the contrary the Administrative Agent is under no obligation to agree to accept electronic signatures in any form or in any format unless expressly agreed to by the Administrative Agent pursuant to procedures approved by it; provided further without limiting the foregoing, upon the request of the Administrative Agent, any electronic signature shall be promptly followed by such manually executed counterpart.

#### 11.17 USA PATRIOT Act.

Each Lender that is subject to the Act (as hereinafter defined) and the Administrative Agent (for itself and not on behalf of any Lender) hereby notifies the Borrower that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the “Act”), it is required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow such Lender or the Administrative Agent, as applicable, to identify the Borrower in accordance with the Act. The Borrower shall, promptly following a request by the Administrative Agent or any Lender, provide all documentation and other information that the Administrative Agent or such Lender requests in order to comply with its ongoing obligations under applicable “know your customer” and anti-money laundering rules and regulations, including the Act.

#### 11.18 No Advisory or Fiduciary Relationship.

In connection with all aspects of each transaction contemplated hereby (including in connection with any amendment, waiver or other modification hereof or of any other Loan Document), the Borrower acknowledges and agrees, and acknowledges its Affiliates’ understanding, that: (a)(i) the arranging and other services regarding this Agreement provided by the Administrative Agent, the Joint Lead Arrangers and the Lenders, are arm’s-length commercial transactions between the Borrower and its Affiliates, on the one hand, and the Administrative Agent, the Joint Lead Arrangers and the Lenders, on the other hand, (ii) the Borrower has consulted its own legal, accounting, regulatory and tax advisors to the extent it has deemed appropriate, and (iii) the Borrower is capable of evaluating, and understands and accepts, the terms, risks and conditions of the transactions contemplated hereby and by the other Loan Documents; (b)(i) the Administrative Agent, the Joint Lead Arrangers and the Lenders each is and has been acting solely as a principal and, except as expressly agreed in writing by the relevant parties, has not been, is not and will not be acting as an advisor, agent or fiduciary, for the Borrower or any of Affiliates or any other Person and (ii) none of the Administrative Agent, the Joint Lead Arrangers and the Lenders has any obligation to the Borrower or any of its Affiliates with respect to the transactions contemplated hereby except those obligations expressly set forth herein and in the other Loan Documents; and (c) the Administrative Agent, the Joint Lead Arrangers and the Lenders and their respective Affiliates may be engaged in a broad range of transactions that involve interests that differ from those of the Borrower and its Affiliates, and none of the Administrative Agent, the Joint Lead Arrangers and the Lenders has any obligation to disclose any of such interests to the Borrower or its Affiliates. To the fullest extent permitted by law, the Borrower hereby waives and releases, any claims that it may have against the Administrative Agent, any Joint Lead Arranger or any Lender with respect to any breach or alleged breach of agency or fiduciary duty in connection with any aspect of any transaction contemplated hereby.

#### 11.19 New Lenders.

From and after the Effective Date, by execution of this Agreement, each Person identified as a “Lender” on each signature page that is not already a Lender under the Existing Credit Agreement hereby acknowledges, agrees and confirms that, by its execution of this Agreement, such Person will be deemed to be a party to this Agreement and a “Lender” for all purposes of this Agreement, and shall have all of the obligations of a Lender hereunder as if it had executed the Existing Credit Agreement. Such Person hereby ratifies, as of the date hereof, and agrees to be bound by, all of the terms, provisions and conditions applicable to the Lenders contained in this Agreement.

11.20 Amendment and Restatement.

The parties hereto agree that, on the Effective Date, the following transactions shall be deemed to occur automatically, without further action by any party hereto: (a) the Existing Credit Agreement shall be deemed to be amended and restated in its entirety pursuant to this Agreement; (b) all Obligations under the Existing Credit Agreement outstanding on the Effective Date shall in all respects be continuing and shall be deemed to Obligations outstanding hereunder, except as modified hereby, and this Agreement shall not constitute a novation of such Obligations or any of the rights, duties and obligations of the parties hereunder; and (c) all references in the other Loan Documents to the Existing Credit Agreement shall be deemed to refer without further amendment to this Agreement.

11.21 Reallocation.

The Administrative Agent, the Borrower and the Lenders hereby acknowledge and agree that the Revolving Commitments of each Lender as set forth on Schedule 2.01 are the Revolving Commitments of such Lender as of the Effective Date, with the reallocation of Loans outstanding under the Revolving Commitments of the Lenders as they existed immediately prior to the Effective Date having been made per instructions from the Administrative Agent, and neither any Assignment and Assumption nor any other action of any Person is required to give effect to such Revolving Commitments as set forth on Schedule 2.01.

11.22 Acknowledgement and Consent to Bail-In of EEA Financial Institutions.

Solely to the extent any Lender that is an EEA Financial Institution is a party to this Agreement and notwithstanding anything to the contrary in any Loan Document or in any other agreement, arrangement or understanding among any such parties, each party hereto acknowledges that any liability of any Lender that is an EEA Financial Institution arising under any Loan Document, to the extent such liability is unsecured, may be subject to the write-down and conversion powers of an EEA Resolution Authority and agrees and consents to, and acknowledges and agrees to be bound by (a) the application of any Write-Down and Conversion Powers by an EEA Resolution Authority to any such liabilities arising hereunder which may be payable to it by any Lender that is an EEA Financial Institution; and (b) the effects of any Bail-In Action on any such liability, including, if applicable: (i) a reduction in full or in part or cancellation of any such liability; (ii) a conversion of all, or a portion of, such liability into shares or other instruments of ownership in such EEA Financial Institution, its parent undertaking, or a bridge institution that may be issued to it or otherwise conferred on it, and that such shares or other instruments of ownership will be accepted by it in lieu of any rights with respect to any such liability under this Agreement or any other Loan Document; or (iii) the variation of the terms of such liability in connection with the exercise of the write-down and conversion powers of any EEA Resolution Authority.

[SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

BORROWER: NSTAR ELECTRIC COMPANY,  
a Massachusetts corporation doing business as Eversource Energy

By: /S/ EMILIE O'NEIL  
Name: Emilie O'Neil  
Title: Assistant Treasurer-Corporate Finance & Cash Management

ADMINISTRATIVE  
AGENT: BARCLAYS BANK PLC,  
as Administrative Agent

By: /S/ SYDNEY G. DENNIS  
Name: Sydney G. Dennis  
Title: Director

LENDERS: BARCLAYS BANK PLC,  
as a Lender and Swing Line Lender

By: /S/ SYDNEY G. DENNIS  
Name: Sydney G. Dennis  
Title: Director

BANK OF AMERICA, N.A.,  
as a Lender

By: /S/ JERRY WELLS  
Name: Jerry Wells  
Title: Director

CITIBANK, N.A.,  
as a Lender

By: /S/ RICHARD RIVERA  
Name: Richard Rivera  
Title: Vice President

THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.,  
A member of MUFG, a global financial group ("MUFG"),  
as a Lender

By: /S/ ROBERT MACFARLANE  
Name: Robert MacFarlane  
Title: Director

WELLS FARGO BANK, N.A.,  
as a Lender

By: /S/ PATRICK ENGEL  
Name: Patrick Engel  
Title: Managing Director

MIZUHO BANK, LTD.,  
as a Lender

By: /S/ NELSON CHANG  
Name: Nelson Chang  
Title: Authorized Signatory

TD BANK, N.A.,  
as a Lender

By: /S/ SHANNON BATCHMAN  
Name: Shannon Batchman  
Title: Sr. Vice President

U.S. BANK NATIONAL ASSOCIATION,  
as a Lender

By: /S/ JAMES O'SHAUGHNESSY

Name: James O'Shaughnessy

Title: Vice President

JPMORGAN CHASE BANK, N.A.,

as a Lender

By: /S/ AMIT GAUR

Name: Amit Gaur

Title: Vice President

GOLDMAN SACHS BANK USA,

as a Lender

By: /S/ REBECCA KRATZ

Name: Rebecca Kratz

Title: Authorized Signatory

KEYBANK NATIONAL ASSOCIATION.,

as a Lender

By: /S/ LISA A. RYDER

Name: Lisa A. Ryder

Title: Senior Vice President

ROYAL BANK OF CANADA,

as a Lender

By: /S/ ERIC KOPPELSON

Name: Eric Koppelson

Title: Vice President

THE BANK OF NEW YORK MELLON,

as a Lender

By: /S/ RICHARD K. FRONAPFEL, JR

Name: Richard K. Fronapfel, Jr.

Title: Vice President

PNC BANK, NATIONAL ASSOCIATION,

as a Lender

By: /S/ THOMAS E. REDMOND

Name: Thomas E. Redmond

Title: Managing Director

COBANK, ACB,

as a Lender

By: /S/ JOSH BATCHELDER

Name: Josh Batchelder  
Title: Vice President

Published CUSIP Numbers: 30040TAC9 (Facility)  
30040TAD7 (Revolver)

AMENDED AND RESTATED CREDIT AGREEMENT

Dated as of December 8, 2017

among

EVERSOURCE ENERGY  
AND, DOING BUSINESS AS EVERSOURCE ENERGY,  
NSTAR GAS COMPANY,  
THE CONNECTICUT LIGHT AND POWER COMPANY,  
PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE,  
WESTERN MASSACHUSETTS ELECTRIC COMPANY  
and  
YANKEE GAS SERVICES COMPANY,  
as the Borrowers,

BANK OF AMERICA, N.A.,  
as Administrative Agent and Swing Line Lender,

and

THE OTHER LENDERS PARTY HERETO

MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED,  
BARCLAYS BANK PLC,  
CITIGROUP GLOBAL MARKETS INC.,  
THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.,  
WELLS FARGO SECURITIES, LLC,  
MIZUHO BANK, LTD.,  
TD SECURITIES (USA) LLC

and

U.S. BANK NATIONAL ASSOCIATION,  
as Joint Lead Arrangers and Joint Bookrunners

BARCLAYS BANK PLC,  
as Syndication Agent

CITIBANK, N.A.,  
THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.,  
WELLS FARGO BANK, NATIONAL ASSOCIATION,  
MIZUHO BANK, LTD.,  
TD BANK, N.A.

and

U.S. BANK NATIONAL ASSOCIATION,

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as Co-Documentation Agents

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## AMENDED AND RESTATED CREDIT AGREEMENT

This AMENDED AND RESTATED CREDIT AGREEMENT is entered into as of December 8, 2017 among Eversource Energy, an unincorporated voluntary business association organized under the laws of the Commonwealth of Massachusetts (“Eversource”), NSTAR Gas Company, a Massachusetts corporation (“NSTAR Gas”), The Connecticut Light and Power Company, a Connecticut corporation (“CL&P”), Public Service Company of New Hampshire, a New Hampshire corporation (“PSNH”), Western Massachusetts Electric Company, a Massachusetts corporation (“WMECO”), and Yankee Gas Services Company, a Connecticut corporation (“Yankee Gas”), the Lenders (defined herein) and BANK OF AMERICA, N.A., as Administrative Agent and Swing Line Lender. Each of NSTAR Gas, CL&P, PSNH, WMECO and Yankee Gas is doing business as Eversource Energy and, together with Eversource, are referred to collectively herein as the “Borrowers” and each individually a “Borrower”.

The Borrowers have requested that the Lenders provide \$1,450,000,000 in revolving credit facilities for the purposes set forth herein, and the Lenders are willing to do so on the terms and conditions set forth herein.

This Agreement is given in amendment to, restatement of and substitution for the Existing Credit Agreement (as hereinafter defined).

In consideration of the mutual covenants and agreements herein contained, the parties hereto covenant and agree as follows:

### ARTICLE I

#### DEFINITIONS AND ACCOUNTING TERMS

##### 1.01 Defined Terms.

As used in this Agreement, the following terms shall have the meanings set forth below:

“Additional Arranger Fee Letter” means the letter agreement, dated as of December 1, 2017 among Eversource, NSTAR Electric, Citigroup Global Markets Inc., The Bank of Tokyo-Mitsubishi UFJ, Ltd., Wells Fargo Securities, LLC, Mizuho Bank, Ltd., TD Securities (USA) LLC and U.S. Bank National Association.

“Additional Commitment Lender” has the meaning specified in Section 2.17(d).

“Administrative Agent” means Bank of America in its capacity as administrative agent under any of the Loan Documents, or any successor administrative agent.

“Administrative Agent’s Office” means the Administrative Agent’s address and, as appropriate, account as set forth on Schedule 11.02 or such other address or account as the Administrative Agent may from time to time notify the Borrowers and the Lenders.

“Administrative Questionnaire” means an Administrative Questionnaire in a form supplied by the Administrative Agent.

“Affiliate” means, with respect to any Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified.

“Aggregate Revolving Commitments” means the Revolving Commitments of all the Lenders. The aggregate principal amount of the Aggregate Revolving Commitments in effect on the Effective Date is ONE BILLION FOUR HUNDRED FIFTY MILLION DOLLARS (\$1,450,000,000).

“Agreement” means this Amended and Restated Credit Agreement.

“Applicable Margin” means, with respect to Revolving Loans, Swing Line Loans and the Facility Fee, determined with respect to each Borrower, for any day, the following percentages per annum in effect on such day, based upon the Reference Rating of the applicable Borrower:

Pricing Level	Reference Rating	Eurodollar Rate Loans	Base Rate Loans	Facility Fee
1	≥A+/A1	0.800%	0.000%	0.075%
2	A/A2	0.900%	0.000%	0.100%
3	A-/A3	1.000%	0.000%	0.125%
4	BBB+/Baa1	1.075%	0.075%	0.175%
5	BBB/Baa2	1.275%	0.275%	0.225%
6	≤BBB-/Baa3	1.475%	0.475%	0.275%

Any increase or decrease in the Applicable Margin resulting from a change in any Reference Rating shall take effect at the time of such change in such Reference Rating. For purposes of the foregoing, (w) if Eversource does not have a rating of its Borrower Unsecured Debt by either S&P or Moody’s, then Pricing Level 6 shall apply, (x) in the case of a split in the Reference Ratings of one level, the higher level shall apply, (y) in the case of a split in the Reference Ratings of more than one level, the Reference Rating that is one level lower than the higher level shall apply, and (z) if there is no Reference Rating then the rating Pricing Level 6 shall apply.

“Applicable Percentage” means with respect to any Lender at any time, the percentage of the Aggregate Revolving Commitments represented by such Lender’s Revolving Commitment at such time, subject to adjustment as provided in Section 2.15; provided that if the commitment of each Lender to make Revolving Loans has been terminated in its entirety pursuant to Section 9.02 or if the Aggregate Revolving Commitments have expired, then the Applicable Percentage of each Lender shall be determined based on the Applicable Percentage of such Lender most recently in effect, giving effect to any subsequent assignments. The initial Applicable Percentage of each Lender is set forth opposite the name of such Lender on Schedule 2.01 or in the Assignment and Assumption pursuant to which such Lender becomes a party hereto, as applicable.

“Approved Fund” means any Fund that is administered or managed by (a) a Lender, (b) an Affiliate of a Lender or (c) an entity or an Affiliate of an entity that administers or manages a Lender.

“Approving Lenders” has the meaning specified in Section 2.17(e).

“Assignee Group” means two or more Eligible Assignees that are Affiliates of one another or two or more Approved Funds managed by the same investment advisor.

“Assignment and Assumption” means an assignment and assumption entered into by a Lender and an Eligible Assignee (with the consent of any party whose consent is required by Section 11.06(b)), and accepted by the Administrative Agent, in substantially the form of Exhibit 11.06(b) or any other form approved by the Administrative Agent.

“Audited Financial Statements” means the audited consolidated balance sheet of each Borrower and its Subsidiaries for the fiscal years ended December 31, 2014, December 31, 2015 and December 31, 2016 and the related consolidated statements of income or operations, shareholders’ equity and cash flows for such fiscal year of such Person, including the notes thereto, audited by independent public accountants of recognized national standing and prepared in conformity with GAAP.

“Availability Period” means, with respect to the Revolving Commitments, the period from and including the Effective Date to the earliest of (a) the Revolving Loan Maturity Date and (b) the date of termination in full of the remaining unused portion of the Aggregate Revolving Commitments pursuant to Section 2.06.

“Bail-In Action” means the exercise of any Write-Down and Conversion Powers by the applicable EEA Resolution Authority in respect of any liability of an EEA Financial Institution.

“Bail-In Legislation” means, with respect to any EEA Member Country implementing Article 55 of Directive 2014/59/EU of the European Parliament and of the Council of the European Union, the implementing law for such EEA Member Country from time to time which is described in the EU Bail-In Legislation Schedule.

“Bank of America” means Bank of America, N.A. and its successors.

“Bank of America Agency Fee Letter” means the letter agreement, dated as of December 8, 2017 among Eversource and Bank of America.

“Bank of America and Barclays Fee Letter” means the letter agreement, dated as of November 3, 2017 among Eversource, NSTAR Electric, Bank of America, Barclays Bank PLC and MLPFS.

“Base Rate” means for any day a fluctuating rate per annum equal to the highest of (a) the Federal Funds Rate plus one-half of one percent (0.50%), (b) the rate of interest in effect for such day as publicly announced from time to time by Bank of America as its “prime rate” and (c) the Eurodollar Rate for an Interest Period of one (1) month plus one percent (1.00%), and if the Base Rate shall be less than zero, such rate shall be deemed to be zero for purposes of this Agreement. The “prime rate” is a rate set by Bank of America based upon various factors including Bank of America’s costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans, which may be priced at, above, or below such announced rate. Any change in the “prime rate” announced by Bank of America shall take effect at the opening of business on the day specified in the public announcement of such change.

“Base Rate Loan” means a Loan that bears interest based on the Base Rate.

“Benefit Plan” means any of (a) an “employee benefit plan” (as defined in ERISA) that is subject to Title I of ERISA, (b) a “plan” as defined in Section 4975 of the Code or (c) any Person whose assets include (for purposes of ERISA Section 3(42) or otherwise for purposes of Title I of ERISA or Section 4975 of the Code) the assets of any such “employee benefit plan” or “plan”.

“Borrower” and “Borrowers” have the meanings specified in the introductory paragraph hereto.

“Borrower Materials” has the meaning specified in Section 7.02.

“Borrower Secured Debt” has the meaning specified in the definition of “Reference Ratings”.

“Borrower Sublimit” means, as to any Borrower, the amount set forth opposite such Borrower’s name below:

<b>Borrower</b>	<b>Borrower Sublimit</b>
Eversource	\$1,450,000,000
NSTAR Gas	\$300,000,000
CL&P	\$600,000,000
PSNH	\$300,000,000
WMECO	\$300,000,000
Yankee Gas	\$300,000,000

Each Borrower Sublimit is part of, and not in addition to, the Aggregate Revolving Commitments. For purposes of clarity, in the event that any Borrower merges into another entity and is not the surviving Person, dissolves or otherwise ceases to have a legal existence, then the Borrower Sublimit with respect to such Borrower shall no longer exist, and the Borrower Sublimits of the remaining Borrowers shall be unaffected by the elimination of such Borrower Sublimit; provided, however, that if a Borrower merges or is liquidated into another Borrower, the Borrower Sublimit of the surviving Borrower shall be increased by the amount of the Borrower Sublimit of the merged or liquidated Borrower on terms and subject to limitations reasonably satisfactory to the Lenders; provided, further, that in no event shall a Borrower Sublimit exceed the Aggregate Revolving Commitments.

“Borrower Unsecured Debt” has the meaning specified in the definition of “Reference Ratings”.

“Borrowing” means each of the following: (a) a borrowing of Swing Line Loans pursuant to Section 2.04 and (b) a borrowing consisting of simultaneous Loans of the same Type and, in the case of Eurodollar Rate Loans, having the same Interest Period made by each of the Lenders pursuant to Section 2.01.

“Business Day” means any day other than a Saturday, Sunday or other day on which commercial banks are authorized to close under the Laws of, or are in fact closed in, the state where the Administrative Agent’s Office is located or New York and, if such day relates to any Eurodollar Rate Loan, means any such day that is also a London Banking Day.

“Cash Collateralize” means to pledge and deposit with or deliver to the Administrative Agent, for the benefit of the Administrative Agent or Swing Line Lender (as applicable) and the Lenders, as collateral

for Obligations in respect of Swing Line Loans or obligations of Lenders to fund participations in respect of Swing Line Loans, cash or deposit account balances or, if the Swing Line Lender benefitting from such collateral shall agree in its sole discretion, other credit support, in each case pursuant to documentation in form and substance reasonably satisfactory to (a) the Administrative Agent and (b) the Swing Line Lender. “Cash Collateral” shall have a meaning correlative to the foregoing and shall include the proceeds of such cash collateral and other credit support.

“Certifying Officer” has the meaning specified in Section 7.02(b).

“Change in Law” means the occurrence, after the date of this Agreement, of any of the following: (a) the adoption or taking effect of any law, rule, regulation or treaty, (b) any change in any law, rule, regulation or treaty or in the administration, interpretation, implementation or application thereof by any Governmental Authority or (c) the making or issuance of any request, rule, guideline or directive (whether or not having the force of law) by any Governmental Authority; provided, that, notwithstanding anything herein to the contrary, (x) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines or directives thereunder or issued in connection therewith and (y) all requests, rules, guidelines or directives promulgated by the Bank for International settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States regulatory authorities, in each case pursuant to Basel III, shall in each case be deemed to be a “Change in Law”, regardless of the date enacted, adopted or issued.

“Change of Control” means the occurrence of any of the following events,

(a) with respect to Eversource:

(i) any “person” or “group” (as such terms are used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, but excluding any employee benefit plan of such person or its subsidiaries, and any person or entity acting in its capacity as trustee, agent or other fiduciary or administrator of any such plan) either (A) becomes the “beneficial owner” (as defined in Rules 13d-3 and 13d-5 under the Securities Exchange Act of 1934, except that a person or group shall be deemed to have “beneficial ownership” of all securities that such person or group has the right to acquire (such right, an “option right”), whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of more than fifty percent (50%) of the Equity Interests of Eversource entitled to vote for trustees of Eversource or equivalent governing body of Eversource on a fully diluted basis (and taking into account all such securities that such person or group has the right to acquire pursuant to any option right) or (B) obtains the power (whether or not exercised) to elect a majority of Eversource’s trustees; or

(ii) the board of trustees of Eversource shall not consist of a majority of Continuing Trustees. For purposes of this definition, the term “Continuing Trustees” means trustees of Eversource on the date hereof and each other trustee of Eversource, if such other trustee’s nomination for election to the board of trustees of Eversource is recommended by a majority of the then Continuing Trustees.

(b) with respect to any Borrower (other than Eversource), Eversource shall cease to own and control, of record and beneficially, free and clear of all Liens except for Liens permitted under Section 8.01, one hundred percent (100%) of the outstanding Equity Interests of such Borrower (other than Eversource) entitled to vote (currently exercisable in the case of any preferred Equity Interests) for the election of directors; or

(c) with respect to Eversource, Eversource shall cease to own and control, of record and beneficially, free and clear of all Liens except for Liens permitted under Section 8.01, at least eighty-five percent (85%) of the outstanding Equity Interests of each of CL&P, NSTAR Gas, PSNH, WMECO, Yankee Gas and NSTAR Electric entitled to vote (currently exercisable in the case of any preferred Equity Interests) for the election of directors, in each case at any time any such Subsidiary of Eversource is not a Borrower; or

(d) with respect to any Borrower, such Borrower shall cease to own and control, of record and beneficially, free and clear of all Liens except for Liens permitted under Section 8.01, eighty-five percent (85%) of the outstanding Equity Interests entitled to vote (currently exercisable in the case of any preferred Equity Interests) for the election of directors of any Principal Subsidiary.

“CL&P” has the meaning specified in the introductory paragraph hereto.

“Compliance Certificate” has the meaning specified in Section 7.02(b).

“Consolidated Capitalization” means, with respect to any Borrower at any date of determination, the sum of (a) Consolidated Indebtedness of such Borrower, (b) the aggregate of the par value of, or stated capital represented by, the outstanding shares of all classes of common and preferred shares of such Borrower and its Subsidiaries excluding, however, from such calculation, amounts identified as “Accumulated Other Comprehensive Income (Loss)” in the financial statements of the Borrowers set forth in the Borrowers’ Report on Form 10-K or 10-Q, as the case may be, most recently filed with the SEC prior to the date of such determination and (c) the consolidated surplus of such Borrower and its Subsidiaries, paid-in, earned and other capital, if any, in each case as determined on a consolidated basis in accordance with GAAP.

“Consolidated Indebtedness” means Indebtedness of any Borrower and its Subsidiaries on a consolidated basis determined in accordance with GAAP, excluding, however, from such calculation, (a) in the case of Refinancing Indebtedness, any amounts as to which any Borrower or its Subsidiaries have, (i) in accordance with the terms of the applicable agreements, and on or prior to the date of incurring such Refinancing Indebtedness, sent the holders of the Indebtedness to be refinanced, or their trustee, as applicable, a notice of redemption and (ii) within fourteen (14) days after incurrence of such Refinancing Indebtedness, segregated with the trustee therefor or with such other financial institution as may be acceptable to the Administrative Agent, in accordance with the terms of the applicable agreements relating to such Indebtedness, sufficient funds to redeem such Indebtedness and fully discharge such Borrower’s obligations with respect thereto.

“Consolidated Indebtedness to Capitalization Ratio” means, for any Borrower, as of any date of determination, the ratio of (a) Consolidated Indebtedness of such Borrower to (b) Consolidated Capitalization of such Borrower.

“Contractual Obligation” means, as to any Person, any provision of any security issued by such Person or of any agreement, instrument or other undertaking to which such Person is a party or by which it or any of its property is bound.

“Control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. “Controlling” and “Controlled” have meanings correlative thereto. Without limiting the generality of the foregoing, a Person shall be deemed to be Controlled by another Person if such other Person possesses, directly or indirectly, power to vote ten percent (10%) or more of the securities having ordinary voting power for the election of directors, managing general partners or the equivalent.

“Debtor Relief Laws” means the Bankruptcy Code of the United States, and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief Laws of the United States or other applicable jurisdictions from time to time in effect and affecting the rights of creditors generally.

“Default” means any event or condition that constitutes an Event of Default or that, with the giving of any notice, the passage of time, or both, would be an Event of Default.

“Default Rate” means an interest rate equal to (a) the Base Rate plus (b) the Applicable Margin, if any, applicable to Base Rate Loans plus (c) two percent (2%) per annum; provided, however, that with respect to a Eurodollar Rate Loan, the Default Rate shall be an interest rate equal to the interest rate (including any Applicable Margin) otherwise applicable to such Loan plus two percent (2%) per annum, in each case to the fullest extent permitted by applicable Laws.

“Defaulting Lender” means any Lender, as determined by the Administrative Agent, that (a) has failed to perform any of its funding obligations hereunder, including in respect of its Revolving Loans or participations in respect of Swing Line Loans, within three (3) Business Days of the date required to be funded by it hereunder, unless (other than in respect of fundings of participations of Swing Line Loans) such Lender notifies the Administrative Agent and the applicable Borrower in writing that such failure is the result of such Lender’s good faith determination that one or more conditions precedent to funding (each of which conditions precedent, together with any applicable default, shall be specifically identified in such writing) has not been satisfied, (b) has notified the applicable Borrower or the Administrative Agent that it does not intend to comply with its funding obligations hereunder or has made a public statement to that effect with respect to its funding obligations hereunder (unless (other than in respect of fundings of participations of Swing Line Loans) such writing or public statement relates to such Lender’s obligation to fund a Loan hereunder and states that such position is based on such Lender’s good faith determination that a condition precedent to funding (which condition precedent, together with any applicable default, shall be specifically identified in such writing or public statement) cannot be satisfied) or under other agreements in which it commits to extend credit, (c) has failed, within three (3) Business Days after request by the Administrative Agent, to confirm in a manner satisfactory to the Administrative Agent that it will comply with its funding obligations hereunder (provided that such Lender shall cease to be a Defaulting Lender pursuant to this clause (c) upon receipt of such written confirmation by the Administrative Agent and the applicable Borrower) or (d) has, or has a direct or indirect parent company that has, (i) become the subject of a proceeding under any Debtor Relief Law, (ii) had a receiver, conservator, trustee, administrator, assignee for the benefit of creditors or similar Person charged with reorganization or liquidation of its business or a custodian appointed for it, (iii) taken any action in furtherance of, or indicated its consent to, approval of or acquiescence in any such proceeding or appointment or (iv) become the subject of a Bail-In Action; provided, that, a Lender shall not be a Defaulting Lender solely by virtue of the ownership or acquisition of any Equity Interests in that Lender or any direct or indirect parent company thereof by a Governmental Authority so long as such ownership interest does not result in or provide such Lender with immunity from the jurisdiction of courts within the United States or from the enforcement of judgments or writs of attachment on its assets or permit such Lender (or such Governmental Authority) to reject, repudiate, disavow or disaffirm any contracts or agreements made with such Lender. Such Lender shall cease to be a Defaulting Lender when the provisions of Section 2.15(b) shall have been satisfied.

“Designated Jurisdiction” means any country, region or territory to the extent that such country, region or territory is the subject of any Sanction.

“Disclosure Documents” means for the Borrowers and each Principal Subsidiary, as applicable: (a) such Person’s Annual Report on Form 10-K for the fiscal year ended December 31, 2016; (b) its Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2017; and (c) such Person’s Current Reports on Form 8-K filed after December 31, 2016 but prior to the date hereof.

“Dollar” and “\$” mean lawful money of the United States.

“Domestic Subsidiary” means any Subsidiary that is organized under the laws of any state of the United States or the District of Columbia.

“DPU” means the Massachusetts Department of Public Utilities and any successor agency thereto.

“EEA Financial Institution” means (a) any credit institution or investment firm established in any EEA Member Country which is subject to the supervision of an EEA Resolution Authority, (b) any entity established in an EEA Member Country which is a parent of an institution described in clause (a) of this definition, or (c) any financial institution established in an EEA Member Country which is a Subsidiary of an institution described in clauses (a) or (b) of this definition and is subject to consolidated supervision with its parent.

“EEA Member Country” means any of the member states of the European Union, Iceland, Liechtenstein, and Norway.

“EEA Resolution Authority” means any public administrative authority or any Person entrusted with public administrative authority of any EEA Member Country (including any delegee) having responsibility for the resolution of any EEA Financial Institution.

“Effective Date” means the date hereof.

“Eligible Assignee” means any Person that meets the requirements to be an assignee under Section 11.06(b)(ii) and (iv) (subject to such consents, if any, as may be required under Section 11.06(b)(ii)).

“Environmental Laws” means any and all federal, state, local, foreign and other applicable statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses, agreements or governmental restrictions relating to pollution and the protection of the environment or the release of any materials into the environment, including those related to hazardous substances or wastes, air emissions and discharges to waste or public systems.

“Environmental Liability” means any liability, contingent or otherwise (including any liability for damages, costs of environmental remediation, fines, penalties or indemnities), of any of the Borrowers or any of their respective Subsidiaries directly or indirectly resulting from or based upon (a) violation of any Environmental Law, (b) the generation, use, handling, transportation, storage, treatment or disposal of any Hazardous Materials, (c) exposure to any Hazardous Materials, (d) the release or threatened release of any Hazardous Materials into the environment or (e) any contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

“Equity Interests” means, with respect to any Person, all of the shares of capital stock of (or other ownership or profit interests in) such Person, all of the warrants, options or other rights for the purchase or acquisition from such Person of shares of capital stock of (or other ownership or profit interests in) such Person, all of the securities convertible into or exchangeable for shares of capital stock of (or other ownership or profit interests in) such Person or warrants, rights or options for the purchase or acquisition from such

Person of such shares (or such other interests), and all of the other ownership or profit interests in such Person (including partnership, member or trust interests therein), whether voting or nonvoting, and whether or not such shares, warrants, options, rights or other interests are outstanding on any date of determination.

“ERISA” means the Employee Retirement Income Security Act of 1974.

“ERISA Affiliate” means any trade or business (whether or not incorporated) under common control with any Borrower within the meaning of Section 414(b) or (c) of the Internal Revenue Code (and Sections 414(m) and (o) of the Internal Revenue Code for purposes of provisions relating to Section 412 of the Internal Revenue Code).

“ERISA Event” means (a) a Reportable Event with respect to a Pension Plan; (b) the withdrawal of any Borrower or any ERISA Affiliate from a Pension Plan subject to Section 4063 of ERISA during a plan year in which such entity was a “substantial employer” as defined in Section 4001(a)(2) of ERISA or a cessation of operations that is treated as such a withdrawal under Section 4062(e) of ERISA; (c) a complete or partial withdrawal by any Borrower or any ERISA Affiliate from a Multiemployer Plan; (d) the filing of a notice of intent to terminate, the treatment of a Pension Plan amendment as a termination under Sections 4041 of ERISA; (e) the institution by the PBGC of proceedings to terminate a Pension Plan; (f) any event or condition which constitutes grounds under Section 4042(a)(1)-(a)(3) of ERISA for the termination of, or the appointment of a trustee to administer, any Pension Plan; (g) the determination that any Pension Plan is considered an at-risk plan or a plan in endangered or critical status within the meaning of Sections 430, 431 and 432 of the Internal Revenue Code or Sections 303, 304 and 305 of ERISA in a manner that would affect a Borrower’s ability to perform its Obligations hereunder; or (h) the imposition of any liability under Title IV of ERISA, other than for PBGC premiums due but not delinquent under Section 4007 of ERISA, upon any Borrower or any ERISA Affiliate in a manner that would affect a Borrower’s ability to perform its Obligations hereunder.

“EU Bail-In Legislation Schedule” means the EU Bail-In Legislation Schedule published by the Loan Market Association (or any successor person), as in effect from time to time.

“Eurodollar Base Rate” means, for any Interest Period with respect to any Eurodollar Rate Loan, (a) the rate per annum determined by the Administrative Agent to be the offered rate which appears on the page of the Reuters Screen which displays the London interbank offered rate (such page currently being the LIBOR01 page) (the “LIBO Rate”) for deposits (for delivery on the first day of such Interest Period) with a term equivalent to such Interest Period in Dollars, determined as of approximately 11:00 a.m. (London, England time), two Business Days prior to the commencement of such Interest Period, or (b) in the event the rate referenced in the preceding clause (a) does not appear on such page or service or if such page or service shall cease to be available, the rate determined by the Administrative Agent to be the offered rate on such other page or other service which displays the LIBO Rate for deposits (for delivery on the first day of such Interest Period) with a term equivalent to such Interest Period in Dollars, determined as of approximately 11:00 a.m. (London, England time) two Business Days prior to the commencement of such Interest Period; provided that if any such rate determined pursuant to the preceding clauses (a) or (b) is less than zero, the Eurodollar Base Rate will be deemed to be zero.

“Eurodollar Rate” means (a) for any Interest Period with respect to any Eurodollar Rate Loan, a rate per annum determined by the Administrative Agent to be equal to the quotient obtained by dividing (i) the Eurodollar Base Rate for such Eurodollar Rate Loan for such Interest Period by (ii) one minus the Eurodollar Reserve Percentage for such Eurodollar Rate Loan as in effect from time to time during such Interest Period and (b) for any day with respect to any Base Rate Loan bearing interest at a rate based on the

Eurodollar Rate, a rate per annum determined by the Administrative Agent to be equal to the quotient obtained by dividing (i) the Eurodollar Base Rate for such Base Rate Loan for such day by (ii) one minus the Eurodollar Reserve Percentage for such Base Rate Loan for such day.

“Eurodollar Rate Loan” means a Loan that bears interest at a rate based on clause (a) of the definition of “Eurodollar Rate”.

“Eurodollar Reserve Percentage” means, for any day during any Interest Period, the reserve percentage (expressed as a decimal, carried out to five decimal places) in effect on such day, whether or not applicable to any Lender, under regulations issued from time to time by the FRB for determining the maximum reserve requirement (including any emergency, supplemental or other marginal reserve requirement) with respect to Eurocurrency funding (currently referred to as “Eurocurrency liabilities”). The Eurodollar Rate for each outstanding Eurodollar Rate Loan and for each outstanding Base Rate Loan the interest on which is determined by reference to the Eurodollar Rate, in each case, shall be adjusted automatically as of the effective date of any change in the Eurodollar Reserve Percentage.

“Event of Default” has the meaning specified in Section 9.01.

“Eversource” has the meaning specified in the introductory paragraph hereto.

“Excluded Taxes” means, with respect to the Administrative Agent, any Lender or any other recipient of any payment to be made by or on account of any obligation of any Borrower hereunder, (a) Taxes imposed on or measured by its overall income (however denominated), and franchise (and similar) Taxes imposed on it (in lieu of income Taxes), (i) by the jurisdiction (or any political subdivision thereof) under the Laws of which such recipient is organized or in which its principal office is located or, in the case of any Lender, in which its applicable Lending Office is located or (ii) as a result of a present or former connection between such recipient and the jurisdiction of the Governmental Authority imposing such Tax (other than a connection arising solely from such recipient having executed, delivered, become a party to, perform its obligations under, received a payment under, received or perfected a security interest under or engaged in any other transaction pursuant to or enforced under any Loan Document), (b) any branch profits Taxes imposed by the United States or any similar Tax imposed by any other jurisdiction in which such Borrower is located, (c) in the case of a Foreign Lender (other than an assignee pursuant to a request by such Borrower under Section 11.13), any United States withholding Tax that is required to be imposed on amounts payable to such Foreign Lender pursuant to the Laws in force at the time such Foreign Lender becomes a party hereto (or designates a new Lending Office or changes its place of organization), except to the extent that such Foreign Lender (or its assignor, if any) was entitled, at the time of designation of a new Lending Office (or assignment) or change in its place of organization, to receive additional amounts from such Borrower with respect to such withholding Tax pursuant to Section 3.01(a)(i) or (c), (d) Taxes attributable to such recipient’s failure or inability to comply with Section 3.01(e) and (e) any U.S. federal withholding taxes imposed under FATCA.

“Existing Credit Agreement” means that certain Amended and Restated Credit Agreement dated as of October 26, 2015 among Eversource, NSTAR Gas, CL&P, PSNH, WMECO and Yankee Gas, as borrowers, the lenders party thereto and Bank of America, N.A., as agent.

“Facility Fee” has the meaning set forth in Section 2.09(a).

“Facility Percentage” means, with respect to each Borrower at all times, the percentage equal to the quotient of (a) the Borrower Sublimit of such Borrower divided by (b) sum of all Borrower Sublimits (after giving effect to any reduction of any Borrower Sublimits as provided in Section 2.06). As of the Effective Date, the Facility Percentage of each Borrower is as set forth below:

<b>Borrower</b>	<b>Facility Percentage</b>
Eversource	44.61538%
NSTAR Gas	9.23077%
CL&P	18.46154%
PSNH	9.23077%
WMECO	9.23077%
Yankee Gas	9.23077%
<b>Total</b>	<b>100.00000%</b>

provided, however, if any Borrower ceases to be a “Borrower” under this Agreement, the Facility Percentage for each remaining Borrower shall be adjusted accordingly by the Administrative Agent without any further action or consent of any other party to any Loan Documents.

“FATCA” means Sections 1471 through 1474 of the Internal Revenue Code, as of the date of this Agreement (or any amended or successor version that is substantively comparable and not materially more onerous to comply with) and any current or future regulations or official interpretations thereof, any agreements entered into pursuant to Section 1471(b)(1) of the Internal Revenue Code and any intergovernmental agreements entered into pursuant to such provisions of the Internal Revenue Code.

“Federal Funds Rate” means, for any day, the rate per annum equal to the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided that (a) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (b) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average rate (rounded upward, if necessary, to a whole multiple of 1/100 of 1%) charged to Bank of America on such day on such transactions as determined by the Administrative Agent.

“Fee Letters” means the Bank of America and Barclays Fee Letter, the Additional Arranger Fee Letter and the Bank of America Agency Fee Letter.

“FERC” means the Federal Energy Regulatory Commission or any successor agency thereto.

“Financing Agreements” has the meaning specified in Section 8.09.

“First Mortgage Indentures” means, (a) in the case of CL&P, the Indenture of Mortgage and Deed of Trust, dated as of May 1, 1921 (the “CL&P Indenture”), from CL&P to Deutsche Bank Trust Company Americas, as successor trustee, as previously and hereafter amended and supplemented from time to time, (b) in the case of Yankee Gas, the Indenture of Mortgage and Deed of Trust, dated as of July 1, 1989, between Yankee Gas and The Bank of New York Mellon, as successor trustee, as in effect on the date hereof and as amended and supplemented from time to time, (c) in the case of WMECO, NSTAR Electric and NPT (should NPT then be a Principal Subsidiary), any first mortgage indenture entered into after the date hereof, provided (i) such indenture covers substantially the same type of collateral as under the Old WMECO Indenture, (ii) such indenture is substantially similar in form and substance to the CL&P Indenture and (iii) such indenture and the lien created thereby receive all necessary regulatory approval, (d) in the case of PSNH, the First Mortgage Indenture, dated as of August 15, 1978, between PSNH and U.S. Bank, National Association, as successor trustee, as previously and hereafter amended and supplemented from time to time, and (e) in the

case of NSTAR Gas, the Indenture of Trust and First Mortgage by NSTAR Gas (formerly known as Commonwealth Gas Company, formerly known as Worcester Gas Light Company) dated February 1, 1949.

“Foreign Lender” means any Lender that is not a U.S. Person.

“FRB” means the Board of Governors of the Federal Reserve System of the United States.

“Fronting Exposure” means, at any time there is a Defaulting Lender, with respect to the Swing Line Lender, such Defaulting Lender’s Applicable Percentage of Swing Line Loans other than Swing Line Loans as to which such Defaulting Lender’s participation obligation has been reallocated to other Lenders or Cash Collateralized in accordance with the terms hereof.

“Fund” means any Person (other than a natural person) that is (or will be) engaged in making, purchasing, holding or otherwise investing in commercial loans and similar extensions of credit in the ordinary course of its activities.

“GAAP” means generally accepted accounting principles in the United States set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board, consistently applied and as in effect from time to time.

“Governmental Approval” means any authorization, consent, approval, license, permit, certificate, exemption of, or filing or registration with, any governmental authority or other legal regulatory body (including, without limitation, the SEC, FERC, the Nuclear Regulatory Commission, the Connecticut Public Utility Regulatory Authority, the New Hampshire Public Utilities Commission and the DPU) required in connection with (i) the execution, delivery or performance of any Loan Document, or (ii) the nature of any Borrower’s or any Subsidiary’s business as conducted or the nature of the property owned or leased by it.

“Governmental Authority” means the government of the United States or any other nation, or of any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government (including any supra-national bodies such as the European Union or the European Central Bank).

“Hazardous Materials” means all explosive or radioactive substances or wastes and all hazardous or toxic substances, wastes or other pollutants, including petroleum or petroleum distillates, asbestos or asbestos-containing materials, polychlorinated biphenyls, radon gas, infectious or medical wastes and all other substances or wastes of any nature identified as hazardous, dangerous or toxic and regulated pursuant to any Environmental Law.

“Indebtedness” of any Person means at any date, without duplication, (a) all obligations of such Person for borrowed money or for the deferred purchase price of property or services other than trade accounts payable, (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments (excluding Stranded Cost Recovery Obligations that are non-recourse to such Person), (c) all obligations of such Person upon which interest charges are customarily paid, (d) all obligations under leases that shall have been or should be, in accordance with GAAP, recorded as capital leases in respect of which such Person is liable as lessee, (e) liabilities in respect of unfunded vested benefits incurred under any Multiemployer Plan that is reasonably likely to result in a direct obligation of any Borrower to pay money, (f) reimbursement obligations of such Person (whether contingent or otherwise) in respect of letters of credit, bankers acceptances, surety or other bonds and similar instruments that are not cash collateralized,

(g) all Indebtedness of others secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person, up to the greater of (x) the extent of the book value of any such asset so pledged and (y) the amount of any liability of such Person for any deficiency and (h) obligations of such Person under direct or indirect guaranties in respect of, and obligations (contingent or otherwise) to purchase or otherwise acquire, or otherwise to assure a creditor against loss in respect of, indebtedness or obligations of others of the kinds referred to above.

“Indemnified Taxes” means (a) Taxes other than Excluded Taxes imposed on or with respect to any payment made by or on account of any obligation of any Borrower under any Loan Document and (b) Other Taxes.

“Indemnitees” has the meaning specified in Section 11.04(b).

“Information” has the meaning specified in Section 11.07.

“Interest Payment Date” means (a) as to any Eurodollar Rate Loan, the last day of each Interest Period applicable to such Loan and the Revolving Loan Maturity Date; provided, however, that if any Interest Period for a Eurodollar Rate Loan exceeds three (3) months, the respective dates that fall every three months after the beginning of such Interest Period shall also be Interest Payment Dates; and (b) as to any Base Rate Loan (including a Swing Line Loan), the last Business Day of each March, June, September and December and the Revolving Loan Maturity Date.

“Interest Period” means, as to each Eurodollar Rate Loan, the period commencing on the date such Eurodollar Rate Loan is disbursed or converted to or continued as a Eurodollar Rate Loan and ending on the date one (1), two (2), three (3) or six (6) months thereafter (in each case, subject to availability), as selected by the applicable Borrower in its Revolving Loan Notice, or such other period that is twelve months or less requested by the applicable Borrower and consented to by all of the applicable Lenders, provided that:

(a) any Interest Period that would otherwise end on a day that is not a Business Day shall be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Business Day;

(b) any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of the calendar month at the end of such Interest Period; and

(c) no Interest Period with respect to any Revolving Loan shall extend beyond the Revolving Loan Maturity Date.

“Interim Financial Statements” has the meaning set forth in Section 5.01(c)(ii).

“Internal Revenue Code” means the Internal Revenue Code of 1986, as amended.

“Internal Revenue Service” means the United States Internal Revenue Service.

“Joint Lead Arrangers” means, collectively, MLPFS, Barclays Bank PLC, Citigroup Global Markets Inc., The Bank of Tokyo-Mitsubishi UFJ, Ltd., Wells Fargo Securities, LLC, Mizuho Bank, Ltd., TD

Securities (USA) LLC and U.S. Bank National Association, in their capacities as joint lead arrangers and joint bookrunners, in each case together with their respective successors and assigns.

“Laws” means, collectively, all international, foreign, federal, state and local statutes, treaties, rules, guidelines, regulations, ordinances, codes and administrative or judicial precedents or authorities, including the interpretation or administration thereof by any Governmental Authority charged with the enforcement, interpretation or administration thereof, and all applicable administrative orders, directed duties, licenses, authorizations and permits of, and agreements with, any Governmental Authority, in each case having the force of law.

“Lenders” means each of the Persons identified as a “Lender” on the signature pages hereto and their successors and assigns and, as the context requires, includes the Swing Line Lender.

“Lending Office” means, as to any Lender, the office or offices of such Lender described as such in such Lender’s Administrative Questionnaire, or such other office or offices as a Lender may from time to time notify the Borrowers and the Administrative Agent.

“Lien” means any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), charge, or preference, priority or other security interest or preferential arrangement in the nature of a security interest of any kind or nature whatsoever (including any conditional sale or other title retention agreement, any easement, right of way or other encumbrance on title to real property, and any financing lease having substantially the same economic effect as any of the foregoing).

“Loan” means an extension of credit by a Lender to any Borrower under Article II in the form of a Revolving Loan or Swing Line Loan.

“Loan Documents” means this Agreement, each Note and any agreement creating or perfecting rights in Cash Collateral pursuant to the provisions of Section 2.14 of this Agreement.

“London Banking Day” means any day on which dealings in Dollar deposits are conducted by and between banks in the London interbank eurodollar market.

“Long-Term Indebtedness Approvals” has the meaning specified in the definition of “Revolving Loan Maturity Date”.

“Material Adverse Effect” means, with respect to any Borrower, (a) a material adverse change in, or a material adverse effect upon, the operations, business, properties or financial condition of such Borrower and its Subsidiaries taken as a whole; (b) a material impairment of the rights and remedies of the Administrative Agent or any Lender under the Loan Documents or of the ability of such Borrower to perform its obligations under any Loan Document to which it is a party; or (c) a material adverse effect upon the legality, validity, binding effect or enforceability against such Borrower of any Loan Document to which it is a party.

“MLPFS” means Merrill Lynch, Pierce, Fenner & Smith Incorporated (or any other registered broker-dealer wholly-owned by Bank of America Corporation to which all or substantially all of Bank of America Corporation’s or any of its subsidiaries’ investment banking, commercial lending services or related businesses may be transferred following the date of this Agreement).

“Moody’s” means Moody’s Investors Service, Inc. and any successor thereto.

“Multiemployer Plan” means any employee benefit plan of the type described in Section 4001(a)(3) of ERISA, to which any Borrower or any ERISA Affiliate makes or is obligated to make contributions, or during the preceding five plan years, has made or been obligated to make contributions.

“Non-Consenting Lender” has the meaning set forth in Section 11.13.

“Non-Extending Lender” has the meaning specified in Section 2.17(b).

“Note” or “Notes” means the Revolving Notes or the Swing Line Note, individually or collectively, as appropriate.

“Notice Date” has the meaning specified in Section 2.17(b).

“NPT” means Northern Pass Transmission LLC, a New Hampshire limited liability company.

“NSTAR Electric” means NSTAR Electric Company, as Massachusetts corporation.

“NSTAR Gas” has the meaning specified in the introductory paragraph hereto.

“Obligations” means, without duplication, all of the several but not joint obligations of the Borrowers to the Lenders and the Administrative Agent, whenever arising, under this Agreement, any Notes or any of the other Loan Documents.

“Old WMECO Indenture” means the First Mortgage Indenture and Deed of Trust dated as of August 1, 1954, from WMECO to State Street Bank and Trust Company, as successor trustee, as amended and supplemented.

“Organization Documents” means, (a) with respect to any corporation, the certificate or articles of incorporation and the bylaws (or equivalent or comparable constitutive documents with respect to any non-U.S. jurisdiction); (b) with respect to any limited liability company, the certificate or articles of formation or organization and operating agreement; and (c) with respect to any partnership, joint venture, trust or other form of business entity, the partnership, joint venture or other applicable agreement of formation or organization and any agreement, instrument, filing or notice with respect thereto filed in connection with its formation or organization with the applicable Governmental Authority in the jurisdiction of its formation or organization and, if applicable, any certificate or articles of formation or organization of such entity.

“Other Taxes” means all present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies arising from any payment made hereunder or under any other Loan Document or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement or any other Loan Document. For the avoidance of doubt, “Other Taxes” shall not include any Excluded Taxes.

“Outstanding Amount” means with respect to any Loans on any date, the aggregate outstanding principal amount thereof after giving effect to any borrowings and prepayments or repayments of any Loans occurring on such date.

“Participant” has the meaning specified in Section 11.06(d).

“Participant Register” has the meaning specified in Section 11.06(d).

“PBGC” means the Pension Benefit Guaranty Corporation or any successor thereto.

“Pension Act” means the Pension Protection Act of 2006.

“Pension Funding Rules” means the rules of the Internal Revenue Code and ERISA regarding minimum required contributions (including any installment payment thereof) to Pension Plans and set forth in Section 412, 430, 431, 432 and 436 of the Internal Revenue Code and Sections 302, 303, 304 and 305 of ERISA.

“Pension Plan” means any employee pension benefit plan as defined in Section 3(2) of ERISA (other than a Multiemployer Plan) that is maintained or is contributed to by any Borrower and any ERISA Affiliate and is either covered by Title IV of ERISA or is subject to minimum funding standards under Section 412 of the Internal Revenue Code.

“Person” means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

“Platform” has the meaning specified in Section 7.02.

“Prepayment Notice” means a notice of prepayment pursuant to Section 2.05(a), which shall be substantially in the form of Exhibit 2.05 or such other form as may be reasonably approved by the Administrative Agent (including any form on an electronic platform or electronic transmission system as shall be approved by the Administrative Agent), appropriately completed and signed by a Responsible Officer.

“Principal Subsidiary” means (a) NSTAR Electric, NSTAR Gas, CL&P, PSNH, WMECO, and Yankee Gas, (b) each of any Subsidiary that during any fiscal quarter, with respect to any Borrower and its Subsidiaries taken as a whole, represents at least (i) ten percent (10%) of such Borrower’s consolidated assets (calculated as an average of such consolidated assets over the preceding four fiscal quarters) and (ii) ten percent (10%) of such Borrower’s consolidated net income (or loss) (calculated as a sum of such net income (or loss) over the preceding four fiscal quarters), whether such Subsidiary is owned directly or indirectly by such Borrower and (c) any Person deemed to be a “Principal Subsidiary” pursuant to Section 8.02.

“PSNH” has the meaning specified in the introductory paragraph hereto.

“PTE” means a prohibited transaction class exemption issued by the U.S. Department of Labor, as any such exemption may be amended from time to time.

“Public Lender” has the meaning specified in Section 7.02.

“Recipient” means the Administrative Agent, any Lender or any other recipient of any payment to be made by or on account of any obligation of any Borrower hereunder.

“Reference Ratings” means, (a) with respect to Eversource, the rating(s) assigned by S&P and/or Moody’s to the long-term senior unsecured non-credit enhanced debt (the “Borrower Unsecured Debt”) of Eversource and (b) with respect to each Borrower other than Eversource, the rating(s) assigned by S&P and/or Moody’s to the Borrower Unsecured Debt of such Borrower; provided, that with respect to any Borrower other than Eversource:

(a) if neither S&P nor Moody’s maintains a rating on the Borrower Unsecured Debt of the Borrower because no such Borrower Unsecured Debt is outstanding, then the “Reference Ratings” shall be based on the rating(s) assigned by S&P and/or Moody’s to the long-term senior secured debt (the “Borrower Secured Debt”) of the Borrower, but such rating(s) shall be deemed to be one rating

category lower than the rating assigned to the Borrower Secured Debt by S&P or Moody's for purposes of determining the Pricing Level as set forth in the definition of "Applicable Margin" (e.g. a Borrower Secured Debt of AA-/Aa3 shall be deemed to be A+/A1 and a Borrower Secured Debt of A-/A3 shall be deemed to be BBB+/Baa1); and

(b) if neither S&P nor Moody's (A) maintains a rating on the Borrower Unsecured Debt of such Borrower because no such Borrower Unsecured Debt is outstanding and (B) maintains a rating on the Borrower Secured Debt of a Borrower because no such Borrower Secured Debt is outstanding, then the "Reference Ratings" shall be based on such Borrower's long-term corporate/issuer rating(s) as maintained by S&P and/or Moody's, if such rating(s) exist.

"Refinancing Indebtedness" means Consolidated Indebtedness incurred for the purpose of refinancing existing Consolidated Indebtedness.

"Register" has the meaning specified in Section 11.06(c).

"Regulatory Assets" means, with respect to CL&P, NSTAR Gas, PSNH, WMECO or Yankee Gas, an intangible asset established by statute, regulation or regulatory order or similar action of a utility regulatory agency having jurisdiction over CL&P, NSTAR Gas, PSNH, WMECO or Yankee Gas, as the case may be, and included in the rate base of CL&P, NSTAR Gas, PSNH, WMECO or Yankee Gas, as the case may be, with the intention that such asset be amortized by rates over time.

"Related Parties" means, with respect to any Person, such Person's Affiliates and the partners, directors, officers, employees, agents, trustees and advisors of such Person and of such Person's Affiliates.

"Reportable Event" means any of the events set forth in Section 4043(c) of ERISA, other than events for which the thirty-day notice period has been waived.

"Request for Borrowing" means (a) with respect to a Borrowing, conversion or continuation of Revolving Loans, a Revolving Loan Notice and (b) with respect to a Swing Line Loan, a Swing Line Loan Notice.

"Required Lenders" means, at any time, Lenders having Total Credit Exposures representing more than fifty percent (50%) of the Total Credit Exposures of all Lenders. The Total Credit Exposure of any Defaulting Lender shall be disregarded in determining Required Lenders at any time; provided that the amount of any participation in any Swing Line Loan that such Defaulting Lender has failed to fund that have not been reallocated to and funded by another Lender shall be deemed to be held by the Lender that is the Swing Line Lender in making such determination.

"Responsible Officer" means the chief executive officer, president, chief financial officer, treasurer, assistant treasurer or controller of a Borrower and, solely for purposes of the delivery of certificates pursuant to Section 5.01, the secretary or any assistant secretary of a Borrower. Any document delivered hereunder that is signed by a Responsible Officer of a Borrower shall be conclusively presumed to have been authorized by all necessary corporate, partnership and/or other action on the part of such Borrower and such Responsible Officer shall be conclusively presumed to have acted on behalf of such Borrower.

"Revolving Commitment" means, as to each Lender, its obligation to (a) make Revolving Loans to any Borrower pursuant to Section 2.01 and (b) purchase participations in Swing Line Loans, in an aggregate principal amount at any one time outstanding not to exceed the amount set forth opposite such Lender's name on Schedule 2.01 or in the Assignment and Assumption pursuant to which such Lender becomes a

party hereto, as applicable, as such amount may be adjusted from time to time in accordance with this Agreement.

“Revolving Credit Exposure” means, as to any Lender at any time, the sum of (i) the aggregate Outstanding Amount of such Lender’s Revolving Loans at such time plus (ii) such Lender’s Applicable Percentage of the Outstanding Amount of all Swing Line Loans at such time.

“Revolving Loan” has the meaning specified in Section 2.01.

“Revolving Loan Notice” means a notice of (a) a Borrowing of Revolving Loans, (b) a conversion of Revolving Loans from one Type to the other, or (c) a continuation of Eurodollar Rate Loans, in each case pursuant to Section 2.02(a), which shall be substantially in the form of Exhibit 2.02(a) or such other form as may be approved by the Administrative Agent (including any form on an electronic platform or electronic transmission system as shall be approved by the Administrative Agent), appropriately completed and signed by a Responsible Officer.

“Revolving Loan Maturity Date” means (a) the later of (i) December 8, 2022 and (ii) with respect to some or all of the Lenders if the Revolving Loan Maturity Date is extended pursuant to Section 2.17, such extended Revolving Loan Maturity Date or (b) such earlier date on which the Loans are due and payable pursuant to the terms of this Agreement; provided, that if any Borrower is unable to obtain all required Governmental Approvals, such approvals to be reasonably satisfactory to the Administrative Agent, for such Borrower’s incurrence of indebtedness payable more than one (1) year from the incurrence thereof (“Long-Term Indebtedness Approvals”) prior to the initial making of any Loan hereunder, then the Revolving Loan Maturity Date for such Borrower shall be the date that is the 364<sup>th</sup> day to occur following the date of the initial Borrowing by such Borrower hereunder (the “364-Day Maturity Date”), provided that in no event shall the 364-Day Maturity Date be later than the Revolving Loan Maturity Date set forth in clause (a) above; provided further that if such Borrower shall obtain such Long-Term Indebtedness Approvals prior to the 364-Day Maturity Date, then, at the request of such Borrower and provided that (x) no Default or Event of Default exists with respect to such Borrower and (y) the representations and warranties of such Borrower contained in Article VI (other than Sections 6.05(c) and 6.06) or in any other Loan Document shall be true and correct in all material respects on and as of the date, such 364-Day Maturity Date shall automatically extend to the extent permitted by such Governmental Approval but in no event later than the Revolving Loan Maturity Date set forth in clause (a) above.

“Revolving Note” has the meaning specified in Section 2.11(a).

“S&P” means Standard & Poor’s Financial Services LLC, a subsidiary of McGraw-Hill Financial Inc., and any successor thereto.

“Sanctions” means any international economic sanction administered or enforced by the United States government (including, without limitation, OFAC), the United Nations Security Council, the European Union, Her Majesty’s Treasury or other relevant sanctions authority.

“SEC” means the Securities and Exchange Commission, or any Governmental Authority succeeding to any of its principal functions.

“Solvent” or “Solvency” means, with respect to any Person as of a particular date, that on such date (a) such Person is able to pay its debts and other liabilities, including contingent obligations as they mature , (b) such Person is not engaged in a business or a transaction, and is not about to engage in a business or a transaction, for which such Person’s property would constitute unreasonably small capital, (c) the fair value

of the property of such Person is greater than the total amount of liabilities, including contingent liabilities, of such Person and (d) the present fair salable value of the assets of such Person is not less than the amount that will be required to pay the probable liability of such Person on its debts as they become absolute and matured. In computing the amount of contingent liabilities at any time, it is intended that such liabilities will be computed at the amount which, in light of all the facts and circumstances existing at such time, represents the amount that can reasonably be expected to become an actual or matured liability.

“Stranded Cost Recovery Obligations” means, with respect to any Person, such Person’s obligations to make principal, interest or other payments to the issuer of stranded cost recovery bonds pursuant to a loan agreement or similar arrangement whereby the issuer has loaned the proceeds of such bonds to such Person.

“Subsidiary” of a Person means a corporation, partnership, joint venture, limited liability company or other business entity of which a majority of the shares of Voting Stock is at the time beneficially owned, or the management of which is otherwise controlled, directly, or indirectly through one or more intermediaries, or both, by such Person. Unless otherwise specified, all references herein to a “Subsidiary” or to “Subsidiaries” shall refer to a Subsidiary or Subsidiaries of the Borrowers.

“Swap Contract” means (a) any and all rate swap transactions, basis swaps, credit derivative transactions, forward rate transactions, commodity swaps, commodity options, forward commodity contracts, equity or equity index swaps or options, bond or bond price or bond index swaps or options or forward bond or forward bond price or forward bond index transactions, interest rate options, forward foreign exchange transactions, cap transactions, floor transactions, collar transactions, currency swap transactions, cross-currency rate swap transactions, currency options, spot contracts, or any other similar transactions or any combination of any of the foregoing (including any options to enter into any of the foregoing), whether or not any such transaction is governed by or subject to any master agreement, and (b) any and all transactions of any kind, and the related confirmations, which are subject to the terms and conditions of, or governed by, any form of master agreement published by the International Swaps and Derivatives Association, Inc., any International Foreign Exchange Master Agreement, or any other master agreement (any such master agreement, together with any related schedules, a “Master Agreement”), including any such obligations or liabilities under any Master Agreement, but excluding in all instances obligations under default service and standard offer power supply agreements entered into in the ordinary course of business.

“Swap Termination Value” means, in respect of any one or more Swap Contracts, after taking into account the effect of any legally enforceable netting agreement relating to such Swap Contracts, (a) for any date on or after the date such Swap Contracts have been closed out and termination value(s) determined in accordance therewith, such termination value(s) and (b) for any date prior to the date referenced in clause (a), the amount(s) determined as the mark-to-market value(s) for such Swap Contracts, as determined based upon one or more mid-market or other readily available quotations provided by any recognized dealer in such Swap Contracts (which may include a Lender or any Affiliate of a Lender).

“Swing Line Lender” means Bank of America in its capacity as provider of Swing Line Loans, or any successor swing line lender hereunder.

“Swing Line Loan” has the meaning specified in Section 2.04(a).

“Swing Line Loan Notice” means a notice of a Borrowing of Swing Line Loans pursuant to Section 2.04(b), which shall be substantially in the form of Exhibit 2.04(b) or such other form as approved by the Administrative Agent (including any form on an electronic platform or electronic transmission system as shall be approved by the Administrative Agent), appropriately completed and signed by a Responsible Officer.

“Swing Line Note” has the meaning specified in Section 2.11(a).

“Swing Line Sublimit” means an amount equal to the lesser of (a) \$100,000,000 and (b) the Aggregate Revolving Commitments. The Swing Line Sublimit is part of, and not in addition to, the Aggregate Revolving Commitments.

“Synthetic Lease” means any synthetic lease, tax retention operating lease, off-balance sheet loan or similar off-balance sheet financing arrangement whereby the arrangement is considered borrowed money indebtedness for tax purposes but is classified as an operating lease or does not otherwise appear on a balance sheet under GAAP.

“Taxes” means all present or future taxes, levies, imposts, duties, deductions, withholdings (including backup withholding), assessments, fees or other charges imposed by any Governmental Authority, including any interest, additions to tax or penalties applicable thereto.

“Threshold Amount” means \$50,000,000.

“364-Day Maturity Date” has the meaning specified in the definition of “Revolving Loan Maturity Date”.

“Total Credit Exposure” means, as to any Lender at any time, the unused Revolving Commitments and Revolving Credit Exposure of such Lender at such time.

“Total Revolving Outstandings” means the aggregate Outstanding Amount of all Revolving Loans and all Swing Line Loans.

“Type” means, with respect to any Loan, its character as a Base Rate Loan or a Eurodollar Rate Loan.

“United States” and “U.S.” mean the United States of America.

“U.S. Person” means any Person that is a “United States person” as defined in Section 7701(a)(30) of the Internal Revenue Code.

“U.S. Tax Compliance Certificate” has the meaning specified in Section 3.01(e)(ii)(B)(III).

“Voting Stock” means, with respect to any Person, Equity Interests issued by such Person the holders of which are ordinarily, in the absence of contingencies, entitled to vote for the election of directors (or persons performing similar functions) of such Person, even though the right so to vote has been suspended by the happening of such a contingency.

“WMECO” has the meaning specified in the introductory paragraph hereto.

“Write-Down and Conversion Powers” means, with respect to any EEA Resolution Authority, the write-down and conversion powers of such EEA Resolution Authority from time to time under the Bail-In Legislation for the applicable EEA Member Country, which write-down and conversion powers are described in the EU Bail-In Legislation Schedule.

“Yankee Gas” has the meaning specified in the introductory paragraph hereto.

## 1.02 Other Interpretive Provisions.

With reference to this Agreement and each other Loan Document, unless otherwise specified herein or in such other Loan Document:

(a) The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words “include,” “includes” and “including” shall be deemed to be followed by the phrase “without limitation.” The word “will” shall be construed to have the same meaning and effect as the word “shall.” Unless the context requires otherwise, (i) any definition of or reference to any agreement, instrument or other document (including any Organization Document) shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein or in any other Loan Document), (ii) any reference herein to any Person shall be construed to include such Person’s successors and assigns, (iii) the words “hereto,” “herein,” “hereof” and “hereunder,” and words of similar import when used in any Loan Document, shall be construed to refer to such Loan Document in its entirety and not to any particular provision thereof, (iv) all references in a Loan Document to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, the Loan Document in which such references appear, (v) any reference to any law shall include all statutory and regulatory provisions consolidating, amending, replacing or interpreting such law and any reference to any law or regulation shall, unless otherwise specified, refer to such law or regulation as amended, modified or supplemented from time to time, and (vi) the words “asset” and “property” shall be construed to have the same meaning and effect and to refer to any and all real and personal property and tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

(b) In the computation of periods of time from a specified date to a later specified date, the word “from” means “from and including,” the words “to” and “until” each mean “to but excluding,” and the word “through” means “to and including.”

(c) Section headings herein and in the other Loan Documents are included for convenience of reference only and shall not affect the interpretation of this Agreement or any other Loan Document.

## 1.03 Accounting Terms.

(a) Generally. Except as otherwise specifically prescribed herein, all accounting terms not specifically or completely defined herein shall be construed in conformity with, and all financial data (including financial ratios and other financial calculations) required to be submitted pursuant to this Agreement shall be prepared in conformity with, GAAP applied on a consistent basis, as in effect from time to time, applied in a manner consistent with that used in preparing the Audited Financial Statements; provided, however, that calculations of attributable Indebtedness under any Synthetic Lease or the implied interest component of any Synthetic Lease shall be made by the Borrowers in accordance with accepted financial practice and consistent with the terms of such Synthetic Lease.

(b) Changes in GAAP. If at any time any change in GAAP would affect the computation of any financial ratio or requirement set forth in any Loan Document, and either the Borrowers or the Required Lenders shall so request, the Administrative Agent, the Lenders and the Borrowers

shall negotiate in good faith to amend such ratio or requirement to preserve the original intent thereof in light of such change in GAAP (subject to the approval of the Required Lenders); provided that, until so amended, (i) such ratio or requirement shall continue to be computed in accordance with GAAP prior to such change therein and (ii) the Borrowers shall provide to the Administrative Agent and the Lenders financial statements and other documents required under this Agreement or as requested hereunder setting forth a reconciliation between calculations of such ratio or requirement made before and after giving effect to such change in GAAP. Without limiting the foregoing, leases shall continue to be classified and accounted for on a basis consistent with that reflected in the Audited Financial Statements for all purposes of this Agreement, notwithstanding any change in GAAP relating thereto, unless the parties hereto shall enter into a mutually acceptable amendment addressing such changes, as provided for above.

(c) FASB ASC 825 and FASB ASC 470-20. Notwithstanding the above, for purposes of determining compliance with any covenant (including the computation of any financial covenant) contained herein, Indebtedness of the Borrowers and their Subsidiaries shall be deemed to be carried at one hundred percent (100%) of the outstanding principal amount thereof, and the effects of FASB ASC 825 and FASB ASC 470-20 on financial liabilities shall be disregarded.

#### 1.04 Rounding.

Any financial ratios required to be maintained by the Borrowers pursuant to this Agreement shall be calculated by dividing the appropriate component by the other component, carrying the result to one place more than the number of places by which such ratio is expressed herein and rounding the result up or down to the nearest number (with a rounding-up if there is no nearest number).

#### 1.05 Times of Day.

Unless otherwise specified, all references herein to times of day shall be references to Eastern time (daylight or standard, as applicable).

#### 1.06 Rates.

The Administrative Agent does not warrant, nor accept responsibility, nor shall the Administrative Agent have any liability with respect to the administration, submission or any other matter related to the rates in the definition of "Eurodollar Rate" or with respect to any comparable or successor rate thereto.

## ARTICLE II

### THE COMMITMENTS AND BORROWINGS

2.01 Revolving Commitments. Subject to the terms and conditions set forth herein, each Lender severally agrees to make loans (each such loan, a "Revolving Loan") to each Borrower in Dollars from time to time on any Business Day during the Availability Period in an aggregate amount not to exceed at any time outstanding the amount of such Lender's Revolving Commitment; provided, however, that after giving effect to any Borrowing of Revolving Loans, (a) the Total Revolving Outstandings shall not exceed the Aggregate Revolving Commitments, (b) the Revolving Credit Exposure of any Lender shall not exceed such Lender's Revolving Commitment and (c) the Total Revolving Outstandings of any Borrower shall not exceed such Borrower's Borrower Sublimit. Within the limits of each Lender's Revolving Commitment, and subject to the other terms and conditions hereof, each Borrower may borrow under this Section 2.01, prepay under Section 2.05, and reborrow under this Section 2.01. Revolving Loans may be Base Rate Loans or Eurodollar

Rate Loans, or a combination thereof, as further provided herein, provided, however, all Borrowings made on the Effective Date shall be made as Base Rate Loans.

## 2.02 Borrowings, Conversions and Continuations of Loans.

(a) Each Borrowing, each conversion of Loans from one Type to the other, and each continuation of Eurodollar Rate Loans shall be made upon the applicable Borrower's irrevocable notice to the Administrative Agent, which may be given by (a) a Revolving Loan Notice or (b) telephone. Each such notice must be received by the Administrative Agent not later than 11:00 a.m. (i) three (3) Business Days prior to the requested date of any Borrowing of, conversion to or continuation of, Eurodollar Rate Loans or of any conversion of Eurodollar Rate Loans to Base Rate Loans prior to the end of the applicable Interest Period, and (ii) on the requested date of any Borrowing of Base Rate Loans. Each telephonic notice by a Borrower pursuant to this Section 2.02(a) must be confirmed promptly by delivery to the Administrative Agent of a Revolving Loan Notice. Each Borrowing of, conversion to or continuation of Eurodollar Rate Loans shall be in a principal amount of \$5,000,000 or a whole multiple of \$1,000,000 in excess thereof. Except as provided in Section 2.04(c), each Borrowing of or conversion to Base Rate Loans shall be in a principal amount of \$5,000,000 or a whole multiple of \$1,000,000 in excess thereof. Each Revolving Loan Notice and each telephonic notice shall specify (i) whether the applicable Borrower is requesting a Borrowing, a conversion of Loans from one Type to the other, or a continuation of Eurodollar Rate Loans, (ii) the requested date of the Borrowing, conversion or continuation, as the case may be (which shall be a Business Day), (iii) the principal amount of Loans to be borrowed, converted or continued, (iv) the Type of Loans to be borrowed or to which existing Loans are to be converted, and (v) if applicable, the duration of the Interest Period with respect thereto. If a Borrower fails to specify a Type of a Loan in a Revolving Loan Notice or if a Borrower fails to give a timely notice requesting a conversion or continuation, then the applicable Loans shall be made as, or converted to, Base Rate Loans. Any such automatic conversion to Base Rate Loans shall be effective as of the last day of the Interest Period then in effect with respect to the applicable Eurodollar Rate Loans. If a Borrower requests a Borrowing of, conversion to, or continuation of Eurodollar Rate Loans in any Revolving Loan Notice, but fails to specify an Interest Period, it will be deemed to have specified an Interest Period of one month.

(b) Following receipt of a Revolving Loan Notice, the Administrative Agent shall promptly notify each Lender of the amount of its Applicable Percentage of the applicable Loans, and if no timely notice of a conversion or continuation is provided by the applicable Borrower, the Administrative Agent shall notify each Lender of the details of any automatic conversion to Base Rate Loans as described in the preceding subsection. In the case of a Borrowing, each Lender shall make the amount of its Loan available to the Administrative Agent in immediately available funds at the Administrative Agent's Office not later than 1:00 p.m. on the Business Day specified in the applicable Revolving Loan Notice. Upon satisfaction of the applicable conditions set forth in Section 5.02 (and, if such Borrowing is the initial Borrowing, Section 5.01), the Administrative Agent shall make all funds so received available to the applicable Borrower in like funds as received by the Administrative Agent either by (i) crediting the account of such Borrower on the books of Bank of America with the amount of such funds or (ii) wire transfer of such funds, in each case in accordance with instructions provided to (and acceptable to) the Administrative Agent by such Borrower.

(c) Except as otherwise provided herein, a Eurodollar Rate Loan may be continued or converted only on the last day of the Interest Period for such Eurodollar Rate Loan. During the existence of a Default with respect to any Borrower, no Loans may be requested as, converted to or

continued as Eurodollar Rate Loans with respect to such Borrower without the consent of the Required Lenders.

(d) The Administrative Agent shall promptly notify the Borrowers and the Lenders of the interest rate applicable to any Interest Period for Eurodollar Rate Loans upon determination of such interest rate. At any time that Base Rate Loans are outstanding, the Administrative Agent shall notify the Borrowers and the Lenders of any change in Bank of America's prime rate used in determining the Base Rate promptly following the public announcement of such change.

(e) After giving effect to all Borrowings, all conversions of Loans from one Type to the other, and all continuations of Loans as the same Type, there shall not be more than eight (8) Interest Periods in effect with respect to all Loans.

2.03 [Reserved].

2.04 Swing Line Loans.

(a) Swing Line Facility. Subject to the terms and conditions set forth herein, the Swing Line Lender, in reliance upon the agreements of the other Lenders set forth in this Section 2.04, shall make loans (each such loan, a "Swing Line Loan") to each Borrower in Dollars from time to time on any Business Day during the Availability Period in an aggregate amount not to exceed at any time outstanding the amount of the Swing Line Sublimit; provided, however, that after giving effect to any Swing Line Loan, (i) the Total Revolving Outstandings shall not exceed the Aggregate Revolving Commitments, (ii) the Revolving Credit Exposure of any Lender shall not exceed such Lender's Revolving Commitment and (iii) the Total Revolving Outstandings of any Borrower shall not exceed such Borrower's Borrower Sublimit, and provided, further, that no Borrower shall use the proceeds of any Swing Line Loan to refinance any outstanding Swing Line Loan. Within the foregoing limits, and subject to the other terms and conditions hereof, each Borrower may borrow under this Section 2.04, prepay under Section 2.05, and reborrow under this Section 2.04. Each Swing Line Loan shall be a Base Rate Loan. Immediately upon the making of a Swing Line Loan, each Lender shall be deemed to, and hereby irrevocably and unconditionally agrees to, purchase from the Swing Line Lender a risk participation in such Swing Line Loan in an amount equal to the product of such Lender's Applicable Percentage times the amount of such Swing Line Loan.

(b) Borrowing Procedures. Each Borrowing of Swing Line Loans shall be made upon the applicable Borrower's irrevocable notice to the Swing Line Lender and the Administrative Agent, which may be given by (a) a Swing Line Loan Notice or (b) telephone. Each such notice must be received by the Swing Line Lender and the Administrative Agent not later than 2:00 p.m. on the requested borrowing date, and shall specify (i) the amount to be borrowed, which shall be a minimum principal amount of \$500,000 and integral multiples of \$100,000 in excess thereof, and (ii) the requested borrowing date, which shall be a Business Day. Each such telephonic notice must be confirmed promptly by delivery to the Swing Line Lender and the Administrative Agent of a Swing Line Loan Notice. Promptly after receipt by the Swing Line Lender of any Swing Line Loan Notice, the Swing Line Lender will confirm with the Administrative Agent (by telephone or in writing) that the Administrative Agent has also received such Swing Line Loan Notice and, if not, the Swing Line Lender will notify the Administrative Agent (by telephone or in writing) of the contents thereof. Unless the Swing Line Lender has received notice (by telephone or in writing) from the Administrative Agent (including at the request of any Lender) prior to 2:00 p.m. on the date of the proposed Borrowing of Swing Line Loans (A) directing the Swing Line Lender not to make such

Swing Line Loan as a result of the limitations set forth in the first proviso to the first sentence of Section 2.04(a), or (B) that one or more of the applicable conditions specified in Article V is not then satisfied, then, subject to the terms and conditions hereof, the Swing Line Lender will, not later than 3:00 p.m. on the borrowing date specified in such Swing Line Loan Notice, make the amount of its Swing Line Loan available to the applicable Borrower.

(c) Refinancing of Swing Line Loans.

(i) The Swing Line Lender at any time in its sole discretion may request, on behalf of the applicable Borrower (which hereby irrevocably requests and authorizes the Swing Line Lender to so request on its behalf), that each Lender make a Base Rate Loan in an amount equal to such Lender's Applicable Percentage of the amount of Swing Line Loans then outstanding. Such request shall be made in writing (which written request shall be deemed to be a Revolving Loan Notice for purposes hereof) and in accordance with the requirements of Section 2.02, without regard to the minimum and multiples specified therein for the principal amount of Base Rate Loans, but subject to the conditions set forth in Section 5.02 (other than the delivery of a Revolving Loan Notice) and provided that, after giving effect to such Borrowing, the Total Revolving Outstandings shall not exceed the Aggregate Revolving Commitments. The Swing Line Lender shall furnish the applicable Borrower with a copy of the applicable Revolving Loan Notice promptly after delivering such notice to the Administrative Agent. Each Lender shall make an amount equal to its Applicable Percentage of the amount specified in such Revolving Loan Notice available to the Administrative Agent in immediately available funds (and the Administrative Agent may apply Cash Collateral available with respect to the applicable Swing Line Loan) for the account of the Swing Line Lender at the Administrative Agent's Office not later than 1:00 p.m. on the day specified in such Revolving Loan Notice, whereupon, subject to Section 2.04(c)(ii), each Lender that so makes funds available shall be deemed to have made a Base Rate Loan to the applicable Borrower in such amount. The Administrative Agent shall remit the funds so received to the Swing Line Lender.

(ii) If for any reason any Swing Line Loan cannot be refinanced by such a Borrowing of Revolving Loans in accordance with Section 2.04(c)(i), the request for Base Rate Loans submitted by the Swing Line Lender as set forth herein shall be deemed to be a request by the Swing Line Lender that each of the Lenders fund its risk participation in the relevant Swing Line Loan and each Lender's payment to the Administrative Agent for the account of the Swing Line Lender pursuant to Section 2.04(c)(i) shall be deemed payment in respect of such participation.

(iii) If any Lender fails to make available to the Administrative Agent for the account of the Swing Line Lender any amount required to be paid by such Lender pursuant to the foregoing provisions of this Section 2.04(c) by the time specified in Section 2.04(c)(i), the Swing Line Lender shall be entitled to recover from such Lender (acting through the Administrative Agent), on demand, such amount with interest thereon for the period from the date such payment is required to the date on which such payment is immediately available to the Swing Line Lender at a rate per annum equal to the greater of the Federal Funds Rate and a rate determined by the Swing Line Lender in accordance with banking industry rules on interbank compensation. A certificate of the Swing Line Lender submitted to any Lender (through the Administrative Agent) with respect to any amounts owing under this clause (iii) shall be conclusive absent manifest error.

(iv) Each Lender's obligation to make Revolving Loans or to purchase and fund risk participations in Swing Line Loans pursuant to this Section 2.04(c) shall be absolute and unconditional and shall not be affected by any circumstance, including (A) any setoff, counterclaim, recoupment, defense or other right that such Lender may have against the Swing Line Lender, any Borrower or any other Person for any reason whatsoever, (B) the occurrence or continuance of a Default, or (C) any other occurrence, event or condition, whether or not similar to any of the foregoing; provided, however, that each Lender's obligation to make Revolving Loans pursuant to this Section 2.04(c) is subject to the conditions set forth in Section 5.02. No such purchase or funding of risk participations shall relieve or otherwise impair the obligation of any Borrower to repay Swing Line Loans, together with interest as provided herein.

(d) Repayment of Participations.

(i) At any time after any Lender has purchased and funded a risk participation in a Swing Line Loan, if the Swing Line Lender receives any payment on account of such Swing Line Loan, the Swing Line Lender will distribute to such Lender its Applicable Percentage of such payment (appropriately adjusted, in the case of interest payments, to reflect the period of time during which such Lender's risk participation was funded) in the same funds as those received by the Swing Line Lender.

(ii) If any payment received by the Swing Line Lender in respect of principal or interest on any Swing Line Loan is required to be returned by the Swing Line Lender under any of the circumstances described in Section 11.05 (including pursuant to any settlement entered into by the Swing Line Lender in its discretion), each Lender shall pay to the Swing Line Lender its Applicable Percentage thereof on demand of the Administrative Agent, plus interest thereon from the date of such demand to the date such amount is returned, at a rate per annum equal to the Federal Funds Rate. The Administrative Agent will make such demand upon the request of the Swing Line Lender. The obligations of the Lenders under this clause shall survive the payment in full of the Obligations and the termination thereof.

(e) Interest for Account of Swing Line Lender. The Swing Line Lender shall be responsible for invoicing the applicable Borrower for interest on the Swing Line Loans. Until each Lender funds its Revolving Loans that are Base Rate Loans or risk participation pursuant to this Section 2.04 to refinance such Lender's Applicable Percentage of any Swing Line Loan, interest in respect of such Applicable Percentage shall be solely for the account of the Swing Line Lender.

(f) Payments Directly to Swing Line Lender. Each Borrower shall make all payments of principal and interest in respect of the Swing Line Loans directly to the Swing Line Lender.

2.05 Prepayments.

(a) Voluntary Prepayments.

(i) Revolving Loans. Each Borrower may, upon delivery of a Prepayment Notice from such Borrower to the Administrative Agent, at any time or from time to time voluntarily prepay Revolving Loans, in whole or in part without premium or penalty; provided that (A) such Prepayment Notice must be received by the Administrative Agent not later than 11:00 a.m. (1) three (3) Business Days prior to any date of prepayment of

Eurodollar Rate Loans (prior to the end of an applicable Interest Period) and (2) on the date of prepayment of Base Rate Loans; (B) any such prepayment of Eurodollar Rate Loans shall be in a principal amount of \$2,000,000 or a whole multiple of \$1,000,000 in excess thereof (or, if less, the entire principal amount thereof then outstanding); and (C) any prepayment of Base Rate Loans shall be in a principal amount of \$1,000,000 or a whole multiple of \$500,000 in excess thereof (or, if less, the entire principal amount thereof then outstanding). Each such Prepayment Notice shall specify the date and amount of such prepayment and the Type(s) of Loans to be prepaid. The Administrative Agent will promptly notify each Lender of its receipt of each such Prepayment Notice, and of the amount of such Lender's Applicable Percentage of such prepayment. If such Prepayment Notice is given by a Borrower, such Borrower shall make such prepayment and the payment amount specified in such Prepayment Notice shall be due and payable on the date specified therein. Any prepayment of a Eurodollar Rate Loan shall be accompanied by all accrued interest on the amount prepaid, together with any additional amounts required pursuant to Section 3.05. Subject to Section 2.15, each such prepayment shall be applied to the Loans of the Lenders in accordance with their respective Applicable Percentages.

(ii) Swing Line Loans. Each Borrower may, upon delivery of a Prepayment Notice to the Swing Line Lender (with a copy to the Administrative Agent), at any time or from time to time, voluntarily prepay Swing Line Loans in whole or in part without premium or penalty; provided that (A) such Prepayment Notice must be received by the Swing Line Lender and the Administrative Agent not later than 1:00 p.m. on the date of the prepayment, and (B) any such prepayment shall be in a minimum principal amount of \$500,000 or a whole multiple of \$100,000 in excess thereof (or, if less, the entire principal thereof then outstanding). Each such Prepayment Notice shall specify the date and amount of such prepayment. If such Prepayment Notice is given by a Borrower, such Borrower shall make such prepayment and the payment amount specified in such Prepayment Notice shall be due and payable on the date specified therein.

(b) Mandatory Prepayments of Loans.

(i) Revolving Commitments. If for any reason (A) the Total Revolving Outstandings at any time exceed the Aggregate Revolving Commitments then in effect or (B) the Total Revolving Outstandings of any Borrower at any time exceed such Borrower's Borrower Sublimit, the applicable Borrower or Borrowers shall immediately prepay Revolving Loans and/or the Swing Line Loans in an aggregate amount equal to such excess.

(ii) Application of Mandatory Prepayments. All amounts required to be paid pursuant to Section 2.05(b)(i) shall be applied ratably to Revolving Loans and Swing Line Loans. Within the parameters of the applications set forth above, prepayments shall be applied first to Base Rate Loans and then to Eurodollar Rate Loans in direct order of Interest Period maturities. All prepayments under this Section 2.05(b) shall be subject to Section 3.05, but otherwise without premium or penalty, and shall be accompanied by interest on the principal amount prepaid through the date of prepayment.

2.06 Termination or Reduction of Aggregate Revolving Commitments.

(a) Optional Reductions. The Borrowers, or any Borrower individually, shall have the right, upon at least three (3) Business Days' notice to the Administrative Agent, to terminate in whole

or, upon same day notice, from time to time to permanently reduce (i) ratably in part the unused portion of the Aggregate Revolving Commitments or (ii) the Borrower Sublimit of such Borrower without ratably reducing the unused portion of the Aggregate Revolving Commitments; *provided* that each partial reduction shall be in the aggregate amount of \$5,000,000 or in an integral multiple of \$1,000,000 in excess thereof. Each such notice of termination or reduction shall be irrevocable; *provided, further*, that, if, after giving effect to any reduction, the Swing Line Sublimit or any Borrower Sublimit exceeds the amount of the Aggregate Revolving Commitments, such sublimit shall be automatically reduced by the amount of such excess. Any Aggregate Revolving Commitment reduced or terminated pursuant to this Section may not be reinstated. Any Borrower other than Eversource that terminates its right to obtain Revolving Loans and that has repaid all its Obligations shall no longer constitute a "Borrower".

(b) Notice. The Administrative Agent will promptly notify the Lenders of any termination or reduction of the Swing Line Sublimit, any Borrower's Borrower Sublimit or the Aggregate Revolving Commitments under this Section 2.06. Upon any reduction of the Aggregate Revolving Commitments, the Revolving Commitment of each Lender shall be reduced by such Lender's Applicable Percentage of such reduction amount. All fees in respect of the Aggregate Revolving Commitments accrued until the effective date of any termination of the Aggregate Revolving Commitments shall be paid on the effective date of such termination.

#### 2.07 Repayment of Loans.

(a) Revolving Loans. Each Borrower shall repay to the Lenders on the Revolving Loan Maturity Date the aggregate principal amount of all Revolving Loans outstanding on such date.

(b) Swing Line Loans. Each Borrower shall repay each Swing Line Loan on the earlier to occur of (i) the date within one (1) Business Day of demand therefor by the Swing Line Lender and (ii) the Revolving Loan Maturity Date.

#### 2.08 Interest.

(a) Subject to the provisions of subsection (b) below, (i) each Eurodollar Rate Loan shall bear interest on the outstanding principal amount thereof for each Interest Period at a rate per annum equal to the sum of the Eurodollar Rate for such Interest Period plus the Applicable Margin, (ii) each Base Rate Loan shall bear interest on the outstanding principal amount thereof from the applicable borrowing date at a rate per annum equal to the Base Rate plus the Applicable Margin and (iii) each Swing Line Loan shall bear interest on the outstanding principal amount thereof from the applicable borrowing date at a rate per annum equal to the Base Rate plus the Applicable Margin.

(b) (i) If any amount of principal of any Loan is not paid when due (without regard to any applicable grace periods), whether at stated maturity, by acceleration or otherwise, all outstanding Obligations shall thereafter bear interest at a fluctuating interest rate per annum at all times equal to the Default Rate to the fullest extent permitted by applicable Laws.

(i) If any amount (other than principal of any Loan) is not paid when due (after giving effect to any applicable grace periods), whether at stated maturity, by acceleration or otherwise, then upon the request of the Required Lenders, such amount shall thereafter bear interest at a fluctuating interest rate per annum at all times equal to the Default Rate to the fullest extent permitted by applicable Laws.

(ii) Accrued and unpaid interest on past due amounts (including interest on past due interest) shall be due and payable upon demand.

(c) Interest on each Loan shall be due and payable in arrears on each Interest Payment Date applicable thereto and at such other times as may be specified herein. Interest hereunder shall be due and payable in accordance with the terms hereof before and after judgment, and before and after the commencement of any proceeding under any Debtor Relief Law.

#### 2.09 Fees.

(a) Facility Fee. Each Borrower shall pay to the Administrative Agent, for the account of each Lender in accordance with its Applicable Percentage, a facility fee (the "Facility Fee") at a rate per annum equal to the product of (i) the Facility Fee rate specified in the definition of "Applicable Margin" times (ii) such Borrower's Facility Percentage times (iii) the Aggregate Revolving Commitments. The Facility Fee shall accrue at all times during the Availability Period, including at any time during which one or more of the conditions in Article V is not met, and shall be due and payable quarterly in arrears on the last Business Day of each March, June, September and December, commencing with the first such date to occur after the Effective Date, and on the Revolving Loan Maturity Date; provided, that each Defaulting Lender shall be entitled to receive fees payable under this Section 2.09(a) for any period during which that Lender is a Defaulting Lender only to extent allocable to the outstanding principal amount of the Loans funded by it. The Facility Fee shall be calculated quarterly in arrears, and if there is any change in the Applicable Margin during any quarter, the actual daily amount shall be computed and multiplied by the Applicable Margin separately for each period during such quarter that such Applicable Margin was in effect.

(b) Fee Letters. Each Borrower shall pay to the Joint Lead Arrangers and the Administrative Agent for their own respective accounts fees in the amounts and at the times specified in the Fee Letters. Such fees shall be fully earned when paid and shall be non-refundable for any reason whatsoever.

#### 2.10 Computation of Interest and Fees.

All computations of interest for Base Rate Loans determined by reference to clause (b) of the definition of "Base Rate" in Section 1.01 shall be made on the basis of a year of 365 or 366 days, as the case may be, and actual days elapsed. All other computations of fees and interest (including without limitation computations of interest for Base Rate Loans determined by reference to clauses (a) and (c) of the definition of "Base Rate" in Section 1.01) shall be made on the basis of a 360-day year and actual days elapsed (which results in more fees or interest, as applicable, being paid than if computed on the basis of a 365-day year). Interest shall accrue on each Loan for the day on which the Loan is made, and shall not accrue on a Loan, or any portion thereof, for the day on which the Loan or such portion is paid, provided that any Loan that is repaid on the same day on which it is made shall, subject to Section 2.12(a), bear interest for one day. Each determination by the Administrative Agent of an interest rate or fee hereunder shall be conclusive and binding for all purposes, absent manifest error.

#### 2.11 Evidence of Debt.

(a) The Borrowings made by each Lender shall be evidenced by one or more accounts or records maintained by such Lender and by the Administrative Agent in the ordinary course of business. The accounts or records maintained by the Administrative Agent and each Lender shall be conclusive absent manifest error of the amount of the Borrowings made by the Lenders to each

Borrower and the interest and payments thereon. Any failure to so record or any error in doing so shall not, however, limit or otherwise affect the obligation of any Borrower hereunder to pay any amount owing with respect to the Loans. In the event of any conflict between the accounts and records maintained by any Lender and the accounts and records of the Administrative Agent in respect of such matters, the accounts and records of the Administrative Agent shall control in the absence of manifest error. Upon the request of any Lender made through the Administrative Agent, the applicable Borrower shall execute and deliver to such Lender (through the Administrative Agent) a promissory note, which shall evidence such Lender's Loans in addition to such accounts or records. Each such promissory note shall (i) in the case of Revolving Loans, be in the form of Exhibit 2.11(a)-1 (a "Revolving Note") and (ii) in the case of Swing Line Loans, be in the form of Exhibit 2.11(a)-2 (a "Swing Line Note"). Each Lender may attach schedules to its Note and endorse thereon the date, Type (if applicable), amount and maturity of its Loans and payments with respect thereto.

(b) In addition to the accounts and records referred to in subsection (a), each Lender and the Administrative Agent shall maintain in accordance with its usual practice accounts or records evidencing the purchases and sales by such Lender of participations in Swing Line Loans. In the event of any conflict between the accounts and records maintained by the Administrative Agent and the accounts and records of any Lender in respect of such matters, the accounts and records of the Administrative Agent shall control in the absence of manifest error.

## 2.12 Payments Generally; Administrative Agent's Clawback.

(a) General. All payments to be made by any Borrower shall be made without condition or deduction for any counterclaim, defense, recoupment or setoff. Except as otherwise expressly provided herein, all payments by any Borrower hereunder shall be made to the Administrative Agent, for the account of the respective Lenders to which such payment is owed, at the Administrative Agent's Office in Dollars and in immediately available funds not later than 2:00 p.m. on the date specified herein. The Administrative Agent will promptly distribute to each Lender its Applicable Percentage (or other applicable share as provided herein) of such payment in like funds as received by wire transfer to such Lender's Lending Office. All payments received by the Administrative Agent after 2:00 p.m. shall be deemed received on the next succeeding Business Day and any applicable interest or fee shall continue to accrue. Subject to the definition of "Interest Period", if any payment to be made by any Borrower shall come due on a day other than a Business Day, payment shall be made on the next following Business Day, and such extension of time shall be reflected in computing interest or fees, as the case may be.

(b) (i) Funding by Lenders; Presumption by Administrative Agent. Unless the Administrative Agent shall have received notice from a Lender prior to the proposed date of any Borrowing of Eurodollar Rate Loans (or, in the case of any Borrowing of Base Rate Loans, prior to 12:00 noon on the date of such Borrowing) that such Lender will not make available to the Administrative Agent such Lender's share of such Borrowing, the Administrative Agent may assume that such Lender has made such share available on such date in accordance with Section 2.02 (or, in the case of any Borrowing of Base Rate Loans, that such Lender has made such share available in accordance with and at the time required by Section 2.02) and may, in reliance upon such assumption, make available to the applicable Borrower a corresponding amount. In such event, if a Lender has not in fact made its share of the applicable Borrowing available to the Administrative Agent, then the applicable Lender and the applicable Borrower severally agree to pay to the Administrative Agent forthwith on demand such corresponding amount in immediately available funds with interest thereon, for each day from and including the date such amount is made available

to the applicable Borrower to but excluding the date of payment to the Administrative Agent, at (A) in the case of a payment to be made by such Lender, the greater of the Federal Funds Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation and (B) in the case of a payment to be made by such Borrower, the interest rate applicable to Base Rate Loans. If such Borrower and such Lender shall pay such interest to the Administrative Agent for the same or an overlapping period, the Administrative Agent shall promptly remit to such Borrower the amount of such interest paid by such Borrower for such period. If such Lender pays its share of the applicable Borrowing to the Administrative Agent, then the amount so paid shall constitute such Lender's Loan included in such Borrowing. Any payment by such Borrower shall be without prejudice to any claim such Borrower may have against a Lender that shall have failed to make such payment to the Administrative Agent.

(i) Payments by Borrowers; Presumptions by Administrative Agent. Unless the Administrative Agent shall have received notice from the applicable Borrower prior to the date on which any payment is due to the Administrative Agent for the account of the Lenders hereunder that such Borrower will not make such payment, the Administrative Agent may assume that such Borrower has made such payment on such date in accordance herewith and may, in reliance upon such assumption, distribute to the Lenders the amount due. In such event, if the applicable Borrower has not in fact made such payment, then each of the Lenders severally agrees to repay to the Administrative Agent forthwith on demand the amount so distributed to such Lender in immediately available funds with interest thereon, for each day from and including the date such amount is distributed to it to but excluding the date of payment to the Administrative Agent, at the greater of the Federal Funds Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation.

A notice of the Administrative Agent to any Lender or the applicable Borrower with respect to any amount owing under this subsection (b) shall be conclusive, absent manifest error.

(c) Failure to Satisfy Conditions Precedent. If any Lender makes available to the Administrative Agent funds for any Loan to be made by such Lender as provided in the foregoing provisions of this Article II, and such funds are not made available to the applicable Borrower by the Administrative Agent because the conditions to the applicable Borrowing set forth in Article V are not satisfied or waived in accordance with the terms hereof, the Administrative Agent shall promptly return such funds (in like funds as received from such Lender) to such Lender, without interest.

(d) Obligations of Lenders Several. The obligations of the Lenders hereunder to make Loans, to fund participations in Swing Line Loans and to make payments pursuant to Section 11.04(c) are several and not joint. The failure of any Lender to make any Loan, to fund any such participation or to make any payment under Section 11.04(c) on any date required hereunder shall not relieve any other Lender of its corresponding obligation to do so on such date, and no Lender shall be responsible for the failure of any other Lender to so make its Loan, to purchase its participation or to make its payment under Section 11.04(c).

(e) Funding Source. Nothing herein shall be deemed to obligate any Lender to obtain the funds for any Loan in any particular place or manner or to constitute a representation by any Lender that it has obtained or will obtain the funds for any Loan in any particular place or manner.

### 2.13 Sharing of Payments by Lenders.

If any Lender shall, by exercising any right of setoff or counterclaim or otherwise, obtain payment in respect of any principal of or interest on any of the Loans made by it, or the participations in Swing Line Loans held by it (excluding any amounts applied by the Swing Line Lender to outstanding Swing Line Loans) resulting in such Lender's receiving payment of a proportion of the aggregate amount of such Loans or participations and accrued interest thereon greater than its pro rata share thereof as provided herein, then the Lender receiving such greater proportion shall (a) notify the Administrative Agent of such fact, and (b) purchase (for cash at face value) participations in the Loans and subparticipations in Swing Line Loans of the other Lenders, or make such other adjustments as shall be equitable, so that the benefit of all such payments shall be shared by the Lenders ratably in accordance with the aggregate amount of principal of and accrued interest on their respective Loans and other amounts owing them, provided that:

(i) if any such participations or subparticipations are purchased and all or any portion of the payment giving rise thereto is recovered, such participations or subparticipations shall be rescinded and the purchase price restored to the extent of such recovery, without interest; and

(ii) the provisions of this Section shall not be construed to apply to (x) any payment made by or on behalf of any Borrower pursuant to and in accordance with the express terms of this Agreement (including the application of funds arising from the existence of a Defaulting Lender), (y) the application of Cash Collateral provided for in Section 2.14 or (z) any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Loans or subparticipations Swing Line Loans to any assignee or participant, other than an assignment to any Borrower or any Subsidiary thereof (as to which the provisions of this Section shall apply).

Each Borrower consents to the foregoing and agrees, to the extent it may effectively do so under applicable law, that any Lender acquiring a participation pursuant to the foregoing arrangements may exercise against such Borrower rights of setoff and counterclaim with respect to such participation as fully as if such Lender were a direct creditor of such Borrower in the amount of such participation.

### 2.14 Cash Collateral.

(a) Certain Credit Support Events. At any time that there shall exist a Defaulting Lender, immediately upon the request of the Administrative Agent or the Swing Line Lender, each Borrower shall deliver to the Administrative Agent Cash Collateral in an amount sufficient to cover all Fronting Exposure (after giving effect to Section 2.15(a)(iv) and any Cash Collateral provided by the Defaulting Lender).

(b) Grant of Security Interest. All Cash Collateral (other than credit support not constituting funds subject to deposit) shall be maintained in blocked, non-interest bearing deposit accounts at the Administrative Agent. Each Borrower, and to the extent provided by any Lender, such Lender, hereby grants to (and subjects to the control of) the Administrative Agent, for the benefit of the Administrative Agent and the Lenders (including the Swing Line Lender) and agrees to maintain, a first priority security interest in all such cash, deposit accounts and all balances therein, and all other property so provided as collateral pursuant hereto, and in all balances therein, and all other property so provided as collateral pursuant hereto, and in all proceeds of the foregoing, all as security for the obligations to which such Cash Collateral may be applied pursuant to Section 2.14(c). If at any time the Administrative Agent determines that Cash Collateral is subject to any right or

claim of any Person other than the Administrative Agent as herein provided, or that the total amount of such Cash Collateral is less than the applicable Fronting Exposure and other obligations secured thereby, each Borrower will, promptly upon demand by the Administrative Agent, pay or provide to the Administrative Agent additional Cash Collateral in an amount sufficient to eliminate such deficiency.

(c) Application. Notwithstanding anything to the contrary contained in this Agreement, Cash Collateral provided under any of this Section 2.14, Section 2.04, or Section 2.15 in respect of Swing Line Loans shall be held and applied in satisfaction of the specific Swing Line Loans, obligations to fund participations therein (including, as to Cash Collateral provided by a Defaulting Lender, any interest accrued on such obligation) and other obligations for which the Cash Collateral was so provided, prior to any other application of such property as may be provided herein.

(d) Release. Cash Collateral (or the appropriate portion thereof) provided to reduce Fronting Exposure or other obligations shall be released promptly following (i) the elimination of the applicable Fronting Exposure or other obligations giving rise thereto (including by the termination of Defaulting Lender status of the applicable Lender) or (ii) the Administrative Agent's good faith determination that there exists excess Cash Collateral; provided, however, (x) that Cash Collateral furnished by or on behalf of a Borrower shall not be released during the continuance of a Default or Event of Default (and following application as provided in this Section 2.14 may be otherwise applied in accordance with Section 9.03) and (y) the Person providing Cash Collateral and the Swing Line Lender may agree that Cash Collateral shall not be released but instead held to support future anticipated Fronting Exposure or other obligations.

#### 2.15 Defaulting Lenders.

(a) Adjustments. Notwithstanding anything to the contrary contained in this Agreement, if any Lender becomes a Defaulting Lender, then, until such time as that Lender is no longer a Defaulting Lender, to the extent permitted by applicable Law:

(i) Waivers and Amendment. The Defaulting Lender's right to approve or disapprove any amendment, waiver or consent with respect to this Agreement shall be restricted as set forth in Section 11.01.

(ii) Reallocation of Payments. Any payment of principal, interest, fees or other amount received by the Administrative Agent for the account of that Defaulting Lender (whether voluntary or mandatory, at maturity, pursuant to Article IX or otherwise, and including any amounts made available to the Administrative Agent by that Defaulting Lender pursuant to Section 11.08), shall be applied at such time or times as may be determined by the Administrative Agent as follows: first, to the payment of any amounts owing by that Defaulting Lender to the Administrative Agent hereunder; second, to the payment on a pro rata basis of any amounts owing by that Defaulting Lender to the Swing Line Lender hereunder; third, if so determined by the Administrative Agent or requested by the Swing Line Lender, to be held as Cash Collateral for future funding obligations of that Defaulting Lender of any participation in any Swing Line Loan; fourth, as any Borrower may request (so long as no Default or Event of Default exists), to the funding of any Loan in respect of which that Defaulting Lender has failed to fund its portion thereof as required by this Agreement, as determined by the Administrative Agent; fifth, if so determined by the Administrative Agent and each Borrower, to be held in a non-interest bearing deposit account

and released in order to satisfy obligations of that Defaulting Lender to fund Loans under this Agreement; sixth, to the payment of any amounts owing to the Lenders, the Swing Line Lender as a result of any judgment of a court of competent jurisdiction obtained by any Lender, the Swing Line Lender against that Defaulting Lender as a result of that Defaulting Lender's breach of its obligations under this Agreement; seventh, so long as no Default or Event of Default exists, to the payment of any amounts owing to any Borrower as a result of any judgment of a court of competent jurisdiction obtained by such Borrower against that Defaulting Lender as a result of that Defaulting Lender's breach of its obligations under this Agreement; and eighth, to that Defaulting Lender or as otherwise directed by a court of competent jurisdiction; provided, that, if (x) such payment is a payment of the principal amount of any Loans in respect of which that Defaulting Lender has not fully funded its appropriate share and (y) such Loans were made at a time when the conditions set forth in Section 5.02 were satisfied or waived, such payment shall be applied solely to the pay the Loans of all non-Defaulting Lenders on a pro rata basis prior to being applied to the payment of any Loans of that Defaulting Lender. Any payments, prepayments or other amounts paid or payable to a Defaulting Lender that are applied (or held) to pay amounts owed by a Defaulting Lender or to post Cash Collateral pursuant to this Section 2.15(a)(ii) shall be deemed paid to and redirected by that Defaulting Lender, and each Lender irrevocably consents hereto.

(iii) Certain Fees. The Defaulting Lender shall not be entitled to receive any Facility Fee pursuant to Section 2.09(a) for any period during which such Lender is a Defaulting Lender (and no Borrower shall be required to pay any such fee that otherwise would have been required to have been paid to such Defaulting Lender).

(iv) Reallocation of Applicable Percentages to Reduce Fronting Exposure. During any period in which there is a Defaulting Lender, for purposes of computing the amount of the obligation of each non-Defaulting Lender to acquire, refinance or fund participations in Swing Line Loans pursuant to Section 2.04, the "Applicable Percentage" of each non-Defaulting Lender shall be computed without giving effect to the Revolving Commitment of that Defaulting Lender; provided, that, each such reallocation (x) shall be given effect only if, at the date the applicable Lender becomes a Defaulting Lender, no Default or Event of Default exists; and (y) does not cause the aggregate Revolving Credit Exposure of any non-Defaulting Lender to exceed such non-Defaulting Lender's Revolving Commitment.

(b) Defaulting Lender Cure. If each Borrower, the Administrative Agent and the Swing Line Lender agree in writing in their sole discretion that a Defaulting Lender should no longer be deemed to be a Defaulting Lender, the Administrative Agent will so notify the parties hereto, whereupon as of the effective date specified in such notice and subject to any conditions set forth therein (which may include arrangements with respect to any Cash Collateral), that Lender will, to the extent applicable, purchase at par that portion of outstanding Loans of the other Lenders or take such other actions as the Administrative Agent may determine to be necessary to cause the Revolving Loans and funded and unfunded participations in Swing Line Loans to be held on a pro rata basis by the Lenders in accordance with their Applicable Percentages (without giving effect to Section 2.15(a)(iv)), whereupon that Lender will cease to be a Defaulting Lender; provided, that, no adjustments will be made retroactively with respect to fees accrued or payments made by or on behalf of any Borrower while that Lender was a Defaulting Lender; provided, further, that, except to the extent otherwise expressly agreed by the affected parties and subject to Section 11.24, no

change hereunder from Defaulting Lender to Lender will constitute a waiver or release of any claim of any party hereunder arising from that Lender having been a Defaulting Lender.

#### 2.16 Additional Revolving Commitments.

Eversource may, at any time and from time to time, upon prior written notice by Eversource to the Administrative Agent increase the Aggregate Revolving Commitments (but not the Swing Line Sublimit) by a maximum aggregate amount of up to TWO HUNDRED FIFTY MILLION DOLLARS (\$250,000,000) with additional Revolving Commitments from any existing Lender with a Revolving Commitment or new Revolving Commitments from any other Person selected by Eversource and acceptable to the Administrative Agent and the Swing Line Lender; provided that:

(a) any such increase shall be in a minimum principal amount of \$10,000,000 and in integral multiples of \$5,000,000 in excess thereof;

(b) no Default or Event of Default shall exist and be continuing at the time of any such increase or would result from any Borrowing on the day of such increase;

(c) no existing Lender shall be under any obligation to increase its Revolving Commitment and any such decision whether to increase its Revolving Commitment shall be in such Lender's sole and absolute discretion;

(d) any new Lender shall join this Agreement by executing such joinder documents required by the Administrative Agent and/or any existing Lender electing to increase its Revolving Commitment shall have executed a commitment agreement satisfactory to the Administrative Agent;

(e) any existing Lender or any new Lender providing a portion of the increase in Revolving Commitments shall be reasonably acceptable to the Administrative Agent and the Swing Line Lender; and

(f) as a condition precedent to such increase, Eversource shall deliver to the Administrative Agent (A) a certificate of each Borrower dated as of the date of such increase (in sufficient copies for each Lender) signed by a Responsible Officer of such Borrower (1) certifying and attaching the resolutions adopted by such Borrower approving or consenting to such increase, and (2) in the case of Eversource, certifying that, before and after giving effect to such increase, the representations and warranties contained in Article VI and the other Loan Documents are true and correct in all material respects on and as of the date of such increase, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they are true and correct in all material respects as of such earlier date, and except that for purposes of this Section 2.16, the representations and warranties contained in subsections (a) and (b) of Section 6.05 shall be deemed to refer to the most recent statements furnished pursuant to clauses (a) and (b), respectively, of Section 7.01, and (B) legal opinions and other documents reasonably requested by the Administrative Agent.

Each Borrower shall prepay any Loans owing by it and outstanding on the date of any such increase (and pay any additional amounts required pursuant to Section 3.05) to the extent necessary to keep the outstanding Loans ratable with any revised Revolving Commitments arising from any nonratable increase in the Revolving Commitments under this Section.

#### 2.17 Extension of Revolving Loan Maturity Date.

( a ) Request for Extension. The Borrowers may by written notice to the Administrative Agent (who shall promptly notify the Lenders) given not less than forty-five (45) days prior to any anniversary of the Effective Date, request that each Lender extend the Revolving Loan Maturity Date for an additional one (1) year from the then existing Revolving Loan Maturity Date; provided, that the Borrowers shall only be permitted to exercise this extension option two (2) times during the term of this Agreement; provided, further, that, in no case shall the Revolving Loan Maturity Date exceed five (5) years from any date.

( b ) Lenders Election to Extend. Each Lender, acting in its sole and individual discretion, shall, by notice to the Administrative Agent given not later than fifteen (15) days following the receipt of notice of such request from the Administrative Agent (the “Notice Date”), advise the Administrative Agent in writing whether or not such Lender agrees to such extension (and each Lender that determines not to so extend its Revolving Loan Maturity Date (a “Non-Extending Lender”) shall notify the Administrative Agent of such fact promptly after such determination (but in any event no later than the Notice Date) and any Lender that does not so advise the Administrative Agent on or before the Notice Date shall be deemed to be a Non-Extending Lender. The election of any Lender to agree to such extension shall not obligate any other Lender to so agree.

( c ) Notification by Administrative Agent. The Administrative Agent shall notify the Borrowers of each Lender’s determination under this Section 2.17 promptly and in any event no later than the date fifteen (15) days after the Notice Date (or, if such date is not a Business Day, on the next preceding Business Day).

( d ) Additional Commitment Lenders. The Borrowers shall have the right on or before the applicable anniversary of the Effective Date to replace each Non-Extending Lender with, and add as “Lenders” under this Agreement in place thereof, one or more Eligible Assignees (each, an “Additional Commitment Lender”) as provided in Section 11.13, each of which Additional Commitment Lenders shall have entered into an Assignment and Assumption pursuant to which such Additional Commitment Lender shall, undertake a Revolving Commitment (and, if any such Additional Commitment Lender is already a Lender, its Revolving Commitment shall be in addition to such Lender’s Revolving Commitment hereunder on such date) and shall be a “Lender” for all purposes of this Agreement.

( e ) Minimum Extension Requirement. If all of the Lenders agree to any such request for extension of the Revolving Loan Maturity Date then the Revolving Loan Maturity Date for all Lenders shall be extended for the additional one (1) year, as applicable. If there exists any Non-Extending Lenders that are not being replaced by Additional Commitment Lenders, then the Borrowers shall (i) withdraw their extension request and the Revolving Loan Maturity Date will remain unchanged or (ii) provided that the Required Lenders (but for the avoidance of doubt, not including any Additional Commitment Lenders) have agreed to the extension request (such Lenders agreeing to such extension, the “Approving Lenders”) no later than fifteen (15) days prior to such anniversary of the Effective Date, then the Borrowers may extend the Revolving Loan Maturity Date solely as to the Approving Lenders and the Additional Commitment Lenders with a reduced amount of Aggregate Revolving Commitments during such extension period equal to the aggregate Revolving Commitments of the Approving Lenders and the Additional Commitment Lenders; it being understood that (A) the Revolving Loan Maturity Date relating to any Non-Extending Lenders not replaced by an Additional Commitment Lender shall not be extended and the repayment of all obligations owed to them and the termination of their Revolving Commitments shall occur on the already existing Revolving Loan Maturity Date and (B) the Revolving Loan Maturity Date relating

to the Approving Lenders and the Additional Commitment Lenders shall be extended for an additional year, as applicable.

(f) Conditions to Effectiveness of Extensions. Notwithstanding the foregoing, any extension of the Revolving Loan Maturity Date pursuant to this Section 2.17 shall not be effective with respect to any Lender unless:

(i) on the date of such extension, the conditions for a Borrowing provided in Section 5.02(a) and (b) shall be satisfied;

(ii) the Administrative Agent shall have received a certificate of a Responsible Officer of each of the Borrowers certifying that as of the date of such extension, (A) there are no actions, suits, proceedings, or disputes pending or, to the knowledge of any of the Borrowers after due and diligent investigation, threatened or contemplated, at law, in equity, in arbitration or before any Governmental Authority, by or against any of the Borrowers or any of their respective Principal Subsidiaries or against any of their properties or revenues that (1) purport to affect or pertain to this Agreement or any other Loan Document, or any of the transactions contemplated hereby or (2) could reasonably be expected to have a Material Adverse Effect, except as specifically disclosed in the Disclosure Documents and (B) since December 31, 2016, there has been no event or circumstance, either individually or in the aggregate, that has had a Material Adverse Effect, except as specifically disclosed in the Disclosure Documents; and

(iii) on the date of such extension, the Borrowers shall prepay any Loans outstanding on such date (and pay any additional amounts required pursuant to Section 3.05) to the extent necessary to keep outstanding Loans ratable with any revised Applicable Percentages of the respective Lenders effective as of such date.

### ARTICLE III

#### TAXES, YIELD PROTECTION AND ILLEGALITY

##### 3.01 Taxes.

(a) Payments Free of Taxes; Obligation to Withhold; Payments on Account of Taxes.

(i) Any and all payments by or on account of any obligation of any Borrower under any Loan Document shall be made without deduction or withholding for any Taxes, except as required by applicable Laws. If any applicable Laws (as determined in the good faith discretion of the Administrative Agent) require the deduction or withholding of any Tax from any such payment by the Administrative Agent or a Borrower, then the Administrative Agent or such Borrower shall be entitled to make such deduction or withholding, upon the basis of the information and documentation to be delivered pursuant to subsection (e) below.

(ii) If any Borrower or the Administrative Agent shall be required by the Internal Revenue Code to withhold or deduct any Taxes, including both United States Federal backup withholding and withholding taxes, from any payment, then (A) the Administrative Agent shall withhold or make such deductions as are determined by the Administrative Agent to be required based upon the information and documentation it has received pursuant to subsection (e) below, (B)

the Administrative Agent shall timely pay the full amount withheld or deducted to the relevant Governmental Authority in accordance with the Internal Revenue Code, and (C) to the extent that the withholding or deduction is made on account of Indemnified Taxes, the sum payable by the applicable Borrower shall be increased as necessary so that after any required withholding or the making of all required deductions (including deductions applicable to additional sums payable under this Section 3.01) the applicable Recipient receives an amount equal to the sum it would have received had no such withholding or deduction been made.

(iii) If any Borrower or the Administrative Agent shall be required by any applicable Laws other than the Internal Revenue Code to withhold or deduct any Taxes from any payment, then (A) such Borrower or the Administrative Agent, as required by such Laws, shall withhold or make such deductions as are determined by it to be required based upon the information and documentation it has received pursuant to subsection (e) below, (B) such Borrower or the Administrative Agent, to the extent required by such Laws, shall timely pay the full amount withheld or deducted to the relevant Governmental Authority in accordance with such Laws, and (C) to the extent that the withholding or deduction is made on account of Indemnified Taxes, the sum payable by the applicable Borrower shall be increased as necessary so that after any required withholding or the making of all required deductions (including deductions applicable to additional sums payable under this Section 3.01) the applicable Recipient receives an amount equal to the sum it would have received had no such withholding or deduction been made.

(b) Payment of Other Taxes by the Borrowers. Without limiting the provisions of subsection (a) above, the Borrowers shall timely pay to the relevant Governmental Authority in accordance with applicable law, or at the option of the Administrative Agent timely reimburse it for the payment of, any Other Taxes.

(c) Tax Indemnifications.

(i) Without limiting the provisions of subsection (a) or (b) above, but without duplication, each of the Borrowers shall, and does hereby, severally indemnify each Recipient, and shall make payment in respect thereof within ten days after written demand therefor, for the full amount of any Indemnified Taxes (including Indemnified Taxes imposed or asserted on or attributable to amounts payable under this Section 3.01) payable or paid by such Recipient or required to be withheld or deducted from a payment to such Recipient, and any reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to any Borrower by a Lender (with a copy to the Administrative Agent), or by the Administrative Agent on its own behalf or on behalf of a Lender, shall be conclusive absent manifest error. Each of the Borrowers shall, and does hereby, severally indemnify the Administrative Agent, and shall make payment in respect thereof within ten days after demand therefor, for any amount which a Lender for any reason fails to pay indefeasibly to the Administrative Agent as required pursuant to Section 3.01(c)(ii) below.

(ii) Each Lender shall, and does hereby, severally indemnify, and shall make payment in respect thereof within ten days after demand therefor, (A) the Administrative Agent against any Indemnified Taxes attributable to such Lender (but only to the extent that any Borrower has not already indemnified the Administrative Agent for such Indemnified Taxes and without limiting the obligation of the Borrowers to do so), (B) the Administrative Agent and the Borrowers, as applicable, against any Taxes attributable to such Lender's failure to comply with the provisions of Section

11.06(d) relating to the maintenance of a Participant Register and (C) the Administrative Agent and the Borrowers, as applicable, against any Excluded Taxes attributable to such Lender, in each case, that are payable or paid by the Administrative Agent or a Borrower in connection with any Loan Document, and any reasonable expenses arising therefrom or with respect thereto, whether or not such Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to any Lender by the Administrative Agent shall be conclusive absent manifest error. Each Lender hereby authorizes the Administrative Agent to set off and apply any and all amounts at any time owing to such Lender under this Agreement or any other Loan Document against any amount due to the Administrative Agent under this clause (ii).

(d) Evidence of Payments. Upon request by any Borrower or the Administrative Agent, as the case may be, after any payment of Taxes by any Borrower or by the Administrative Agent to a Governmental Authority as provided in this Section 3.01, such Borrower shall deliver to the Administrative Agent or the Administrative Agent shall deliver to the applicable Borrower, as the case may be, the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of any return required by Laws to report such payment or other evidence of such payment reasonably satisfactory to the applicable Borrower or the Administrative Agent, as the case may be.

(e) Status of Lenders: Tax Documentation.

(i) Any Lender that is entitled to an exemption from or reduction of withholding Tax with respect to payments made under any Loan Document shall deliver to each Borrower and the Administrative Agent, at the time or times reasonably requested by such Borrower or the Administrative Agent, such properly completed and executed documentation reasonably requested by such Borrower or the Administrative Agent as will permit such payments to be made without withholding or at a reduced rate of withholding. In addition, any Lender, if reasonably requested by any Borrower or the Administrative Agent, shall deliver such other documentation prescribed by applicable Law or reasonably requested by such Borrower or the Administrative Agent as will enable such Borrower or the Administrative Agent to determine whether or not such Lender is subject to backup withholding or information reporting requirements. Notwithstanding anything to the contrary in the preceding two sentences, the completion, execution and submission of such documentation (other than such documentation set forth in Section 3.01(e)(ii)(A), (ii)(B) and (ii)(D) below) shall not be required if in the Lender's reasonable judgment such completion, execution or submission would subject such Lender to any material unreimbursed cost or expense or would materially prejudice the legal or commercial position of such Lender; *provided*, that this sentence shall not apply to documentation described in Section 3.01(e)(ii)(C) if such documentation is in substance essentially equivalent to, and not materially more onerous to provide, than the documentation set forth in Section 3.01(e)(ii)(A), (ii)(B), or (ii)(D).

(ii) Without limiting the generality of the foregoing, in the event that any Borrower is a U.S. Person,

(A) any Lender that is a U.S. Person shall deliver to such Borrower and the Administrative Agent on or prior to the date on which such Lender becomes a Lender under this Agreement (and from time to time thereafter upon the reasonable request of such Borrower or the Administrative Agent), executed copies of Internal Revenue Service Form W-9 certifying that such Lender is exempt from U.S. federal backup withholding Tax;

(B) any Foreign Lender shall, to the extent it is legally entitled to do so, deliver to such Borrower and the Administrative Agent (in such number of copies as shall be requested by the recipient) on or prior to the date on which such Foreign Lender becomes a Lender under this Agreement (and from time to time thereafter upon the reasonable request of such Borrower or the Administrative Agent), whichever of the following is applicable (together with any required schedules and attachments):

(1) in the case of a Foreign Lender claiming the benefits of an income tax treaty to which the United States is a party (x) with respect to payments of interest under any Loan Document, executed copies of Internal Revenue Service Form W-8BEN or W-8BEN-E establishing an exemption from, or reduction of, U.S. federal withholding Tax pursuant to the “interest” article of such tax treaty and (y) with respect to any other applicable payments under any Loan Document, Internal Revenue Service Form W-8BEN or W-8BEN-E establishing an exemption from, or reduction of, U.S. federal withholding Tax pursuant to the “business profits” or “other income” article of such tax treaty;

(2) executed copies of Internal Revenue Service Form W-8ECI;

(3) in the case of a Foreign Lender claiming the benefits of the exemption for portfolio interest under Section 881(c) of the Internal Revenue Code, (x) a certificate substantially in the form of Exhibit 3.01(e)-1 to the effect that such Foreign Lender is not a “bank” within the meaning of Section 881(c)(3)(A) of the Internal Revenue Code, a “10 percent shareholder” of such Borrower within the meaning of Section 881(c)(3)(B) of the Internal Revenue Code, or a “controlled foreign corporation” described in Section 881(c)(3)(C) of the Internal Revenue Code (a “U.S. Tax Compliance Certificate”) and (y) executed copies of Internal Revenue Service Form W-8BEN or W-8BEN-E; or

(4) to the extent a Foreign Lender is not the beneficial owner, executed copies of Internal Revenue Service Form W-8IMY, accompanied by Internal Revenue Service Form W-8ECI, Internal Revenue Service Form W-8BEN or W-8BEN-E, a U.S. Tax Compliance Certificate substantially in the form of Exhibit 3.01(e)-2 or Exhibit 3.01(e)-3, Internal Revenue Service Form W-9, and/or other certification documents from each beneficial owner, as applicable; provided that if the Foreign Lender is a partnership and one or more direct or indirect partners of such Foreign Lender are claiming the portfolio interest exemption, such Foreign Lender may provide a U.S. Tax Compliance Certificate substantially in the form of Exhibit 3.01(e)-4 on behalf of each such direct and indirect partner;

(C) any Foreign Lender shall, to the extent it is legally entitled to do so, deliver to such Borrower and the Administrative Agent (in such number of copies as shall be requested by the recipient) on or prior to the date on which such Foreign Lender becomes a Lender under this Agreement (and from time to time thereafter upon the reasonable request of such Borrower or the Administrative Agent), executed copies of any other form prescribed by applicable Law as a basis for claiming exemption from or a reduction in U.S. federal withholding Tax, duly completed, together with such supplementary documentation as may be prescribed by applicable Law to permit such Borrower or the Administrative Agent to determine the withholding or deduction required to be made; and

(D) if a payment made to a Lender under any Loan Document would be subject to U.S. federal withholding Tax imposed by FATCA if such Lender were to fail to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471(b) or 1472(b) of the Internal Revenue Code, as applicable), such Lender shall deliver to such Borrower and the Administrative Agent at the time or times prescribed by Law and at such time or times reasonably requested by such Borrower or the Administrative Agent such documentation prescribed by applicable Law (including as prescribed by Section 1471(b)(3)(C)(i) of the Internal Revenue Code) and such additional documentation reasonably requested by such Borrower or the Administrative Agent as may be necessary for such Borrower and the Administrative Agent to comply with their obligations under FATCA and to determine that such Lender has complied with such Lender's obligations under FATCA or to determine the amount to deduct and withhold from such payment. Solely for purposes of this clause (D), "FATCA" shall include any amendments made to FATCA after the date of this Agreement.

(iii) Each Lender agrees that if any form or certification it previously delivered pursuant to this Section 3.01 expires or becomes obsolete or inaccurate in any respect, it shall update such form or certification or promptly notify each applicable Borrower and the Administrative Agent in writing of its legal inability to do so.

(f) Treatment of Certain Refunds. Unless required by applicable Laws, at no time shall the Administrative Agent have any obligation to file for or otherwise pursue on behalf of a Lender, or have any obligation to pay to any Lender, any refund of Taxes withheld or deducted from funds paid for the account of such Lender. If any Recipient determines, in its sole discretion exercised in good faith, that it has received a refund of any Taxes as to which it has been indemnified by any Borrower or with respect to which any Borrower has paid additional amounts pursuant to this Section 3.01, it shall pay to such Borrower an amount equal to such refund (but only to the extent of indemnity payments made, or additional amounts paid, by a Borrower under this Section 3.01 with respect to the Taxes giving rise to such refund), net of all out-of-pocket expenses (including Taxes) incurred by such Recipient, and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund), provided that such Borrower, upon the request of the Recipient, agrees to repay the amount paid over to such Borrower (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) to the Recipient in the event the Recipient is required to repay such refund to such Governmental Authority. Notwithstanding anything to the contrary in this subsection, in no event will the applicable Recipient be required to pay any amount to any Borrower pursuant to this subsection the payment of which would place the Recipient in a less favorable net after-Tax position than such Recipient would have been in if the indemnification payments or additional amounts giving rise to such refund had never been paid. This subsection shall not be construed to require any Recipient to make available its Tax returns (or any other information relating to its Taxes that it deems confidential) to any Borrower or any other Person.

(g) Survival. Each party's obligations under this Section 3.01 shall survive the resignation or replacement of the Administrative Agent or any assignment of rights by, or the replacement of, a Lender, the termination of the Aggregate Revolving Commitments and the repayment, satisfaction or discharge of all other Obligations.

### 3.02 Illegality.

If any Lender determines that any Law has made it unlawful, or that any Governmental Authority has asserted that it is unlawful, for any Lender or its applicable Lending Office to make, maintain or fund Loans whose interest is determined by reference to the Eurodollar Rate, or to determine or charge interest rates based upon the Eurodollar Rate, or any Governmental Authority has imposed material restrictions on the authority of such Lender to purchase or sell, or to take deposits of, Dollars in the London interbank market, then, on notice thereof by such Lender to each applicable Borrower through the Administrative Agent, (i) any obligation of such Lender to make or continue Eurodollar Rate Loans or to convert Base Rate Loans to Eurodollar Rate Loans shall be suspended and (ii) if such notice asserts the illegality of such Lender making or maintaining Base Rate Loans the interest rate on which is determined by reference to the Eurodollar Rate component of the Base Rate, the interest rate on which Base Rate Loans of such Lender shall, if necessary to avoid such illegality, be determined by the Administrative Agent without reference to the Eurodollar Rate component of the Base Rate, in each case until such Lender notifies the Administrative Agent and each applicable Borrower that the circumstances giving rise to such determination no longer exist. Upon receipt of such notice, (x) each such Borrower shall, upon demand from such Lender (with a copy to the Administrative Agent), prepay or, if applicable, convert all Eurodollar Rate Loans of such Lender to Base Rate Loans (the interest rate on which Base Rate Loans of such Lender shall, if necessary to avoid such illegality, be determined by the Administrative Agent without reference to the Eurodollar Rate component of the Base Rate), either on the last day of the Interest Period therefor, if such Lender may lawfully continue to maintain such Eurodollar Rate Loans to such day, or immediately, if such Lender may not lawfully continue to maintain such Eurodollar Rate Loans and (y) if such notice asserts the illegality of such Lender determining or charging interest rates based upon the Eurodollar Rate, the Administrative Agent shall during the period of such suspension compute the Base Rate applicable to such Lender without reference to the Eurodollar Rate component thereof until the Administrative Agent is advised in writing by such Lender that it is no longer illegal for such Lender to determine or charge interest rates based upon the Eurodollar Rate. Upon any such prepayment or conversion, each applicable Borrower shall also pay accrued interest on the amount so prepaid or converted.

### 3.03 Inability to Determine Rates.

If in connection with any request for a Eurodollar Rate Loan or a conversion to or continuation thereof, (a) the Administrative Agent determines that (i) Dollar deposits are not being offered to banks in the applicable offshore interbank market for such currency for the applicable amount and Interest Period of such Eurodollar Rate Loan, or (ii) adequate and reasonable means do not exist for determining the Eurodollar Rate for any requested Interest Period with respect to a proposed Eurodollar Rate Loan or in connection with an existing or proposed Base Rate Loan, or (b) the Administrative Agent or the Required Lenders determine that for any reason the Eurodollar Rate for any requested Interest Period with respect to a proposed Eurodollar Rate Loan does not adequately and fairly reflect the cost to the Lenders of funding such Eurodollar Rate Loan, the Administrative Agent will promptly so notify the Borrowers and each Lender. Thereafter, (x) the obligation of the Lenders to make or maintain Eurodollar Rate Loans shall be suspended, (to the extent of the affected Eurodollar Rate Loans or Interest Periods), and (y) in the event of a determination described in the preceding sentence with respect to the Eurodollar Rate component of the Base Rate, the utilization of the Eurodollar Rate component in determining the Base Rate shall be suspended, in each case until the Administrative Agent upon the instruction of the Required Lenders revokes such notice. Upon receipt of such notice, the Borrowers may revoke any pending request for a Borrowing of, conversion to or continuation of Eurodollar Rate Loans (to the extent of the affected Eurodollar Rate Loans or Interest Periods) or, failing that, will be deemed to have converted such request into a request for a Borrowing of Base Rate Loans in the amount specified therein.

If at any time the Administrative Agent determines (which determination shall be conclusive absent manifest error) that (i) the circumstances set forth in clause (a) of this Section 3.03 have arisen and such circumstances are unlikely to be temporary or (ii) the circumstances set forth in clause (a) of this Section 3.03 have not arisen but the supervisor for the administrator of the Eurodollar Base Rate or a Governmental Authority having jurisdiction over the Administrative Agent has made a public statement identifying a specific date after which the Eurodollar Base Rate shall no longer be used for determining interest rates for loans, then the Administrative Agent shall promptly notify the Borrower and the Lenders in writing of such determination, and the Administrative Agent and the Borrower shall endeavor to establish an alternate rate of interest to the Eurodollar Base Rate that gives due consideration to the then prevailing market convention for determining a rate of interest for syndicated loans in the United States at such time, and shall enter into an amendment to this Agreement to reflect such alternate rate of interest (including any mathematical or other adjustments to the benchmark (if any) incorporated therein) and such other related changes to this Agreement as may be applicable; provided that, if such alternate rate of interest shall be less than zero, such rate shall be deemed to be zero for the purposes of this Agreement. Notwithstanding anything to the contrary in Section 11.01, such amendment shall become effective without any further action or consent of any other party to this Agreement so long as the Administrative Agent shall not have received, within five (5) Business Days of the date such amendment is provided to the Lenders, written notice from the Required Lenders stating that such Required Lenders object to such amendment.

#### 3.04 Increased Costs.

(a) Increased Costs Generally. If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit, compulsory loan, insurance charge or similar requirement against assets of, deposits with or for the account of, or credit extended or participated in by, any Lender (except any reserve requirement reflected in the Eurodollar Rate);

(ii) subject any Lender to any Tax of any kind whatsoever with respect to this Agreement or any Eurodollar Rate Loan made by it, or change the basis of taxation of payments to such Lender in respect thereof (in each case, except for Indemnified Taxes and Excluded Taxes); or

(iii) impose on any Lender or the London interbank market any other condition, cost or expense affecting this Agreement or Eurodollar Rate Loans made by such Lender;

and the result of any of the foregoing shall be to increase the cost to such Lender of making or maintaining any Loan the interest on which is determined by reference to the Eurodollar Rate (or of maintaining its obligation to make any such Loan), or to reduce the amount of any sum received or receivable by such Lender hereunder (whether of principal, interest or any other amount) then, upon request of such Lender, each Borrower will pay to such Lender such additional amount or amounts as will compensate such Lender for such additional costs incurred or reduction suffered.

(b) Capital Requirements. If any Lender determines that any Change in Law affecting such Lender or any Lending Office of such Lender or such Lender's holding company, if any, regarding capital or liquidity requirements has or would have the effect of reducing the rate of return on such Lender's capital or on the capital of such Lender's holding company, if any, as a consequence of this Agreement, the Revolving Commitments of such Lender or the Loans made by such Lender to a level below that which such Lender or such Lender's holding company could have achieved

but for such Change in Law (taking into consideration such Lender's policies and the policies of such Lender's holding company with respect to capital adequacy and liquidity), then from time to time each applicable Borrower will pay to such Lender such additional amount or amounts as will compensate such Lender or such Lender's holding company for any such reduction suffered.

(c) Certificates for Reimbursement. A certificate of a Lender setting forth the amount or amounts necessary to compensate such Lender or its holding company, as the case may be, as specified in subsection (a) or (b) of this Section and delivered to each applicable Borrower shall be conclusive absent manifest error. Such Borrower shall pay such Lender the amount shown as due on any such certificate within ten (10) days after receipt thereof.

(d) Delay in Requests. Failure or delay on the part of any Lender to demand compensation pursuant to the foregoing provisions of this Section shall not constitute a waiver of such Lender's right to demand such compensation, provided that no Borrower shall be required to compensate a Lender pursuant to the foregoing provisions of this Section for any increased costs incurred or reductions suffered more than nine (9) months prior to the date that such Lender notifies such Borrower of the Change in Law giving rise to such increased costs or reductions and of such Lender's intention to claim compensation therefor (except that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the nine-month period referred to above shall be extended to include the period of retroactive effect thereof).

(e) Payment Obligations. Payment obligations of the Borrowers under this Section 3.04 shall be subject to Section 11.19.

### 3.05 Compensation for Losses.

Upon demand of any Lender (with a copy to the Administrative Agent) from time to time, the Borrowers shall promptly compensate such Lender for, and hold such Lender harmless from, any loss, cost or expense incurred by it as a result of:

(a) any continuation, conversion, payment or prepayment of any Loan other than a Base Rate Loan on a day other than the last day of the Interest Period for such Loan (whether voluntary, mandatory, automatic, by reason of acceleration, or otherwise);

(b) any failure by any Borrower (for a reason other than the failure of such Lender to make a Loan) to prepay, borrow, continue or convert any Loan other than a Base Rate Loan on the date or in the amount notified by such Borrower; or

(c) any assignment of a Eurodollar Rate Loan on a day other than the last day of the Interest Period therefor as a result of a request by any Borrower pursuant to Section 11.13;

including any loss (other than any loss of anticipated profits) or expense arising from the liquidation or redeployment of funds obtained by it to maintain such Loan or from fees payable to terminate the deposits from which such funds were obtained. Each Borrower shall also pay any customary administrative fees charged by such Lender in connection with the foregoing.

For purposes of calculating amounts payable by any Borrower to the Lenders under this Section 3.05, each Lender shall be deemed to have funded each Eurodollar Rate Loan made by it at the Eurodollar Base Rate used in determining the Eurodollar Rate for such Loan by a matching deposit or other borrowing in the London interbank eurodollar market for a comparable amount and for a comparable period, whether

or not such Eurodollar Rate Loan was in fact so funded. Payment obligations of the Borrowers under this Section 3.05 shall be subject to Section 11.19.

3.06 Mitigation Obligations; Replacement of Lenders.

(a) If any Lender requests compensation under Section 3.04, or if any Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 3.01, or if any Lender gives a notice pursuant to Section 3.02, then such Lender shall use reasonable efforts to designate a different Lending Office for funding or booking its Loans hereunder or to assign its rights and obligations hereunder to another of its offices, branches or affiliates, if, in the judgment of such Lender, such designation or assignment (i) would eliminate or reduce amounts payable pursuant to Section 3.01 or 3.04, as the case may be, in the future, or eliminate the need for the notice pursuant to Section 3.02, as applicable, and (ii) in each case, would not subject such Lender to any unreimbursed cost or expense and would not otherwise be disadvantageous to such Lender. Each Borrower hereby agrees to pay its all reasonable costs and expenses incurred by any Lender in connection with any such designation or assignment.

(b) If any Lender requests compensation under Section 3.04, or if any Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 3.01, the Borrowers may replace such Lender in accordance with Section 11.13.

3.07 Survival.

All of each Borrower's obligations under this Article III shall survive termination of the Aggregate Revolving Commitments, repayment of all other Obligations and resignation of the Administrative Agent.

3.08 Withholding Taxes.

For purposes of determining withholding Taxes imposed under FATCA, from and after the Effective Date, the Borrowers and the Administrative Agent shall treat (and the Lenders hereby authorize the Administrative Agent to treat) the Loans under this Agreement as not qualifying as "grandfathered obligations" within the meaning of Treasury Regulation Section 1.1471-2(b)(2)(i).

ARTICLE IV

[RESERVED]

ARTICLE V

CONDITIONS PRECEDENT TO BORROWINGS

5.01 Conditions of Initial Borrowings.

This Agreement shall become effective upon, and the obligation of each Lender to make Loans to any Borrower hereunder is subject to, satisfaction of the following conditions precedent:

(a) Loan Documents. Receipt by the Administrative Agent of executed counterparts of this Agreement and a Note for each Lender that has requested a Note, each properly executed by a Responsible Officer of each Borrower and, in the case of this Agreement, by each Lender.

(b) Opinions of Counsel. Receipt by the Administrative Agent of favorable opinions of legal counsel to the Borrowers, addressed to the Administrative Agent and each Lender, dated as of the Effective Date, and in form and substance reasonably satisfactory to the Administrative Agent.

(c) Financial Statements. The Administrative Agent shall have received:

(i) the Audited Financial Statements; and

(ii) unaudited consolidated financial statements of each Borrower and its Subsidiaries for the fiscal quarter ended September 30, 2017, including balance sheets and statements of income or operations, shareholders' equity and cash flows (the "Interim Financial Statements").

(d) No Material Adverse Change. Since December 31, 2016, there has been no event or circumstance, either individually or in the aggregate, that has had a Material Adverse Effect with respect to any Borrower, other than as specifically disclosed in the Disclosure Documents.

(e) Litigation. There shall not exist any action, suit, investigation or proceeding pending or, to the knowledge of any Borrower, threatened in any court or before an arbitrator or Governmental Authority that could reasonably be expected to have a Material Adverse Effect, other than as specifically disclosed in the Disclosure Documents.

(f) Organization Documents, Resolutions, Etc. Receipt by the Administrative Agent of the following, each of which shall be originals or facsimiles (followed promptly by originals), in form and substance reasonably satisfactory to the Administrative Agent and its legal counsel:

(i) copies of the Organization Documents of each Borrower certified to be true and complete as of a recent date by the appropriate Governmental Authority of the state or other jurisdiction of its incorporation or organization, where applicable, and certified by a secretary or assistant secretary of such Borrower to be true and correct as of the Effective Date;

(ii) such certificates of resolutions or other action, incumbency certificates and/or other certificates of Responsible Officers of each Borrower as the Administrative Agent may require evidencing the identity, authority and capacity of each Responsible Officer thereof authorized to act as a Responsible Officer in connection with this Agreement and the other Loan Documents to which such Borrower is a party; and

(iii) such documents and certifications as the Administrative Agent may require to evidence that each Borrower is duly organized or formed, and is validly existing, in good standing and qualified to engage in business in its state of organization or formation.

(g) Closing Certificate. Receipt by the Administrative Agent of a certificate signed by a Responsible Officer of each Borrower certifying that (i) the conditions specified in Sections 5.01(d) and (e) and Sections 5.02(a) and (b) have been satisfied and (ii) each Borrower and its Subsidiaries (after giving effect to the transactions contemplated hereby and the incurrence of Indebtedness related thereto) are Solvent on a consolidated basis.

(h) OFAC, Patriot Act, Etc. Receipt by the Administrative Agent of all documentation and other information that any Lender has reasonably requested in order to comply with its ongoing

obligations under applicable “know your customer”, OFAC and anti-corruption laws, including the Patriot Act.

(i) Repayment of Existing Credit Agreement. Receipt by the Administrative Agent of evidence that (i) all obligations owed to lenders under the Existing Credit Agreement who are not Lenders hereunder, if any, shall have been paid in full and (ii) the obligations owed to lenders under the Existing Credit Agreement who are Lenders hereunder shall be paid to the extent necessary so that the Obligations of such Lenders to do not exceed their Revolving Commitments hereunder.

(j) Fees. Receipt by the Administrative Agent, the Joint Lead Arrangers and the Lenders of any fees required to be paid on or before the Effective Date.

(k) Attorney Costs. The Borrowers shall have paid all reasonable fees, charges and disbursements of counsel to the Administrative Agent to the extent invoiced prior to or on the Effective Date, plus such additional amounts of such fees, charges and disbursements as shall constitute its reasonable estimate of such fees, charges and disbursements incurred or to be incurred by it through the closing proceedings (provided that such estimate shall not thereafter preclude a final settling of accounts between the Borrowers and the Administrative Agent).

(l) Other. Receipt by the Administrative Agent and the Lenders of such other documents, instruments, agreements and information as reasonably requested by the Administrative Agent or any Lender, including, but not limited to, information regarding litigation, tax, accounting, labor, insurance, pension liabilities (actual or contingent), real estate leases, material contracts, debt agreements, property ownership, environmental matters, contingent liabilities and management of each Borrower and its Subsidiaries.

Without limiting the generality of the provisions of the last paragraph of Section 10.03, for purposes of determining compliance with the conditions specified in this Section 5.01, each Lender that has signed this Agreement shall be deemed to have consented to, approved or accepted or to be satisfied with, each document made available to it for review prior to the Effective Date or other matter required thereunder to be consented to or approved by or acceptable or satisfactory to a Lender unless the Administrative Agent shall have received notice from such Lender prior to the proposed Effective Date specifying its objection thereto.

#### 5.02 Conditions to all Borrowings.

The obligation of each Lender to honor any Request for Borrowing from any Borrower is subject to the following conditions precedent:

(a) The representations and warranties of such Borrower contained in Article VI (other than Sections 6.05(c) and 6.06) or any other Loan Document, or which are contained in any document furnished at any time under or in connection herewith or therewith, shall be true and correct in all material respects on and as of the date of such Borrowing (other than any representation and warranty that is expressly qualified by materiality, in which case such representation and warranty shall be true and correct in all respects), except to the extent that such representations and warranties specifically refer to an earlier date, in which case they shall be true and correct in all material respects (other than any representation and warranty that is expressly qualified by materiality, in which case such representation and warranty shall be true and correct in all respects) as of such earlier date, and except that for purposes of this Section 5.02, the representations and warranties contained in clauses

(a) and (b) of Section 6.05 shall be deemed to refer to the most recent statements furnished pursuant to clauses (a) and (b), respectively, of Section 7.01.

(b) No Default shall exist, or would result from such proposed Borrowing or from the application of the proceeds thereof, with respect to such Borrower.

(c) The Administrative Agent and, if applicable, the Swing Line Lender shall have received a Request for Borrowing from such Borrower in accordance with the requirements hereof.

Each Request for Borrowing submitted by any Borrower shall be deemed to be a representation and warranty that the conditions specified in Sections 5.02(a) and (b) have been satisfied on and as of the date of the applicable Borrowing.

## ARTICLE VI

### REPRESENTATIONS AND WARRANTIES

Each Borrower represents and warrants to the Administrative Agent and the Lenders that:

#### 6.01 Existence, Qualification and Power.

Each Borrower and each Principal Subsidiary thereof (a) is duly organized or formed, validly existing and in good standing under the Laws of the jurisdiction of its incorporation or organization, (b) has all requisite power and authority and all requisite governmental licenses, authorizations, consents and approvals to (i) own its assets and carry on its business and (ii) execute, deliver and perform its obligations under the Loan Documents to which it is a party, (c) is duly qualified and is licensed and in good standing under the Laws of each jurisdiction where its ownership, lease or operation of properties or the conduct of its business requires such qualification or license, and (d) is in compliance with all Laws; except in each case referred to in clause (b)(i), (c) or (d), to the extent that failure to do so would not have a Material Adverse Effect.

#### 6.02 Authorization; No Contravention.

The execution, delivery and performance by each Borrower of each Loan Document to which such Person is party, have been duly authorized by all necessary corporate or other organizational action, and do not and will not (a) contravene the terms of any of such Person's Organization Documents; (b) conflict with or result in any breach or contravention of, or the creation of any Lien under, or require any payment to be made under (i) any Contractual Obligation to which such Person is a party or affecting such Person or the properties of such Person or any of its Principal Subsidiaries or (ii) any order, injunction, writ or decree of any Governmental Authority or any arbitral award to which such Person or its property is subject; or (c) violate any Law. Each Borrower and its Principal Subsidiaries is in compliance with all Contractual Obligations referred to in clause (b)(i), except to the extent that failure to do so would not have a Material Adverse Effect.

#### 6.03 Governmental Authorization; Other Consents.

No approval, consent, exemption, authorization, or other action by, or notice to, or filing with, any Governmental Authority (including FERC and DPU) is necessary or required in connection with the execution, delivery or performance by, or enforcement against, any Borrower of this Agreement or any other Loan Document, other than those approvals, consents or filings already obtained or made and in full force and effect.

#### 6.04 Binding Effect.

This Agreement has been, and each other Loan Document, when delivered hereunder, will have been, duly executed and delivered by each Borrower. This Agreement constitutes, and each other Loan Document when so delivered will constitute, a legal, valid and binding obligation of each Borrower, enforceable against each Borrower that is party thereto in accordance with its terms, subject to bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to creditors' rights and general principles of equity.

#### 6.05 Financial Statements; No Material Adverse Effect.

(a) The Audited Financial Statements of each Borrower and its Subsidiaries (i) were prepared in accordance with GAAP consistently applied throughout the period covered thereby, except as otherwise expressly noted therein; (ii) fairly present in all material respects the financial condition of such Borrower and its Subsidiaries as of the date thereof and their results of operations for the period covered thereby in accordance with GAAP consistently applied throughout the period covered thereby, except as otherwise expressly noted therein; and (iii) show to the extent required by GAAP all material indebtedness and other liabilities, direct or contingent, of such Borrower and its Subsidiaries as of the date thereof, including liabilities for taxes, material commitments and Indebtedness.

(b) The unaudited consolidated balance sheet of each Borrower and its Subsidiaries dated September 30, 2017, and the related consolidated statements of income or operations, shareholders' equity and cash flows for the fiscal quarter ended on that date (i) were prepared in accordance with GAAP consistently applied throughout the period covered thereby, except as otherwise expressly noted therein, and (ii) fairly present in all material respects the financial condition of such Borrower and its Subsidiaries as of the date thereof and their results of operations for the period covered thereby, subject, in the case of clauses (i) and (ii), to the absence of footnotes and to normal year-end audit adjustments.

(c) Since December 31, 2016, there has been no event or circumstance, either individually or in the aggregate, that has had a Material Adverse Effect, except as specifically disclosed in the Disclosure Documents.

#### 6.06 Litigation.

There are no actions, suits, proceedings, or disputes pending or, to the knowledge of any Borrower after due and diligent investigation, threatened or contemplated, at law, in equity, in arbitration or before any Governmental Authority, by or against any of the Borrowers or any of their respective Principal Subsidiaries or against any of their properties or revenues that (a) purport to affect or pertain to this Agreement or any other Loan Document, or any of the transactions contemplated hereby or (b) could reasonably be expected to have a Material Adverse Effect, except as specifically disclosed in the Disclosure Documents.

#### 6.07 No Default.

None of the Borrowers and their respective Principal Subsidiaries is in default under or with respect to any indebtedness for borrowed money in excess of the Threshold Amount. No Default has occurred and is continuing or would result from the consummation of the transactions contemplated by this Agreement or any other Loan Document.

#### 6.08 Ownership of Property; Liens.

Each of the Borrowers and their respective Principal Subsidiaries have good record and marketable title in fee simple to, or valid leasehold interests in, all real property necessary or used in the ordinary conduct of its business, except for such defects in title as would not, individually or in the aggregate have a Material Adverse Effect. As of the date of this Agreement, each of the Borrowers and their respective Principal Subsidiaries enjoy peaceful and undisturbed possession under all leases of real property on which facilities operated by it are situated, and all such leases are valid and subsisting and in full force and effect. The property of each of the Borrowers and their respective Principal Subsidiaries is subject to no Liens, other than Liens permitted by Section 8.01.

#### 6.09 Environmental Compliance.

Each of the Borrowers and their Principal Subsidiaries conduct in the ordinary course of business a review of the effect of existing Environmental Laws and claims alleging potential liability or responsibility for violation of any Environmental Law on their respective businesses, operations and properties, and as a result thereof each Borrower has reasonably concluded that such Environmental Laws and claims would not, individually or in the aggregate have a Material Adverse Effect.

#### 6.10 Insurance.

The properties of each of the Borrowers and their respective Principal Subsidiaries are insured with financially sound and reputable insurance companies not Affiliates of any Borrower, in such amounts, with such deductibles and covering such risks as are customarily carried by companies engaged in similar businesses and owning similar properties in localities where the applicable Borrower or the applicable Principal Subsidiary operates. All of such policies (a) are in full force and effect, (b) are sufficient for compliance by each of the Borrowers and their respective Principal Subsidiaries with all written agreements or instruments to which such Borrower or any such Principal Subsidiary is a party and all applicable requirements of law, (c) provide that they will remain in full force and effect through the respective dates set forth in such policies and (d) will not in any way be affected by, or terminate or lapse by reason of, the transactions contemplated by this Agreement. None of the Borrowers and their respective Principal Subsidiaries are in default with respect to its obligations under any of such insurance policies and have not received any notification of cancellation of any such insurance policies.

#### 6.11 Taxes.

The Borrowers and their respective Principal Subsidiaries have filed all federal, state and other material tax returns and reports required to be filed, and have paid all federal, state and other material taxes, assessments, fees and other governmental charges levied or imposed upon them or their properties, income or assets otherwise due and payable, except those which are being contested in good faith by appropriate proceedings diligently conducted and for which adequate reserves have been provided in accordance with GAAP and those where the failure to file or pay would not have a Material Adverse Effect. There is no unpaid tax claimed by any governmental Authority to be due against any of the Borrowers or any of their respective Principal Subsidiaries that would, if made, have a Material Adverse Effect. As of the Effective Date, none of the Borrowers and their respective Principal Subsidiaries is party to any tax sharing agreements other than as set forth on Schedule 6.11.

#### 6.12 ERISA Compliance.

(a) Except as would not reasonably be likely to result in a Material Adverse Effect, each Pension Plan sponsored or maintained by a Borrower is in substantial compliance in all material respects with the applicable provisions of ERISA, the Internal Revenue Code and other federal or state Laws. Each Pension Plan that is intended to qualify under Section 401(a) of the Internal Revenue Code has received a favorable determination letter from the Internal Revenue Service or an application for such a letter is currently being processed by the Internal Revenue Service with respect thereto and, to the best knowledge of each Borrower, nothing has occurred which has not been or cannot be corrected that would prevent, or cause the loss of, such qualification. Each Borrower, and to the best knowledge of each Borrower, each ERISA Affiliate have made all required contributions to each Pension Plan or, any delinquent contributions, have been corrected pursuant to a government sponsored correction program, and no application for a funding waiver or an extension of any amortization period pursuant to Section 412 of the Internal Revenue Code has been made with respect to any Pension Plan.

(b) There are no pending or, to the best knowledge of each Borrower, threatened claims, actions or lawsuits, or action by any Governmental Authority, with respect to any Pension Plan that would reasonably be expected to result in a Material Adverse Effect. There has been no prohibited transaction or violation of the fiduciary responsibility rules with respect to any Pension Plan that has resulted in a Material Adverse Effect.

(c) (i) No ERISA Event has occurred or is reasonably expected to occur; (ii) each Borrower, and to the best knowledge of each Borrower, each ERISA Affiliate has met all applicable requirements under the Pension Funding Rules in respect of each Pension Plan, and no waiver of the minimum funding standards under the Pension Funding Rules has been applied for or obtained; (iii) neither any Borrower, nor to the knowledge of each Borrower, any ERISA Affiliate has incurred, or reasonably expects to incur, any liability (and no event has occurred which, with the giving of notice under Section 4219 of ERISA, would result in such liability) under Sections 4201 or 4243 of ERISA with respect to a Multiemployer Plan; and (iv) no Borrower, or to the best knowledge of each Borrower, any ERISA Affiliate has engaged in a transaction that could be subject to Sections 4069 or 4212(c) of ERISA.

(d) No Borrower is or will be using “plan assets” (within the meaning of 29 CFR § 2510.3-101, as modified by Section 3(42) of ERISA) of one or more Benefit Plans in connection with the Loans or the Revolving Commitments.

#### 6.13 Subsidiaries.

As of the Effective Date, none of the Borrowers has any Principal Subsidiaries other than those specifically disclosed in Part (a) of Schedule 6.13, and all of the outstanding Equity Interests entitled to vote for the election of directors or other governing Persons in such Principal Subsidiaries have been validly issued, are fully paid and nonassessable and are owned by such Borrower in the amounts specified on Part (a) of Schedule 6.13 free and clear of all Liens. All of the outstanding Equity Interests entitled to vote in each Borrower have been validly issued and are fully paid and nonassessable, and the Equity Interests of each Borrower (other than Eversource) are owned by Eversource to the extent specified, as of the Effective Date, on Part (b) of Schedule 6.13 free and clear of all Liens.

#### 6.14 Use of Proceeds; Margin Regulations; Investment Company Act.

(a) The proceeds of the Loans will be used for working capital, capital expenditures and other general corporate purposes (including the repayment of Indebtedness). The proceeds of the Loans will not be used in any way which would violate the provisions of Regulation U or X of the Board of Governors of the Federal Reserve System. No Borrower is engaged or will engage, principally or as one of its important activities, in the business of purchasing or carrying margin stock (within the meaning of Regulation U issued by the FRB), or extending credit for the purpose of purchasing or carrying margin stock.

(b) None of the Borrowers and their respective Subsidiaries is a “registered investment company” or an “affiliated company” or a “principal underwriter” of a “registered investment company”, as such terms are defined in the Investment Company Act of 1940, as amended.

#### 6.15 Disclosure.

Each Borrower has disclosed to the Administrative Agent and the Lenders all agreements, instruments and corporate or other restrictions to which it or any of its Principal Subsidiaries is subject, and all other matters known to it, that, individually or in the aggregate, could reasonably be expected to result in a Material Adverse Effect. No report, financial statement, certificate or other information furnished (whether in writing or orally) by or on behalf of any Borrower to the Administrative Agent or any Lender in connection with the transactions contemplated hereby and the negotiation of this Agreement or delivered hereunder or under any other Loan Document (in each case, as modified or supplemented by other information so furnished) contains any material misstatement of fact or omits to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

#### 6.16 Compliance with Laws.

Each of the Borrowers and their respective Principal Subsidiaries are in compliance in all material respects with the requirements of all Laws and all orders, writs, injunctions and decrees applicable to it or to its properties, except in such instances in which (a) such requirement of Law or order, writ, injunction or decree is being contested in good faith by appropriate proceedings diligently conducted or (b) the failure to comply therewith, either individually or in the aggregate, would not have a Material Adverse Effect.

#### 6.17 Solvency.

Each Borrower, together with its Subsidiaries on a consolidated basis, are and, upon the incurrence of any Borrowing on any date on which this representation and warranty is made, will be, Solvent.

#### 6.18 Taxpayer Numbers and Other Information.

Each Borrower’s (a) true and correct U.S. taxpayer identification number, (b) full legal name, (c) state of incorporation, formation or organization and (d) the address of its principal place of business are set forth on Schedule 6.18.

#### 6.19 Sanctions Concerns; Anti-Corruption Laws.

(a) Sanctions Concerns. No Borrower, nor any Subsidiary of any Borrower, nor, to the knowledge of the Borrowers and their Subsidiaries, any director, officer, employee, agent, affiliate or representative thereof, is an individual or entity that is, or is owned or controlled by any individual or entity that is (i) currently the subject or target of any Sanctions, (ii) included on OFAC’s List of Specially Designated Nationals, HMT’s Consolidated List of Financial Sanctions Targets and the

Investment Ban List, or any similar list enforced by any other relevant sanctions authority or (iii) located, organized or resident in a Designated Jurisdiction so as to result in a violation of Sanctions.

(b) Anti-Corruption Laws. Each of the Borrowers and their respective Subsidiaries and, to the knowledge of the Borrowers and their respective Subsidiaries, all directors, officers, employees, agents, affiliates and representatives thereof, have conducted their business in compliance with the United States Foreign Corrupt Practices Act of 1977, the UK Bribery Act 2010 and other similar anti-corruption legislation in other jurisdictions, and have instituted and maintained policies and procedures designed to promote and achieve compliance with such laws.

6.20 EEA Financial Institutions.

No Borrower is an EEA Financial Institution.

ARTICLE VII

AFFIRMATIVE COVENANTS

So long as any Lender shall have any commitment hereunder, any Loan or other obligation hereunder shall remain unpaid or unsatisfied, each of the Borrowers hereby agrees that it shall, and shall (except in the case of the covenants set forth in Sections 7.01, 7.02, and 7.03) cause each of its Principal Subsidiaries to:

7.01 Financial Statements.

Deliver to the Administrative Agent and each Lender, in form and detail reasonably satisfactory to the Administrative Agent and the Required Lenders:

(a) with respect to each Borrower, as soon as available, but in any event within one hundred five (105) days after the end of each fiscal year of such Borrower, a consolidated balance sheet of such Borrower and its Subsidiaries as at the end of such fiscal year, and the related consolidated statements of income or operations, shareholders' equity and cash flows for such fiscal year, setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail and prepared in accordance with GAAP, audited and accompanied by a report and opinion of an independent certified public accountant of nationally recognized standing reasonably acceptable to the Required Lenders, which report and opinion shall be prepared in accordance with generally accepted auditing standards and shall not be subject to any "going concern" or like qualification or exception or any qualification or exception as to the scope of such audit and to the effect that such financial statements have been prepared in accordance with GAAP applied on a basis consistent with prior years (except as to changes with which such accountants concur and which shall be disclosed in the notes thereto or in a letter) and fairly present in all material respects the financial condition of such Borrower and its Subsidiaries at the dates thereof and the results of its consolidated operations for the periods covered thereby; and

(b) with respect to each Borrower, as soon as available, but in any event within fifty (50) days after the end of each of the first three (3) fiscal quarters of each fiscal year of such Borrower, a consolidated balance sheet of such Borrower and its Subsidiaries as at the end of such fiscal quarter, and the related consolidated statements of income or operations, shareholders' equity and cash flows for such fiscal quarter and for the portion of such Borrower's fiscal year then ended, setting forth in each case in comparative form the figures for the corresponding fiscal quarter of the previous fiscal year and the corresponding portion of the previous fiscal year, all in reasonable detail, certified

by a Responsible Officer of such Borrower as fairly presenting in all material respects the financial condition, results of operations, shareholders' equity and cash flows of such Borrower and its Subsidiaries in accordance with GAAP, subject only to normal year-end audit adjustments and the absence of footnotes.

As to any information contained in materials furnished pursuant to Section 7.02(d), no Borrower shall be separately required to furnish such information under clause (a) or (b) above, but the foregoing shall not be in derogation of the obligation of each Borrower to furnish the information and materials described in clauses (a) and (b) above at the times specified therein. For purposes of clarity, in the event that any Borrower merges into another entity and is not the surviving Person, dissolves or otherwise ceases to have a legal existence, then the financial delivery requirements in this Section 7.01 shall no longer apply to such Borrower.

#### 7.02 Certificates; Other Information.

Deliver to the Administrative Agent and each Lender, in form and detail reasonably satisfactory to the Administrative Agent and the Required Lenders:

(a) concurrently with the delivery of the financial statements referred to in Sections 7.01(a) and (b), a certificate substantially in the form of Exhibit 7.02(a) signed by a Responsible Officer of each of the Borrowers (the "Compliance Certificate") (i) stating that no Default or Event of Default has occurred and is continuing on the date of such certificate, and if a Default or an Event of Default has then occurred and is continuing, specifying the details thereof and the action that such Borrower has taken or proposes to take with respect thereto, (ii) setting forth in reasonable detail computations evidencing compliance with Section 8.06 hereof as determined on the last day of the fiscal quarter immediately preceding the fiscal quarter during which such certifications are to be delivered pursuant to this clause (a) and (iii) stating whether any change in GAAP or the application thereof has occurred since the date of the audited financial statements referred to in Section 7.01 and, if any change has occurred, specifying the effect of such change on the financial statements accompanying such certificate;

(b) concurrently with the delivery of the financial statements referred to in clauses (a) and (b) of Section 7.01, a copy of the certification (if any) signed by the principal executive officer and the principal financial officer of each Borrower (each a "Certifying Officer") as required by Rule 13A-14 under the Securities Exchange Act of 1934 and a copy of the internal controls disclosure statement by such Certifying Officer as required by Rule 13A-15 under the Securities Exchange Act of 1934, each as included in such Borrower's Annual Report on Form 10-K or Quarterly Report on Form 10-Q, for the applicable fiscal period;

(c) contemporaneously with the filing or mailing thereof, copies of all financial statements sent by each Borrower to shareholders and all reports, notices, proxy statements or other communications sent by such Borrower to its shareholders, and all reports under Sections 12, 13 and 14 and under any rules promulgated with respect to such sections (including all reports on Forms 8-K, 10-K and 10-Q, along with all amendments and supplements thereto) of the Securities and Exchange Act of 1934, as amended, all Schedules 13D and 13G and all amendments thereto, and registration statements filed by such Borrower with any securities exchange or with the SEC or any successor;

(d) promptly, and in any event within five (5) Business Days after receipt thereof by any Borrower or any Subsidiary thereof, copies of each formal notice received from the SEC (or comparable agency in any applicable non-U.S. jurisdiction) concerning any investigation or possible

investigation or other inquiry by such agency regarding financial or other operational results of such Borrower or such Subsidiary thereof that could reasonably be expected to result in a Material Adverse Effect; and

(e) promptly, such additional information regarding the business, financial or corporate affairs of any Borrower or any Principal Subsidiary, or compliance with the terms of the Loan Documents, as the Administrative Agent or any Lender may from time to time reasonably request.

Documents required to be delivered pursuant to Section 7.01(a) or (b) or Section 7.02(d) (to the extent any such documents are included in materials otherwise filed with the SEC) may be delivered electronically and if so delivered, shall be deemed to have been delivered on the date (i) on which Eversource or the applicable Borrower posts such documents, or provides a link thereto on Eversource's or such Borrower's website on the Internet at the website address listed on Schedule 11.02; or (ii) on which such documents are posted on Eversource's or such Borrower's behalf on an Internet or intranet website, if any, to which each Lender and the Administrative Agent have access (whether a commercial, third-party website or whether sponsored by the Administrative Agent); provided that: (i) each Borrower shall deliver paper copies of such documents to the Administrative Agent or any Lender that requests such Borrower to deliver such paper copies until a written request to cease delivering paper copies is given by the Administrative Agent or such Lender and (ii) each Borrower shall notify the Administrative Agent and each Lender (by telecopier or electronic mail) of the posting of any such documents and provide to the Administrative Agent by electronic mail electronic versions (i.e., soft copies) of such documents. Except for such Compliance Certificates, the Administrative Agent shall have no obligation to request the delivery or to maintain copies of the documents referred to above, and in any event shall have no responsibility to monitor compliance by any Borrower with any such request for delivery, and each Lender shall be solely responsible for requesting delivery to it or maintaining its copies of such documents.

Each Borrower hereby acknowledges that (a) the Administrative Agent and/or the Joint Lead Arrangers will make available to the Lenders materials and/or information provided by or on behalf of such Borrower hereunder (collectively, "Borrower Materials") by posting the Borrower Materials on SyndTrak or another similar electronic system (the "Platform") and (b) certain of the Lenders may be "public-side" Lenders (i.e., Lenders that do not wish to receive material non-public information with respect to such Borrower or its securities) (each, a "Public Lender"). Each Borrower hereby agrees that (w) all Borrower Materials that are to be made available to Public Lenders shall be clearly and conspicuously marked "PUBLIC" which, at a minimum, shall mean that the word "PUBLIC" shall appear prominently on the first page thereof; (x) by marking Borrower Materials "PUBLIC," such Borrower shall be deemed to have authorized the Administrative Agent, the Joint Lead Arrangers, and the Lenders to treat such Borrower Materials as either publicly available information or not material information (although it may be sensitive and proprietary) with respect to such Borrower or its securities for purposes of United States Federal and state securities laws; (y) all Borrower Materials marked "PUBLIC" are permitted to be made available through a portion of the Platform designated "Public Investor;" and (z) the Administrative Agent and the Joint Lead Arrangers shall be entitled to treat any Borrower Materials that are not marked "PUBLIC" as being suitable only for posting on a portion of the Platform not designated "Public Investor."

### 7.03 Notices.

Promptly notify the Administrative Agent and each Lender of:

- (a) the occurrence of any Default;

(b) any matter that has resulted or could reasonably be expected to result in a Material Adverse Effect, including as a result of: (i) breach or non-performance of, or any default under, a Contractual Obligation of any Borrower or any Principal Subsidiary; (ii) any dispute, litigation, investigation, proceeding or suspension between any Borrower or any Principal Subsidiary and any Governmental Authority; or (iii) the commencement of, or any material development in, any litigation or proceeding affecting any Borrower or any Principal Subsidiary, including pursuant to any applicable Environmental Laws;

(c) the occurrence of any ERISA Event;

(d) any announcement by Moody's or S&P of any change in a Reference Rating; and

(e) the consummation of the merger described in Section 8.02(a)(iv) (and deliver a copy of the articles of merger (or similar documentation) related thereto in connection with such notice).

Each notice pursuant to this Section shall be accompanied by a statement of a Responsible Officer of the applicable Borrower setting forth details of the occurrence referred to therein and stating what action such Borrower has taken and proposes to take with respect thereto. Each notice pursuant to Section 7.03(a) shall describe with particularity any and all provisions of this Agreement and any other Loan Document that have been breached.

#### 7.04 Payment of Taxes.

Pay and discharge as the same shall become due and payable, all its tax liabilities, assessments and governmental charges or levies upon it or its properties or assets, unless the same are being contested in good faith by appropriate proceedings diligently conducted and adequate reserves in accordance with GAAP are being maintained by such Borrower or such Subsidiary and all lawful claims which, if unpaid, would by Law become a Lien upon its property, except in each case where the failure to pay such amounts would not have a Material Adverse Effect.

#### 7.05 Preservation of Existence, Etc.

(a) Preserve, renew and maintain in full force and effect its legal existence and good standing under the Laws of the jurisdiction of its organization except in a transaction permitted by Section 8.02; (b) take all reasonable action to maintain all rights, privileges, permits, licenses and franchises necessary or desirable in the normal conduct of its business, except to the extent that failure to do so would not have a Material Adverse Effect; and (c) preserve or renew all of its registered patents, trademarks, trade names and service marks, the non-preservation of which would not have a Material Adverse Effect.

#### 7.06 Maintenance of Properties.

(a) Maintain, preserve and protect all of its material properties and equipment necessary in the operation of its business in good working order and condition, ordinary wear and tear excepted; (b) make all necessary repairs thereto and renewals and replacements thereof except where the failure to do so would not have a Material Adverse Effect; and (c) use the standard of care typical in the industry in the operation and maintenance of its facilities; provided, however, that in each of the foregoing cases described in clauses (a), (b), and (c), none of the Borrowers and Principal Subsidiaries will be prevented from discontinuing the operation and maintenance of any such properties if such discontinuance is, in the reasonable judgment of such Borrower or Principal Subsidiary, as applicable, desirable in the operation or maintenance of its business and would not result, or be reasonably likely to result, in a Material Adverse Effect.

#### 7.07 Maintenance of Insurance.

Maintain with financially sound and reputable insurance companies not Affiliates of any Borrower, insurance with respect to its properties and business against loss or damage of the kinds customarily insured against by Persons engaged in the same or similar business, of such types and in such amounts as are customarily carried under similar circumstances by such other Persons.

#### 7.08 Compliance with Laws.

Comply (a) with the Patriot Act, OFAC rules and regulations and all Sanctions and laws related thereto, (b) in all material respects, with the requirements of all other Laws (including Environmental Laws and anti-money laundering laws) applicable to it or to its business or property, except in such instances in which such requirement of Law or order, writ, injunction or decree is being contested in good faith by appropriate proceedings diligently conducted, (c) all material provisions of its charter documents, by-laws, operating agreement, certificate and other constituent documents, as applicable, and (d) all material applicable decrees, orders, and judgments, except where the failure to comply with clauses (b) through (c) above would not have a Material Adverse Effect.

#### 7.09 Books and Records.

Maintain proper books of record and account, in which full, true and correct entries in conformity with GAAP consistently applied shall be made of all financial transactions and matters involving the assets and business of such Borrower or such Principal Subsidiary, as the case may be, in material conformity with all applicable requirements of any Governmental Authority having regulatory jurisdiction over such Borrower or such Subsidiary, as the case may be.

#### 7.10 Inspection Rights.

Permit representatives and independent contractors of the Administrative Agent and each Lender to visit and inspect any of its properties, to examine its corporate, financial and operating records, and make copies thereof or abstracts therefrom, and to discuss its affairs, finances and accounts with its directors, officers, and independent public accountants, all at such reasonable times during normal business hours and as often as may be reasonably desired, upon reasonable advance notice to the applicable Borrower.

#### 7.11 Use of Proceeds.

Use the proceeds of the Borrowings for working capital, capital expenditures and other general corporate purposes (including the repayment of Indebtedness) not in contravention of any Law or of any Loan Document. The proceeds of the Loans will not be used in any way which would violate the provisions of Regulation U or X of the Board of Governors of the Federal Reserve System.

#### 7.12 Further Assurances.

(a) Promptly execute and deliver, or cause to be promptly executed and delivered, all further instruments and documents, and take and cause to be taken all further actions, that may be necessary or that the Required Lenders through the Administrative Agent may reasonably request to enable the Lenders and the Administrative Agent to carry out to their reasonable satisfaction the transactions contemplated by this Agreement and enforce the terms and provisions of this Agreement and to exercise their rights and remedies hereunder or under the Notes, and

(b) Use all commercially reasonable efforts to duly obtain governmental approvals required in connection with this Agreement from time to time on or prior to such date as the same may become legally required, and thereafter to maintain all such governmental approvals in full force and effect.

7.13 Conduct of Business.

Except as permitted by Section 8.02, conduct its primary business in substantially the same manner and in substantially the same fields as such business is conducted on the date hereof.

7.14 Governmental Approvals.

Duly obtain on or prior to such date as the same may become legally required, and thereafter maintain in effect at all times, all Governmental Approvals on its part to be obtained, except in the case of those Governmental Approvals referred to in clause (ii) of the definition of "Governmental Approval", (i) those the absence of which could not reasonably be expected to result in a Material Adverse Effect, and (ii) those that such Borrower or such Principal Subsidiary is diligently attempting in good faith to obtain, renew or extend, or the requirement for which such Borrower or such Principal Subsidiary is contesting in good faith by appropriate proceedings or by other appropriate means; provided, however, that the exception afforded by clause (ii), above, shall be available only if and for so long as such attempt or contest, and any delay resulting therefrom, could not reasonably be expected to result in a Material Adverse Effect.

7.15 Anti-Corruption Laws.

Conduct its business in compliance with the United States Foreign Corrupt Practices Act of 1977, the UK Bribery Act 2010 and other similar anti-corruption legislation in other jurisdictions and maintain policies and procedures designed to promote and achieve compliance with such laws.

ARTICLE VIII

NEGATIVE COVENANTS

So long as any Lender shall have any Revolving Commitment hereunder, any Loan or other Obligation hereunder shall remain unpaid or unsatisfied, each of the Borrowers hereby agrees that it shall not, nor shall it permit any of its Principal Subsidiaries to (except in the case of the covenant set forth in Section 8.06, which shall apply only to Borrowers), directly or indirectly:

8.01 Liens.

Create, incur, assume or suffer to exist any Lien upon any of its property, assets or revenues, whether now owned or hereafter acquired, other than the following:

- (a) Liens granted, incurred or existing in the ordinary course of business not in connection with the borrowing of money or the obtaining of credit and not otherwise described below,
- (b) Liens arising in connection with the sale of accounts receivable,
- (c) Liens existing on acquired property at the time of acquisition thereof by such Borrower or Subsidiary which liens do not extend to any property other than such acquired properties,

(d) any purchase money Lien or construction mortgage on assets hereafter acquired or constructed by a Borrower or any Subsidiary, and any Lien on any assets existing at the time of acquisition thereof by a Borrower or a Subsidiary or created within one hundred eighty (180) days from the date of completion of such acquisition or construction; provided that such Lien or construction mortgage shall at all times be confined solely to the assets so acquired or constructed and any additions thereto;

(e) Liens existing on the date hereof and disclosed on Schedule 8.01;

(f) Liens created by the First Mortgage Indentures, so long as by the terms thereof no “event of default” (howsoever designated) in respect of any bonds issued thereunder will arise upon the occurrence of a Default or Event of Default hereunder;

(g) with respect to any Subsidiary, “Permitted Liens” or “Permitted Encumbrances” under the First Mortgage Indenture to which such Subsidiary is a party, in each case to the extent such Liens do not secure Indebtedness of such Subsidiary;

(h) Liens resulting from legal proceedings being contested in good faith by appropriate legal or administrative proceedings by any Borrower or any Subsidiary, and as to which such Borrower or such Subsidiary, to the extent required by GAAP, shall have set aside on its books adequate reserves;

(i) Liens created in favor of the other contracting party in connection with advance or progress payments;

(j) any Liens in favor of any Governmental Authority, or trustee acting on behalf of holders of obligations issued by any Governmental Authority or any financial institutions lending to or purchasing obligations of any Governmental Authority, which Lien is created or assumed for the purpose of financing all or part of the cost of acquiring or constructing the property subject thereto;

(k) Liens resulting from conditional sale agreements, capital leases or other title retention agreements;

(l) with respect to sewage facility and pollution control bond financings, Liens on funds, accounts and other similar intangibles of any Borrower or any Subsidiary created or arising under the relevant indenture, pledges of the related loan agreement with the relevant issuing authority and pledges of any Borrower’s or any Subsidiary’s interest, if any, in any bonds issued pursuant to such financings to a letter of credit bank or bond issuer or similar credit enhancer;

(m) Liens granted on accounts receivable and Regulatory Assets in connection with financing transactions, whether denominated as sales or borrowings;

(n) Liens on the assets of, the stock issued by or other equity of, any Subsidiary of any Borrower created to hold generating or transmission assets if such Liens are created to secure Indebtedness that is nonrecourse to such Borrower and is incurred to acquire, construct or otherwise develop such generating or transmission assets;

(o) Liens created to secure Indebtedness of a transmission company Subsidiary of any Borrower with respect to assets transferred to such transmission company by another Subsidiary of such Borrower;

(p) any extension, renewal or replacement of Liens permitted by clauses (c), (d), (e), (f), (g), and (k) through (n); *provided, however*, that the principal amount of Indebtedness secured thereby shall not, at the time of such extension, renewal or replacement, exceed the principal amount of Indebtedness so secured and that such extension, renewal or replacement shall be limited to all or a part of the property that secured the Lien so extended, renewed or replaced or to other property of no greater value than the property that secured the Lien so extended, renewed or replaced;

(q) Liens on the assets of any Borrower and its Principal Subsidiaries granted by such Borrower and its Principal Subsidiaries to secure long term Indebtedness of such Borrower (exclusive of those granted under clauses (c), (d), (e), (f), (g) and (k) through (o) above) provided that at the time of granting such Liens (and after giving effect thereto), the aggregate amount of all such long term Indebtedness of all of the Borrowers and their respective Principal Subsidiaries taken together shall not exceed \$700,000,000; and

(r) Stranded Cost Recovery Obligations securitization transactions.

## 8.02 Fundamental Changes.

Merge, amalgamate, dissolve, liquidate, wind-up or consolidate (or suffer any liquidation or dissolution) with or into another Person, or dispose of (whether in one transaction or in a series of transactions) all or substantially all of its assets (including Equity Interests in Subsidiaries) (whether now owned or hereafter acquired) to or in favor of any Person unless:

(a) a Subsidiary of Eversource merges, amalgamates or consolidates with Eversource or any Subsidiary of Eversource; provided (i) if Eversource is party to such transaction, Eversource shall be the surviving entity, (ii) with respect to any such transaction to which a Borrower other than Eversource is party, such Borrower shall be the surviving entity in such transaction or, if a Subsidiary is the surviving entity in such transaction, such Subsidiary shall be a Domestic Subsidiary and shall expressly assume, by an amendment to this Agreement in form satisfactory to the Administrative Agent, the obligations under, and due and punctual performance of, this Agreement, (iii) that in the event that a Subsidiary is the surviving entity in such transaction, such Subsidiary shall be deemed to be, and shall be, a “Principal Subsidiary” hereunder, and (iv) notwithstanding anything in the foregoing, the merger, amalgamation or consolidation of WMECO with NSTAR Electric, with NSTAR Electric being the surviving entity, shall be permitted,

(b) a Subsidiary of Eversource liquidates or dissolves into, or makes an asset disposition to, Eversource or any Subsidiary of Eversource; provided (i) if Eversource is party to such transaction, Eversource shall be the entity into which assets are transferred, (ii) with respect to any such transaction to which a Borrower other than Eversource is party, such Borrower shall be the entity into which assets are transferred in such transaction or, if a Subsidiary is the surviving entity into which assets are transferred in such transaction, such Subsidiary shall be a Domestic Subsidiary and shall expressly assume, by an amendment to this Agreement in form satisfactory to the Administrative Agent, the obligations under, and due and punctual performance of, this Agreement) is the entity to which assets are transferred in such transaction and (iii) that in the event that a Subsidiary is the entity to which assets are transferred, in such transaction, such Subsidiary shall be deemed to be, and shall be, a “Principal Subsidiary” hereunder for the term of this Agreement,

(c) all corporate and regulatory approvals therefor have been received,

(d) no Default or Event of Default would exist hereunder after giving effect to such transaction, and

(e) the senior unsecured debt ratings of S&P and Moody's applicable to (i) Eversource and (ii) to the extent applicable, such Principal Subsidiary that is the surviving entity in a transaction permitted under clause (a) above, (iii) to the extent applicable, the entity to which assets are transferred, in such a transaction permitted under clause (b) and (iv) to the extent applicable, the Principal Subsidiary disposing of assets to a Person other than Eversource or any of its Subsidiaries in a transaction permitted under clause (b) above, in each case after giving effect to such transaction, shall be at least BBB- and Baa3.

Notwithstanding the foregoing, any disposition of assets permitted by the foregoing provisions of this Section 8.02 to a Person other than Eversource and its Subsidiaries may be consummated by way of merger, amalgamation or consolidation.

#### 8.03 Change in Nature of Business.

Engage in any material line of business substantially different from (a) those lines of business conducted by such Borrower and its Subsidiaries on the date hereof or any business substantially related or incidental or (b) the operation of water utilities and any business substantially related or incidental thereto.

#### 8.04 Transactions with Affiliates and Insiders.

Enter into any transaction of any kind with any officer, director or Affiliate of any Borrower, whether or not in the ordinary course of business, other than (a) except as otherwise specifically limited in this Agreement, transactions which are on terms and conditions substantially as favorable to such Person as would be obtainable by it in a comparable arms-length transaction with a Person other than an officer, director or Affiliate, (b) any transaction for which such Borrower or Subsidiary has obtained the approval of the DPU, (c) immaterial incidental transactions among Borrower and its Affiliates which are substantially on arm's length basis, such as cash management, facility sharing, tax sharing, management services or other overhead sharing matters, (d) intercompany transactions, including loans and advances and the provision of services, not prohibited under this Agreement or required under the Federal Power Act and the rules of the FERC or state utility commissions, in each case to the extent applicable thereto, (e) normal and reasonable compensation and reimbursement expenses of officers and directors in the ordinary course of business and (f) Stranded Cost Recovery Obligations securitization transactions.

#### 8.05 Use of Proceeds.

Use the proceeds of any Borrowing, whether directly or indirectly, and whether immediately, incidentally or ultimately, to purchase or carry margin stock (within the meaning of Regulation U of the FRB) or to extend credit to others for the purpose of purchasing or carrying margin stock or to refund indebtedness originally incurred for such purpose.

#### 8.06 Consolidated Indebtedness to Capitalization Ratio.

With respect to each Borrower, permit the Consolidated Indebtedness to Capitalization Ratio of such Borrower as of the end of any fiscal quarter of such Borrower to be greater than 0.65:1.00.

#### 8.07 Compliance with ERISA.

Terminate, or permit any of its ERISA Affiliates to terminate, any Pension Plan so as to result in any direct liability of such Borrower or any Principal Subsidiary to the PBGC in an amount greater than the Threshold Amount, or (b) permit to exist any occurrence of any Reportable Event which, alone or together with any other Reportable Event with respect to the same or another Pension Plan, has a reasonable possibility of resulting in direct liability of such Borrower or any Subsidiary to the PBGC in an aggregate amount exceeding the Threshold Amount, or any other event or condition that presents a material risk of such a termination by the PBGC of any Pension Plan or has a reasonable possibility of resulting in a liability of such Borrower or any Subsidiary to the PBGC or a Multiemployer Plan in an aggregate amount exceeding the Threshold Amount.

#### 8.08 Interests in Nuclear Plants.

Acquire any nuclear plant or any interest therein not held on the date hereof, other than so called “power entitlements” acquired for use in the ordinary course of business.

#### 8.09 Financing Agreements.

With respect to each Borrower only, permit any Principal Subsidiary to enter into any agreement, contract, indenture or similar obligation, or issue any security (all of the foregoing being referred to as “Financing Agreements”), that is not in effect on the date hereof, or amend or modify any existing Financing Agreement, if the effect of such Financing Agreement (or amendment or modification thereof) is to impose any additional restriction not in effect on the date hereof on the ability of such Principal Subsidiary to pay dividends to the applicable Borrower; provided, that the foregoing shall not restrict the right of any Principal Subsidiary of any Borrower created to hold generating or transmission assets, to enter into any such Financing Agreement in connection with the incurrence of Indebtedness that is nonrecourse to such Borrower and is incurred to acquire, construct or otherwise develop generating or transmission assets.

#### 8.10 Sanctions.

Directly or indirectly, use any Borrowing or the proceeds of any Borrowing, or lend, contribute or otherwise make available such Borrowing or the proceeds of any Borrowing to any Person, to fund any activities of or business with any Person, or in any Designated Jurisdiction, that, at the time of such funding, is the subject of Sanctions, or in any other manner that will result in a violation by any Person (including any Person participating in the transaction, whether as Lender, Arranger, Administrative Agent, Swing Line Lender, or otherwise) of Sanctions.

#### 8.11 Anti-Corruption Laws.

Directly or indirectly, use any Borrowing or the proceeds of any Borrowing for any purpose which would breach the United States Foreign Corrupt Practices Act of 1977, the UK Bribery Act 2010 and other similar anti-corruption legislation in other jurisdictions.

### ARTICLE IX

#### EVENTS OF DEFAULT AND REMEDIES

#### 9.01 Events of Default.

Any of the following shall constitute an Event of Default with respect to any particular Borrower:

(a) Non-Payment. Such Borrower fails to pay (i) when and as required to be paid herein any amount of principal of any Loan, or (ii) within five (5) days after the same becomes due, any interest on any Loan, or any fee due hereunder, or (iii) within five (5) days after the same becomes due, any other amount payable hereunder or under any other Loan Document, whether at the stated maturity or any accelerated date of maturity or at any other date fixed for payment; or

(b) Specific Covenants. Such Borrower fails to perform or observe any term, covenant or agreement contained in any of Section 7.01, 7.02(a), 7.03(a), 7.05, 7.10, or 7.11 or Article VIII; or

(c) Other Defaults. Such Borrower fails to perform or observe any other covenant or agreement (not specified in subsection (a) or (b) above) contained in any Loan Document on its part to be performed or observed and such failure continues for thirty (30) days after written notice from the Administrative Agent; or

(d) Representations and Warranties. Any representation or warranty, made or deemed made by or on behalf of such Borrower or any Principal Subsidiary herein, in any other Loan Document, or in any document required to be delivered in connection herewith or therewith shall be incorrect or misleading in any material respect (or, with respect to any representation and warranty that is expressly qualified by materiality, in any respect) when made or deemed made; or

(e) Cross-Default. (i) Such Borrower or any Principal Subsidiary (A) fails to make any payment when due (whether by scheduled maturity, required prepayment, acceleration, demand, or otherwise and after giving effect to applicable grace periods) in respect of any Indebtedness (other than (x) Indebtedness of such Borrower under this Agreement, but including, with respect to Eversource, Indebtedness of its Principal Subsidiaries hereunder and (y) Indebtedness under Swap Contracts) having an aggregate principal amount (including undrawn committed or available amounts and including amounts owing to all creditors under any combined or syndicated credit arrangement) of more than the Threshold Amount, or (B) fails to observe or perform any other agreement or condition relating to any such Indebtedness or contained in any instrument or agreement evidencing, securing or relating thereto, or any other event occurs, the effect of which default or other event is to cause, or to permit the holder or holders of such Indebtedness (or a trustee or agent on behalf of such holder or holders) to cause, with the giving of notice if required, such Indebtedness to be demanded (or commitments to lend with respect to such Indebtedness to be terminated) or to become due or to be repurchased, prepaid, defeased or redeemed (automatically or otherwise), or an offer to repurchase, prepay, defease or redeem such Indebtedness to be made, prior to its stated maturity, or cash collateral in respect thereof to be demanded; or (ii) there occurs under any Swap Contract an Early Termination Date (as defined in such Swap Contract) resulting from any event of default under such Swap Contract as to which such Borrower or any Principal Subsidiary is the Defaulting Party (as defined in such Swap Contract) the Swap Termination Value owed by such Borrower or such Principal Subsidiary as a result thereof is greater than the Threshold Amount; or

(f) Insolvency Proceedings, Etc. Such Borrower or any of its Principal Subsidiaries institutes or consents to the institution of any proceeding under any Debtor Relief Law, or makes an assignment for the benefit of creditors; or applies for or consents to the appointment of any receiver, trustee, custodian, conservator, liquidator, rehabilitator or similar officer for it or for all or any material part of its property; or any receiver, trustee, custodian, conservator, liquidator,

rehabilitator or similar officer is appointed without the application or consent of such Person and the appointment continues undischarged or unstayed for ninety (90) calendar days; or any proceeding under any Debtor Relief Law relating to any such Person or to all or any material part of its property is instituted without the consent of such Person and continues undismissed or unstayed for ninety (90) calendar days, or an order for relief is entered in any such proceeding; or

(g) Inability to Pay Debts; Attachment. (i) Such Borrower or any Principal Subsidiary becomes unable or admits in writing its inability or fails generally to pay its debts as they become due, or (ii) any writ or warrant of attachment or execution or similar process is issued or levied against all or any material part of the property of such Borrower and its Principal Subsidiaries and is not released, vacated or fully bonded within ninety (90) days after its issue or levy; or

(h) Judgments. There is entered against such Borrower or any Principal Subsidiary (i) a final judgment or order for the payment of money in an aggregate amount exceeding the Threshold Amount (to the extent not covered by independent third-party insurance as to which the insurer does not dispute coverage), or (ii) any one or more non-monetary final judgments that have individually or in the aggregate, a Material Adverse Effect and, in either case, (A) enforcement proceedings are commenced by any creditor upon such judgment or order and not stayed within thirty (30) days, or (B) there is a period of thirty (30) consecutive days during which a stay of enforcement of such judgment, by reason of a pending appeal or otherwise, is not in effect; or

(i) ERISA. (i) An ERISA Event occurs with respect to a Pension Plan or Multiemployer Plan which has resulted or could reasonably be expected to result in direct liability of such Borrower under Title IV of ERISA to the Pension Plan, Multiemployer Plan or the PBGC in an aggregate amount in excess of the Threshold Amount, or (ii) such Borrower or any ERISA Affiliate fails to pay when due, after the expiration of any applicable grace period, any installment payment with respect to its withdrawal liability under Section 4201 of ERISA under a Multiemployer Plan in an aggregate amount in excess of the Threshold Amount; or

(j) Invalidity of Loan Documents. Any material provision of any Loan Document, at any time after its execution and delivery and for any reason other than as expressly permitted hereunder or thereunder or satisfaction in full of all the obligations under this Agreement, ceases to be in full force and effect; or such Borrower or any other Person contests in any manner the validity or enforceability of any provision of any Loan Document; or such Borrower denies that it has any or further liability or obligation under any Loan Document, or purports to revoke, terminate or rescind any provision of any Loan Document; or

(k) Change of Control. There occurs any Change of Control with respect to such Borrower.

#### 9.02 Remedies Upon Event of Default.

If any Event of Default with respect to any Borrower occurs and is continuing, the Administrative Agent shall, at the request of, or may, with the consent of, the Required Lenders, take any or all of the following actions with respect to such Borrower:

(a) declare the commitment of each Lender to make Loans to such Borrower to be terminated, whereupon such commitments and obligation shall be terminated;

(b) declare the unpaid principal amount of all outstanding Loans, all interest accrued and unpaid thereon, and all other amounts owing or payable by such Borrower hereunder or under any other Loan Document to be immediately due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by such Borrower;

(c) exercise on behalf of itself and the Lenders all rights and remedies against such Borrower and its property available to it and the Lenders under the Loan Documents;

provided, however, that upon the occurrence of an actual or deemed entry of an order for relief with respect to such Borrower or any of its Principal Subsidiaries under the Bankruptcy Code of the United States, the obligation of each Lender to make Loans to such Borrower shall automatically terminate, the unpaid principal amount of all outstanding Loans of such Borrower and all interest and other amounts as aforesaid of such Borrower shall automatically become due and payable without further act of the Administrative Agent or any Lender.

### 9.03 Application of Funds.

After the exercise of remedies provided for in Section 9.02 (or after the Loans have automatically become immediately due and payable as set forth in the proviso to Section 9.02), any amounts received on account of the Obligations of any Borrower shall be applied by the Administrative Agent to the then outstanding Obligations of such Borrower in the following order:

First, to payment of that portion of the Obligations constituting fees, indemnities, expenses and other amounts (including fees, charges and disbursements of counsel to the Administrative Agent and amounts payable under Article III) payable to the Administrative Agent in its capacity as such;

Second, to payment of that portion of the Obligations constituting fees, indemnities and other amounts (other than principal and interest) payable to the Lenders (including fees, charges and disbursements of counsel to the respective Lenders) arising under the Loan Documents and amounts payable under Article III, ratably among them in proportion to the respective amounts described in this clause Second payable to them;

Third, to payment of that portion of the Obligations constituting accrued and unpaid interest on the Loans, ratably among the Lenders in proportion to the respective amounts described in this clause Third held by them;

Fourth, to payment of that portion of the Obligations constituting accrued and unpaid principal of the Loans, ratably among the Lenders in proportion to the respective amounts described in this clause Fourth held by them; and

Last, the balance, if any, after all of the Obligations have been indefeasibly paid in full, to such Borrower or as otherwise required by Law.

## ARTICLE X

### ADMINISTRATIVE AGENT

#### 10.01 Appointment and Authority.

Each of the Lenders hereby irrevocably appoints Bank of America to act on its behalf as the Administrative Agent hereunder and under the other Loan Documents and authorizes the Administrative Agent to take such actions on its behalf and to exercise such powers as are delegated to the Administrative Agent by the terms hereof or thereof, together with such actions and powers as are reasonably incidental thereto. The provisions of this Article are solely for the benefit of the Administrative Agent, the Lenders, and no Borrower shall have rights as a third party beneficiary of any of such provisions.

#### 10.02 Rights as a Lender.

The Person serving as the Administrative Agent hereunder shall have the same rights and powers in its capacity as a Lender as any other Lender and may exercise the same as though it were not the Administrative Agent and the term “Lender” or “Lenders” shall, unless otherwise expressly indicated or unless the context otherwise requires, include the Person serving as the Administrative Agent hereunder in its individual capacity. Such Person and its Affiliates may accept deposits from, lend money to, act as the financial advisor or in any other advisory capacity for and generally engage in any kind of business with any Borrower or any Subsidiary or other Affiliate thereof as if such Person were not the Administrative Agent hereunder and without any duty to account therefor to the Lenders.

#### 10.03 Exculpatory Provisions.

The Administrative Agent shall not have any duties or obligations except those expressly set forth herein and in the other Loan Documents. Without limiting the generality of the foregoing, the Administrative Agent:

(a) shall not be subject to any fiduciary or other implied duties, regardless of whether a Default has occurred and is continuing;

(b) shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated hereby or by the other Loan Documents that the Administrative Agent is required to exercise as directed in writing by the Required Lenders (or such other number or percentage of the Lenders as shall be expressly provided for herein or in the other Loan Documents), provided that the Administrative Agent shall not be required to take any action that, in its opinion or the opinion of its counsel, may expose the Administrative Agent to liability or that is contrary to any Loan Document or applicable law; and

(c) shall not, except as expressly set forth herein and in the other Loan Documents, have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to any Borrower or any of its Affiliates that is communicated to or obtained by the Person serving as the Administrative Agent or any of its Affiliates in any capacity.

The Administrative Agent shall not be liable for any action taken or not taken by it (i) with the consent or at the request of the Required Lenders (or such other number or percentage of the Lenders as shall be necessary, or as the Administrative Agent shall believe in good faith shall be necessary, under the circumstances as provided in Sections 11.01 and 9.02) or (ii) in the absence of its own gross negligence or willful misconduct. The Administrative Agent shall be deemed not to have knowledge of any Default unless and until notice describing such Default is given to the Administrative Agent by a Borrower or a Lender.

The Administrative Agent shall not be responsible for or have any duty to ascertain or inquire into (i) any statement, warranty or representation made in or in connection with this Agreement or any other Loan Document, (ii) the contents of any certificate, report or other document delivered hereunder or thereunder

or in connection herewith or therewith, (iii) the performance or observance of any of the covenants, agreements or other terms or conditions set forth herein or therein or the occurrence of any Default, (iv) the validity, enforceability, effectiveness or genuineness of this Agreement, any other Loan Document or any other agreement, instrument or document or (v) the satisfaction of any condition set forth in Article V or elsewhere herein, other than to confirm receipt of items expressly required to be delivered to the Administrative Agent.

#### 10.04 Reliance by Administrative Agent.

The Administrative Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing (including any electronic message, Internet or intranet website posting or other distribution) believed by it to be genuine and to have been signed, sent or otherwise authenticated by the proper Person. The Administrative Agent also may rely upon any statement made to it orally or by telephone and believed by it to have been made by the proper Person, and shall not incur any liability for relying thereon. In determining compliance with any condition hereunder to the making of a Loan that by its terms must be fulfilled to the satisfaction of a Lender, the Administrative Agent may presume that such condition is satisfactory to such Lender unless the Administrative Agent shall have received notice to the contrary from such Lender prior to the making of such Loan. The Administrative Agent may consult with legal counsel (who may be counsel for the Borrowers), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts.

#### 10.05 Delegation of Duties.

The Administrative Agent may perform any and all of its duties and exercise its rights and powers hereunder or under any other Loan Document by or through any one or more sub-agents appointed by the Administrative Agent. The Administrative Agent and any such sub-agent may perform any and all of its duties and exercise its rights and powers by or through their respective Related Parties. The exculpatory provisions of this Article shall apply to any such sub-agent and to the Related Parties of the Administrative Agent and any such sub-agent, and shall apply to their respective activities in connection with the syndication of the credit facilities provided for herein as well as activities as Administrative Agent.

#### 10.06 Resignation of Administrative Agent.

(a) The Administrative Agent may at any time give notice of its resignation to the Lenders and the Borrowers. Upon receipt of any such notice of resignation, the Required Lenders shall have the right, with the consent of the Borrowers so long as no Event of Default has occurred and continues, which consent shall not be unreasonably withheld or delayed, to appoint a successor, which shall be a bank with an office in the United States, or an Affiliate of any such bank with an office in the United States. If no such successor shall have been appointed by the Required Lenders and shall have accepted such appointment within thirty (30) days after the retiring Administrative Agent gives notice of its resignation (or such earlier day as shall be agreed by the Required Lenders) (the "Resignation Effective Date"), then the retiring Administrative Agent may (but shall not be obligated to) on behalf of the Lenders, appoint a successor Administrative Agent meeting the qualifications set forth above. Whether or not a successor has been appointed, such resignation shall become effective in accordance with such notice on the Resignation Effective Date.

(b) If the Person serving as Administrative Agent is a Defaulting Lender pursuant to clause (d) of the definition thereof, the Required Lenders may, to the extent permitted by applicable Law by notice in writing to the Borrowers and such Person remove such Person as the Administrative

Agent and, with the consent of the Borrowers so long as no Event of Default has occurred and continues, which consent shall not be unreasonably withheld or delayed, appoint a successor. If no such successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within thirty (30) days (or such earlier day as shall be agreed by the Required Lenders) (the "Removal Effective Date"), then such removal shall nonetheless become effective in accordance with such notice on the Removal Effective Date.

(c) With effect from the Resignation Effective Date or the Removal Effective Date (as applicable) (1) the retiring or removed Administrative Agent shall be discharged from its duties and obligations hereunder and under the other Loan Documents and (2) all payments, communications and determinations provided to be made by, to or through the Administrative Agent shall instead be made by or to each Lender directly, until such time as the Required Lenders appoint a successor Administrative Agent as provided for above in this Section. Upon the acceptance of a successor's appointment as Administrative Agent hereunder, such successor shall succeed to and become vested with all of the rights, powers, privileges and duties of the retiring or removed Administrative Agent, and the retiring or removed Administrative Agent shall be discharged from all of its duties and obligations hereunder or under the other Loan Documents (if not already discharged therefrom as provided above in this Section). The fees payable by the Borrowers to a successor Administrative Agent shall be the same as those payable to its predecessor unless otherwise agreed between the Borrowers and such successor. After the retiring or removed Administrative Agent's resignation hereunder and under the other Loan Documents, the provisions of this Article and Section 11.04 shall continue in effect for the benefit of such retiring or removed Administrative Agent, its sub-agents and their respective Related Parties in respect of any actions taken or omitted to be taken by any of them while the retiring Administrative Agent was acting as Administrative Agent.

Any resignation by or removal of Bank of America as Administrative Agent pursuant to this Section shall also constitute its resignation or removal as Swing Line Lender. Upon the acceptance of a successor's appointment as Administrative Agent hereunder, (a) such successor shall succeed to and become vested with all of the rights, powers, privileges and duties of the retiring Swing Line Lender, and (b) the retiring Swing Line Lender shall be discharged from all of their respective duties and obligations hereunder or under the other Loan Documents.

#### 10.07 Non-Reliance on Administrative Agent and Other Lenders.

Each Lender acknowledges that it has, independently and without reliance upon the Administrative Agent or any other Lender or any of their Related Parties and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Administrative Agent or any other Lender or any of their Related Parties and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement, any other Loan Document or any related agreement or any document furnished hereunder or thereunder.

#### 10.08 No Other Duties; Etc.

Anything herein to the contrary notwithstanding, none of the bookrunners, arrangers, syndication agents, documentation agents or co-agents shall have any powers, duties or responsibilities under this Agreement or any of the other Loan Documents, except in its capacity, as applicable, as the Administrative Agent or a Lender hereunder.

#### 10.09 Administrative Agent May File Proofs of Claim.

In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to any Borrower, the Administrative Agent (irrespective of whether the principal of any Loan shall then be due and payable as herein expressed or by declaration or otherwise and irrespective of whether the Administrative Agent shall have made any demand on any Borrower) shall be entitled and empowered, by intervention in such proceeding or otherwise:

(a) to file and prove a claim for the whole amount of the principal and interest owing and unpaid in respect of the Loans and all other Obligations that are owing and unpaid and to file such other documents as may be necessary or advisable in order to have the claims of the Lenders and the Administrative Agent (including any claim for the reasonable compensation, expenses, disbursements and advances of the Lenders and the Administrative Agent and their respective agents and counsel and all other amounts due the Lenders and the Administrative Agent under Sections 2.09 and 11.04) allowed in such judicial proceeding; and

(b) to collect and receive any monies or other property payable or deliverable on any such claims and to distribute the same;

and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Lender to make such payments to the Administrative Agent and, in the event that the Administrative Agent shall consent to the making of such payments directly to the Lenders, to pay to the Administrative Agent any amount due for the reasonable compensation, expenses, disbursements and advances of the Administrative Agent and its agents and counsel, and any other amounts due the Administrative Agent under Sections 2.09 and 11.04.

Nothing contained herein shall be deemed to authorize the Administrative Agent to authorize or consent to or accept or adopt on behalf of any Lender any plan of reorganization, arrangement, adjustment or composition affecting the Obligations or the rights of any Lender or to authorize the Administrative Agent to vote in respect of the claim of any Lender in any such proceeding.

#### 10.10 Lender ERISA Representations.

(a) Each Lender (x) represents and warrants, as of the date such Person became a Lender party hereto, to, and (y) covenants, from the date such Person became a Lender party hereto to the date such Person ceases being a Lender party hereto, for the benefit of, the Administrative Agent and each Joint Lead Arranger and their respective Affiliates, and not, for the avoidance of doubt, to or for the benefit of any Borrower, that at least one of the following is and will be true:

(i) such Lender is not using “plan assets” (within the meaning of 29 CFR § 2510.3-101, as modified by Section 3(42) of ERISA) of one or more Benefit Plans in connection with the Loans or the Revolving Commitments;

(ii) the transaction exemption set forth in one or more PTEs, such as PTE 84-14 (a class exemption for certain transactions determined by independent qualified professional asset managers), PTE 95-60 (a class exemption for certain transactions involving insurance company general accounts), PTE 90-1 (a class exemption for certain transactions involving insurance company pooled separate accounts), PTE 91-38 (a class exemption for certain transactions involving bank collective investment funds) or PTE 96-23 (a class exemption

for certain transactions determined by in-house asset managers), is applicable with respect to such Lender's entrance into, participation in, administration of and performance of the Loans, the Revolving Commitments and this Agreement;

(iii) (A) such Lender is an investment fund managed by a "Qualified Professional Asset Manager" (within the meaning of Part VI of PTE 84-14), (B) such Qualified Professional Asset Manager made the investment decision on behalf of such Lender to enter into, participate in, administer and perform the Loans, the Letters of Credit, the Revolving Commitments and this Agreement, (C) the entrance into, participation in, administration of and performance of the Loans, the Revolving Commitments and this Agreement satisfies the requirements of sub-sections (b) through (g) of Part I of PTE 84-14 and (D) to the best knowledge of such Lender, the requirements of subsection (a) of Part I of PTE 84-14 are satisfied with respect to such Lender's entrance into, participation in, administration of and performance of the Loans, the Revolving Commitments and this Agreement; or

(iv) such other representation, warranty and covenant as may be agreed in writing between the Administrative Agent, in its sole discretion, and such Lender.

(b) In addition, unless sub-clause (i) in the immediately preceding clause (a) is true with respect to a Lender or such Lender has not provided another representation, warranty and covenant as provided in sub-clause (iv) in the immediately preceding clause (a), such Lender further (x) represents and warrants, as of the date such Person became a Lender party hereto, to, and (y) covenants, from the date such Person became a Lender party hereto to the date such Person ceases being a Lender party hereto, for the benefit of, the Administrative Agent and each Joint Lead Arranger and their respective Affiliates, and not, for the avoidance of doubt, to or for the benefit of any Borrower, that:

(i) none of the Administrative Agent or any Joint Lead Arranger or any of their respective Affiliates is a fiduciary with respect to the assets of such Lender (including in connection with the reservation or exercise of any rights by the Administrative Agent under this Agreement, any Loan Document or any documents related to hereto or thereto);

(ii) the Person making the investment decision on behalf of such Lender with respect to the entrance into, participation in, administration of and performance of the Loans, the Revolving Commitments and this Agreement is independent (within the meaning of 29 CFR § 2510.3-21) and is a bank, an insurance carrier, an investment adviser, a broker-dealer or other person that holds, or has under management or control, total assets of at least \$50 million, in each case as described in 29 CFR § 2510.3-21(c)(1)(i)(A)-(E);

(iii) the Person making the investment decision on behalf of such Lender with respect to the entrance into, participation in, administration of and performance of the Loans, the Revolving Commitments and this Agreement is capable of evaluating investment risks independently, both in general and with regard to particular transactions and investment strategies (including in respect of the Obligations);

(iv) the Person making the investment decision on behalf of such Lender with respect to the entrance into, participation in, administration of and performance of the Loans, the Revolving Commitments and this Agreement is a fiduciary under ERISA or the Code, or both, with respect to the Loans, the Revolving Commitments and this Agreement and is

responsible for exercising independent judgment in evaluating the transactions hereunder; and

(v) no fee or other compensation is being paid directly to the Administrative Agent or any Joint Lead Arranger or any their respective Affiliates for investment advice (as opposed to other services) in connection with the Loans, the Revolving Commitments or this Agreement.

(c) The Administrative Agent and each Joint Lead Arranger hereby informs the Lenders that each such Person is not undertaking to provide impartial investment advice, or to give advice in a fiduciary capacity, in connection with the transactions contemplated hereby, and that such Person has a financial interest in the transactions contemplated hereby in that such Person or an Affiliate thereof (i) may receive interest or other payments with respect to the Loans, the Revolving Commitments and this Agreement, (ii) may recognize a gain if it extended the Loans or the Revolving Commitments for an amount less than the amount being paid for an interest in the Loans or the Revolving Commitments by such Lender or (iii) may receive fees or other payments in connection with the transactions contemplated hereby, the Loan Documents or otherwise, including structuring fees, commitment fees, arrangement fees, facility fees, upfront fees, underwriting fees, ticking fees, agency fees, administrative agent or collateral agent fees, utilization fees, minimum usage fees, letter of credit fees, fronting fees, deal-away or alternate transaction fees, amendment fees, processing fees, term out premiums, banker's acceptance fees, breakage or other early termination fees or fees similar to the foregoing.

## ARTICLE XI

### MISCELLANEOUS

#### 11.01 Amendments, Etc.

No amendment or waiver of any provision of this Agreement or any other Loan Document, and no consent to any departure by any Borrower or therefrom, shall be effective unless in writing signed by the Required Lenders and the Borrowers and acknowledged by the Administrative Agent, and each such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, further, that

(a) no such amendment, waiver or consent shall:

(i) extend (except as provided for in Section 2.17) or increase the Revolving Commitment of a Lender (or reinstate any Revolving Commitment terminated pursuant to Section 9.02) without the written consent of such Lender whose Revolving Commitment is being extended or increased (it being understood and agreed that a waiver of any condition precedent set forth in Section 5.02 or of any Default or a mandatory reduction in Revolving Commitments is not considered an extension or increase in Revolving Commitments of any Lender);

(ii) postpone any date fixed by this Agreement or any other Loan Document for any payment of principal, interest, fees or other amounts due to the Lenders (or any of them) or any scheduled or mandatory reduction of the Revolving Commitments hereunder or under any other Loan Document without the written consent of each Lender entitled to receive such payment or whose Revolving Commitments are to be reduced;

(iii) reduce the principal of, or the rate of interest specified herein on, any Loan, or (subject to clause (i) of the final proviso to this Section 11.01) any fees or other amounts payable hereunder or under any other Loan Document without the written consent of each Lender entitled to receive such payment of principal, interest, fees or other amounts; provided, however, that only the consent of the Required Lenders shall be necessary to amend the definition of “Default Rate” or to waive any obligation of the Borrowers to pay interest at the Default Rate;

(iv) change any provision of this Section 11.01(a) or the definition of “Required Lenders” without the written consent of each Lender;

(v) change Section 2.13 or Section 9.03 in a manner that would alter the pro rata sharing of payments required thereby without the written consent of each Lender directly affected thereby;

(b) unless also signed by the Swing Line Lender, no amendment, waiver or consent shall affect the rights or duties of the Swing Line Lender under this Agreement; and

(c) unless also signed by the Administrative Agent, no amendment, waiver or consent shall affect the rights or duties of the Administrative Agent under this Agreement or any other Loan Document;

provided, however, that notwithstanding anything to the contrary herein, (i) the Fee Letters may be amended, or rights or privileges thereunder waived, in a writing executed only by the parties thereto, (ii) no Defaulting Lender shall have any right to approve or disapprove any amendment, waiver or consent hereunder (and any amendment, waiver or consent which by its terms requires the consent of all Lenders or each affected Lender may be effected with the consent of the applicable Lenders other than Defaulting Lenders), except that (x) the Revolving Commitment of any Defaulting Lender may not be increased or extended without the consent of such Lender and (y) any waiver, amendment or modification requiring the consent of all Lenders or each affected Lender that by its terms affects any Defaulting Lender more adversely than other affected Lenders shall require the consent of such Defaulting Lender, (iii) each Lender is entitled to vote as such Lender sees fit on any bankruptcy reorganization plan that affects the Loans, and each Lender acknowledges that the provisions of Section 1126(c) of the Bankruptcy Code of the United States supersedes the unanimous consent provisions set forth herein, (iv) the Required Lenders shall determine whether or not to allow a Borrower to use cash collateral in the context of a bankruptcy or insolvency proceeding and such determination shall be binding on all of the Lenders, (v) subject to Section 2.17, this Agreement may be amended (or amended and restated) with the written consent of the Required Lenders, the Administrative Agent, the Borrowers and the relevant Lenders providing such additional credit facilities (x) to add one or more additional credit facilities to this Agreement, to permit the extensions of credit from time to time outstanding hereunder and the accrued interest and fees in respect thereof to share ratably in the benefits of this Agreement and the other Loan Documents and the Loans and the accrued interest and fees in respect thereof and to include appropriately the Lenders holding such credit facilities in any determination of the Required Lenders and (y) to change, modify or alter Section 2.13 or Section 9.03 or any other provision hereof relating to the pro rata sharing of payments among the Lenders solely to the extent necessary to effectuate any of the amendments (or amendments and restatements) enumerated in this clause (v) and for no other purpose, and (vi) if following the Effective Date, the Administrative Agent and the Borrowers shall have jointly identified an inconsistency, obvious error or omission of a technical or immaterial nature, in each case, in any provision of the Loan Documents, then the Administrative Agent and the Borrowers shall be permitted to amend such provision and such amendment shall become effective without any further action or consent of any other party to any

Loan Documents if the same is not objected to in writing by the Required Lenders within five (5) Business Days following receipt of notice thereof.

11.02 Notices and Other Communications; Facsimile Copies.

(a) Notices Generally. Except in the case of notices and other communications expressly permitted to be given by telephone (and except as provided in subsection (b) below), all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopier as follows, and all notices and other communications expressly permitted hereunder to be given by telephone shall be made to the applicable telephone number, as follows:

(i) if to any Borrower, the Administrative Agent or the Swing Line Lender, to the address, telecopier number, electronic mail address or telephone number specified for such Person on Schedule 11.02; and

(ii) if to any other Lender, to the address, telecopier number, electronic mail address or telephone number specified in its Administrative Questionnaire (including, as appropriate, notices delivered solely to the Person designated by a Lender on its Administrative Questionnaire then in effect for the delivery of notices that may contain material non-public information relating to a Borrower).

Notices and other communications sent by hand or overnight courier service, or mailed by certified or registered mail, shall be deemed to have been given when received; notices and other communications sent by telecopier shall be deemed to have been given when sent (except that, if not given during normal business hours for the recipient, shall be deemed to have been given at the opening of business on the next business day for the recipient). Notices and other communications delivered through electronic communications to the extent provided in subsection (b) below, shall be effective as provided in such subsection (b).

(b) Electronic Communications. Notices and other communications to the Lenders hereunder may be delivered or furnished by electronic communication (including e-mail, FPML messaging and Internet or intranet websites) pursuant to procedures approved by the Administrative Agent, provided that the foregoing shall not apply to notices to any Lender pursuant to Article II if such Lender, as applicable, has notified the Administrative Agent that it is incapable of receiving notices under such Article by electronic communication. The Administrative Agent or any Borrower may, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it, provided that approval of such procedures may be limited to particular notices or communications.

Unless the Administrative Agent otherwise prescribes, (i) notices and other communications sent to an e-mail address shall be deemed received upon the sender's receipt of an acknowledgement from the intended recipient (such as by the "return receipt requested" function, as available, return e-mail or other written acknowledgement), provided that if such notice or other communication is not sent during the normal business hours of the recipient, such notice or communication shall be deemed to have been sent at the opening of business on the next business day for the recipient, and (ii) notices or communications posted to an Internet or intranet website shall be deemed received upon the deemed receipt by the intended recipient at its e-mail address as described in the foregoing clause (i) of notification that such notice or communication is available and identifying the website address therefor.

(c) The Platform. THE PLATFORM IS PROVIDED “AS IS” AND “AS AVAILABLE.” THE AGENT PARTIES (AS DEFINED BELOW) DO NOT WARRANT THE ACCURACY OR COMPLETENESS OF THE BORROWER MATERIALS OR THE ADEQUACY OF THE PLATFORM, AND EXPRESSLY DISCLAIM LIABILITY FOR ERRORS IN OR OMISSIONS FROM THE BORROWER MATERIALS. NO WARRANTY OF ANY KIND, EXPRESS, IMPLIED OR STATUTORY, INCLUDING ANY WARRANTY OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, NON-INFRINGEMENT OF THIRD PARTY RIGHTS OR FREEDOM FROM VIRUSES OR OTHER CODE DEFECTS, IS MADE BY ANY AGENT PARTY IN CONNECTION WITH THE BORROWER MATERIALS OR THE PLATFORM. In no event shall the Administrative Agent or any of its Related Parties (collectively, the “Agent Parties”) have any liability to any Borrower, any Lender or any other Person for losses, claims, damages, liabilities or expenses of any kind (whether in tort, contract or otherwise) arising out of any Borrower’s or the Administrative Agent’s transmission of Borrower Materials or notices through the Platform, any other electronic platform or electronic messaging service or through the Internet, except to the extent that such losses, claims, damages, liabilities or expenses are determined by a court of competent jurisdiction by a final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Agent Party; provided, however, that in no event shall any Agent Party have any liability to any Borrower, any Lender or any other Person for indirect, special, incidental, consequential or punitive damages (as opposed to direct or actual damages).

(d) Change of Address, Etc. Each Borrower, the Administrative Agent and the Swing Line Lender may change its address, telecopier or telephone number for notices and other communications hereunder by notice to the other parties hereto. Each other Lender may change its address, telecopier or telephone number for notices and other communications hereunder by notice to the Borrowers, the Administrative Agent and the Swing Line Lender. In addition, each Lender agrees to notify the Administrative Agent from time to time to ensure that the Administrative Agent has on record (i) an effective address, contact name, telephone number, telecopier number and electronic mail address to which notices and other communications may be sent and (ii) accurate wire instructions for such Lender. Furthermore, each Public Lender agrees to cause at least one individual at or on behalf of such Public Lender to at all times have selected the “Private Side Information” or similar designation on the content declaration screen of the Platform in order to enable such Public Lender or its delegate, in accordance with such Public Lender’s compliance procedures and applicable Law, including United States Federal and state securities Laws, to make reference to Borrower Materials that are not made available through the “Public Side Information” portion of the Platform and that may contain material non-public information with respect to any Borrower or its securities for purposes of United States Federal or state securities laws.

(e) Reliance by Administrative Agent and Lenders. The Administrative Agent and the Lenders shall be entitled to rely and act upon any notices (including telephonic Revolving Loan Notices, Swing Line Loan Notices and Prepayment Notices) purportedly given by or on behalf of any Borrower even if (i) such notices were not made in a manner specified herein, were incomplete or were not preceded or followed by any other form of notice specified herein, or (ii) the terms thereof, as understood by the recipient, varied from any confirmation thereof. The Borrowers shall indemnify the Administrative Agent, each Lender and the Related Parties of each of them from all losses, costs, expenses and liabilities resulting from the reliance by such Person on each notice purportedly given by or on behalf of a Borrower. All telephonic notices to and other telephonic communications with the Administrative Agent may be recorded by the Administrative Agent, and each of the parties hereto hereby consents to such recording.

### 11.03 No Waiver; Cumulative Remedies; Enforcement.

No failure by any Lender or the Administrative Agent to exercise, and no delay by any such Person in exercising, any right, remedy, power or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein provided are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law.

Notwithstanding anything to the contrary contained herein or in any other Loan Document, the authority to enforce rights and remedies hereunder and under the other Loan Documents against the Borrowers or any of them shall be vested exclusively in, and all actions and proceedings at law in connection with such enforcement shall be instituted and maintained exclusively by, the Administrative Agent in accordance with Section 9.02 for the benefit of all the Lenders; provided, however, that the foregoing shall not prohibit (a) the Administrative Agent from exercising on its own behalf the rights and remedies that inure to its benefit (solely in its capacity as Administrative Agent) hereunder and under the other Loan Documents, (b) the Swing Line Lender from exercising the rights and remedies that inure to its benefit (solely in its capacity as Swing Line Lender) hereunder and under the other Loan Documents, (c) any Lender from exercising setoff rights in accordance with Section 11.08 (subject to the terms of Section 2.13), or (d) any Lender from filing proofs of claim or appearing and filing pleadings on its own behalf during the pendency of a proceeding relative to any Borrower under any Debtor Relief Law; and provided, further, that if at any time there is no Person acting as Administrative Agent hereunder and under the other Loan Documents, then (i) the Required Lenders shall have the rights otherwise ascribed to the Administrative Agent pursuant to Section 9.02 and (ii) in addition to the matters set forth in clauses (b), (c) and (d) of the preceding proviso and subject to Section 2.13, any Lender may, with the consent of the Required Lenders, enforce any rights and remedies available to it and as authorized by the Required Lenders.

### 11.04 Expenses; Indemnity; and Damage Waiver.

(a) Costs and Expenses. Each of the Borrowers shall pay (i) all reasonable out-of-pocket expenses incurred by the Administrative Agent, the Joint Lead Arrangers and their respective Affiliates (including the reasonable fees, charges and disbursements of counsel for the Administrative Agent), in connection with the syndication of the credit facilities provided for herein, the preparation, negotiation, execution, delivery and administration of this Agreement and the other Loan Documents or any amendments, modifications or waivers of the provisions hereof or thereof (whether or not the transactions contemplated hereby or thereby shall be consummated), and (ii) all reasonable out-of-pocket expenses incurred by the Administrative Agent, any Lender (including the reasonable fees, charges and disbursements of one counsel and, to the extent reasonably necessary, special and one local counsel in each jurisdiction for the Administrative Agent and for all of the Lenders as a group (and in the event of any actual or potential conflict of interest, one additional counsel for the Administrative Agent and/or each Lender subject to such conflict)) in connection with the enforcement or protection of its rights (A) in connection with this Agreement and the other Loan Documents, including its rights under this Section, or (B) in connection with the Loans made, including all such out-of-pocket expenses incurred during any workout, restructuring or negotiations in respect of such Loans.

(b) Indemnification by the Borrowers. Each of the Borrowers shall indemnify the Administrative Agent (and any sub-agent thereof), each Joint Lead Arranger, each Lender, and each Related Party of any of the foregoing Persons (each such Person being called an "Indemnatee")

against, and hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities, penalties and reasonable related expenses (including the reasonable fees, charges and disbursements of one counsel and, to the extent reasonably necessary, special and one local counsel in each jurisdiction for the Indemnitees (and in the event of any actual or potential conflict of interest, one additional counsel for the Administrative Agent and/or each Lender subject to such conflict)) incurred by any Indemnitee or asserted against any Indemnitee by any third party or by any Borrower arising out of, in connection with, or as a result of (i) the execution or delivery of this Agreement, any other Loan Document or any agreement or instrument contemplated hereby or thereby, the performance by the parties hereto of their respective obligations hereunder or thereunder or the consummation of the transactions contemplated hereby or thereby, or, in the case of the Administrative Agent (and any sub-agent thereof) and its Related Parties only, the administration of this Agreement and the other Loan Documents, (ii) any Loan or the use or proposed use of the proceeds therefrom, (iii) any actual or alleged presence or release of Hazardous Materials on or from any property owned or operated by a Borrower or any of its Subsidiaries, or any Environmental Liability related in any way to a Borrower or any of its Subsidiaries, or (iv) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory, whether brought by a third party or by any Borrower, and regardless of whether any Indemnitee is a party thereto, in all cases, whether or not caused by or arising, in whole or in part, out of the comparative, contributory or sole negligence of the Indemnitee; provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnitee.

(c) Reimbursement by Lenders. To the extent that any of the Borrowers for any reason fails to indefeasibly pay any amount required under subsection (a) or (b) of this Section to be paid by them to the Administrative Agent (or any sub-agent thereof) or any Related Party of any of the foregoing, each Lender severally agrees to pay to the Administrative Agent (or any such sub-agent) or such Related Party, as the case may be, such Lender's Applicable Percentage (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought) of such unpaid amount, provided that the unreimbursed expense or indemnified loss, claim, damage, liability or related expense, as the case may be, was incurred by or asserted against the Administrative Agent (or any such sub-agent) in its capacity as such, or against any Related Party of any of the foregoing acting for the Administrative Agent (or any such sub-agent) in connection with such capacity. The obligations of the Lenders under this subsection (c) are subject to the provisions of Section 2.12(d).

(d) Waiver of Consequential Damages, Etc. To the fullest extent permitted by applicable law, no Borrower shall assert, and each Borrower hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document or any agreement or instrument contemplated hereby, the transactions contemplated hereby or thereby, any Loan or the use of the proceeds thereof. No Indemnitee referred to in subsection (b) above shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed by it through telecommunications, electronic or other information transmission systems in connection with this Agreement or the other Loan Documents or the transactions contemplated hereby or thereby.

(e) Payments. All amounts due under this Section shall be payable not later than ten (10) Business Days after demand therefor. Payment obligations of the Borrowers under this Section 11.04 shall be subject to Section 11.19.

(f) Survival. The agreements in this Section shall survive (i) the resignation of the Administrative Agent, the replacement of any Lender, the termination of the Revolving Commitments and the repayment, satisfaction or discharge of all the other Obligations and (ii) the repayment of Obligations and the termination of rights and of any Borrower pursuant to Section 2.06.

#### 11.05 Payments Set Aside.

To the extent that any payment by or on behalf of any Borrower is made to the Administrative Agent or any Lender, or the Administrative Agent or any Lender exercises its right of setoff, and such payment or the proceeds of such setoff or any part thereof is subsequently invalidated, declared to be fraudulent or preferential, set aside or required (including pursuant to any settlement entered into by the Administrative Agent or such Lender in its discretion) to be repaid to a trustee, receiver or any other party, in connection with any proceeding under any Debtor Relief Law or otherwise, then (a) to the extent of such recovery, the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such setoff had not occurred, and (b) each Lender severally agrees to pay to the Administrative Agent upon demand its applicable share (without duplication) of any amount so recovered from or repaid by the Administrative Agent, plus interest thereon from the date of such demand to the date such payment is made at a rate per annum equal to the Federal Funds Rate from time to time in effect. The obligations of the Lenders under clause (b) of the preceding sentence shall survive the payment in full of the Obligations and the termination of this Agreement.

#### 11.06 Successors and Assigns.

(a) Successors and Assigns Generally. The provisions of this Agreement and the other Loan Documents shall be binding upon and inure to the benefit of the parties hereto and thereto and their respective successors and assigns permitted hereby, except that no Borrower may assign or otherwise transfer any of its rights or obligations hereunder or thereunder without the prior written consent of the Administrative Agent and each Lender and no Lender may assign or otherwise transfer any of its rights or obligations hereunder except (i) to an assignee in accordance with the provisions of subsection (b) of this Section, (ii) by way of participation in accordance with the provisions of subsection (d) of this Section or (iii) by way of pledge or assignment of a security interest subject to the restrictions of subsection (f) of this Section (and any other attempted assignment or transfer by any party hereto shall be null and void). Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby, Participants to the extent provided in subsection (d) of this Section and, to the extent expressly contemplated hereby, the Related Parties of each of the Administrative Agent and the Lenders) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) Assignments by Lenders. Any Lender may at any time assign to one or more assignees all or a portion of its rights and obligations under this Agreement and the other Loan Documents (including all or a portion of its Revolving Commitment and the Loans (including for purposes of this subsection (b), participations in Swing Line Loans) at the time owing to it); provided that any such assignment shall be subject to the following conditions:

(i) Minimum Amounts.

(A) in the case of an assignment of the entire remaining amount of the assigning Lender's Revolving Commitment and the Loans at the time owing to it or in the case of an assignment to a Lender, an Affiliate of a Lender or an Approved Fund, no minimum amount need be assigned; and

(B) in any case not described in subsection (b)(i)(A) of this Section, the aggregate amount of the Revolving Commitment (which for this purpose includes Loans outstanding thereunder) or, if the Revolving Commitment is not then in effect, the principal outstanding balance of the Loans of the assigning Lender subject to each such assignment, determined as of the date the Assignment and Assumption with respect to such assignment is delivered to the Administrative Agent or, if "Trade Date" is specified in the Assignment and Assumption, as of the Trade Date, shall not be less than \$5,000,000 in the case of an assignment of Revolving Loans unless each of the Administrative Agent and, so long as no Event of Default has occurred and is continuing, each Borrower otherwise consents (each such consent not to be unreasonably withheld or delayed); provided, however, that concurrent assignments to members of an Assignee Group and concurrent assignments from members of an Assignee Group to a single assignee (or to an assignee and members of its Assignee Group) will be treated as a single assignment for purposes of determining whether such minimum amount has been met;

(ii) Required Consents. No consent shall be required for any assignment except to the extent required by subsection (b)(i)(B) of this Section and, in addition:

(A) the consent of each Borrower (such consent not to be unreasonably withheld or delayed) shall be required unless (1) an Event of Default has occurred and is continuing at the time of such assignment or (2) such assignment is to a Lender, an Affiliate of a Lender or an Approved Fund;

(B) the consent of the Administrative Agent (such consent not to be unreasonably withheld or delayed) shall be required for assignments in respect of any Revolving Commitment if such assignment is to a Person that is not a Lender with a Revolving Commitment in respect of the Revolving Commitment subject to such assignment, an Affiliate of such Lender or an Approved Fund with respect to such Lender; and

(C) the consent of the Swing Line Lender (such consent not to be unreasonably withheld or delayed) shall be required for any assignment in respect of the Revolving Commitment.

(iii) Assignment and Assumption. The parties to each assignment shall execute and deliver to the Administrative Agent an Assignment and Assumption, together with a processing and recordation fee in the amount of \$3,500; provided, however, that the Administrative Agent may, in its sole discretion, elect to waive such processing and recordation fee in the case of any assignment. The assignee, if it is not a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire.

(iv) No Assignment to Certain Persons. No such assignment shall be made (A) to any Borrower or any of the Borrowers' Affiliates or Subsidiaries, or (B) to any Defaulting Lender or any of its Subsidiaries, or any Person who, upon becoming a Lender hereunder, would constitute any of the foregoing Persons described in this clause (B) or (C) to a natural person.

(v) Certain Additional Payments. In connection with any assignment of rights and obligations of any Defaulting Lender hereunder, no such assignment shall be effective unless and until, in addition to the other conditions thereto set forth herein, the parties to the assignment shall make such additional payments to the Administrative Agent in an aggregate amount sufficient, upon distribution thereof as appropriate (which may be outright payment, purchases by the assignee of participations or subparticipations, or other compensating actions, including funding, with the consent of each Borrower and the Administrative Agent, the applicable pro rata share of Loans previously requested but not funded by the Defaulting Lender, to each of which the applicable assignee and assignor hereby irrevocably consent), to (x) pay and satisfy in full all payment liabilities then owed by such Defaulting Lender to the Administrative Agent or any Lender hereunder (and interest accrued thereon) and (y) acquire (and fund as appropriate) its full pro rata share of all Loans and participations in Swing Line Loans in accordance with its Applicable Percentage. Notwithstanding the foregoing, in the event that any assignment of rights and obligations of any Defaulting Lender hereunder shall become effective under applicable Law without compliance with the provisions of this paragraph, then the assignee of such interest shall be deemed to be a Defaulting Lender for all purposes of this Agreement until such compliance occurs.

Subject to acceptance and recording thereof by the Administrative Agent pursuant to subsection (c) of this Section, from and after the effective date specified in each Assignment and Assumption, the assignee thereunder shall be a party to this Agreement and, to the extent of the interest assigned by such Assignment and Assumption, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Assumption, be released from its obligations under this Agreement (and, in the case of an Assignment and Assumption covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto) but shall continue to be entitled to the benefits of Sections 3.01, 3.04, 3.05 and 11.04 with respect to facts and circumstances occurring prior to the effective date of such assignment. Upon request, the applicable Borrower (at its expense) shall execute and deliver a Note to the assignee Lender. Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this subsection shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with subsection (d) of this Section.

(c) Register. The Administrative Agent, acting solely for this purpose as an agent of the Borrowers (and such agency being solely for tax purposes), shall maintain at the Administrative Agent's Office a copy of each Assignment and Assumption delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Revolving Commitments of, and principal amounts (and stated interest) of the Loans owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive absent manifest error, and the Borrowers, the Administrative Agent and the Lenders shall treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. In addition, the Administrative

Agent shall maintain on the Register information regarding the designation, and revocation of designation, of any Lender as a Defaulting Lender. The Register shall be available for inspection by any Borrower and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

(d) Participations. Any Lender may at any time, without the consent of, or notice to, the Borrowers or the Administrative Agent, sell participations to any Person (other than a natural person, a Defaulting Lender or any Borrower or any of the Borrowers' Affiliates or Subsidiaries) (each, a "Participant") in all or a portion of such Lender's rights and/or obligations under this Agreement (including all or a portion of its Revolving Commitment and/or the Loans (including such Lender's participations in Swing Line Loans) owing to it); provided that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations and (iii) the Borrowers, the Administrative Agent, the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, waiver or other modification described in clauses (i) through (v) of Section 11.01(a) that affects such Participant. Subject to subsection (e) of this Section, each Borrower agrees that each Participant shall be entitled to the benefits of Sections 3.01, 3.04 and 3.05 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to subsection (b) of this Section. To the extent permitted by law, each Participant also shall be entitled to the benefits of Section 11.08 as though it were a Lender, provided such Participant agrees to be subject to Section 2.13 as though it were a Lender. Each Lender that sells a participation shall, acting solely for this purpose as a non-fiduciary agent of the Borrowers, maintain a register on which it enters the name and address of each Participant and the principal amounts (and stated interest) of each Participant's interest in the Loans or other obligations under the Loan Documents (the "Participant Register"); provided that no Lender shall have any obligation to disclose all or any portion of the Participant Register (including the identity of any Participant or any information relating to a Participant's interest in any commitments, loans, letters of credit or its other obligations under any Loan Document) to any Person except to the extent that such disclosure is necessary to establish that such commitment, loan, letter of credit or other obligation is in registered form under Section 5f.103-1(c) of the United States Treasury Regulations. The entries in the Participant Register shall be conclusive absent manifest error, and such Lender shall treat each Person whose name is recorded in the Participant Register as the owner of such participation for all purposes of this Agreement notwithstanding any notice to the contrary. For the avoidance of doubt, the Administrative Agent (in its capacity as Administrative Agent) shall have no responsibility for maintaining a Participant Register. No sale of a participation shall be effective unless and until it has been recorded in the Participant Register as provided in this paragraph (d).

(e) Limitation on Participant Rights. A Participant shall not be entitled to receive any greater payment under Section 3.01 or 3.04 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with each Borrower's prior written consent. Furthermore, a Participant that would be a Foreign Lender if it were a Lender shall not be entitled to the benefits of Section 3.01 unless the Borrowers are notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Borrowers, to comply with Section 3.01(e) as though it were a Lender.

(f) Certain Pledges. Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement (including under its Note, if any) to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank or other central banking authority; provided that no such pledge or assignment shall release such Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

(g) Resignation as Swing Line Lender after Assignment. Notwithstanding anything to the contrary contained herein, if at any time Bank of America assigns all of its Revolving Commitment and Loans pursuant to subsection (b) above, Bank of America may, upon thirty (30) days' notice to the Borrowers, resign as Swing Line Lender. In the event of any such resignation as Swing Line Lender, the Borrowers shall be entitled to appoint from among the Lenders a successor Swing Line Lender hereunder; provided, however, that no failure by the Borrowers to appoint any such successor shall affect the resignation of Bank of America as Swing Line Lender, as the case may be. If Bank of America resigns as Swing Line Lender, it shall retain all the rights of the Swing Line Lender provided for hereunder with respect to Swing Line Loans made by it and outstanding as of the effective date of such resignation, including the right to require the Lenders to make Base Rate Loans or fund risk participations in outstanding Swing Line Loans pursuant to Section 2.04(c). Upon the appointment of a successor Swing Line Lender, such successor shall succeed to and become vested with all of the rights, powers, privileges and duties of the retiring Swing Line Lender, as the case may be.

Notice by the Administrative Agent to the Borrowers of any assignment made under this Section 11.06 shall be provided as may be agreed in writing from time to time between the Borrowers and the Administrative Agent.

#### 11.07 Treatment of Certain Information: Confidentiality.

Each of the Administrative Agent and the Lenders agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (a) to its Affiliates and to its and its Affiliates' respective partners, directors, officers, employees, agents, advisors and representatives (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential), (b) to the extent requested by any regulatory authority purporting to have jurisdiction over it or its Affiliates (including any self-regulatory authority, such as the National Association of Insurance Commissioners), (c) to the extent required by applicable laws or regulations or by any subpoena or similar legal process, (d) to any other party hereto, (e) in connection with the exercise of any remedies hereunder or under any other Loan Document or any action or proceeding relating to this Agreement or any other Loan Document or the enforcement of rights hereunder or thereunder, (f) subject to an agreement containing provisions substantially the same as those of this Section, to (i) any assignee of or Participant in, or any prospective assignee of or Participant in, any of its rights or obligations under this Agreement or (ii) any actual or prospective counterparty (or its advisors) to any swap or derivative transaction relating to a Borrower and its obligations, (g) with the consent of each Borrower, (h) to the extent such Information (x) becomes publicly available other than as a result of a breach of this Section or (y) becomes available to the Administrative Agent, any Lender or any of their respective Affiliates on a nonconfidential basis from a source other than any Borrower, (i) to rating agencies if requested or required by such agency in connection with a rating relating to the Loans hereunder and (j) on a confidential basis to the CUSIP Service Bureau or any similar agency in connection with the issuance and monitoring of CUSIP numbers with respect to this Agreement.

For purposes of this Section, “Information” means all information received from a Borrower or any Subsidiary relating to the Borrowers or any Subsidiary or any of their respective businesses, other than any such information that is available to the Administrative Agent, any Lender on a nonconfidential basis prior to disclosure by such Borrower or any Subsidiary, provided that, in the case of information received from a Borrower or any Subsidiary after the date hereof, such information is clearly identified at the time of delivery as confidential. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

Each of the Administrative Agent and the Lenders acknowledges that (a) the Information may include material non-public information concerning any Borrower or a Subsidiary, as the case may be, (b) it has developed compliance procedures regarding the use of material non-public information and (c) it will handle such material non-public information in accordance with applicable Law, including United States federal and state securities Laws.

#### 11.08 Set-off.

If an Event of Default shall have occurred and be continuing, each Lender and each of their respective Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by applicable law, to set off and apply any and all deposits (general or special, time or demand, provisional or final, in whatever currency) at any time held and other obligations (in whatever currency) at any time owing by such Lender or any such Affiliate to or for the credit or the account of any Borrower against any and all of the obligations of such Borrower now or hereafter existing under this Agreement or any other Loan Document to such Lender, irrespective of whether or not such Lender shall have made any demand under this Agreement or any other Loan Document and although such obligations of such Borrower may be contingent or unmatured or are owed to a branch or office of such Lender different from the branch or office holding such deposit or obligated on such indebtedness; provided, that, in the event that any Defaulting Lender shall exercise any such right of setoff, (x) all amounts so set off shall be paid over immediately to the Administrative Agent for further application in accordance with the provisions of Section 2.15 and, pending such payment, shall be segregated by such Defaulting Lender from its other funds and deemed held in trust for the benefit of the Administrative Agent and the Lenders and (y) the Defaulting Lender shall provide promptly to the Administrative Agent a statement describing in reasonable detail the Obligations owing to such Defaulting Lender as to which it exercised such right of setoff. The rights of each Lender and its respective Affiliates under this Section are in addition to other rights and remedies (including other rights of setoff) that such Lender or its respective Affiliates may have. Each Lender agrees to notify the Borrowers and the Administrative Agent promptly after any such setoff and application, provided that the failure to give such notice shall not affect the validity of such setoff and application.

#### 11.09 Interest Rate Limitation.

Notwithstanding anything to the contrary contained in any Loan Document, the interest paid or agreed to be paid under the Loan Documents shall not exceed the maximum rate of non-usurious interest permitted by applicable Law (the “Maximum Rate”). If the Administrative Agent or any Lender shall receive interest in an amount that exceeds the Maximum Rate, the excess interest shall be applied to the principal of the Loans or, if it exceeds such unpaid principal, refunded to the applicable Borrower. In determining whether the interest contracted for, charged, or received by the Administrative Agent or a Lender exceeds the Maximum Rate, such Person may, to the extent permitted by applicable Law, (a) characterize any payment that is not principal as an expense, fee, or premium rather than interest, (b) exclude voluntary prepayments

and the effects thereof, and (c) amortize, prorate, allocate, and spread in equal or unequal parts the total amount of interest throughout the contemplated term of the Obligations hereunder.

11.10 Counterparts; Integration; Effectiveness.

This Agreement may be executed in counterparts (and by different parties hereto in different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement and the other Loan Documents constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. Except as provided in Section 5.01, this Agreement shall become effective when it shall have been executed by the Administrative Agent and when the Administrative Agent shall have received counterparts hereof that, when taken together, bear the signatures of each of the other parties hereto. Delivery of an executed counterpart of a signature page of this Agreement by telecopy or other electronic imaging means shall be effective as delivery of a manually executed counterpart of this Agreement.

11.11 Survival of Representations and Warranties.

All representations and warranties made hereunder and in any other Loan Document or other document delivered pursuant hereto or thereto or in connection herewith or therewith shall survive the execution and delivery hereof and thereof. Such representations and warranties have been or will be relied upon by the Administrative Agent and each Lender, regardless of any investigation made by the Administrative Agent or any Lender or on their behalf and notwithstanding that the Administrative Agent or any Lender may have had notice or knowledge of any Default at the time of any Borrowing, and shall continue in full force and effect as long as any Loan or any other Obligation hereunder shall remain unpaid or unsatisfied.

11.12 Severability.

If any provision of this Agreement or the other Loan Documents is held to be illegal, invalid or unenforceable, (a) the legality, validity and enforceability of the remaining provisions of this Agreement and the other Loan Documents shall not be affected or impaired thereby and (b) the parties shall endeavor in good faith negotiations to replace the illegal, invalid or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the illegal, invalid or unenforceable provisions. The invalidity of a provision in a particular jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction. Without limiting the foregoing provisions of this Section 11.12, if and to the extent that the enforceability of any provisions in this Agreement relating to Defaulting Lenders shall be limited by Debtor Relief Laws, as determined in good faith by the Administrative Agent or the Swing Line Lender, as applicable, then such provisions shall be deemed to be in effect only to the extent not so limited.

11.13 Replacement of Lenders.

If (i) any Lender requests compensation under Section 3.04, (ii) any Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 3.01, (iii) a Lender (a "Non-Consenting Lender") does not consent to a proposed change, waiver, discharge or termination with respect to any Loan Document that has been approved by the Required Lenders as provided in Section 11.01 but requires unanimous consent of all Lenders or all Lenders directly affected thereby (as applicable), (iv) any Lender is a Non-Extending Lender pursuant to Section 2.17(b) or (v) any Lender is a Defaulting Lender, then the Borrowers may, at their sole expense and effort, upon notice to such

Lender and the Administrative Agent, require such Lender to assign and delegate, without recourse (in accordance with and subject to the rights and restrictions contained in, and consents required by, Section 11.06), all of its interests, rights and obligations under this Agreement and the related Loan Documents to an assignee that shall assume such obligations (which assignee may be another Lender, if a Lender accepts such assignment), provided that:

(a) the applicable Borrower shall have paid to the Administrative Agent the assignment fee specified in Section 11.06(b);

(b) such Lender shall have received payment of an amount equal to one hundred percent (100%) of the outstanding principal of its Loans, accrued interest thereon, accrued fees and all other amounts payable to it hereunder and under the other Loan Documents (including any amounts under Section 3.05) from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Borrowers (in the case of all other amounts);

(c) in the case of any such assignment resulting from a claim for compensation under Section 3.04 or payments required to be made pursuant to Section 3.01, such assignment will result in a reduction in such compensation or payments thereafter;

(d) such assignment does not conflict with applicable Laws; and

(e) in the case of any such assignment resulting from a Non-Consenting Lender's or a Non-Extending Lender's failure to consent to a proposed change, waiver, discharge or termination with respect to any Loan Document, the applicable replacement bank, financial institution or Fund consents to the proposed change, waiver, discharge or termination; provided that the failure by such Non-Consenting Lender or such Non-Extending Lender, as applicable, to execute and deliver an Assignment and Assumption shall not impair the validity of the removal of such Non-Consenting Lender or such Non-Extending Lender and the mandatory assignment of such Non-Consenting Lender's or such Non-Extending Lender's, as applicable, Revolving Commitments and outstanding Loans and participations in Swing Line Loans pursuant to this Section 11.13 shall nevertheless be effective without the execution by such Non-Consenting Lender or such Non-Extending Lender, as applicable, of an Assignment and Assumption.

A Lender shall not be required to make any such assignment or delegation if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling the Borrowers to require such assignment and delegation cease to apply.

#### 11.14 Governing Law; Jurisdiction; Etc.

(a) GOVERNING LAW. THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS (EXCEPT, AS TO ANY OTHER LOAN DOCUMENT, AS EXPRESSLY SET FORTH THEREIN) AND ANY CLAIMS, CONTROVERSY, DISPUTE OR CAUSE OF ACTION (WHETHER IN CONTRACT OR TORT OR OTHERWISE) BASED UPON, ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT (EXCEPT, AS TO ANY OTHER LOAN DOCUMENT, AS EXPRESSLY SET FORTH THEREIN) AND THE TRANSACTIONS CONTEMPLATED HEREBY AND THEREBY SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.

(b) SUBMISSION TO JURISDICTION. EACH BORROWER IRREVOCABLY AND UNCONDITIONALLY SUBMITS, FOR ITSELF AND ITS PROPERTY, TO THE

NONEXCLUSIVE JURISDICTION OF THE COURTS OF THE STATE OF NEW YORK SITTING IN NEW YORK COUNTY AND OF THE UNITED STATES DISTRICT COURT OF THE SOUTHERN DISTRICT OF NEW YORK, AND ANY APPELLATE COURT FROM ANY THEREOF, IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT, OR FOR RECOGNITION OR ENFORCEMENT OF ANY JUDGMENT, AND EACH OF THE PARTIES HERETO IRREVOCABLY AND UNCONDITIONALLY AGREES THAT ALL CLAIMS IN RESPECT OF ANY SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN SUCH NEW YORK STATE COURT OR, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, IN SUCH FEDERAL COURT. EACH OF THE PARTIES HERETO AGREES THAT A FINAL JUDGMENT IN ANY SUCH ACTION OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY LAW. NOTHING IN THIS AGREEMENT OR IN ANY OTHER LOAN DOCUMENT SHALL AFFECT ANY RIGHT THAT THE ADMINISTRATIVE AGENT, ANY LENDER MAY OTHERWISE HAVE TO BRING ANY ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT AGAINST ANY BORROWER OR ITS PROPERTIES IN THE COURTS OF ANY JURISDICTION.

(c) WAIVER OF VENUE. EACH BORROWER IRREVOCABLY AND UNCONDITIONALLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT IN ANY COURT REFERRED TO IN PARAGRAPH (B) OF THIS SECTION. EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, THE DEFENSE OF AN INCONVENIENT FORUM TO THE MAINTENANCE OF SUCH ACTION OR PROCEEDING IN ANY SUCH COURT.

(d) SERVICE OF PROCESS. EACH PARTY HERETO IRREVOCABLY CONSENTS TO SERVICE OF PROCESS IN THE MANNER PROVIDED FOR NOTICES IN SECTION 11.02. NOTHING IN THIS AGREEMENT WILL AFFECT THE RIGHT OF ANY PARTY HERETO TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY APPLICABLE LAW.

#### 11.15 Waiver of Right to Trial by Jury.

EACH PARTY HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PERSON HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PERSON WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

#### 11.16 Electronic Execution.

The words “delivery,” “execute,” “execution,” “signed,” “signature,” and words of like import in any Loan Document or any other document executed in connection herewith shall be deemed to include electronic signatures, the electronic matching of assignment terms and contract formations on electronic platforms approved by the Administrative Agent, or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature, physical delivery thereof or the use of a paper-based recordkeeping system, as the case may be, to the extent and as provided for in any applicable Law, including the Federal Electronic Signatures in Global and National Commerce Act, the New York State Electronic Signatures and Records Act, or any other similar state laws based on the Uniform Electronic Transactions Act; provided that notwithstanding anything contained herein to the contrary the Administrative Agent is under no obligation to agree to accept electronic signatures in any form or in any format unless expressly agreed to by the Administrative Agent pursuant to procedures approved by it; provided further without limiting the foregoing, upon the request of the Administrative Agent, any electronic signature shall be promptly followed by such manually executed counterpart.

#### 11.17 USA PATRIOT Act.

Each Lender that is subject to the Act (as hereinafter defined) and the Administrative Agent (for itself and not on behalf of any Lender) hereby notifies each Borrower that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the “Act”), it is required to obtain, verify and record information that identifies each Borrower, which information includes the name and address of each Borrower and other information that will allow such Lender or the Administrative Agent, as applicable, to identify such Borrower in accordance with the Act. Each Borrower shall, promptly following a request by the Administrative Agent or any Lender, provide all documentation and other information that the Administrative Agent or such Lender requests in order to comply with its ongoing obligations under applicable “know your customer” and anti-money laundering rules and regulations, including the Act.

#### 11.18 No Advisory or Fiduciary Relationship.

In connection with all aspects of each transaction contemplated hereby (including in connection with any amendment, waiver or other modification hereof or of any other Loan Document), each Borrower acknowledges and agrees, and acknowledges its Affiliates’ understanding, that: (a)(i) the arranging and other services regarding this Agreement provided by the Administrative Agent, the Joint Lead Arrangers and the Lenders, are arm’s-length commercial transactions between the Borrowers and their Affiliates, on the one hand, and the Administrative Agent, the Joint Lead Arrangers and the Lenders, on the other hand, (ii) each Borrower has consulted its own legal, accounting, regulatory and tax advisors to the extent it has deemed appropriate, and (iii) each Borrower is capable of evaluating, and understands and accepts, the terms, risks and conditions of the transactions contemplated hereby and by the other Loan Documents; (b)(i) the Administrative Agent, the Joint Lead Arrangers and the Lenders each is and has been acting solely as a principal and, except as expressly agreed in writing by the relevant parties, has not been, is not and will not be acting as an advisor, agent or fiduciary, for any Borrower or any of Affiliates or any other Person and (ii) none of the Administrative Agent, the Joint Lead Arrangers and the Lenders has any obligation to any Borrower or any of its Affiliates with respect to the transactions contemplated hereby except those obligations expressly set forth herein and in the other Loan Documents; and (c) the Administrative Agent, the Joint Lead Arrangers and the Lenders and their respective Affiliates may be engaged in a broad range of transactions that involve interests that differ from those of the Borrowers and their Affiliates, and none of the Administrative Agent, the Joint Lead Arrangers and the Lenders has any obligation to disclose any of such interests to any Borrower or its Affiliates. To the fullest extent permitted by law, each Borrower hereby

waives and releases, any claims that it may have against the Administrative Agent, any Joint Lead Arranger or any Lender with respect to any breach or alleged breach of agency or fiduciary duty in connection with any aspect of any transaction contemplated hereby.

11.19 Pro Rata Shares of Obligations of Borrowers.

Each Borrower shall be liable for its pro rata share of any payment to be made by the Borrowers under Sections 3.01, 3.04, 3.05, and 11.04, such pro rata share to be determined on the basis of such Borrower's Facility Percentage; provided, however, that if and to the extent that any such liabilities are reasonably determined by the Borrowers (subject to the approval of the Administrative Agent, which approval shall not be unreasonably withheld) to be directly attributable to a specific Borrower, only such Borrower shall be liable for such payments.

11.20 Limitation of Liability.

No shareholder or trustee of Eversource shall be held to any liability whatever for the payment of any sum of money or for damages or otherwise under any Loan Document, and such Loan Documents shall not be enforceable against any such shareholder or trustee in its or his or her individual capacity and such Loan Documents shall be enforceable against the trustees of Eversource only in such trustee capacity, and every person, firm, association, trust or corporation having any claim or demand arising under such Loan Documents and relating to Eversource, its shareholders or trustees shall look solely to the trust estate of Eversource for the payment or satisfaction thereof.

11.21 New Lenders.

From and after the Effective Date, by execution of this Agreement, each Person identified as a "Lender" on each signature page that is not already a Lender under the Existing Credit Agreement hereby acknowledges, agrees and confirms that, by its execution of this Agreement, such Person will be deemed to be a party to this Agreement and a "Lender" for all purposes of this Agreement, and shall have all of the obligations of a Lender hereunder as if it had executed the Existing Credit Agreement. Such Person hereby ratifies, as of the date hereof, and agrees to be bound by, all of the terms, provisions and conditions applicable to the Lenders contained in this Agreement.

11.22 Amendment and Restatement.

The parties hereto agree that, on the Effective Date, the following transactions shall be deemed to occur automatically, without further action by any party hereto: (a) the Existing Credit Agreement shall be deemed to be amended and restated in its entirety pursuant to this Agreement; (b) all Obligations under the Existing Credit Agreement outstanding on the Effective Date shall in all respects be continuing and shall be deemed to Obligations outstanding hereunder, except as modified hereby, and this Agreement shall not constitute a novation of such Obligations or any of the rights, duties and obligations of the parties hereunder; and (c) all references in the other Loan Documents to the Existing Credit Agreement shall be deemed to refer without further amendment to this Agreement.

11.23 Reallocation.

The Administrative Agent, the Borrowers and the Lenders hereby acknowledge and agree that the Revolving Commitments of each Lender as set forth on Schedule 2.01 are the Revolving Commitments of such Lender as of the Effective Date, with the reallocation of Loans outstanding under the Revolving Commitments of the Lenders as they existed immediately prior to the Effective Date having been made per

instructions from the Administrative Agent, and neither any Assignment and Assumption nor any other action of any Person is required to give effect to such Revolving Commitments as set forth on Schedule 2.01.

11.24 Acknowledgement and Consent to Bail-In of EEA Financial Institutions.

Solely to the extent any Lender that is an EEA Financial Institution is a party to this Agreement and notwithstanding anything to the contrary in any Loan Document or in any other agreement, arrangement or understanding among any such parties, each party hereto acknowledges that any liability of any Lender that is an EEA Financial Institution arising under any Loan Document, to the extent such liability is unsecured, may be subject to the write-down and conversion powers of an EEA Resolution Authority and agrees and consents to, and acknowledges and agrees to be bound by (a) the application of any Write-Down and Conversion Powers by an EEA Resolution Authority to any such liabilities arising hereunder which may be payable to it by any Lender that is an EEA Financial Institution; and (b) the effects of any Bail-In Action on any such liability, including, if applicable: (i) a reduction in full or in part or cancellation of any such liability; (ii) a conversion of all, or a portion of, such liability into shares or other instruments of ownership in such EEA Financial Institution, its parent undertaking, or a bridge institution that may be issued to it or otherwise conferred on it, and that such shares or other instruments of ownership will be accepted by it in lieu of any rights with respect to any such liability under this Agreement or any other Loan Document; or (iii) the variation of the terms of such liability in connection with the exercise of the write-down and conversion powers of any EEA Resolution Authority.

[SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

BORROWERS:                   EVERSOURCE ENERGY,  
an unincorporated voluntary business association organized under the laws of the Commonwealth of  
Massachusetts

NSTAR GAS COMPANY,  
a Massachusetts corporation

THE CONNECTICUT LIGHT AND POWER COMPANY,  
a Connecticut corporation

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE,  
a New Hampshire corporation

WESTERN MASSACHUSETTS ELECTRIC COMPANY,  
a Massachusetts corporation

YANKEE GAS SERVICES COMPANY,  
a Connecticut corporation

By: /S/ EMILIE O'NEIL  
Name: Emilie O'Neil  
Title: Assistant Treasurer-Corporate Finance & Cash Management

ADMINISTRATIVE

AGENT:   BANK OF AMERICA, N.A.,  
as Administrative Agent

By: /S/ MELISSA MULLIS  
Name: Melissa Mullis  
Title: Assistant Vice President

LENDERS:                   BANK OF AMERICA, N.A.,  
as a Lender and Swing Line Lender

By: /S/ JERRY WELLS

Name: Jerry Wells

Title: Director

BARCLAYS BANK PLC,  
as a Lender

By: /S/ SYDNEY G. DENNIS

Name: Sydney G. Dennis

Title: Director

CITIBANK, N.A.,  
as a Lender

By: /S/ RICHARD RIVERA

Name: Richard Rivera

Title: Vice President

THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.,  
A MEMBER OF MUFG, A GLOBAL FINANCIAL GROUP (“MUFG”),  
as a Lender

By: /S/ ROBERT MACFARLANE

Name: Robert MacFarlane

Title: Director

WELLS FARGO BANK, N.A.,  
as a Lender

By: /S/ PATRICK ENGEL

Name: Patrick Engel

Title: Managing Director

MIZUHO BANK, LTD.,  
as a Lender

By: /S/ NELSON CHANG

Name: Nelson Chang

Title: Authorized Signatory

TD BANK, N.A.,  
as a Lender

By: /S/ SHANNON BATCHMAN

Name: Shannon Batchman

Title: Sr. Vice President

U.S. BANK NATIONAL ASSOCIATION,  
as a Lender

By: /S/ JAMES O'SHAUGHNESSY

Name: James O'Shaughnessy

Title: Vice President

JPMORGAN CHASE BANK, N.A.,  
as a Lender

By: /S/ AMIT GAUR

Name: Amit Gaur

Title: Vice President

GOLDMAN SACHS BANK USA,  
as a Lender

By: /S/ REBECCA KRATZ  
Name: Rebecca Kratz  
Title: Authorized Signatory

KEYBANK NATIONAL ASSOCIATION.,  
as a Lender

By: /S/ LISA A. RYDER  
Name: Lisa A. Ryder  
Title: Senior Vice President

ROYAL BANK OF CANADA,  
as a Lender

By: /S/ ERIC KOPPELSON  
Name: Eric Koppelson  
Title: Vice President

THE BANK OF NEW YORK MELLON.,  
as a Lender

By: /S/ RICHARD K. FRONAPFEL, JR.  
Name: Ricahrd K. Fronapfel, Jr.  
Title: Vice President

PNC BANK, NATIONAL ASSOCIATION,  
as a Lender

By: /S/ THOMAS E. REDMOND  
Name: Thomas E. Redmond  
Title: Managing Director

COBANK, ACB,  
as a Lender

By: /S/ JOSH BATCHELDER  
Name: Josh Batchfelder  
Title: Vice President

**LEASE**

**by and between**

**THE ROCKY RIVER REALTY COMPANY**

**as Landlord**

**and**

**NORTHEAST UTILITIES SERVICE COMPANY**

**as Tenant**

**PREMISES:**

**Northeast Utilities' Campus in Newington and Berlin, CT with a mailing address of 107 Selden Street, Berlin, CT**

**DATE:**

**JULY 1, 2008**

## LEASE

THIS LEASE (“Lease”) is entered into as of July 1, 2008 (“Effective Date”) by and between **THE ROCKY RIVER REALTY COMPANY**, a Connecticut corporation having an office at 107 Selden Street, Berlin, Connecticut 06037 (“Landlord”), and **NORTHEAST UTILITIES SERVICE COMPANY**, a Connecticut corporation having an office at 107 Selden Street, Berlin, Connecticut 06037 (“Tenant”). Landlord and Tenant are collectively referred to herein as the “Parties” and individually as each “Party”.

### RECITALS:

**WHEREAS**, Landlord and Tenant have entered into the following prior leases: (i) that certain Lease between Landlord and Tenant dated December 1, 1951, as amended on June 15, 1970 and as further amended, for 37.3 acres in Berlin, Connecticut and the so-called Northeast Utilities (“NU”) “Main Building”, which expired on June 30, 2003 and thereafter continued on a month-to-month tenancy through June 30, 2008 (the “NU Main Building Lease”); (ii) that certain Lease between Landlord and Tenant dated June 15, 1970, as amended, for 74.3 acres in Berlin and Newington, Connecticut and the so-called NU “Garage and Warehouse” buildings, which expired on June 30, 2003 and thereafter continued on a month-to-month tenancy through June 30, 2008 (the “NU Garage & Warehouse Lease”); (iii) that certain Lease between Landlord and Lesse’s affiliate, The Connecticut Light and Power Company, dated June 15, 1970, as amended, for 9.7 acres in Berlin, Connecticut and the so-called NU “South Building”, which expired on June 30, 2003 and thereafter continued on a month-to-month tenancy through June 30, 2008 (the “NU South Building Lease”); and (iv) that certain Office Lease between Landlord and Tenant dated April 14, 1992 for a portion of the building(s) known as “NU East” located in Berlin, Connecticut, which expired on April 14, 2007 and thereafter continued on a month-to-month tenancy through June 30, 2008 (the “NU East Building Lease No. 1”); and

**WHEREAS**, hereinafter, the NU Main Building Lease, the NU Garage & Warehouse Lease, the NU South Building Lease and the NU East Building Lease No. 1 are collectively referred to as the “Original Leases”; and the Original Leases collectively govern all of the real property, buildings and improvements owned by the Landlord located at the NU campus in Berlin and Newington, Connecticut with a mailing address of 107 Selden Street, Berlin, Connecticut, except that the Original Leases do not include that certain Project Lease dated April 14, 1992 between Landlord and Tenant for a portion of the building(s) known as “NU East” in Berlin, Connecticut, which expires on April 14, 2017 and is associated with a third party financing and, therefore, the April 14, 1992 Project Lease cannot be terminated at this time and cannot be included within the definition of the Original Leases (hereinafter, the Project Lease dated April 14, 1992 is referred to as the “Excluded Lease For A Portion Of NU East”); and

**WHEREAS**, the location of the premises leased under the Original Leases is more particularly described in the real estate description in Schedule A hereto; and

**WHEREAS**, the Parties agree that, effective as of the Effective Date, this Lease shall replace and supercede the Original Leases; and the Parties further intend that this Lease shall consolidate into one document the leasing arrangement between the Landlord and the Tenant for the Landlord's real property, buildings and improvements located in Newington and Berlin, Connecticut with a mailing address of 107 Selden Street, Berlin, Connecticut, except, as indicated previously, this Lease shall not replace and supersede the Excluded Lease For A Portion Of NU East.

**AGREEMENT:**

**NOW, THEREFORE**, in consideration of the mutual promises and covenants contained herein and other good and valuable consideration, the receipt, adequacy and sufficiency of which are hereby acknowledged, the Parties agree as follows:

1. **DEMISED PREMISES.** Landlord does hereby demise and lease to Tenant, and Tenant does hereby lease from Landlord, (a) those certain parcels of land, together with the buildings and improvements now or hereafter located thereon, located in the Towns of Berlin and Newington, County of Hartford, State of Connecticut, which are more particularly described on Schedule A attached hereto and made a part hereof, (b) all appurtenances associated with the Demised Premises (as hereinafter defined), and (c) all personal property associated with the Demised Premises (as hereinafter defined) (collectively, hereinafter, said real property, including buildings and improvements now or hereafter located thereon, appurtenances and personal property are hereinafter called the "Demised Premises"), reserving, to the Landlord and its assigns, the right to enter upon and to use the Demised Premises, or portions thereof, in a manner that does not unreasonably interfere with the Tenant's rights hereunder.
2. **LEASE TERM.** Landlord shall lease the Demised Premises for use by Tenant in conformance with the terms of this Lease from July 1, 2008 through June 30, 2009 (the "Initial Term"), unless sooner terminated as provided herein. Following the expiration of the Initial Term, this Lease shall automatically be extended for consecutive one-year periods (each, a "Renewal Term") subject to the same terms and conditions set forth herein, unless at least 180 days prior to the expiration of the Initial Term or the then-current Renewal Term, as appropriate, a Party informs the other Party via written notice of its decision to not extend the Initial Term or the then-current Renewal Term, as appropriate, for an additional one-year Renewal Term. The Initial Term and each Renewal Term are collectively referred to herein as the "Term".
3. **DEMISED PREMISES LEASED "AS IS"**. Tenant has thoroughly inspected the Demised Premises, the condition of title, and any governmental statutes, ordinances, regulations, codes and reports relating thereto and is fully satisfied with the Demised Premises in all respects and accepts the same as is.

Tenant acknowledges that neither Landlord nor its representatives, agents or employees have made any representation or promise as to the condition of any element or aspect of the

Demised Premises, its habitability, fitness for a particular purpose or for possession, or compliance with any applicable land use or zoning law or other restrictions to which the Demised Premises may be subject, upon which Tenant has relied.

4. **RENT.**

- (a) **Base Rent.** During the Term of this Lease, Tenant shall pay to Landlord the following amounts: (i) Landlord's actual costs, including its cost of capital (which consists of the cost of equity and debt), to own, construct, operate, maintain, repair, replace and improve the Demised Premises and all buildings and improvements located on the Demised Premises; (ii) all costs incurred by the Landlord for real estate taxes, personal property taxes, municipal assessments, special assessments, refuse removal, cleaning, maintenance, landscaping and snow removal for the Demised Premises; (iii) Landlord's actual cost to provide heat, air conditioning, electric service, natural gas service, telephone service, cable service, telecommunications service, water service, sewer service, sewage service and any other utility or similar services for the Demised Premises; and (iv) all additional amounts that Landlord is required or permitted to charge to, or collect from, Tenant or any sub-tenant pursuant to applicable federal, state and/or local law, including but not limited to the regulations, rules and orders of the Federal Energy Regulatory Commission, the Connecticut Department of Public Utility Control and their successors; (collectively items (i), (ii), (iii) and (iv) are "Base Rent"). Tenant's annual Base Rent, as determined by the Landlord in accordance with the terms of this Lease, shall be identified by the Landlord in monthly invoices from the Landlord to the Tenant. Each monthly payment of Base Rent is due on the first day of each calendar month during the Term. Notwithstanding any law, rule, policy or court decision to the contrary, and in order to induce Landlord to enter into this Lease, the Base Rent shall be payable free of set-off, counterclaim, abatement or reduction.
- (b) **Additional Rent.** The Base Rent herein specified shall be completely net to Landlord. Accordingly, all costs, fees, charges, expenses, obligations and payments of every kind (excluding payments of Basic Rent) related to the Demised Premises, or related to Landlord's ownership thereof, or related to this Lease, that may arise, become due or relate to any event occurring during the Term of this Lease are collectively hereinafter referred to as "Additional Rent", whether or not the same are designated as "Additional Rent", shall be paid by Tenant, and Tenant shall indemnify Landlord against and hold Landlord harmless from all such costs, expenses and obligations. Tenant shall pay Additional Rent required to be paid by Tenant under the terms of this Lease, as and when the same are due under the terms of the Lease, where specified, or within seven (7) days of receipt of written notice from Landlord, where any due date is not specified in the Lease. Notwithstanding any law, rule, policy or court decision to the contrary, and in order to induce Landlord to enter into this Lease, all Additional Rent shall be payable without abatement, deduction or offset.
- (c) **Rent.** All payments of Base Rent and Additional Rent are hereafter collectively referred to as "Rent".

- (d) Treatment of Estimated Expenses Reflected in the Rent. To the extent that any subcomponent or element of the Rent reflects an estimate by Landlord of the actual cost that is expected to be incurred by Landlord (e.g., an estimate of the maintenance expenses that are expected to be incurred by Landlord or an estimate of property taxes), once the actual cost thereof becomes known, Landlord shall true-up the estimated and actual costs so that (i) any resulting under-collection by Landlord of its actual expenses will be included in, and will be recovered from Tenant through, the next monthly invoice for Rent or any subsequent monthly invoice for Rent and (ii) any resulting over-collection by Landlord of its actual expense will be offset by Landlord against a future monthly invoice for Rent.
- (e) Default Interest. If Tenant shall fail to pay when due any Rent, such unpaid amounts shall bear interest from the due date thereof to the date of payment at the Interest Rate (as hereinafter defined). For the purposes of this Lease, the term "Interest Rate" shall be the highest rate allowed by applicable law. This provision shall not be construed to extend the date of payment of any such sums or to relieve Tenant of its obligation to pay any such sums at the time or times herein stipulated.
- (f) Prohibitions. Notwithstanding any law, rule, policy or court decision to the contrary, and in order to induce Landlord to enter into this Lease, no abatement, diminution, or reduction of Base Rent, Additional Rent, charges, or other compensation shall be claimed by or allowed to Tenant or any persons claiming under Tenant, without the Landlord's consent, under any circumstances, whether for inconvenience, discomfort, interruption of business, or otherwise arising from the making of alterations, changes, additions, improvements, or repairs to any buildings now on or which may hereafter be erected on the Demised Premises, by virtue or because of any present or future governmental laws, ordinances, requirements, orders, directions, rules or regulations or by virtue or arising from, and during, the restoration of the Demised Premises after the destruction or damage thereof by fire or other cause (notwithstanding that Landlord shall make all or a portion of the insurance proceeds available to Tenant pursuant to Section 12 hereof) or the taking or condemnation of a portion only of the Demised Premises as set forth in Section 13 hereof (notwithstanding that Landlord shall make all or a portion of a condemnation award available to Tenant pursuant to Section 13 hereof), or arising from any other cause or reason.
- (g) Taxes. Tenant shall make arrangements with the applicable taxing authorities to directly pay to said taxing authorities all real estate taxes, personal property taxes, municipal assessments and special assessments associated with, or arising out of, the Demised Premises (collectively "Taxes"). Either Landlord or Tenant may contest any Taxes with the appropriate authority, provided that, during any contest, Tenant shall continue to make all required Tax payments. All refunds shall be applied to the Base Rent or Additional Rent next due and payable or, if none, shall be refunded to Tenant. This provision shall survive termination of this Lease. In the event that Landlord is

directly assessed or billed for any Taxes, then Tenant shall reimburse Landlord for all Taxes within 30 days of Landlord's written request for reimbursement.

5. **INSURANCE.**

- (a) **Insurance.** Landlord will maintain insurance with respect to the Demised Premises in an amount of, and type of, insurance coverage that is commercially reasonable under the circumstances as determined by Landlord in its discretion, and Tenant shall pay as Additional Rent all fees, costs and expenses, including attorney's fees, incurred by Landlord in maintaining all such insurance. Such insurance shall (i) as to liability insurances, name the Tenant as an additional insured, (ii) provide that for effective cancellation, the Tenant shall be notified of any proposed cancellation of such policy at least thirty (30) days in advance thereof and (iii) allow the Tenant to correct any deficiency giving rise to such proposed cancellation.
- (b) **Indemnification.** Tenant shall indemnify and hold harmless the Landlord from and against any and all loss or damage to persons or property which may be asserted against the Landlord and any holder of an interest in this Lease by reason of the ownership or operation of the Demised Premises, under any workers' compensation laws or by reason of any common law or other liability incident in any way to the ownership or operation of the Demised Premises. Tenant may at its election and at its expense procure insurance against any or all such loss or damage.

6. **UTILITIES.** Tenant shall be entitled to use all existing utility connections, fixtures, risers and services but Landlord shall be under no obligation to furnish utilities to the Demised Premises. Tenant shall contact the appropriate utility companies and service providers to ensure that all utilities and services, including, but not limited to, gas, electricity, light, heat, power, telephone, cable television, internet and other services used or consumed or furnished to the Demised Premises and all buildings and improvements located at the Demised Premises (collectively, "Utilities & Services"), are placed in Tenant's name and all invoices therefor are directly sent to, and paid for by, Tenant. Consistent with Section 4(a)(iii) hereof, in the event that any Utilities & Services are directly charged to, or incurred by, Landlord, then Tenant shall reimburse Landlord for the cost of such Utilities & Services.

7. **REPAIRS, OPERATION AND MAINTENANCE.**

- (a) The Landlord shall not be required to make any repairs or improvements of any kind to the Demised Premises.
- (b) The Tenant shall, at all times during the Term of this Lease, and at its own cost and expense, keep and maintain in good order and condition, ordinary wear and tear excepted, the Demised Premises, including all buildings and improvements on the Demised Premises at the commencement of the Term of this Lease and thereafter erected on the Demised Premises, or forming part thereof, and their full equipment and appurtenances, and make all repairs thereto and restorations, replacements, and

renewals thereof, both inside and outside, structural and nonstructural, extraordinary and ordinary, foreseen or unforeseen, howsoever the necessity or desirability for repairs may occur, and whether or not necessitated by latent defects or otherwise and shall use all reasonable precaution to prevent waste, damage, or injury. Consistent with Section 4(a) hereof, in the event that any costs for the above-mentioned are directly charged to, or incurred by, Landlord, then Tenant shall reimburse Landlord for such costs.

- (c) The Tenant shall also, at its own cost and expense, put, keep, replace, and maintain in thorough repair and in good, safe, and substantial order and condition, and free from dirt, snow, ice, rubbish, and other obstructions or encumbrances, parking areas, the sidewalks, areas, coalchutes, sidewalk hoists, railings, gutters, and curbs within, in front of, and adjacent to, the Demised Premises. Consistent with Section 4(a) hereof, in the event that any costs for the above-mentioned are directly charged to, or incurred by, Landlord, then Tenant shall reimburse Landlord for such costs.
- (d) Without limiting the foregoing, the Tenant shall be responsible for any and all operation and maintenance costs of the Demised Premises, and the costs to Landlord of maintaining, upgrading, replacing or repairing any fixture, utility fixture, road, appurtenance, or any other improvement that Tenant may use or benefit from, in common with Landlord or any other tenants of Landlord, in proportion to Tenant's pro-rata use or benefit of such improvement. Consistent with Section 4(a) hereof, in the event that any costs for the above-mentioned are directly charged to, or incurred by, Landlord, then Tenant shall reimburse Landlord for such costs.
- (e) The Landlord shall not be required to furnish to Tenant any facilities or services of any kind whatsoever during the Term. The Landlord shall not be required to make any alterations, rebuildings, replacements, changes, additions, improvements, or repairs during the Term of this Lease.

- 8. **QUIET ENJOYMENT**. Landlord warrants that it is the owner of the Demised Premises in fee simple and has good right and lawful authority to enter into this Lease, and that Landlord will suffer and permit the Tenant (it keeping all the covenants on its part, as hereafter contained) to occupy, possess, and enjoy the Demised Premises, without hindrance or molestation from it or any person claiming, by, from or under it, except with respect to (a) applicable present and future laws, and (b) all encumbrances and restrictions affecting the Demised Premises reflected in the land records of the Towns of Berlin and Newington prior to and following the Effective Date of this Lease (collectively, the "Permitted Encumbrances").
- 9. **USE OF DEMISED PREMISES**. The Demised Premises may be used for any purposes whatsoever, provided that Tenant shall not use or occupy, or permit the Demised Premises, or any part thereof, to be used or occupied for any unlawful business, use, or purpose, nor for any business, use or purpose reasonably deemed disreputable or extra-hazardous by Landlord, nor for any purpose or in any manner which is in violation of any present or future governmental laws or regulations or which would impair or negate the insurance

coverage required hereunder. The Tenant shall promptly after the earlier of discovery or notice of any such unpermitted, unlawful, disreputable or extra-hazardous use, take all necessary steps, legal and equitable, to compel the discontinuance of such use. The Tenant shall indemnify the Landlord against all costs, expenses, liabilities, losses, damages, injunctions, suits, fines, penalties, claims and demands, including without limitation, attorneys' fees, arising out of any violation or default of these covenants. Tenant shall not use or occupy the Demised Premises or any part thereof so that the buildings or any other improvements thereon will not be insurable by a responsible insurance company or companies against loss or damage, without additional premium.

10. **ASSIGNMENT, SUBLETTING AND MORTGAGING BY, TENANT.**

- (a) Except as otherwise provided in this Section 10, Tenant shall not, by operation of law or otherwise, assign, mortgage or encumber this Lease, or without Landlord's prior written consent, sublet or assign any of its interests in the Demised Premises or any part thereof or permit the Demised Premises or any part thereof to be used or occupied by others, without Landlord's prior written consent in each instance, which consent shall not be unreasonably withheld.
- (b) Notwithstanding any provision of this Lease to the contrary, provided no default exists by Tenant under this Lease, Tenant may, without the consent of Landlord but after notice to Landlord:
  - (i) Enter into a permitted sublease with Dutch Point Credit Union, Inc.;
  - (ii) Sublet any part of the Demised Premises to any parent, affiliate or subsidiary of Tenant or of Northeast Utilities;
  - (iii) Assign this Lease in its entirety to an entity into which Tenant is merged or consolidated or to which all or substantially all of Tenant's assets and business as a continuing concern are transferred, or to any entity which controls or is controlled by Tenant or is under common control with Tenant provided, that in any of such events the entity succeeding to Tenant has a net worth computed in accordance with generally accepted accounting principles equal to or greater than (1) the net worth of Tenant at the date immediately prior to such merger, consolidation or transfer, or (2) the net worth of Tenant on the Effective Date of this Lease, whichever is greater; or
  - (iv) Sublet space in the buildings and other structures located on the Demised Premises (A) to any sublessees that provide services or products to Tenant or (B) to any sublessees that provide services or products to any parent, affiliate or subsidiary of Tenant, or (C) to the employees of any of the foregoing.
- (c) Notwithstanding any provision of this Lease to the contrary, Tenant shall remain at all times primarily, jointly, and severally liable under this Lease despite any subletting or

assignment, except that in connection with a permitted assignment pursuant to subparagraph (b) (iii) above, Tenant shall be released from any and all future obligation or liability hereunder upon delivery to Landlord of (i) a duplicate original of the assignment, (ii) an agreement wherein the assignee assumes or agrees to keep, observe, and perform all obligations to be kept, performed and observed under this Lease on the part of the Tenant, and (iii) a document evidencing the prior written consent to release of the Tenant duly executed by any and all parties, including any person or entity to whom Landlord has collaterally assigned, pledged or otherwise mortgaged its interest in the Demised Premises or this Lease.

- (d) Landlord may assign all or any portion of its rights and/or obligations hereunder without the Tenant's prior consent. Landlord's right to assign its rights hereunder for financing or related purposes are discussed in Section 14 of this Lease.

11. **COMPLIANCE WITH LAWS.** Tenant shall, at its sole cost and expense, promptly observe and comply with all present and future laws, ordinances, requirements, orders, directions, rules and regulations, of all governmental and regulatory authorities having or claiming jurisdiction over, or affecting, the Demised Premises or any part thereof.

12. **DAMAGE BY FIRE OR OTHER CASUALTY.**

- (a) **General Obligations.** If the Demised Premises, or any part thereof, shall be damaged or destroyed by fire, other casualty, condemnation or other taking as provided in Section 13 hereof, whether or not said damage or destruction shall have resulted from the fault or neglect of Landlord or Tenant or their respective servants, invitees, employees, agents, visitors or licensees and whether or not proceeds sufficient to restore or rebuild are available, notwithstanding any law, rule, policy or court decision to the contrary, and in order to induce Landlord to enter into this Lease, this Lease shall continue in full force and effect and Tenant shall, with reasonable diligence, repair or replace such damage or destruction, at Tenant's sole cost and expense; provided, however, that the provisions of this subsection shall not apply if the Lease is terminated pursuant to Section 13(a) hereof.
- (b) **Rental Payments Continue.** Use of insurance proceeds. As provided in Section 4 hereof, Tenant's obligation to make payments of Base Rent and Additional Rent shall continue unabated notwithstanding destruction or taking of the Demised Premises (other than a taking which terminates the Lease pursuant to Section 13(a) hereof); provided, however, that to the extent that Tenant actually makes such repairs and replacements as are covered by the proceeds of any condemnation award or any insurance covering the interests of both Landlord and Tenant (and any assignee of Landlord's interest therein), and Tenant continues to make timely payment to Landlord of all Base Rent, Additional Rent, and other charges payable hereunder, Landlord shall make any such proceeds actually received by it available to Tenant in accordance with all of the provisions of Sections 12 and 13 hereof, and Tenant shall be entitled to apply such proceeds to the

costs of such repairs and replacements. Any amount of such proceeds which is in excess of the cost of such replacements or repairs shall be the sole property of the Landlord.

- (c) Notice of Loss. The Tenant shall give the Landlord prompt notice of any loss covered by insurance, and the Landlord shall have the right to join the Tenant in adjusting any loss; provided, however, that the provisions of this subsection shall not apply if the Lease is terminated pursuant to Section 13(a) hereof.
- (d) Restoration of the Demised Premises. In the event of damage or destruction of the Demised Premises, or any part thereof, as a result of casualty, condemnation, taking or other cause, the Tenant shall give prompt written notice thereof to the Landlord, and (except in the event of a condemnation or other taking by which this Lease is terminated under Section 13(a) hereof), the Tenant shall promptly commence and diligently continue to perform the repair, restoration and rebuilding of that portion of the Demised Premises so damaged or destroyed (hereinafter, the "Work") so as to restore the Demised Premises in full compliance with all legal requirements and so that the Demised Premises shall be at least equal in value and general utility as they were prior to the damage or destruction, and the Tenant shall, prior to the commencement of the Work, furnish to the Landlord for its approval: (i) complete plans and specifications for the work, with satisfactory evidence of the approval thereof (A) by all governmental authorities whose approval is required, (B) by all parties to or having an interest in this Lease, whose approval is required, and (C) by an architect reasonably satisfactory to the Landlord (hereinafter, the "Architect") and which shall be accompanied by the Architect's signed estimate, bearing the Architect's seal, of the entire cost of completing the Work; (ii) certified or photostatic copies of all permits and approvals required by law in connection with the commencement of the Work and as and when obtainable, the conduct of the Work and (iii) a surety bond and/or guaranty of the payment for and completion of the Work, which bond or guaranty shall be in form and substance satisfactory to the Landlord and shall be signed by a surety or sureties, or guarantor or guarantors, as the case may be, who are acceptable to the Landlord, and in an amount not less than the Architect's estimate of the entire cost of completing the Work, less the amount of insurance proceeds (or condemnation award), if any, then held by the Landlord for application toward the cost of the Work.

The Tenant shall not commence any of the Work until the Tenant shall have complied with the applicable requirements referred to in this Section 12(d), and after commencing the Work the Tenant shall perform the Work diligently and in good faith in accordance with the plans and specifications referred to in this Section 12(d).

The Tenant shall pay the full cost of any repairs or restorations to the Demised Premises which cost is not covered by the proceeds of any insurance or condemnation award, whether or not any such proceeds or award is available.

- (e) Restoration: Advances. In the event that the Landlord recovers insurance proceeds (or, in the case of condemnation or taking, the award therefor) on account of damage or

destruction to the Demised Premises, such proceeds or award (if any) less the cost, if any, to the Landlord of such recovery and of paying out such proceeds (including reasonable attorneys' fees and costs allocable to inspecting the Work and the plans and specifications therefor), shall be applied by the Landlord to the payment of the cost of the Work and shall be paid out from time to time to the Tenant and/or, at the Landlord's option exercised from time to time, directly to the contractor, subcontractors, materialmen, laborers, engineers, architects and other persons rendering services or materials for the Work, as said Work progresses except as otherwise hereinafter provided, but subject to the following conditions, any of which the Landlord may waive:

- (i) the Architect shall be in charge of the Work;
- (ii) each request for payment shall be made on seven (7) days' prior notice to the Landlord and shall be accompanied by (A) a certificate of the president or chief financial officer of the Tenant, specifying the party to whom (and for the account of which) such payment is to be made and (B) a certificate of the Architect if one be required under subsection (d) above, otherwise by a certificate of the president or chief financial officer of the Tenant, as applicable, stating (1) that all of the Work completed has been done in compliance with the approved plans and specifications, if any be required under said subsection (d), and in accordance with all provisions of law; (2) the sum requested is justly required to reimburse the Tenant for payments by the Tenant to, or is justly due to, the contractor, subcontractors, materialmen, laborers, engineers, architects or other persons rendering services or materials for the Work (giving a brief description of such services and materials), and that when added to all sums, if any, previously paid out by the Landlord does not exceed the value of the Work done to the date of such certificate, and (3) that the amount of such proceeds remaining in the hands of the Landlord, will be sufficient on completion of the Work to pay for the same in full (giving in such reasonable detail as the Landlord may require an estimate of the cost of such completion);
- (iii) each request shall be accompanied by waivers of liens, or if unavailable, lien bonds, satisfactory to the Landlord covering that part of the Work previously paid for, if any, and by a search prepared by a title insurance company satisfactory to the Landlord or by Landlord's counsel or by other evidence satisfactory to the Landlord, that there has not been filed with respect to the Demised Premises any mechanic's lien or other lien or instrument for the retention of title in respect of any part of the Work not discharged of record and that there exist no encumbrances on or affecting the Demised Premises (or any part thereof) other than encumbrances, if any, existing as of the date hereof and which have been approved by the Landlord;

- (iv) no event shall have occurred and be continuing which with the passage of time or the giving of notice, or both, would constitute an Event of Default pursuant to Section 20 hereof; and
- (v) the request for any payment after the Work has been completed shall be accompanied by certified copies of all certificates, permits, licenses, waivers and/or other documents required by law (or pursuant to any agreement binding upon the Tenant or affecting the Demised Premises or any part thereof) to render occupancy of the Demised Premises legal.

Any such proceeds or award remaining in the Landlord's hands after the completion of the Work and payment in full therefor, or upon the Tenant's failure to commence and diligently complete the Work, shall be the sole property of the Landlord, and the Landlord shall owe no duty to account therefor to Tenants or to apply the same to the amounts due to the Landlord from the Tenant hereunder.

- (f) Restoration by the Tenant. If within one hundred twenty (120) days after the occurrence of any damage or destruction to the Demised Premises, the Tenant shall not have submitted to the Landlord and received the Landlord's approval of plans and specifications for the repair, restoration and rebuilding of the Demised Premises so damaged or destroyed (approved by the Architect and by all governmental authorities and other persons or entities, if any, whose approval is required), or if, after such plans and specifications are approved by all such governmental authorities and other persons or entities, if any, and the Landlord, the Tenant shall fail to commence promptly such repair, restoration and rebuilding, or if thereafter the Tenant fails diligently to continue such repair, restoration and rebuilding or is delinquent in the payment to mechanics, materialmen or others of the costs incurred in connection with such Work, or if the Tenant shall fail to repair, restore and rebuild promptly the Demised Premises so damaged or destroyed, then, in addition to all other rights herein set forth, and after giving the Tenant ten (10) days' written notice of the nonfulfillment of one or more of the foregoing conditions, the Landlord or any lawfully appointed receiver of the Demised Premises, may at their respective options, perform or cause to be performed such repair, restoration and rebuilding, and may take such other steps as they deem advisable to perform such repair, restoration and rebuilding, and upon twenty-four (24) hours' prior written notice to the Tenant, the Landlord may enter upon the Demised Premises to the extent reasonably necessary or appropriate for any of the foregoing purposes, and the Tenant hereby waives, for the Landlord and all others holding an interest in Landlord's interest in this Lease, any claim against the Landlord and such receiver arising out of anything done by the Landlord or such receiver pursuant hereto, and the Landlord or such receiver, may, at its option, apply insurance proceeds (without the need by the Landlord to fulfill any other requirements of this Lease) to reimburse the Landlord and/or such receiver for all amounts expended or incurred by them, respectively, in connection with the performance of such Work, and any excess costs shall be paid by the Tenant to the Landlord upon demand, and such payment of excess costs shall be deemed Additional Rent and due on demand.

- (g) Waiver. In order to induce Landlord to enter into this Lease, Tenant hereby expressly waives the provisions of any statute or law granting to Tenant the right or option to continue or terminate this Lease or to remain in or vacate the Demised Premises in the event of damage thereto or destruction thereof, and Tenant hereby agrees that the provisions of this section shall govern and control in lieu of the provisions of any such statute or law.

13. **EMINENT DOMAIN**.

- (a) Termination on Complete Taking. Notwithstanding anything to the contrary in Section 12 hereof, if the Demised Premises or such part thereof as would render the remainder of the Demised Premises unusable for the conduct of Tenant's operations on the Demised Premises as they are then being conducted (as determined by Landlord in its reasonable discretion) shall be taken in condemnation proceedings or by virtue of the exercise of eminent domain or for any public or quasi public improvement or use, Tenant's obligations under this Lease, including the obligation to pay Base Rent and Additional Rent hereunder, shall continue up to and including the later of (i) the date that actual possession of the Demised Premises, or that portion thereof, is taken by the condemning authority, if this Lease has not been terminated by the condemning authority, or (ii) the date that this Lease is terminated by the condemning authority and title to the Demised Premises or the part so taken has vested in the condemning authority, upon which date this Lease shall terminate as though the Term of this Lease had expired. If this Lease is terminated as a result of any such taking as provided in this Subsection, Tenant shall have no right to any part of the damages assessed for the taking of the Demised Premises. All sums recovered or awarded for such taking or for damages for such taking shall belong to and are hereby assigned to Landlord.
- (b) Partial Taking. In the event this Lease shall not be terminated as a result of a taking pursuant to Section 13(a) above, the Tenant shall, with reasonable diligence, repair and restore that portion of the Demised Premises not so taken, and the Landlord shall make all or a portion of the condemnation award (up to the amount of the cost of such repairs and restoration), when received, available to Tenant for application toward such costs in the manner otherwise specified in Section 12 in the case of casualty. No repairs or restoration shall be commenced without the prior written approval of Landlord, which approval shall not be unreasonably withheld. Tenant's obligation to pay Base Rent and Additional Rent shall continue, without abatement, deduction or offset, notwithstanding the foregoing.
- (c) Waiver. In order to induce Landlord to enter into this Lease, Tenant hereby expressly waives the provisions of any statute or law granting to Tenant any rights or options that affect the agreements of the parties contained in this Section, and Tenant agrees that the provisions of this Section shall govern and control in lieu of the provisions of any such statute or law.

14. **ASSIGNMENT OF RENTS AND ATTORNMENT TO LANDLORD'S DESIGNATED ASSIGNEE.**

- (a) Assignments. Landlord may assign (without the Tenant's prior consent) all of Landlord's right, title and interest in, to and under this Lease, including all rights to consent, approve, or exercise any option or election, rents, issues, profits and proceeds (including, without limitation, casualty and condemnation proceeds) payable now or hereafter to Landlord from Tenant under this Lease, to any bank, insurance company, mortgagee or similar financial institution for financing and/or related purposes (collectively hereinafter, "Landlord's Designated Assignee"), whether or not such assignee is the holder of any mortgage and, upon written notice from Landlord, Tenant will make such rent and/or other payments, as and when due under this Lease, directly to any such assignee designated by Landlord.
- (b) Tenant's Duties to the Landlord's Designated Assignee. Without limitation of any other agreement entered into between the Landlord's Designated Assignee and the Tenant, Landlord and Tenant agree that if Landlord elects to assign its rights hereunder to Landlord's Designated Assignee pursuant to Section 14(a) of this Lease, then the following provisions shall apply:
- (i) There shall be no cancellation, surrender, or modification of this Lease by joint action of Landlord and Tenant without the prior consent in writing of the Landlord's Designated Assignee;
- (ii) Tenant shall, upon sending Landlord any notice of default pursuant to Section 21 hereof, simultaneously send a copy of such notice to the Landlord's Designated Assignee, and no such notice to Landlord shall be effective unless such copy is sent to the Landlord's Designated Assignee. Tenant agrees that the Landlord's Designated Assignee shall, after receipt of such notice, have the right to cure or cause the cure of any default of Landlord hereunder, for the same cure period permitted to Landlord hereunder, and Tenant agrees to accept such performance by or at the instigation of the Landlord's Designated Assignee as if the same had been done by Landlord.
- (iii) In the event that the Landlord's Designated Assignee acquires Landlord's interest hereunder by judicial proceedings or otherwise, then, upon written request of the Landlord's Designated Assignee, Tenant agrees to accept the Landlord's Designated Assignee as a party to this Lease, to re-execute a lease upon substantially the same terms and conditions as this Lease for the then remaining Term hereof, and to accord the Landlord's Designated Assignee full right, title, interest and privileges accorded to Landlord hereunder. In any such event, the Landlord's Designated Assignee shall not be liable for any prior acts or omissions of the Landlord.

(iv) Tenant shall, on or before ten (10) days after a request by the Landlord's Designated Assignee or Landlord, execute, acknowledge and deliver to the Landlord's Designated Assignee an agreement, prepared at Landlord's sole cost and expense, in form satisfactory to Landlord and Landlord's Designated Assignee, between Landlord, Tenant and the Landlord's Designated Assignee, memorializing all of the provisions of this Section 14 and further assent to the terms of the assignment by Landlord of its interests hereunder to the Landlord's Designated Assignee, and such other documentation as Landlord's Designated Assignee reasonably requests from time to time.

15. **ALTERATIONS, INSTALLATIONS AND CHANGES.** Tenant may, at its sole cost and expense, from time to time redecorate the Demised Premises and make such alterations, installations and changes in such parts thereof as it shall deem necessary or desirable for its purposes; provided, however, that no alteration, installation or change costing in excess of \$5,000,000.00 shall be commenced without the prior approval of Landlord, which approval shall not be unreasonably withheld. All alterations, improvements, renewals and replacements made in or upon the Demised Premises by Tenant shall immediately belong to Landlord and become part of the Demised Premises.
16. **SIGNS.** With the prior written consent of Landlord, Tenant shall, at its own expense, have the right to install, maintain, change and remove any signs on the Demised Premises. Tenant may continue to maintain any existing signs on other land of the Landlord, in their current locations, at Tenant's sole expense, subject to the right of Landlord to terminate such right, upon thirty (30) days advance written notice to Landlord. All such signs shall be erected and maintained in accordance with all laws and regulations pertaining thereto. Upon the termination of this Lease, Tenant shall remove any such signs and restore the areas occupied by such signs to the condition existing prior to the installation thereof.
17. **ACCESS TO DEMISED PREMISES.** Tenant shall permit Landlord or Landlord's agents to enter upon the Demised Premises, at all reasonable hours, for the purpose of inspecting the same.
18. **IMPROVEMENTS AND TRADE FIXTURES AT END OF TERM.**
- (a) **Improvements to Demised Premises.** At the expiration or earlier termination of the Term of this Lease, Tenant shall surrender to Landlord the Demised Premises, together with all alterations, improvements, renewals and replacements thereof requested by the Landlord, in good order, condition and state of repair, ordinary wear and tear excepted.
- (b) **Trade Fixtures.** All-non-structural installations made by and at the expense of Tenant for the purpose of the conduct of its business on the Demised Premises (hereinafter referred to as "Trade Fixtures") shall at all times be and remain the sole property of Tenant and may be removed by Tenant at any time during, or at the end of, the Term of this Lease, provided that the same can be removed without structural damage to the Demised Premises and Tenant places the Demised Premises in the same condition as

they were prior to the installation or placement of the Trade Fixtures on the Demised Premises, ordinary wear and tear excepted.

- (c) Improvements and Trade Fixtures Not Accepted by the Landlord. Notwithstanding any contrary provisions in Sections 18(a) and 18(b) of this Lease, no later than 90 days after the expiration or earlier termination of the Term of this Lease, Tenant shall be responsible for the cost of removing and appropriately disposing of (i) all alterations, improvements, renewals and replacements by the Tenant or any subtenant to the Demised Premises which the Landlord elects (in the Landlord's discretion) not to accept ownership of and (ii) all Trade Fixtures and other personal property located at the Demised Premises which the Landlord elects (in the Landlord's discretion) not to accept ownership of.
- (d) Landlord's Right of Self-Help. In the event that Tenant fails to timely comply with its obligations under this Section 18, then Landlord may elect to (but is not obligated to) perform the obligations imposed on Tenant by this Section 18 and all costs incurred by the Landlord, including costs for removal, repair, construction, reconstruction, storage, moving and disposal, shall be reimbursed to the Landlord within 30 days of the Tenant's receipt of a written request for reimbursement from the Landlord.

19. **CURING TENANT'S DEFAULTS.** If Tenant shall be in default in the performance of any of the agreements, conditions, covenants or terms of this Lease beyond applicable notice and grace periods, or in the payment of any amounts required to be paid hereunder by Tenant, including, without limitation, payment of premiums in connection with any insurance policies required to be maintained pursuant to the terms hereof, any other charges under this Lease, repair and maintenance obligations, keeping the Demised Premises free of any mechanics or other liens, or making any other payment or performing any other act on Tenant's part to be paid or performed as provided herein, then Landlord may, but shall not be obligated to, upon thirty (30) days written notice to Tenant or without notice in an emergency, pay or perform the same for the account of Tenant without waiving the performance of or releasing Tenant from any of Tenant's agreements, obligations or covenants hereunder. Any amount paid, or any expenses or liability incurred, including attorneys' fees, by Landlord for the account of the Tenant as aforesaid, shall be deemed to be Additional Rent, payable immediately upon demand. The foregoing remedy shall be in addition to and not in limitation of all of the rights and remedies of Landlord described in this Lease.

20. **DEFAULTS BY TENANT.**

- (a) Events of Default. Each of the following shall be deemed an Event of Default by Tenant hereunder and a breach of this Lease:
  - (i) A failure by Tenant in the payment of the Base Rent, any Additional Rent or any other charges due hereunder within ten (10) days after its due date;

- (ii) a default in the performance or observance of any other covenant, condition or provision of this Lease to be performed or observed by Tenant and continuing for a period of thirty (30) days after the earlier to occur of (A) Tenant's obtaining actual knowledge of such default or (B) Tenant's receipt of written notice of such default; provided, however, that in the case of any such default which cannot be cured by the payment of money but which is otherwise curable, if such default cannot be cured within such thirty (30) day period, then and so long as the Landlord is not (and could not reasonably be expected to be) materially adversely affected by such default and so long as the Tenant is proceeding with due diligence to cure such default and is submitting periodic reports on request of Landlord with respect to the efforts to effect such cure, such thirty (30) day period shall be extended for up to an additional ninety (90) days to the extent required to permit Tenant, proceeding with due diligence, to cure such default;
  - (iii) the filing of a petition by or against Tenant for adjudication as a bankrupt under the Federal Bankruptcy Code (hereinafter referred to as the "Bankruptcy Laws") as now or hereafter amended or supplemented, or for reorganization or for arrangement within the meaning of or pursuant to any of the Bankruptcy Laws, or the filing of any petition by or against Tenant under any future bankruptcy act or law for the same or similar relief; the commencement of any action or proceeding for the liquidation of Tenant whether instituted by or against Tenant, or for the appointment of a receiver or trustee of the property of Tenant, or any material portion thereof; the taking of possession of the property of Tenant by any governmental officer or agency pursuant to statutory authority for the dissolution, rehabilitation, reorganization or liquidation of Tenant; the making by Tenant of an assignment for the benefit of creditors; however, if any of such actions shall be involuntary on the part of Tenant, the event in question shall not be deemed a default within the meaning of this Lease if cured by Tenant within sixty (60) days thereof;
  - (iv) the abandonment or vacating of the Demised Premises by Tenant;
  - (v) two or more events of default under this Lease in any consecutive twelve (12) month period, whether or not the same may have been cured in any applicable cure period.
- (b) Termination. If an Event of Default under the Lease has occurred and is continuing beyond any applicable cure periods, Landlord may terminate this Lease.
- (c) Rights On Termination. Upon a termination of this Lease by Landlord, in accordance with section 20(b) hereof, Tenant shall quit and peacefully surrender the Demised Premises to Landlord and Landlord, upon or at any time after any such termination, may without further notice, enter upon the Demised Premises and possess itself thereof, by self help (to the extent permitted by law), summary process, ejectment or otherwise it being understood and agreed that no demand for the Base Rent or Additional Rent

and no re-entry for conditions broken as at common law may be necessary to enable the Landlord to recover such possession and that no demand for the Base Rent or Additional Rent and no re-entry for conditions broken pursuant to any statutes now or hereafter existing relating to summary process, ejectment, or any other action for the possession of the Demised Premises shall be necessary, the right to the same being hereby waived by the Tenant (to the extent permitted by applicable law), and the Landlord shall not be deemed guilty of any manner of trespass, nor shall Landlord be liable to indictment, prosecution or damages therefor, and Landlord may dispose Tenant and remove Tenant and all other persons or entities and property from the Demised Premises.

- (d) Waiver of Notice to Quit. Tenant hereby expressly waives the right of service of any notice to quit provided for in any statute, or of Landlord's intention to institute legal proceedings to that end, and Tenant, for and on behalf of itself and all persons claiming through or under Tenant, also waives any and all legal and equitable or other rights of redemption or re-entry or re-possession or to restore the operation of this Lease in case Tenant shall be dispossessed by summary process, ejectment or by warrant of any court or judge or in case of re-entry or repossession by Landlord or in the case of any other expiration or termination of this Lease.
- (e) Liability of Tenant. In the event of a cancellation or termination of this Lease pursuant to this Section, or otherwise (except a termination of this Lease pursuant to Section 13(a) hereof), and notwithstanding the re-entry by Landlord, Tenant shall, nevertheless, remain liable to Landlord for the payments of the Base Rent and Additional Rent at the times and in the manner as such payments would otherwise have been due and payable but for such termination, without abatement, deduction or offset, for the remainder of the Term of this Lease. Landlord may, without notice, repair or alter the Demised Premises in such manner as Landlord may deem necessary or advisable, and/or let or relet the Demised Premises, and any and all parts thereof, for the whole or any part of the remainder of the then remaining Term of this Lease, in Landlord's name, or as the agent of Tenant and out of the rent so collected or received, Landlord shall first pay to itself the expense and cost of retaking, repossessing, repairing and altering the Demised Premises and the expense of moving persons and property therefrom, and second, pay to itself any cost or expense sustained in securing any new tenant or tenants, and third, pay to itself any balance remaining on account of the liability of Tenant to Landlord for the sum equal to the Base Rent, Additional Rent and any additional charges due hereunder and unpaid by the Tenant for the remainder of the Term of this Lease. There shall be included in any such costs, as aforesaid, attorneys' fees incurred therewith. Should any rent so collected by Landlord, after payments aforesaid, be insufficient to fully pay to Landlord a sum equal to the Base Rent and Additional Rent and any additional charges due hereunder, the balance or deficiency shall be paid by Tenant on the days above specified, that is, upon each of such due date, Tenant shall pay to Landlord the amount of the deficiency then existing and Tenant hereby agrees to be and remain liable for any such deficiency; and the right of Landlord to recover from Tenant the amount thereof, or a sum equal to the amount of the Base Rent and Additional Rent

and any additional charges due hereunder, whether or not there shall be a reletting, shall survive any summary process, ejectment, other action or other termination of this Lease; and Tenant hereby expressly waives any defense that might be predicated upon any such action of summary process, ejectment or other action or other termination or cancellation of this Lease. Should any rent so collected by Landlord after the payments aforesaid be in excess of the Base Rent and Additional Rent and any additional charges due hereunder, such excess shall be applied by Landlord against any Base Rent and Additional Rent and any additional charges due hereunder thereafter coming due and payable.

Suit or suits for the recovery of such deficiency or damages, or for a sum equal to any installment or installments of Base Rent or Additional Rent hereunder, may be brought by Landlord from time to time, at its election, and nothing herein contained shall be deemed to require Landlord to wait until the date whereon this Lease or the Term of this Lease would have expired by limitation had there been no such default by Tenant and no such termination or cancellation.

## 21. **LANDLORD'S DEFAULT.**

- (a) **Events of Default.** If Landlord shall neglect or fail to perform or observe any of the material covenants of the Landlord in this Lease and such default shall continue more than thirty (30) days following written notice thereof, as required herein, to Landlord and Landlord's Designated Assignee, without the Landlord or Landlord's Designated Assignee having commenced remedy of such default, or if Landlord or Landlord's Designated Assignee shall fail to continue to conclusion the action reasonably necessary to remedy such default with diligence and dispatch, then the Tenant may cause such default to be cured, and require the Landlord to reimburse it, subject to the provisions of subsection (b) hereof, for all of the Tenant's reasonable costs of curing such default within a reasonable time of demand therefor. Notwithstanding anything to the contrary contained herein, Tenant has no rights whatsoever to terminate this Lease (except for Tenant's right of termination as discussed in Section 2 hereof and except for the automatic termination resulting from a complete taking via eminent domain as discussed in Section 13(a) hereof) nor, should this Lease be terminated by action of the Landlord, shall Tenant be relieved of any of its obligations to pay Base Rent and Additional Rent, as and when the same are due.
- (b) **Limitation of Liability.** Notwithstanding anything to the contrary contained in this Lease, Tenant shall look solely to the estate of Landlord in the Demised Premises and the rentals therefrom for the collection of any judgment (or other judicial process) requiring the payment of money by Landlord in the event of any default or breach by Landlord with respect to any of the terms, covenants and conditions of this Lease to be observed and performed by Landlord, and no other assets of Landlord shall be subject to levy, execution or other judicial process for the satisfaction of Tenant's claims. In the event Landlord conveys or transfers its interest in the Demised Premises or in this Lease, except as collateral security for a loan, upon such conveyance or transfer,

Landlord (and in the case of any subsequent conveyances or transfers, the then grantor or transferor) shall be entirely released and relieved from all liability with respect to the performance of any terms, covenants and conditions on the part of Landlord to be performed hereunder from and after the date of such conveyance or transfer, provided that any amounts then due and payable to Tenant by Landlord (or by the then grantor or transferor) or any other obligations then to be performed by Landlord (or by the then grantor or transferor) for Tenant under any provisions of this Lease, shall either be paid or performed by Landlord (or by the then grantor or transferor) or such payment or performance assumed by the grantee or transferee; it being intended hereby that the covenants and obligations on the part of Landlord to be performed hereunder shall be binding on Landlord, its successors and assigns only during and in respect of their respective periods of ownership of an interest in the Demised Premises or in this Lease.

22. **NON-LIABILITY AND INDEMNIFICATION OF LANDLORD.** Tenant hereby agrees to indemnify and hold Landlord and Landlord's Designated Assignee, and their respective agents, servants and employees, harmless from and against any and all liabilities, damages, expenses, fees (including, without limitation, attorneys' fees), penalties, actions, causes of action, suits, costs, claims or judgments arising from injury to any persons or property in or about or traceable to the Demised Premises from any cause whatsoever or, by whomsoever caused, except to the extent such is due to the gross negligence or willful misconduct on the part of Landlord or Landlord's Designated Assignee, or any of their respective agents, servants or employees (unless damage or injury is to Tenant's property, whereupon said parties shall have no liability to Tenant under any circumstances) and Tenant is not insured against such loss, damage, injury or other casualty by insurance then carried pursuant to the terms of Section 5 hereof.
23. **TENANT'S OBLIGATION TO DISCHARGE MECHANIC'S LIENS.** If, as a result of Tenant performing its obligations hereunder or in the making of any repairs, replacements, alterations, installations and/or changes in or upon the Demised Premises as permitted hereunder, any mechanic's or other lien or order for the payment of money shall be filed against the Demised Premises by reason of, or arising out of, any labor or material furnished or alleged to have been furnished or to be furnished to, or for, Tenant at the Demised Premises or for or by reason of any change, alteration or addition by Tenant, or the cost or expense thereof, or any contract relating thereto, or against Landlord as fee owner thereof by reason of such work or contract of Tenant, Tenant shall cause the same to be canceled and discharged of record, by bond or otherwise, or establish a reasonable escrow, all at the sole expense of Tenant, within thirty (30) days after the filing of said lien or order, and shall also defend, on behalf of Landlord, at Tenant's sole cost and expense, any action, suit or proceeding that may be brought thereon or for the enforcement of such lien or order, and Tenant will pay any damages and discharge any judgment entered therein and save harmless Landlord from and indemnify it against any claim, damage or costs, including attorneys' fees, resulting therefrom.
24. **CERTIFICATES BY TENANT.** Tenant shall, at any time and from time to time, upon not less than ten (10) days prior notice by Landlord, execute, acknowledge and deliver to

Landlord a statement in writing certifying that this Lease is unmodified and in full force and effect (or if there have been modifications, that the same is in full force and effect as modified and stating such modifications or, if not in full force and effect, stating the reasons therefor and the status of the Lease), and the dates to which the Base Rent, Additional Rent and other charges have been paid, and stating, to the best of its knowledge, whether or not Landlord or Tenant are in default in performance of the terms of this Lease and, if so, specifying each such default of which Tenant may have knowledge, it being intended that any such statement delivered pursuant to this Section may be relied upon by any prospective purchaser of the Demised Premises or any lenders. Tenant shall have the same rights to certificates, upon the same notice to Landlord.

25. **HOLDING OVER.** In the event Tenant shall continue in occupancy of the Demised Premises after the expiration of the Term of this Lease, such occupancy shall not be deemed to extend or renew the Term of this Lease, but such occupancy shall continue as a tenancy from month-to-month upon the same terms, covenants, conditions and provisions herein contained.
26. **TIME OF THE ESSENCE.** Time and punctuality shall be of the essence of this Lease, but no delay or failure of Landlord to enforce any of the provisions herein and no conduct, statement or agreement of Landlord which might otherwise alter, change or waive any of the provisions herein, shall waive or change any of Landlord's rights hereunder or prevent Landlord from enforcing such rights, unless and until to the extent such waiver, change or agreement shall be clearly expressed in a writing signed by Landlord.
27. **ENTIRE AGREEMENT.** This instrument contains the entire and only agreement between the Parties regarding the leasing of the Demised Premises and no oral statements or representations or prior written matter not contained in this instrument shall have any force and effect. This Lease may only be changed, modified or discharged by an agreement in writing executed by the Parties.
28. **PARTIAL INVALIDITY.** If any term, covenant, condition or provision of this Lease or the application thereof to any person or circumstance shall, to any extent, be invalid or unenforceable, the remainder of this Lease, or the application of such term or provision to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby, and each term, covenant, condition and provision of this Lease shall be valid and be enforced to the fullest extent permitted by law.
29. **NOTICE OF LEASE.** Each party shall at any time, at the request of the other, promptly execute duplicate originals of an instrument, in recordable form, that will constitute a notice of lease under Conn. Gen. Stat. Section 47-19 or any successor statute thereof. A notice of Lease is included in Schedule B hereto.
30. **HEADINGS.** The headings for the various Sections and subsections covered in this Lease are used only as matter of convenience as an aid to finding the subject matters and are not to

be construed as part of this Lease and shall not in any way limit or amplify the terms or provisions of this Lease.

31. **NOTICES**. All notices and requests herein provided for shall be considered given or made when mailed, by registered mail, postage prepaid, as follows:

To Landlord:

The Rocky River Realty Company  
P.O. Box 270  
Hartford, Connecticut 06141-0270  
Attention: Corporate Property Management Department  
(For U.S. Mail or Hand Delivery)

To Tenant:

Northeast Utilities Service Company  
P.O. Box 270  
Hartford, Connecticut 06141-0270  
Attention: Facilities Department  
(For U.S. Mail or Hand Delivery)

32. **CONSTRUCTION**. This Lease is made and executed in and is to be construed under the laws of the State of Connecticut.
33. **SUCCESSORS AND ASSIGNS**. Except as otherwise provided herein, the agreements, conditions, covenants and terms herein contained shall, in every case, apply to, be binding, and inure to the benefit of the Parties and their respective successors and permitted assigns, with the same force and effect as if specifically mentioned in each instance where a Party hereto is named; provided, however, that no assignment or transfer of this Lease by Tenant, in violation of the provisions of this Lease, shall vest in any such assignee or transferee any right or title in or to the leasehold estate hereby created.
34. **COUNTERPARTS**. This Lease shall be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

[Signature page follows]

IN WITNESS WHEREOF, the Parties have caused this Lease to be executed as of the Effective Date.

Signed and delivered in  
the presence of:

/s/ Linda Vasil

Linda Vasil  
Print Name of Witness 1

/s/ Ellen Lindner

Ellen Lindner  
Print Name of Witness 2

**LANDLORD: THE ROCKY RIVER REALTY COMPANY**

By /s/ Peter J. Clarke

Print Name: Peter J. Clarke

Title: Vice President-Shared Services

/s/ Linda Vasil

Linda Vasil  
Print Name of Witness 1

/s/ Ellen Lindner

Ellen Lindner  
Print Name of Witness 2

**TENANT: NORTHEAST UTILITIES SERVICE  
COMPANY**

By /s/ Salvatore Giuliano

Print: Salvatore Giuliano

Title: Manager-Corporate Property Management for  
Northeast Utilities Service Company

STATE OF CONNECTICUT)

COUNTY OF HARTFORD ) ss. Berlin

Before me personally appeared **Peter J. Clarke** to me known, who being by me duly sworn, did depose and say that he is the Vice President-Shared Services for **The Rocky River Realty Company**, and he executed the foregoing instrument as his free act and deed and the free act and deed of The Rocky River Realty Company.

Notary Public: /s/ Kathy L. Schmidt

My Commission Expires: 09-30-2009

STATE OF CONNECTICUT)

COUNTY OF HARTFORD ) ss. Berlin

Before me personally appeared **Salvatore Giuliano** to me known, who being by me duly sworn, did depose and say that he is the Manager-Corporate Property Management for **Northeast Utilities Service Company**, which executed the foregoing instrument as his free act and deed and the free act and deed of Northeast Utilities Service Company.

Notary Public: /s/ Kathy L. Schmidt

My Commission Expires: 09-30-2009

#### **Schedule A**

**(See attached Legal Description of the Demised Premises)**

Schedule A is comprised of the following documents:

1. Schedule A.1: Legal Description from the NU Main Building Lease.
2. Schedule A.2: Legal Description from the NU Garage & Warehouse Lease.
3. Schedule A.3: Legal Description from the NU South Building Lease.
4. Schedule A.4: Legal Description from the NU East Building Lease No. 1.

Excluded from Schedule A is the portion of the Demised Premises subject to the Excluded Lease For A Portion Of NU East

#### **Schedule B**

#### **NOTICE OF LEASE**

Pursuant to Connecticut General Statutes § 47-19, this is to certify that a Lease dated as of July 1, 2008 ("Lease") was entered into by and between **THE ROCKY RIVER REALTY COMPANY**, a Connecticut corporation having an office at 107 Selden Street, Berlin, Connecticut 06037 ("Landlord"), and **NORTHEAST UTILITIES SERVICE COMPANY**, a Connecticut corporation having an office at 107 Selden Street, Berlin, Connecticut 06037 ("Tenant") and contains the following terms and conditions:

1. Premises. See Schedule A hereto; and
2. Initial Term. The initial term of the Lease shall be for a period of 1 year from July 1, 2008 through June 30, 2009.

3. Extensions. The initial term of the Lease shall automatically be extended by successive one-year extensions unless the (i) Tenant or Landlord provide notice of termination for convenience at least 180 days prior the expiration of the then-current term or (ii) the Lease is terminated for a uncured breach pursuant to the terms of the Lease.

4. Use. Office, utility company, commercial and related purposes associated with the Tenant's and its affiliates' performance of their duties as public utility companies.

5. Incorporation of Lease. The Landlord and Tenant hereby agree to incorporate herein by reference the Lease and agree to be bound by all of the covenants, conditions and agreements contained therein. Duplicate executed copies of the Lease are on file at the offices of the Landlord and Tenant at the addresses listed below:

To Landlord:  
The Rocky River Realty Company  
c/o Northeast Utilities Legal Department  
107 Selden Street  
Berlin, Connecticut 06037

To Tenant:  
NUSCO  
c/o Northeast Utilities Legal Department  
107 Selden Street  
Berlin, Connecticut 06037

IN WITNESS WHEREOF, the said parties have hereto caused this Notice to be executed this \_\_\_\_ day of \_\_\_\_\_, 200\_\_.

Signed and delivered in  
the presence of:

**LANDLORD: THE ROCKY RIVER REALTY COMPANY**

\_\_\_\_\_

By \_\_\_\_\_

Print Name of Witness 1

Print Name: Peter J. Clarke

\_\_\_\_\_

Title: Vice President-Shared Services and Secretary  
Duly Authorized

Print Name of Witness 2

\_\_\_\_\_

**TENANT: NORTHEAST UTILITIES SERVICE COMPANY**

Print Name of Witness 1

By \_\_\_\_\_

\_\_\_\_\_

Print: Salvatore Giuliano

Print Name of Witness 2

Title: Manager-Corporate Property Management for Northeast Utilities  
Service Company

STATE OF CONNECTICUT)

COUNTY OF HARTFORD ) ss. Berlin

On the \_\_\_\_ day of \_\_\_\_\_, 200\_\_, before me personally appeared **Peter J. Clarke** to me known, who being by me duly sworn, did depose and say that he is the Vice President-Shared Services for **The Rocky River Realty Company**, and he executed the foregoing instrument as his free act and deed and the free act and deed of The Rocky River Realty Company.

Notary Public: \_\_\_\_\_

My Commission Expires: \_\_\_\_\_

STATE OF CONNECTICUT)

COUNTY OF HARTFORD ) ss. Berlin

On the \_\_\_\_ day of \_\_\_\_\_, 200\_\_, before me personally appeared **Salvatore Giuliano** to me known, who being by me duly sworn, did depose and say that he is the Manager-Corporate Property Management for **Northeast Utilities Service Company**, which executed the foregoing instrument as his free act and deed and the free act and deed of Northeast Utilities Service Company.

Notary Public: \_\_\_\_\_

My Commission Expires: \_\_\_\_\_

(COMPOSITE CONFORMED COPY - as amended)  
Amendment No. 1-May 1, 1986  
Amendment No. 2-September 1, 1987  
Amendment No. 3-August 1, 1988

EQUITY FUNDING AGREEMENT

FOR

NEW ENGLAND HYDRO-TRANSMISSION ELECTRIC COMPANY, INC.

DATED AS OF JUNE 1, 1985

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### EQUITY FUNDING AGREEMENT

FOR

NEW ENGLAND HYDRO-TRANSMISSION ELECTRIC COMPANY, INC.

This AGREEMENT dated as of June 1, 1985, is between New England Hydro-Transmission Electric Company, Inc. (New England Hydro) and the New England entities listed in Attachment A hereto. New England Power Company is signing this Agreement only with respect to the commitments made to it by the Equity Sponsors under Section 10 hereof. Those New England entities that have executed this Agreement and that meet the further conditions for participation and qualification hereunder are hereinafter referred to as Equity Sponsors or individually as an Equity Sponsor. The Equity Sponsors are sometimes referred to

collectively herein, but their rights and obligations hereunder are several and not joint as described in Section 6 hereof.

In consideration of the premises, the concurrent execution of the other Basic Agreements hereinafter referred to, the mutual covenants hereinafter and therein set forth, and other good and valuable consideration, receipt whereof is hereby acknowledged, it is hereby agreed as follows:

Section 1. Basic Understandings and Purpose

New England utilities are currently participating in the arrangements for the Phase I interconnection planned by the New England Power Pool (NEPOOL) with Hydro-Quebec, which is to consist of a  $\pm$  450 kV HVDC transmission line from a terminal at the Des Cantons Substation on the Hydro-Quebec system near Sherbrooke, Quebec to a terminal having an approximate rating of 690 MW at a substation at the Comerford Generating Station on the Connecticut River (hereinafter referred to as Phase I). The basic arrangements covering the portion of Phase I in the United States are set forth in the New England Power Pool Agreement, as amended (the NEPOOL Agreement) and three contracts among the participants in Phase I as follows:

1. Vermont Transmission Line Support Agreement, dated as of December 1, 1981, as amended, with Vermont Electric Transmission Company, Inc.
2. Phase I Terminal Facilities Support Agreement, dated as of December 1, 1981, as amended, with New England Electric Transmission Corporation, and
3. Agreement With Respect To Use Of Quebec Interconnection, dated as of December 1, 1981, as amended, including the restatement thereof in connection with Phase II (this Agreement as restated to cover Phase II is hereinafter referred to as the Use Agreement).

These Phase I interconnection facilities are currently under construction with completion scheduled during 1986.

With the completion of arrangements for Phase I and the related contracts with Hydro-Quebec, the members of NEPOOL have conducted studies of the benefits of an expanded interconnection for NEPOOL with Hydro-Quebec (Phase II) and have negotiated with Hydro-Quebec a firm energy arrangement to utilize the expanded interconnection facilities.

The portion of Phase II in the United States will consist of an extension of the Phase I DC transmission line from the proposed terminus of Phase I at the Comerford Station through New Hampshire to a site in Massachusetts with additional terminal facilities installed at that site to increase the total transfer capacity between Hydro Quebec and NEPOOL from the 690 MW of Phase I to approximately 2000 MW. Reinforcements to the existing AC transmission system of New England Power and to certain AC facilities of Boston Edison Company will also be required. The United States portion of the Phase II facilities will be designated as pool-planned facilities in the same manner as the United States portion of the Phase I facilities was so designated.

Each Equity Sponsor acknowledges that it has been represented on the Executive and Planning Committees of NEPOOL that had responsibility for evaluating the feasibility of Phase II and, through this representation, actively participated in the decision of

NEPOOL to go forward with Phase II. Furthermore, each Equity Sponsor represents that it made its own independent investigations and inquiries as it deemed appropriate and did not rely upon representations (other than those contained in this Agreement) of New England Hydro or its affiliates in deciding to enter into this Agreement.

The sharing of benefits among the New England utilities associated with Phase II is set forth in the Use Agreement. The Use Agreement also permits each New England utility to make its own entitlement transactions with Hydro Quebec and to use the interconnection for such transactions.

The provisions of the Phase II Massachusetts Transmission Facilities Support Agreement (Massachusetts HVDC Support Agreement) cover the Phase II Massachusetts HVDC transmission line and terminal facilities in Massachusetts. New England Hydro will build, own, operate, and maintain those Massachusetts HVDC transmission facilities.

The portion of the Phase II HVDC transmission line to be constructed in New Hampshire is covered under the Phase II New Hampshire Transmission Facilities Support Agreement (New Hampshire HVDC Support Agreement). New England Hydro-Transmission Corporation (New Hampshire Hydro, an affiliate of New England Hydro) will build, own, operate, and maintain those New Hampshire HVDC transmission facilities.

All improvements and reinforcements to the AC transmission system in Massachusetts necessitated by Phase II are covered under the Phase II New England Power AC Facilities Support Agreement (New England Power AC Support Agreement) and the Phase II Boston Edison AC Facilities Support Agreement (Boston Edison AC Support Agreement).

The provisions of this Agreement cover the commitments of the Equity Sponsors of New England Hydro to contribute equity funds to New England Hydro, to provide certain limited credit support in connection with debt financing of New England Hydro, to provide certain limited credit support in connection with the New England Power AC Support Agreement and the Boston Edison AC Support Agreement, and to accept an allocation of a share of Phase II in the event of a default by certain participating New England utilities under certain other Basic Agreements.

In view of the need to formalize the agreements among the parties at an early date so that (i) binding commitments with Hydro Quebec for Phase II may be made, (ii) binding commitments for ultimate construction and the financing of the United States portion of Phase II may be undertaken consistent with the time schedule anticipated by NEPOOL and with the assurance that commitments among the New England utilities are in place, and (iii) licensing activities may proceed on a schedule that enables completion of such construction consistent with the time schedule anticipated by NEPOOL, the following agreements are concurrently being entered into (the "Basic Agreements") which collectively set forth rights and obligations with respect to the foregoing undertaking: (1) this Agreement; (2) the Massachusetts HVDC Support Agreement; (3) the New Hampshire HVDC Support Agreement; (4) the Equity Funding Agreement for New Hampshire Hydro; (5) the New England Power AC Support Agreement; (6) the Use Agreement; (7) various amendments to the NEPOOL Agreement relating to the sharing of savings, capability responsibilities, and Pool transmission

arrangements; and (8) the Boston Edison AC Support Agreement.

In order to coordinate each participating utility's interest in Phase II to the fullest extent possible, each of the following Basic Agreements have been drafted with the intent that the participating interest of each participating utility will be the same under each agreement: the Massachusetts HVDC Support Agreement, the New Hampshire HVDC Support Agreement, the New England Power AC Support Agreement, the Boston Edison AC Support Agreement, and the Use Agreement. These Basic Agreements also provide that, notwithstanding any provision thereof that may be interpreted to the contrary, the proper interpretation of each of these Basic Agreements is to be consistent with such overriding intent. Each Equity Sponsor acknowledges this overriding intent and agrees that any action by it or its appointee affecting such participating interests shall be the same under this Agreement and the Equity Funding Agreement with New Hampshire Hydro in order to also be consistent with such overriding intent.

## Section 2. Conditions Precedent to Effectiveness

The effectiveness of this Agreement, and all rights, obligations, and performance of the signatories hereunder, is subject to (1) New England Electric System (NEES) and other signatories having executed this Agreement committing in the aggregate to Equity Shares (as hereinafter defined) equal to at least 100%, and each such signatory having demonstrated by February 1, 1988, to the satisfaction of New England Hydro that it is qualified to be an Equity Sponsor pursuant to Section 4, (ii) New England Hydro or New Hampshire Hydro or New England Power or Boston Edison and members of NEPOOL (including Boston Edison and New England Power) serving at least 66-2/3% of the aggregate kilowatt-hour load served by NEPOOL members in 1980 having executed the other Basic Agreements (except for the Equity Funding Agreement for New Hampshire Hydro and the amendments to the NEPOOL Agreement), (iii) each signatory having also executed the Equity Funding Agreement for New Hampshire Hydro and having the same percentage of New Hampshire Hydro's equity as its Equity Share hereunder, (iv) members of NEPOOL having executed the amendments to the NEPOOL Agreement for Phase II in order that such amendments may become effective in accordance with the NEPOOL Agreement, and (v) each signatory having satisfied the conditions precedent set forth below.

By September 15, 1988, each signatory to this Agreement shall provide certificates and legal opinions from counsel satisfactory to New England Hydro, together with certified copies of related resolutions, consents, approvals, authorizations, and other documents (Documentation) necessary to establish to the satisfaction of New England Hydro that all corporate and regulatory consents, waivers, approvals, authorizations and other actions necessary in connection with performance by such signatory of its obligations under the Agreement have been obtained and are in full force and effect, that the Agreement has been duly authorized, executed, and delivered by such signatory, and that it constitutes a binding commitment by the signatory enforceable in accordance with its terms. Forms of Documentation acceptable to New England Hydro are included in Attachment B hereto. Prior to signing this Agreement, each signatory has provided to New England Hydro a listing of all consents, waivers, approvals, authorizations, and other actions required for that signatory to deliver its Documentation.

Vermont Electric Power Company, Inc. (VELCO) and Massachusetts Municipal Wholesale Electric Company (MMWEC) represent qualified signatories on Schedules and MMWEC contracts a number of electric systems. If they desire and are to be Equity Sponsors, they shall be deemed to have behalf of those respective systems listed in I or II, respectively. By September 1, 1988, VELCO will provide New England Hydro with copies of with their respective systems which impose absolute and unconditional obligations on such systems to pay their proportionate shares of all costs or obligation incurred under this Agreement by VELCO or MMWEC, respectively. By that date, VELCO and MMWEC will also provide to New England Hydro as part of their Documentation certificates, legal opinions (from counsel satisfactory to New England Hydro), and other documents in form and substance satisfactory to New England Hydro representing unconditionally that all consents, approvals, and authorizations have been obtained by their contracting systems in connection with each such system's performance of its obligations under its respective contract with VELCO or MMWEC and that each such contract imposes absolute and unconditional obligations on such systems to pay their proportionate shares of all costs incurred under this Agreement by VELCO or MMWEC, respectively, and has been duly authorized, executed, and delivered and is a binding commitment of such system enforceable in accordance with its terms. If regulatory approvals have not been obtained by September 1, 1988, such representations shall be conditioned upon receipt of regulatory approvals. VELCO and MMWEC will have until September 15, 1988, to receive such approvals and make such representations unconditionally. In order that percentages of participation be consistent among the Basic Agreements, VELCO and MMWEC shall have their contracts with their contracting systems cover the necessary commitments for each Basic Agreement.

All expenses in connection with obtaining and delivering any Documentation under this Agreement, including legal opinions, are to be borne by the signatory incurring such expense. New England Hydro will have no responsibility for any expenses incurred by VELCO and MMWEC in providing Documentation for their respective contracting systems.

Any signatory that fails to meet the requirements of Section 2 by the deadlines contained herein will not be an Equity Sponsor under this Agreement and will not have any rights and obligations hereunder.

New England Hydro by written notice to all signatories may extend any deadline date specified in this Agreement to a later date, provided that any extension for longer than six months requires the consent of the Advisory Committee under the Massachusetts HVDC Support Agreement.

### Section 3. Effective Date and Term

This Agreement shall become effective (the Effective Date) upon the last to occur of the following dates:

- (i) the date that the Equity Sponsors, committing in the aggregate to Equity Shares (as hereinafter defined) equal to at least 100%, have met the requirements of Section 2; and

(ii) the date that the last of the other Basic Agreements (excluding the Use Agreement) becomes effective or would become effective but for a condition that its effectiveness is subject to this Agreement becoming effective.

Upon execution and delivery of the Agreement by New England Hydro and NEES and other signatories committing in the aggregate to Equity Shares (as hereinafter defined) equal to no less than 100%, and notwithstanding any provision herein to the contrary, no signatory may terminate its obligations hereunder except in accordance with provisions of this Agreement.

The term of this Agreement shall expire on the later to occur of the termination dates of the Massachusetts HVDC Support Agreement or the New England Power and Boston Edison AC Support Agreements.

#### Section 4. Equity Sponsor Qualification

A. In order to enhance New England Hydro's ability to finance its portion of Phase II as required under the Massachusetts HVDC Support Agreement and to enhance the credit support of certain Supporters under the AC Support Agreement, some or all of the New England utilities participating in Phase II whose credit ratings are at least one grade above the lowest investment grade have agreed to provide, or to cause their designees to provide, credit support for those New England utilities participating in Phase II whose credit ratings are below investment grade. NEES and those New England utilities or their designees which have agreed to provide this credit support are the Equity Sponsors of New England Hydro under this Agreement.

B. A Participant under the Massachusetts HVDC Support Agreement or its authorized designee qualifies to be an Equity Sponsor by having its outstanding long-term debentures rated at least one grade above the lowest investment grade rating as of September 1, 1985. If no long-term debentures are outstanding, the ratings used shall be those of such company's most junior long-term mortgage or revenue bonds. If no mortgage bonds, revenue bonds, or debentures are outstanding, the ratings used shall be those of the most junior long-term debt. VELCO shall qualify to be an Equity Sponsor if 80% or more of its common stock is owned by utilities whose debt securities qualify pursuant to this subsection 4(B).

For purposes of this Agreement, "one grade above the lowest investment grade rating" means a rating equal to the following ratings from two of these rating agencies: Standard and Poor's Corporation - Rating BBB; Moodys Investor Service - Rating Baa2; and Duff & Phelps - Rating D&P 9 (or the equivalent municipal ratings).

C. A "designee" shall be authorized to be an Equity Sponsor if it is a parent company of such Participant and (i) its debt securities meet the appropriate test specified in B above, or (ii) at least 80% of its consolidated utility revenues are derived from subsidiaries whose debt securities meet the appropriate test specified in B above. (For VELCO, each stockholder of VELCO shall be a parent company of VELCO.) On or before the date of execution of this Agreement, each Participant shall identify its designee, if any.

D. A Participant under the Massachusetts HVDC Support Agreement also qualifies to be an Equity Sponsor if it has an Equity Share of four tenths of one percent (0.4%) or less and it has only one long-term debt rating from any of the three rating agencies

referred to in B above and such rating is at least "A3" as of September 1, 1985.

E. In order that the necessary credit enhancement is provided as specified in A above, the qualification of each Equity Sponsor shall be reviewed by New England Hydro as of the date that the first equity contributions are to be made by such Equity Sponsor. If an Equity Sponsor fails to qualify on such date, appropriate actions and allocations shall be instituted as provided elsewhere in this Agreement.

F. Notwithstanding any provision of Sections 2, 4(B), and 4(D) to the contrary, if a Participant (i) has only one credit rating and seeks to qualify to be an Equity Sponsor under above, or (ii) has no credit rating at all and seeks to qualify to be an Equity Sponsor under B or D above, such new credit rating or ratings must be received by February 1, 1988, from one or more of the rating agencies referred to in B above and such new credit rating or ratings shall be current. Such Participant must demonstrate by February 1, 1988, to the satisfaction of New England Hydro that it is qualified to be an Equity Sponsor pursuant to this Section 4.

#### Section 5. Equity Shares

A. Each Equity Sponsor shall have and be charged with a percentage interest in all rights and obligations hereunder determined in accordance with this Section 5 (which interest is hereinafter referred to as its "Equity Share"). All of the equity of New England Hydro will be owned by the Equity Sponsors in proportion to their Equity Shares.

The Equity Share of each Equity Sponsor shall be computed both initially and as changed from time to time in accordance with the terms hereof, by New England Hydro as hereinafter provided. Such computations shall be made as of the first day of any month in which there is a change in the number of Equity Sponsors or any change in the interest of any Equity Sponsor as herein provided. The initial computation is to be made as of September 15, 1985, and subsequent computations are to be made in any month thereafter in which an interest is modified or terminated due (i) to the failure of a signatory to provide proof that it is qualified to be an Equity Sponsor by February 1, 1988, or (ii) to the failure to provide Documentation by September 15, 1988, or (iii) to the failure to be so qualified on the date the first equity contributions are to be made by such Equity Sponsor, or (iv) to the operation of any provision of this Agreement. All computations shall be final unless there is a manifest error. Such computations of Equity Sponsors' Equity Shares as initially calculated and as changed under (i) and (ii) shall be made pursuant to Attachment C. Changes under (iii) shall be made pursuant to section 5(C) below, and changes under (iv) shall be made pursuant to the appropriate section requiring the change.

B. The Equity Shares on and as of the initial computation date, and as of the date of subsequent computations under subparts (i) and (ii) of the second paragraph of A above, will be calculated as follows:

1.51% to NEES; and

2.49% apportioned among the other Equity Sponsors on the basis of the subscription process as described in

Attachment C.

(Attachment C provides that each Equity Sponsor may specify a maximum percentage of equity and that such maximum shall remain

in effect until September 15, 1988 or such later deadline if extended pursuant to Section 2 hereof.) After the initial computation and prior to the Effective Date, each Equity Sponsor may transfer any or all of its Equity Share to one or more other Equity Sponsors. On or before September 1, 1988, any such Equity Sponsor which has transferred or intends to transfer any or all of its Equity Share to one or more other Equity Sponsors, must provide documentation to New England Hydro covering the transfer. Any apportionment of Equity Shares pursuant to Section 5B(2) above shall be made without regard to (i) any transfers of Participating Shares pursuant to Section 4 of the Massachusetts HVDC Support Agreement or (ii) any transfers of Equity Shares made after the initial computation and prior to the Effective Date, provided that each Equity Sponsor which has agreed to take such transferred Equity Share has provided the required Documentation by September 15, 1988 (including Documentation covering any such transferred Equity Share). Any transfers of Equity Shares, as provided above, shall be taken into account after such apportionment.

Upon execution of this Agreement, MMWEC may receive any such transferred Equity Shares; however, MMWEC shall not be included as an Equity Sponsor in any computations pursuant to the first paragraph of this Section 56.

C. On the basis of New England Hydro's review of the qualifications of each Equity Sponsor other than NEES as of the date that the first equity contributions are to be made by such Equity Sponsor, if one or more Equity Sponsors are no longer qualified under Section 4, (i) the aggregate Equity Shares of such unqualified Equity Sponsors shall first be offered in writing by New England Hydro to all then qualified Equity Sponsors other than NEES for voluntary subscription, (ii) second, any remaining shortfall shall be allocated pro rata among such qualified Equity Sponsors not including NEES in proportion to their Equity Shares determined as of September 15, 1988, provided that the aggregate of all involuntary allocations under this Section 4(C) to such qualified Equity Sponsors shall not exceed an aggregate Equity Share of 10%, and further provided that the aggregate of all such involuntary allocations to any such Equity Sponsor shall not increase such Equity Sponsor's Equity Share determined as of September 15, 1988, by more than 25% thereof, and (iii) finally, any remaining shortfalls shall be retained pro rata by such no longer qualified Equity Sponsors in proportion to their Equity Shares determined as of September 15, 1988; provided, however, that NEES and all qualified Equity Sponsors may agree to other allocation arrangements; and further provided that NEES shall not have an Equity Share of less than 51% unless it so consents. (The above deadlines of September 15, 1988, may be extended to a later deadline pursuant to Section 2 hereof.)

All offerings above shall be made in accordance with a voluntary subscription process as specified in New England Hydro's offering letter, and any oversubscriptions will be treated as provided therein.

#### Section 6. Relationship among Equity Sponsors

The rights and obligations of the Equity Sponsors hereunder are several, in accordance with their respective Equity Shares, and not joint. The rights and obligations of New England Hydro hereunder are also several and not joint with those of the Equity Sponsors or any one thereof. There is no intention to create by this Agreement, or by any grant, lease, license, or activity related hereto, an association, joint venture, trust, or partnership or to impose on New England Hydro or any Equity Sponsor trust or partnership rights or

obligations; and any such implied intention is expressly negated. Except as expressly provided in this Agreement, no Equity Sponsor shall have by virtue of this Agreement or of any such grant, lease, license, or activity the right or power to bind any other Equity Sponsor without its express written consent.

Section 7. Equity Contribution

A. Under the Massachusetts HVDC Support Agreement, New England Hydro has agreed to limit its equity investment to a maximum of 40% of its total capital as of the effective date of that agreement and has agreed to use its best efforts (subject to an exception specified in the Massachusetts HVDC Support Agreement) to continue to limit its equity investment to 40% of its total capital during the time that New England Hydro has outstanding debt in its capital structure.

New England Hydro may call from time to time by written notification upon the Equity Sponsors to contribute equity in any of the forms set forth in this Section up to a maximum aggregate amount of \$140 million, provided that Equity Sponsors having 66-2/3% of Equity Shares may agree to increase this maximum aggregate amount; and then all Equity Sponsors shall contribute such requested amount with each Equity Sponsor contributing up to its Equity Share of the new maximum. Any contribution made in response to New England Hydro's call in excess of the maximum aggregate amount, as adjusted from time to time, may be made on a voluntary basis by any contributing Equity Sponsor, and New England Hydro will make an appropriate adjustment in Equity Shares.

B. During the term of this Agreement, New England Hydro has the option from time to time to call for contribution of equity in any of the following forms:

1. New England Hydro may offer shares of its common stock to its Equity Sponsors and each Equity Sponsor shall subscribe for and purchase, for cash at a price set by New England Hydro, its Equity Share of the common stock so offered.
2. After each Equity Sponsor owns common stock of New England Hydro, New England Hydro may request that capital contributions be made, and each Equity Sponsor shall contribute to New England Hydro its Equity Share of the total capital contribution so requested.

C. In order that New England Hydro may limit its equity investment to a maximum of 40% of its total capital, New England Hydro may, at its option, from time to time, take any of the following actions:

1. New England Hydro may repurchase for cash its common stock from Equity Sponsors in amounts that will not change the relative Equity Shares among Equity Sponsors and at a price per share equal to book value per share at the time of repurchase. Each Equity Sponsor shall sell such common stock to New England Hydro in the full amount so requested.

2. New England Hydro may return any capital contribution previously received from Equity Sponsors in amounts that will not change the relative Equity Shares among Equity Sponsors. Each Equity Sponsor shall accept such return of capital contribution in the full amount so returned.

3. New England Hydro may pay dividends out of earnings or make liquidating dividends to the Equity Sponsors.

D. New England Hydro shall give written notice of any call for contributions of equity under B above to each Equity Sponsor. Such notice shall specify the amount to be contributed, the form of the contribution, and a date, at least thirty days after the date of the notice, that the equity is to be contributed. New England Hydro will provide annually estimates of its equity requirements and estimated dates when any equity contributions hereunder will be due. New England Hydro shall give written notice of any action to reduce its equity under C above to each Equity Sponsor. Such notice shall specify the amount and form of the reduction and a date, at least fifteen days after the date of the notice, that the reduction in equity is to occur.

E. New England Hydro shall use the proceeds of any equity contribution under this Agreement for the sole purpose of meeting its capital requirements under the Massachusetts HVDC Support Agreement.

F. All transactions under B, up to a maximum aggregate amount of \$140 million, and under C above shall be subject to receipt of all necessary regulatory approvals, and New England Hydro and the Equity Sponsors shall use their best efforts to obtain, or to assist in obtaining, these approvals in advance of the Effective Date.

G. New England Hydro shall have two classes of common stock, both of which will have the same preferences, qualifications, special or relative rights or privileges except that only one class shall have voting powers. Equity Shares allocated to NEES shall be evidenced by voting common stock. The Equity Shares allocated to each other Equity Sponsor shall, at the option of such Equity Sponsor, be evidenced by shares of voting common stock or non-voting common stock. Any reallocation of Equity Shares pursuant to Section 5 hereof shall be effected in such manner as to involve the issuance of additional common stock to each Equity Sponsor of the class then held by such Sponsor. Such election to take voting or non-voting stock shall be made in writing to New England Hydro by September 1, 1988.

H. Notwithstanding any provision of this Agreement to the contrary, prior to the date that New England Hydro first calls for equity contributions from all Equity Sponsors, all equity of New England Hydro will be owned and contributed by NEES.

#### Section 8. Cash Deficiency Guarantee

A. The Massachusetts HVDC Support Agreement provides that, if New England Hydro has, on any Due Date, a Cash Deficiency attributed to a Participant, the Participant absolutely and unconditionally guarantees to pay its Cash Deficiency on demand of Lenders. (This commitment is made in section 19 of that Agreement.) To provide further credit support to New England Hydro, each Equity Sponsor absolutely and unconditionally guarantees to pay its then Equity Share of the Cash Deficiency attributed to any

Credit Enhanced Participant (as defined in the Massachusetts HVDC Support Agreement) with respect to any third party debt financing of New England Hydro that was credit enhanced for such Participant, with such amounts to be paid directly on demand to Lenders, in cash, if for any reason a Credit Enhanced Participant fails to pay when due its Cash Deficiency on demand of Lenders. Each Equity Sponsor agrees that its obligations under this Section shall be continuing, absolute, and unconditional and without the benefit of any defense, claim, set-off, recoupment, abatement, or other right, existing or future, which an Equity Sponsor may have against the Lenders, New England Hydro, or any other person, and shall remain in full force and effect until all of the obligations of New England Hydro to the Lenders have been discharged.

Each Equity Sponsor hereby waives diligence, presentment, demand of payment, filing of claims with a court in the event of merger or bankruptcy of any Lender or New England Hydro or any other Equity Sponsor, protest or notice with respect to this guarantee, and covenants that the obligations contained in this guarantee will not be discharged except by complete performance of the obligations of New England Hydro to the Lenders.

B. Notwithstanding any other provision contained herein, each Equity Sponsor's obligations under this Section 8 shall be limited to its Equity Share of the Cash Deficiency attributed to any Credit Enhanced Participant with respect to any financing of New England Hydro that was credit enhanced for such Participant.

C. In no event shall the several guarantees of the Equity Sponsors attributable to Credit Enhanced Participants for each debt financing of New England Hydro exceed in the aggregate 35% of the aggregate amount of the obligations relating to such financing, provided that Equity Sponsors having an aggregate of at least 80% of the Equity Shares may agree to exceed such 35% maximum and subject to receipt of any necessary regulatory approvals, such agreement shall be binding on all Equity Sponsors.

D. In no event shall Equity Sponsors be required to provide guarantees for a Participant with respect to a particular third party debt financing of New England Hydro if that would result in Credit Enhanced Participants with respect to that and all other outstanding financings of New England Hydro and New Hampshire Hydro having Participating Shares exceeding 35% under the Massachusetts HVDC Support Agreement, provided that Equity Sponsors having an aggregate of at least 80% of the Equity Shares may agree to exceed such 35% maximum and subject to receipt of any necessary regulatory approvals, such agreement shall be binding on all Equity Sponsors.

E. Each Equity Sponsor shall use its best efforts to obtain and assist others in obtaining all necessary regulatory approvals required for the several guarantees made in this Section.

#### Section 9. Acceptance of Participating Shares

A. In accordance with section 15 of the Massachusetts HVDC Support Agreement, if a Participant that is a Credit Enhanced Participant is terminated by New England Hydro as a Participant, each Equity Sponsor or its appointee shall be allocated by New England Hydro its then Equity Share of the Participating Share of such terminated Participant; such allocation to be made as of the date

of such termination. Each Equity Sponsor or its appointee shall accept such allocation from New England Hydro and shall unconditionally and absolutely assume the rights and obligations associated therewith from the date of such allocation. If a Participant that was not also a Credit Enhanced Participant is terminated, then acceptance of any allocation shall be voluntary by any Equity Sponsor or its appointee and shall be in accordance with New England Hydro's offer thereof. If required by New England Hydro, any Equity Sponsor or its appointee assuming rights and obligations under the Massachusetts HVDC Support Agreement shall execute and deliver any documents necessary to effectuate such assumption. If any Equity Sponsor that is the designee of a Participant is unable to deliver these documents to effectuate the assumption, such Equity Sponsor shall take all actions necessary for the Participant that so designated it as an Equity Sponsor to assume such rights and obligations as its appointee.

The appointee of NEES shall be New England Power Company. The appointee(s) of any other Equity Sponsor shall be the Participant(s) for which such Equity Sponsor was acting as a designee. Each Equity Sponsor agrees that if its appointee is allocated a Participating Share under the Massachusetts HVDC Support Agreement, such Equity Sponsor shall also allocate to it an equal participating share and support share under the New Hampshire HVDC Support Agreement and New England Power and Boston Edison AC Support Agreements, respectively.

B. Each Equity Sponsor shall use its best efforts to obtain and assist others in obtaining all necessary regulatory approvals required for performance of its or its appointee's commitments made in this Section.

#### Section 10. Commitments under the AC Support Agreements

A. In accordance with sections 4 of the New England Power and Boston Edison AC Support Agreements, if a Credit Enhanced Supporter thereunder is terminated, each Equity Sponsor or its appointee shall be allocated its then Equity Share of the Support Share of such terminated Supporter; such allocation to be made as of the date of such termination. Each Equity Sponsor or its appointee shall accept such allocation made by New England Power and Boston Edison and shall unconditionally and absolutely assume the rights and obligations associated therewith from the date of such allocation. If a Supporter under the AC Support Agreements which is not also a Credit Enhanced Supporter is terminated, then acceptance of any allocation shall be voluntary by any Equity Sponsor or its appointee and shall be made in accordance with New England Power's and Boston Edison's offer thereof. If required by New England Power or Boston Edison, any Equity Sponsor or its appointee assuming rights and obligations under the AC Support Agreements shall execute and deliver any documents necessary to effectuate such assumption. If any Equity Sponsor that is a designee of a Participant is unable to deliver these documents to effectuate the assumption, such Equity Sponsor shall take all actions necessary for the Participant that so designated it as an Equity Sponsor to assume such rights and obligation as its appointee.

The appointee of NEES shall be New England Power Company. The appointee(s) of any other Equity Sponsor shall be the Supporter for which such Equity Sponsor was acting as a designee. Each Equity Sponsor agrees that if its appointee is allocated a

Support Share under the New England Power and Boston Edison AC Support Agreements, such Equity Sponsor shall also allocate to it an equal participating share under the New Hampshire HVDC Support Agreement and Massachusetts HVDC Support Agreement, respectively.

B. Recognizing the need to provide additional financial security to induce New England Power, Boston Edison, and the Supporters to undertake the substantial obligations of these AC Support Agreements, each Equity Sponsor agrees that it shall absolutely and unconditionally pay (or cause its appointee to pay), promptly upon request and in addition to any Support Share payment, its then Equity Share of any unpaid amounts attributed to a Credit Enhanced Supporter as specified in, and in accordance with, sections 14 of these AC Support Agreements (excluding any amounts due pursuant to sections 17 and 18 thereof).

C. Each Equity Sponsor shall use its best efforts to obtain and assist others in obtaining all necessary regulatory approvals required for performance of its commitments made in this Section.

#### Section 11. Character of Payment Obligations

The obligations of each Equity Sponsor to make payments hereunder, and to perform and observe all other agreements on its part contained herein, are absolute and unconditional and shall not be affected by any circumstance, including, without limitation, (i) any insolvency, composition, bankruptcy, reorganization, arrangement, liquidation or similar proceedings relating to New England Hydro, New England Power Company, Boston Edison Company, the Equity Sponsor, any other Equity Sponsor, or any affiliate thereof, (ii) any invalidity or unenforceability or disaffirmance by New England Hydro or any Equity Sponsor of any provision of this Agreement or any failure, omission, delay, or inability of New England Hydro to perform any of its obligations contained herein, (iii) any amendment, extension, or other change of, or any assignment or encumbrance of any rights or obligations under, this Agreement, or any waiver or other action or inaction, or any exercise or nonexercise of any right or remedy, under or in respect to this Agreement, or (iv) any inability of the Equity Sponsor or any other Equity Sponsor to obtain regulatory approvals for financing its Equity Share of any obligations under this Agreement or for meeting any other obligations under this Agreement, it being the intention of the parties hereto that all amounts payable by each Equity Sponsor in respect of this Agreement shall begin to be payable and shall continue to be payable in all events in the manner and at the time herein provided. In that connection, each Equity Sponsor hereby waives, to the extent permitted by applicable law, any and all rights which it may now have or which may at any time hereafter be conferred upon it, by statute or otherwise, to terminate, cancel, or surrender any of its obligations under this Agreement.

#### Section 12. Default

A. Any of the following events (Events of Default) that occur and are continuing are Events of Default:

- (i) An Equity Sponsor shall fail to pay to New England Hydro when due any amount which it has agreed to pay under any provision of this Agreement, and such failure shall continue for more than 15 days after written notice thereof has been given to such Equity Sponsor by New England Hydro; or
- (ii) An Equity Sponsor shall fail to supply in accordance with the terms hereof any documentation required, by New England Hydro in connection with financing with Lenders by New England Hydro (for VELCO and MMWEC, this includes documentation for their respective contracting electric systems), and such failure shall continue for more than 30 days after written notice of such failure has been given to such Equity Sponsor by New England Hydro; or
- (iii) An Equity Sponsor shall fail to perform any other obligation under this Agreement in accordance with the terms hereof, and such failure shall continue for more than 30 days after written notice thereof has been given to such Equity Sponsor or any of its affiliates by New England Hydro.
- (iv) An Equity Sponsor shall experience an event of default under the Equity Funding Agreement for New Hampshire Hydro.

B. If an Event of Default under Section 12A(i) above shall have occurred, New England Hydro may, by written notice to each Equity Sponsor, request that the nondefaulting Equity Sponsors on a voluntary basis make the overdue payment to New England Hydro, provided that similar voluntary payments are made under the Equity Funding Agreement for New Hampshire Hydro.

C. New England Hydro or any Equity Sponsor shall be free to invoke such remedies at law or in equity as may be deemed appropriate against any Equity Sponsor that defaults under this Agreement.

#### Section 13. Restrictions on Transfer of Common Stock

Each Equity Sponsor agrees that it will not transfer any or all of its common stock of New England Hydro to any other person unless such person is an Equity Sponsor or meets the requirements for being an Equity Sponsor under sections 4B or 4C or 4D or 4F hereof as of the date of such transfer and a similar transfer is made under the Equity Funding Agreement for New Hampshire Hydro.

#### Section 14. Dividends on Common Stock

Any Equity Sponsor may direct New England Hydro to withhold the payment of a dividend to such Equity Sponsor and apply such dividend to reduce the current or the next Support Charge payment required to be made under the Massachusetts HVDC Support Agreement by such Equity Sponsor or its appointee.

#### Section 15. Restrictions on Dividends, Return of Capital and Repurchase of Common Stock

Any Equity Sponsor which is in default hereunder pursuant to Section 12 is not entitled to receive any amounts from New England Hydro representing such Equity Sponsor's then Equity Share of dividends, return of capital, or proceeds from any repurchase

of common stock until all amounts (including interest thereon at an annual rate equal to two percent over the current interest rate on prime commercial loans from time to time in effect at the principal office of the First National Bank of Boston) owed by such Equity Sponsor to New England Hydro have been paid.

Section 16. Certain Actions of New England Hydro

A. New England Hydro shall not take any of the following actions without prior written approval of Equity Sponsors having at that time at least 80% of the Equity Shares:

- (i) Amend New England Hydro's articles of organization or by-laws to adversely affect the rights of the Equity Sponsors as stockholders in a material manner under the Basic Agreements, unless such amendment is required by regulation or law; and
- (ii) Merge, consolidate, or sell all or substantially all of the assets of New England Hydro not otherwise permitted by the Massachusetts HVDC Support Agreement.

B. New England Hydro shall distribute in a timely manner to each Equity Sponsor copies of (a) its annual audited financial statements, (b) notices of all of its directors' and stockholders' meetings (including any committees thereof), and (c) minutes of all of its directors' and stockholders' meetings.

Section 17. Miscellaneous

A. Successors and Assigns This Agreement shall be binding upon and shall inure to the benefit of, and may be performed by, the successors and assigns of the parties and shall also be binding, insofar as permitted by law, on any receiver or trustee in bankruptcy, receivership, or reorganization of any party. Except for a transfer of any or all of an Equity Sponsor's Equity Share prior to the Effective Date as provided in Section 5B hereof, no assignment of this Agreement shall operate to relieve the assignor of its obligations under this Agreement without the written consent of the parties hereto. Written notice to all parties will be given prior to any assignment hereunder.

Notwithstanding the above, New England Hydro may collaterally assign this Agreement without the consent of the Equity Sponsors in connection with a third party financing by New England Hydro.

B. Right of Setoff. No Equity Sponsor shall be entitled to set off against the payments required to be made by it hereunder (1) any amounts owed to it by New England Hydro, any affiliate of New England Hydro, or any other Equity Sponsor, or (2) the amount of any claim by it against New England Hydro, any affiliate of New England Hydro, or any other Equity Sponsor. However, the foregoing shall not affect in any other way any Equity Sponsor's rights and remedies with respect to any such amounts owed to it by New England Hydro, any affiliate of New England Hydro, or any other Equity Sponsor or any such claim by it against New England Hydro or any other Equity Sponsor.

C. Amendments. Any amendments changing the Equity Shares of the Equity Sponsors or the several nature of the obligations

and rights of the Equity Sponsors hereunder as specified in Section 6, shall require consent by all parties. In the event that an Equity Sponsor is obligated to acquire Equity Shares hereunder and does not pay for such Shares, then such Shares will not be issued to him and such Equity Sponsor's Equity Share will be reduced accordingly. All other amendments to this Agreement shall be by mutual agreement of New England Hydro and Equity Sponsors owning Equity Shares aggregating at least 80%, evidenced by a written amendment signed by New England Hydro and such Equity Sponsors; and New England Hydro and all Equity Sponsors shall be bound by any such amendment.

D. Notices. Except as the parties may otherwise agree, any notice, request, bill, or other communication relating to this Agreement, or the rights, obligations or performance of the parties hereunder, shall be in writing and shall be effective upon delivery. Any such communication shall be considered as duly delivered when delivered in person or mailed by registered or certified mail, postage prepaid, to the respective post office address of the other parties shown following the signatures of such other parties hereto, or such other address as may be designated by written notice given as provided in this paragraph D.

E. Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of The Commonwealth of Massachusetts.

F. Other

- 1.No action, regardless of form, arising out of this Agreement may be brought by any party hereto more than three years after the cause of action has arisen.
- 2.In the event that any clause or provision of this Agreement, or any part thereof, shall be declared invalid or unenforceable by any court having jurisdiction, such invalidity or unenforceability shall not affect the validity or enforceability of the remaining portions of this Agreement.
- 3.All provisions of this Agreement providing for limitation of, or protection against, liability shall apply to the full extent permitted by law, and regardless of fault, and shall survive either termination pursuant to this Agreement or cancellation.
- 4.Each party shall, upon request of another party, execute and deliver any document reasonably required to implement any provision hereof.
- 5.Any number of counterparts of this Agreement may be executed and each shall have the same force and effect as the original.

6. This Agreement, with the other Basic Agreements, Preliminary Quebec Interconnection Support Agreement - Phase II, the agreements with Hydro-Quebec regarding Phase II, and the basic agreements covering Phase I shall constitute the entire understanding among the parties and shall supersede any and all previous understandings pertaining to the subject matter of this Agreement.

7. Terms defined in the Massachusetts HVDC Support Agreement and the New England Power and Boston Edison AC Support Agreements used in this Equity Funding Agreement shall be incorporated herein as defined in such Agreements unless the context indicates otherwise.

8. This Agreement is the act and obligation of the parties hereto in their corporate or governmental capacity, and any claim hereunder against any shareholder, director, officer, employee, or agent of any party, as such, is expressly waived.

IN WITNESS WHEREOF, the signatories have caused this Agreement to be executed by their duly authorized officers or agents.

COMPANY

By: \_\_\_\_\_  
Its President

Address: XXXXXXXXXXXX  
XXXXXXXXXX

Article 32 of the Declaration of Trust of Northeast Utilities dated January 15, 1927, as amended, provides as follows:

No shareholder shall be held to any liability whatever for the payment of any sum of money, or for damages or otherwise under any contract, obligation or undertaking made, entered into or issued by the Trustees or by any officer, agent or representative elected or appointed by the Trustees and no such contract, obligation or undertaking shall be enforceable against the Trustees or any of them in their or his individual capacities or capacity and all such contracts, obligations and undertakings shall be enforceable only against the Trustees as such and every person, firm, association, trust and corporation having any claim or demand arising out of any such contract, obligation or undertaking shall look only to the trust estate for the payment or satisfaction thereof. It shall be the duty of the Trustees and each of them and of every officer, agent or representative elected or appointed by them to include in every written agreement entered into by them or any of them as herein provided, a statement of the immunity provided by this article for the Shareholders and for the Trustees as individuals, and neither the Trustees nor any of them nor any officer, agent or representative appointed or elected by them shall have any power or authority to enter into any agreement or incur any obligation as herein provided except in accordance with the provisions of this Article.

In case any Shareholder shall at any time for any reason be held to or be under any personal liability whatever solely by reason of his being or having been a Shareholder and not by reason of his acts or omissions as a Shareholder, then such Shareholder (or his heirs, executors, administrators, or other legal representatives) shall be held harmless and indemnified out of the trust estate from and of all loss, liability or expense by reason of such liability.

<u>Utility</u>	<u>Percentage Interest</u>
Citizens Utilities Company	1.1155
Franklin Electric Light Company	0.0433
Green Mountain Power Corporation	<u>3.1800</u>
	4.3388

Schedule II

Massachusetts Municipal Wholesale Electric Company  
Contracting Electric Systems

Massachusetts Systems

Town of Ashburnham Municipal Light Plant  
Town of Georgetown Municipal Light Department  
Town of Hull Municipal Lighting Plant  
Town of Littleton Electric Light Department  
Town of Mansfield Municipal Electric Department  
Town of Marblehead Municipal Light Department  
Town of Middleton Municipal Electric Department  
Town of Paxton Municipal Light Department  
Town of Templeton Municipal Lighting Plant

Rhode Island System

Pascoag Fire District

ATTACHMENT A

List of Equity Sponsors

New England Hydro will supply a list of Equity Sponsors as of the date of initial computation and as of each date thereafter that the list changes.

As of February 1, 1988 (1)

<u>Equity Sponsors</u>	<u>Equity Share (%)</u>
New England Electric System	51.0000
Northeast Utilities	22.4245
Boston Edison	10.9335
Vermont Electric Power (2)	4.3388
Canal Electric	3.3885
Montaup	3.2435
Conn. Municipal Electric Coop.	0.8312
Reading	0.4638
Newport Electric	0.4426

Taunton	0.3547
Chicopee	0.3145
Braintree	0.2995
Peabody	0.2746
Holyoke Gas & Electric	0.2362
Westfield	0.2528
Danvers	0.2393
Shrewsbury	0.1612
Hudson	0.1474
Wakefield	0.1245
Hingham	0.1203
Concord	0.1161
North Attleboro	0.1086
Middleborough	0.1065
West Boylston	0.0509
Groton	<u>0.0265</u>
	100.0000

- (1) Boylston and South Hadley signed the Equity Funding Agreements, but have not qualified as Equity Sponsors.
- (2) VELCo has signed as agent for:

Green Mountain Power	3.1800%
Citizens Utilities	1.1155
Franklin Electric	<u>0.0433</u>
	4.3388%

#### ATTACHMENT B

Forms of the following documentation:

1. Opinion of Counsel
2. Certificate
3. Incumbency and Signature Certificate
4. Directors' Vote

[Please note - governmental entities may make appropriate modifications to these documents to reflect that they are not corporations.]

[Form of Opinion of Counsel for Each Utility Participant]

New England Hydro-Transmission  
Electric Company, Inc.;;  
New England Hydro Transmission  
Corporation; or  
New England Power Company

Gentlemen:

This opinion is furnished in connection with the execution and delivery by \_\_\_\_\_ (the Company) of the following Agreements: \_\_\_\_\_.

We have acted as counsel to the Company, one of the Utility Participants, in connection with the execution and delivery of the Basic Agreements. We participated in reviewing and/or drafting the Agreements.

As general [special] counsel to the Company, we are generally familiar with its affairs. [If special counsel is giving the opinion, describe relationship to the Company.] We have reviewed the proceedings taken by the Company in connection with its authorization, execution, and delivery of the Agreements and any documentation supplied by the Company thereunder. We have also examined executed counterparts of the Agreements, have made such other investigation, and have examined such other records and documents, and have made such examination of law and satisfied ourselves as to such other matters as we have deemed relevant and necessary in order to enable us to express the opinions set forth below.

Based upon and subject to the foregoing and to the further qualifications in this opinion, we are of the opinion that:

1. The Company is a corporation duly organized, validly existing and in good standing under the laws of [the jurisdiction of its incorporation], has the corporate power to own its assets and to transact the business in which it is engaged, and is duly qualified as a foreign corporation in, and is in good standing under the laws of, each jurisdiction in which the conduct of its business or the ownership of its assets requires such qualification.

2. The Company has (and in the case of the Agreements at the time of execution and delivery thereof, had) full corporate power, and legal right to execute, deliver and perform the Agreements, and the Company has taken all necessary corporate action to authorize the execution, delivery, and performance by it of the Agreements.

3. The execution, delivery, and performance by the Company of the Agreements do not (a) contravene the Company's [charter documents] or by-laws, (b) violate any applicable law, rule, regulation, order, writ, judgment, injunction, decree, or award known to us by which the Company is bound, (c) violate any indenture, instrument, or agreement known to us by which the Company is bound, or (d) result in or require the creation or the imposition of any lien pursuant to the provisions of any indenture, instrument, or agreement known to us by which the Company is bound.

4. No authorization, approval, consent, or other action by, and no notice to or filing with, any federal, state, or other governmental authority or regulatory body which has not been obtained or given and is not in full force and effect is required for the valid and lawful execution, delivery, and performance by the Company of the Agreements. [In this connection, to the extent it may be required by law, the approval of the Massachusetts Department of Public Utilities [Connecticut PUC, or other] has been given for the Agreements and the Company's performance thereunder by order(s) dated \_\_\_\_\_, which remains in full force and effect.]

5. The Agreements have each been duly executed and delivered by the Company and constitute the legal, valid, and binding obligations of the Company enforceable against it in accordance with their respective terms.

6. No action, suit, proceeding, or investigation at law or in equity or by or before any governmental instrumentality or other agency now pending or threatened against or affecting the Company or its property or rights which, if adversely determined, would materially impair the ability of the Company to perform its obligations under the Agreements is known to us.

Our opinion that the Agreements are enforceable, each in accordance with the terms thereof, is qualified to the extent that the enforcement of the rights and remedies created thereby is subject to bankruptcy, insolvency, reorganization, and similar laws of general application affecting the rights and remedies of creditors and secured parties, and to the further extent that the availability of the remedies of specific enforcement, injunctive relief, or any other equitable remedy is subject to the discretion of the court before which any proceeding therefor may be brought.

Very truly yours,

#### CERTIFICATE

I, (insert name), the Clerk (or Secretary or other principal recording officer) of (insert name of Utility Participant), a (insert state of organization) (the "Company") do hereby certify that:

(1) Attached hereto as Exhibit A is a true and correct copy of a vote duly adopted at a meeting of the Board of

Directors of the Company, duly called and held on \_\_\_\_\_, \_\_\_\_, and that such vote and the authority vested thereby have not been amended or revoked and are still in full force and effect.

(2) Attached hereto as Exhibit B is a true and correct copy of the Articles of Organization (or other charter documents) of the

Company, as amended and in effect as of the date of this Certificate.

(3) Attached hereto as Exhibit C is a true and correct copy of the By-Laws of the Company, as amended and in effect as of the date of this Certificate.

(4) The persons (or person) listed on Exhibit D have been duly elected to the offices set forth adjacent to their respective names since the first day of June, 1985, and the signatures adjacent to their respective names are the genuine signatures of said officers.

IN WITNESS WHEREOF, I have placed my hand and the seal of the Company this \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_.

By \_\_\_\_\_

Name:

Title:

CONFIRMATION OF INCUMBENCY AND SIGNATURE OF  
CLERK, SECRETARY, OR OTHER PRINCIPAL RECORDING OFFICER

I, (name), (title) of the Company, do hereby certify that (name of officer executing certificate) is and at all times subsequent to \_\_\_\_\_, \_\_\_\_, has been the duly elected (title) of the Company and that the signature adjacent to his (or her) name is the genuine signature of said officer.

By \_\_\_\_\_

Name:

Title:

FORM OF DIRECTORS' VOTE APPROVING AGREEMENTS

VOTED:

That in connection with this Company's participation in the Phase II expansion of the proposed interconnection between the New England Power Pool companies and Hydro-Quebec, the execution and delivery on behalf of this Company by \_\_\_\_\_, President, of the following agreements: (being collectively referred to in this vote as "Agreements") copies of which Agreements have been presented at this meeting, are hereby authorized, approved, ratified, and confirmed, and that the officers of this Company are further authorized severally to take any and all such further actions including the execution and delivery of such further documents, as such officers or any of them may deem necessary or appropriate in connection with the actions and documents authorized by this vote.

ATTACHMENT C

Subscription Process for Determining  
Equity Shares under Section 5(B)

After allocation of 51% of the Equity Shares to NEES pursuant to Section 5(B)(1), the Equity Shares shall be allocated to Equity Sponsors other than NEES as follows:

- (a) Each other Equity Sponsor shall be entitled to a pro rata share of the remainder based on the Participating Share of such Equity Sponsor or the Participant(s) that has designated it as an Equity Sponsor as a percentage of Participating Shares of all other Equity Sponsors or such Participants as shown in the Massachusetts HVDC Support Agreement. For the purpose of this calculation, the Participating Share of each Equity Sponsor designated by VELCO shall be deemed to be a pro rata share of VELCO's Participating Share based on the ratio of such Equity Sponsor's 1980 kwh load to the aggregate 1980 kwh load of all Equity Sponsors designated by VELCO.

- (b) Upon execution of this Agreement, each other Equity Sponsor may subscribe for more or less than its share under (a) above.
- (c) Upon execution of this Agreement, each other Equity Sponsor may specify a maximum limit on its share of such remainder that would apply to any allocations made on or before June 1, 1986 or such later deadline date as is fixed pursuant to Section 2 hereof.
- (d) If there are no undersubscriptions or oversubscriptions under (b) above or if the sum of the shares under (a) or (b) above for all Equity Sponsors equals 100% of such remaining shares, then each Equity Sponsor shall have a share as determined under (a) or (b) above. (For the purposes of this attachment, oversubscription shall mean, with respect to any Equity Sponsor, a subscription under (b) above of more than its share under (a) above. For the same purposes, undersubscription shall mean, with respect to any Equity Sponsor, a subscription under (b) above of less than its share under (a) above. The amount of such oversubscription shall be equal to (b) minus (a) and the amount of such undersubscription shall be equal to (a) minus (b).)
- (e) If there are undersubscriptions but not oversubscriptions or if there are oversubscriptions but no undersubscriptions, then each Equity Sponsor shall have a share as determined under (a) above; provided, however, that no Equity Sponsor shall be allocated more than its specified limit under (c) above. If the sum of all shares heretofore allocated is less than 100%, any remaining share shall be allocated to all Equity Sponsors that have received shares less than their limits under (c) above, pro rata by the difference between their limits under (c) above and their shares as heretofore allocated.
- (f) If the net result of subtracting the aggregate amount of all undersubscriptions from the aggregate amount of all oversubscriptions is greater than zero, the aggregate amount of all oversubscriptions must be reduced to the aggregate amount of all undersubscriptions. This amount shall be referred to as the total permitted amount of oversubscriptions. Each oversubscriber shall initially be allocated a share of the total permitted amount of oversubscriptions (pro rata by the Participating Shares of the oversubscribers or their designators as shown in the Massachusetts HVDC Support Agreement); provided that no oversubscriber shall be allocated more than its requested amount under (b) above. Any remaining unallocated portion of the total permitted amount of oversubscriptions shall be allocated to all oversubscribers that have not yet reached their requested amount under (b) above pro rata by the differences between their requested shares under (b) above and their shares as heretofore allocated.
- (g) If the net result of subtracting the aggregate amount of all oversubscriptions from the aggregate amount of all undersubscriptions is greater than zero, the aggregate amount of all undersubscriptions must be reduced to the aggregate amount of all oversubscriptions. This amount shall be referred to as the total permitted amount of undersubscriptions. The total permitted amount of undersubscriptions shall be allocated to the undersubscribers pro rata by the amounts of their undersubscriptions; provided, however, that no Equity Sponsor shall be allocated more than its specified limit under (c) above. If the sum of all shares heretofore allocated is less than 100%, any remaining share shall be allocated to all Equity Sponsors that have received shares less than their limits under (c) above, pro rata by the difference between their limits under (c) above and their shares as heretofore allocated.
- (h) If Equity Shares are required to be changed pursuant to subpart (i) or (ii) of Section 5(a), this reallocation shall be accomplished in accordance with this Attachment C on the basis of the subscriptions initially made under (b) and the maximum limits specified under (c) by each continuing Equity Sponsor, and giving effect to the termination of any Equity Sponsor pursuant to said subpart (i) or (ii).

[CONFORMED]

AMENDMENT NO. 1  
TO  
EQUITY FUNDING AGREEMENT  
FOR NEW ENGLAND HYDRO-TRANSMISSION  
ELECTRIC COMPANY, INC.

This Amendment, dated as of May 1, 1986, is between New England Hydro-Transmission Electric Company, Inc. (New

England Hydro), and the New England entities that have signed the Equity Funding Agreement for New England Hydro-Transmission Electric Company, Inc., dated as of June 1, 1985 (the "Equity Funding Agreement"), and amends the Equity Funding Agreement as hereinafter provided.

In consideration of the premises and other good and valuable consideration, receipt of which is hereby acknowledged, and pursuant to the provision of Section 17C of the Equity Funding Agreement, it is hereby agreed as follows:

1. Certain terms defined in the Equity Funding Agreement are used herein with the meanings there provided.
2. Section 4 is amended as follows:
  - (a) Subsection "D" is re-lettered as Subsection "E".
  - (b) The following paragraph is added as new Subsection "D":

"D. A Participant under the Massachusetts HVDC Support Agreement also qualifies to be an Equity Sponsor if it has an Equity Share of four tenths of one percent (0.4%) or less and it has only one long-term debt rating from any of the three rating agencies referred to in B above and such rating is at least "A3" as of September 1, 1985."

- (c) The following paragraph is added as Subsection "FH":

"F. Notwithstanding any provision of Sections 2, 4(B), and 4(D) to the contrary, if a Participant (i) has only one credit rating and seeks to qualify to be an Equity Sponsor under B above, or (ii) has no credit rating at all and seeks to qualify to be an Equity Sponsor under B or D above, such new credit rating or ratings must be received by July 1, 1986, from one or more of the rating agencies referred to in B above and such new credit rating or ratings shall be current. Such Participant must demonstrate by July 1, 1986, to the satisfaction of New England Hydro that it is qualified to be an Equity Sponsor pursuant to this Section 4. New England Hydro may extend such July 1, 1986, deadline, but any such extension shall be no later than October 1, 1986."

3. Any number of counterparts of this Amendment may be executed, and each shall have the same force and effect as an original instrument and as if all the parties to all of the counterparts had signed the same instrument.

IN WITNESS WHEREOF, the signatories have caused this Amendment to be executed by their duly authorized officers or agents.

COMPANY

By: \_\_\_\_\_  
Its President

Address: XXXXXXXX  
XXXXXXXX

Article 32 of the Declaration of Trust of Northeast Utilities dated January 15, 1927, as amended, provides as follows:

No Shareholder shall be held to any liability whatever for the payment of any sum of money, or for damages or otherwise under any contract, obligation or undertaking made, entered into or issued by the Trustees or by any officer, agent or representative elected or appointed by the Trustees and no such contract, obligation or undertaking shall be enforceable against the Trustees or any of them in their or his individual capacities or capacity and all such contracts, obligations and undertakings shall be enforceable only against the Trustees as such and every person, firm, association, trust and corporation having any claim or demand arising out of any such contract, obligation or undertaking shall look only to the trust estate for the payment or satisfaction thereof. It shall be the duty of the Trustees and each of them and of every officer, agent or representative elected or appointed by them to include in every written agreement entered into by them or any of them as herein provided, a statement of the immunity provided by this article for the Shareholders and for the Trustees as individuals, and neither the Trustees nor any of them nor any officer, agent or representative appointed or elected by them shall have any power or authority to enter into any agreement or incur any obligation as herein provided except in accordance with the provisions of this Article.

In case any Shareholder shall at any time for any reason be held to or be under any personal liability whatever solely by reason of his being or having been a Shareholder and not by reason of his acts or omissions as a Shareholder, then such Shareholder (or his heirs, executors, administrators, or other legal representatives) shall be held harmless and indemnified out of the trust estate from and of all loss, liability or expense by reason of such liability.

XXXXXXXX

By: \_\_\_\_\_  
Its President

Address: XXXXXXXX  
XXXXXXXX

The name "New England Electric System" means the trustee or trustees for the time being (as trustee or trustees but not personally) under an agreement and declaration of trust dated January 2, 1926, as amended, which is hereby referred to, and a copy of which as amended has been filed with the Secretary of the Commonwealth of Massachusetts. Any agreement, obligation or liability made, entered into or incurred by or on behalf of New England Electric System binds only its trust estate, and no shareholder, director, trustee, officer or agent thereof assumes or shall be held to any liability therefor.

XXXXXXXXXX

By: \_\_\_\_\_  
Its President

Address: XXXXXXXX  
XXXXXXXXXX

[CONFORMED]

AMENDMENT No. 2  
TO  
EQUITY FUNDING AGREEMENT  
FOR NEW ENGLAND HYDRO-TRANSMISSION  
ELECTRIC COMPANY, INC.

This Amendment, dated as of September 1, 1987, is between New England Hydro-Transmission Electric Company, Inc. (New England Hydro), and the New England entities that have signed the Equity Funding Agreement for New England Hydro-Transmission Electric Company, Inc., dated as of June 1, 1985 as amended by Amendment No. 1 dated as of May 1, 1986 (the "Equity Funding Agreement"), and amends the Equity Funding Agreement as hereinafter provided.

In consideration of the premises and other good and valuable consideration, receipt of which is hereby acknowledged, and pursuant to the provision of Section 17C of the Equity Funding Agreement, it is hereby agreed as follows:

1. Certain terms defined in the Equity Funding Agreement are used herein with the meanings there provided.
2. Section 7A is hereby amended by inserting in the first sentence of the first paragraph after the words "best efforts" the following: "(subject to an exception specified in the Massachusetts HVDC Support Agreement)".
3. Any number of counterparts of this Amendment may be executed, and each shall have the same force and effect as an original instrument and as if all the parties to all of the counterparts had signed the same instrument.

IN WITNESS WHEREOF, the signatories have caused this Amendment to be executed by their duly authorized officers or agents.

XXXXXXXXXX

By: \_\_\_\_\_  
Its President

Address: XXXXXXXX  
XXXXXXXXXX

The name "New England Electric System" means the trustee or trustees for the time being (as trustee or trustees but not personally)

under an agreement and declaration of trust dated January 2, 1926, as amended, which is hereby referred to, and a copy of which as amended has been filed with the Secretary of the Commonwealth of Massachusetts. Any agreement, obligation or liability made, entered into or incurred by or on behalf of New England Electric System binds only its trust estate, and no shareholder, director, trustee, officer or agent thereof assumes or shall be held to any liability therefor.

XXXXXXXXXX

By: \_\_\_\_\_  
Its President

Address: XXXXXXXX  
XXXXXXXXXX

CONFORMED

AMENDMENT NO. 3  
TO  
EQUITY FUNDING AGREEMENT  
FOR NEW ENGLAND HYDRO-TRANSMISSION  
ELECTRIC COMPANY, INC.

This Amendment, dated as of August 1, 1988, is between New England Hydro-Transmission Electric Company, Inc. (New England Hydro), and the New England entities that have signed the Equity Funding Agreement for New England Hydro-Transmission Electric Company, Inc. dated as of June 1, 1985 as amended (the "Equity Funding Agreement"), and amends the Equity Funding Agreement as hereinafter provided.

In consideration of the premises and other good and valuable consideration, receipt of which is hereby acknowledged, and pursuant to the provision of Section 16C of the Equity Funding Agreement, it is hereby agreed as follows:

1. Certain terms defined in the Equity Funding Agreement are used herein with the meanings therein provided.
2. Section 2 is hereby amended by making the following modifications:

<u>In Paragraph:</u>	<u>Delete:</u>	<u>Insert in lieu thereof:</u>
1	"December 30, 1985"	"February 1, 1988"
2	"June 1, 1986"	"September 15, 1988"
3	"March 1, 1986" (both occurrences)	"September 1, 1988" (both occurrences)
3	"June 1, 1986"	"September 15, 1988"
6	"Section"	"Agreement"

3. Section 4F is hereby amended by deleting the last sentence thereof and by deleting the two references to "July 1, 1986" and inserting in lieu thereof "February 1, 1988."

4. Section 5A is hereby amended by (i) deleting the reference to “December 30, 1985” and inserting in lieu thereof “February 1, 1988”, and (ii) deleting the reference to “June 1, 1986” and inserting in lieu thereof “September 15, 1988.”
5. Section 5B is hereby amended by deleting the reference to “June 1, 1986” and inserting in lieu thereof “September 15, 1988.”
6. Section 5B is hereby further amended by adding at the end of Section 5B the following:

“After the initial computation and prior to the Effective Date, each Equity Sponsor may transfer any or all of its Equity Share to one or more other Equity Sponsors. On or before September 1, 1988, any such Equity Sponsor which has transferred or intends to transfer any or all of its Equity Share to one or more other Equity Sponsors, must provide documentation to New England Hydro covering the transfer. Any apportionment of Equity Shares pursuant to Section 5B(2) above shall be made without regard to (i) any transfers of Participating Shares pursuant to Section 4 of the Massachusetts HVDC Support Agreement or (ii) any transfers of Equity Shares made after the initial computation and prior to the Effective Date, provided that each Equity Sponsor which has agreed to take such transferred Equity Share has provided the required Documentation by September 15, 1988 (including Documentation covering any such transferred Equity Share). Any transfers of Equity Shares, as provided above, shall be taken into account after such apportionment.

Upon execution of this Agreement, MMWEC may receive any such transferred Equity Shares; however, MMWEC shall not be included as an Equity Sponsor in any computations pursuant to the first paragraph of this Section 5B.”

7. Section 5C is hereby amended by deleting the references to “June 1, 1986” and inserting in lieu thereof “September 15, 1988.”
8. Section 7G is hereby amended by deleting the reference to “December 31, 1985” and inserting in lieu thereof “September 1, 1988.”
9. Section 13 is hereby amended by inserting therein after the words “sections 4B or 4C” the following:

“or 4D or 4F”
10. Section 17A is hereby amended by adding to the beginning of the second sentence thereof the following:

“Except for a transfer of any or all of an Equity Sponsor’s Equity Share prior to the Effective Date as provided in Section 5B hereof;”
11. The attached Schedule II is hereby made a part of the Equity Funding Agreement.

12. Attachment A to the Equity Funding Agreement is hereby deleted and replaced with the attached Attachment A.
13. Any number of counterparts of this Amendment may be executed, and each shall have the same force and effect as an original instrument and as if all the parties to all of the counterparts had signed the same instrument.

IN WITNESS WHEREOF, the signatories have caused this Amendment to be executed by their duly authorized officers or agents.

XXXXXXXXXX

By: \_\_\_\_\_  
Its President

Address: XXXXXXXX  
XXXXXXXXXX

Schedule II

Massachusetts Municipal Wholesale Electric Company  
Contracting Electric Systems

Massachusetts Systems

- Town of Ashburnham Municipal Light Plant
- Town of Georgetown Municipal Light Department
- Town of Hull Municipal Lighting Plant
- Town of Littleton Electric Light Department
- Town of Mansfield Municipal Electric Department
- Town of Marblehead Municipal Light Department
- Town of Middleton Municipal Electric Department
- Town of Paxton Municipal Light Department
- Town of Templeton Municipal Lighting Plant

Rhode Island System

- Pascoag Fire District

ATTACHMENT A

List of Equity Sponsors

New England Hydro will supply a list of Equity Sponsors as of the date of initial computation and as of each date thereafter that the list changes.

As of February 1, 1988 (1)

Equity Sponsors	Equity Share (%)
-----------------	------------------

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New England Electric System	51.0000
Northeast Utilities	22.4245
Boston Edison	10.9335
Vermont Electric Power (2)	4.3388
Canal Electric	3.3885
Montaup	3.2435
Conn. Municipal Electric Coop.	0.8312
Reading	0.4638
Newport Electric	0.4426
Taunton	0.3547
Chicopee	0.3145
Braintree	0.2995
Peabody	0.2746
Holyoke Gas & Electric	0.2362
Westfield	0.2528
Danvers	0.2393
Shrewsbury	0.1612
Hudson	0.1474
Wakefield	0.1245
Hingham	0.1203
Concord	0.1161
North Attleboro	0.1086
Middleborough	0.1065
West Boylston	0.0509
Groton	<u>0.0265</u>
	100.0000

(1) Boylston and South Hadley signed the Equity Funding Agreements, but have not qualified as Equity Sponsors.

(2) VELCo has signed as agent for:

Green Mountain Power	3.1800%
Citizens Utilities	1.1155
Franklin Electric	<u>0.0433</u>
	4.3388%

(COMPOSITE CONFORMED COPY - as amended)  
Amendment No. 1-May 1, 1986  
Amendment No. 2-September 1, 1987  
Amendment No. 3-August 1, 1988

EQUITY FUNDING AGREEMENT

FOR

NEW ENGLAND HYDRO-TRANSMISSION CORPORATION

DATED AS OF JUNE 1, 1985

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EQUITY FUNDING AGREEMENT  
FOR  
NEW ENGLAND HYDRO-TRANSMISSION CORPORATION

This AGREEMENT dated as of June 1, 1985, is between New England Hydro-Transmission Corporation (New Hampshire Hydro) and the New England entities listed in Attachment A hereto. Those New England entities that have executed this Agreement and that meet the further conditions for participation and qualification hereunder are hereinafter referred to as Equity Sponsors or individually as an Equity Sponsor. The Equity Sponsors are sometimes referred to collectively herein, but their rights and obligations hereunder are several and not joint as described in Section 6 hereof.

In consideration of the premises, the concurrent execution of the other Basic Agreements hereinafter referred to, the mutual covenants hereinafter and therein set forth, and other good and valuable consideration, receipt whereof is hereby acknowledged, it is hereby agreed as follows:

Section 1. Basic Understandings and Purpose

New England utilities are currently participating in the arrangements for the Phase I interconnection planned by the New England Power Pool (NEPOOL) with Hydro-Quebec, which is to consist of a  $\pm$  450 kV HVDC transmission line from a terminal at the Des Cantons Substation on the Hydro-Quebec system near Sherbrooke, Quebec to a terminal having an approximate rating of 690 MW at a substation at the Comerford Generating Station on the Connecticut River (hereinafter referred to as Phase I). The basic arrangements covering the portion of Phase I in the United States are set forth in the New England Power Pool Agreement, as amended (the NEPOOL Agreement) and three contracts among the participants in Phase I as follows:

1. Vermont Transmission Line Support Agreement, dated as of December 1, 1981, as amended, with Vermont Electric Transmission Company, Inc.
2. Phase I Terminal Facilities Support Agreement, dated as of December 1, 1981, as amended, with New England Electric Transmission Corporation, and
3. Agreement With Respect To Use Of Quebec Interconnection, dated as of December 1, 1981, as amended, including the restatement thereof in connection with Phase II (this Agreement as restated to cover Phase II is hereinafter referred to as the Use Agreement).

These Phase I interconnection facilities are currently under construction with completion scheduled during 1986.

With the completion of arrangements for Phase I and the related contracts with Hydro-Quebec, the members of NEPOOL have conducted studies of the benefits of an expanded

interconnection for NEPOOL with Hydro-Quebec (Phase II) and have negotiated with Hydro-Quebec a firm energy arrangement to utilize the expanded interconnection facilities.

The portion of Phase II in the United States will consist of an extension of the Phase I DC transmission line from the proposed terminus of Phase I at the Comerford Station through New Hampshire to a site in Massachusetts with additional terminal facilities installed at that site to increase the total transfer capacity between Hydro Quebec and NEPOOL from the 690 MW of Phase I to approximately 2000 MW. Reinforcements to the existing AC transmission system of New England Power and to certain AC facilities of Boston Edison Company will also be required. The United States portion of the Phase II facilities will be designated as pool-planned facilities in the same manner as the United States portion of the Phase I facilities was so designated.

Each Equity Sponsor acknowledges that it has been represented on the Executive and Planning Committees of NEPOOL that had responsibility for evaluating the feasibility of Phase II and, through this representation, actively participated in the decision of NEPOOL to go forward with Phase II. Furthermore, each Equity Sponsor represents that it made its own independent investigations and inquiries as it deemed appropriate and did not rely upon representations (other than those contained in this Agreement) of New Hampshire Hydro or its affiliates in deciding to enter into this Agreement.

The sharing of benefits among the New England utilities associated with Phase II is set forth in the Use Agreement. The Use Agreement also permits each New England utility to make its own entitlement transactions with Hydro Quebec and to use the interconnection for such transactions.

The provisions of the Phase II Massachusetts Transmission Facilities Support Agreement (Massachusetts HVDC Support Agreement) cover the Phase II Massachusetts HVDC transmission line and terminal facilities in Massachusetts. New England Hydro-Transmission Electric Company, Inc. (New England Hydro) will build, own, operate, and maintain those Massachusetts HVDC transmission facilities.

The portion of the Phase II HVDC transmission line to be constructed in New Hampshire is covered under the Phase II New Hampshire Transmission Facilities Support Agreement (New Hampshire HVDC Support Agreement). New Hampshire Hydro will build, own, operate, and maintain those New Hampshire HVDC transmission facilities.

All improvements and reinforcements to the AC transmission system in Massachusetts necessitated by Phase II are covered under the Phase II New England Power AC Facilities Support Agreement (New England Power AC Support Agreement) and the Phase II Boston Edison AC Facilities Support Agreement (Boston Edison AC Support Agreement).

The provisions of this Agreement cover the commitments of the Equity Sponsors of New Hampshire Hydro to contribute equity funds to New Hampshire Hydro, to provide certain limited credit support in connection with debt financing of New Hampshire Hydro, and to accept an allocation of a share of Phase II in the event of a default by certain participating New England utilities under certain other Basic Agreements.

In view of the need to formalize the agreements among the parties at an early date so that (i) binding commitments with Hydro Quebec for Phase II may be made, (ii) binding commitments for ultimate construction and the financing of the United States portion of Phase II may be undertaken consistent with the time schedule anticipated by NEPOOL and with the assurance that commitments among the New England utilities are in place, and (iii) licensing

activities may proceed on a schedule that enables completion of such construction consistent with the time schedule anticipated by NEPOOL, the following agreements are concurrently being entered into (the “Basic Agreements”) which collectively set forth rights and obligations with respect to the foregoing undertaking: (1) this Agreement; (2) the Massachusetts HVDC Support Agreement; (3) the New Hampshire HVDC Support Agreement; (4) the Equity Funding Agreement for New England Hydro; (5) the New England Power AC Support Agreement; (6) the Use Agreement; (7) various amendments to the NEPOOL Agreement relating to the sharing of savings, capability responsibilities, and Pool transmission arrangements; and (8) the Boston Edison AC Support Agreement.

In order to coordinate each participating utility’s interest in Phase II to the fullest extent possible, each of the following Basic Agreements have been drafted with the intent that the participating interest of each participating utility will be the same under each agreement: the Massachusetts HVDC Support Agreement, the New Hampshire HVDC Support Agreement, the New England Power AC Support Agreement, the Boston Edison AC Support Agreement, and the Use Agreement. These Basic Agreements also provide that, notwithstanding any provision thereof that may be interpreted to the contrary, the proper interpretation of each of these Basic Agreements is to be consistent with such overriding intent. Each Equity Sponsor acknowledges this overriding intent and agrees that any action by it or its appointee affecting such participating interests shall be the same under this Agreement and the Equity Funding Agreement with New England Hydro in order to also be consistent with such overriding intent.

Section 2. Conditions Precedent to Effectiveness

The effectiveness of this Agreement, and all rights, obligations, and performance of the signatories hereunder, is subject to (i) New England Electric System (NEES) and other

signatories having executed this Agreement committing in the aggregate to Equity Shares (as hereinafter defined) equal to at least 100%, and each such signatory having demonstrated by February 1, 1988, to the satisfaction of New Hampshire Hydro that it is qualified to be an Equity Sponsor pursuant to Section 4, (ii) New England Hydro or New Hampshire Hydro or New England Power or Boston Edison and members of NEPOOL (including Boston Edison and New England Power) serving at least 66-2/3% of the aggregate kilowatt-hour load served by NEPOOL members in 1980 having executed the other Basic Agreements (except for the Equity Funding Agreement for New England Hydro and the amendments to the NEPOOL Agreement), (iii) each signatory having also executed the Equity Funding Agreement for New England Hydro and having the same percentage of New England Hydro's equity as its Equity Share hereunder, (iv) members of NEPOOL having executed the amendments to the NEPOOL Agreement for Phase II in order that such amendments may become effective in accordance with the NEPOOL Agreement, and (v) each signatory having satisfied the conditions precedent set forth below.

By September 15, 1988, each signatory to this Agreement shall provide certificates and legal opinions from counsel satisfactory to New Hampshire Hydro, together with certified copies of related resolutions, consents, approvals, authorizations, and other documents (Documentation) necessary to establish to the satisfaction of New Hampshire Hydro that all corporate and regulatory consents, waivers, approvals, authorizations and other actions necessary in connection with performance by such signatory of its obligations under the Agreement have been obtained and are in full force and effect, that the Agreement has been duly authorized, executed, and delivered by such signatory, and that it constitutes a binding commitment by the signatory enforceable in accordance with its terms. Forms of Documentation acceptable to New Hampshire Hydro are included in Attachment B hereto. Prior to signing this Agreement, each

signatory has provided to New Hampshire Hydro a listing of all consents, waivers, approvals, authorizations, and other actions required for that signatory to deliver its Documentation.

Vermont Electric Power Company, Inc. (VELCO) and Massachusetts Municipal Wholesale Electric Company (MMWEC) represent qualified signatories on Schedules and MMWEC contracts a number of electric systems. If they desire and are to be Equity Sponsors, they shall be deemed to have acted on behalf of those respective systems listed in I or II, respectively. By September 1, 1988, VELCO will provide New Hampshire Hydro with copies of their respective systems which impose absolute and unconditional obligations on such systems to pay their proportionate shares of all costs or obligations incurred under this Agreement by VELCO or MMWEC, respectively. By that date, VELCO and MMWEC will also provide to New Hampshire Hydro as part of their Documentation certificates, legal opinions (from counsel satisfactory to New Hampshire Hydro), and other documents in form and substance satisfactory to New Hampshire Hydro representing unconditionally that all consents, approvals, and authorizations have been obtained by their contracting systems in connection with each such system's performance of its obligations under its respective contract with VELCO or MMWEC and that each such contract imposes absolute and unconditional obligations on such systems to pay their proportionate shares of all costs incurred under this Agreement by VELCO or MMWEC, respectively, and has been duly authorized, executed, and delivered and is a binding commitment of such system enforceable in accordance with its terms. If regulatory approvals have not been obtained by September 1, 1988, such representations shall be conditioned upon receipt of regulatory approvals. VELCO and MMWEC will have until September 15, 1988, to receive such approvals and make such representations unconditionally. In order that percentages of participation be consistent among the Basic Agreements, VELCO and MMWEC shall have

their contracts with their contracting systems cover the necessary commitments for each Basic Agreement.

All expenses in connection with obtaining and delivering any Documentation under this Agreement, including legal opinions, are to be borne by the signatory incurring such expense. New Hampshire Hydro will have no responsibility for any expenses incurred by VELCO and MMWEC in providing Documentation for their respective contracting systems.

Any signatory that fails to meet the requirements of Section 2 by the deadlines contained herein will not be an Equity Sponsor under this Agreement and will not have any rights and obligations hereunder.

New Hampshire Hydro by written notice to all signatories may extend any deadline date specified in this Agreement to a later date, provided that any extension for longer than six months requires the consent of the Advisory Committee under the New Hampshire HVDC Support Agreement.

**Section 3. Effective Date and Term**

This Agreement shall become effective (the Effective Date) upon the last to occur of the following dates:

- (i) the date that the Equity Sponsors, committing in the aggregate to Equity Shares (as hereinafter defined) equal to at least 100%, have met the requirements of Section 2; and
- (ii) the date that the last of the other Basic Agreements (excluding the Use Agreement) becomes effective or would become effective but for a condition that its effectiveness is subject to this Agreement becoming effective.

Upon execution and delivery of the Agreement by New Hampshire Hydro and NEES and other signatories committing in the aggregate to Equity Shares (as hereinafter defined) equal to no less than 100%, and notwithstanding any provision herein to the contrary, no signatory may terminate its obligations hereunder except in accordance with provisions of this Agreement.

The term of this Agreement shall expire on the termination date of the New Hampshire HVDC Support Agreement.

Section 4. Equity Sponsor Qualification

A. In order to enhance New Hampshire Hydro's ability to finance its portion of Phase II as required under the New Hampshire HVDC Support Agreement and to enhance the credit support of certain Supporters under the AC Support Agreement, some or all of the New England utilities participating in Phase II whose credit ratings are at least one grade above the lowest investment grade have agreed to provide, or to cause their designees to provide, credit support for those New England utilities participating in Phase II whose credit ratings are below investment grade. NEES and those New England utilities or their designees which have agreed to provide this credit support are the Equity Sponsors of New Hampshire Hydro under this Agreement.

B. A Participant under the New Hampshire HVDC Support Agreement or its authorized designee qualifies to be an Equity Sponsor by having its outstanding long-term debentures rated at least one grade above the lowest investment grade rating as of September 1, 1985. If no long-term debentures are outstanding, the ratings used shall be those of such company's most junior long-term mortgage or revenue bonds. If no mortgage bonds, revenue bonds, or debentures are outstanding, the ratings used shall be those of the most junior long-term

debt. VELCO shall qualify to be an Equity Sponsor if 80% or more of its common stock is owned by utilities whose debt securities qualify pursuant to this subsection 4(B).

For purposes of this Agreement, “one grade above the lowest investment grade rating” means a rating equal to the following ratings from two of these rating agencies: Standard and Poor’s Corporation - Rating BBB; Moodys Investor Service - Rating Baa2; and Duff & Phelps - Rating D&P 9 (or the equivalent municipal ratings).

C. A “designee” shall be authorized to be an Equity Sponsor if it is a parent company of such Participant and (i) its debt securities meet the appropriate test specified in B above, or (ii) at least 80% of its consolidated utility revenues are derived from subsidiaries whose debt securities meet the appropriate test specified in B above. (For VELCO, each stockholder of VELCO shall be a parent company of VELCO.) On or before the date of execution of this Agreement, each Participant shall identify its designee, if any.

D. A Participant under the New Hampshire HVDC Support Agreement also qualifies to be an Equity Sponsor if it has an Equity Share of four tenths of one percent (0.4%) or less and it has only one long-term debt rating from any of the three rating agencies referred to in B above and such rating is at least “A3” as of September 1, 1985.

E. In order that the necessary credit enhancement is provided as specified in A above, the qualification of each Equity Sponsor shall be reviewed by New Hampshire Hydro as of the date that the first equity contributions are to be made by such Equity Sponsor. If an Equity Sponsor fails to qualify on such date, appropriate actions and allocations shall be instituted as provided elsewhere in this Agreement.

F. Notwithstanding any provision of Sections 2, 4(B), and 4(D) to the contrary, if a Participant (i) has only one credit rating and seeks to qualify to be an Equity Sponsor under B

above, or (ii) has no credit rating at all and seeks to qualify to be an Equity Sponsor under B or D above, such new credit rating or ratings must be received by February 1, 1988, from one or more of the rating agencies referred to in B above and such new credit rating or ratings shall be current. Such Participants must demonstrate by February 1, 1988, to the satisfaction of New Hampshire Hydro that it is qualified to be an Equity Sponsor pursuant to this Section 4.

Section 5. Equity Shares

A. Each Equity Sponsor shall have and be charged with a percentage interest in all rights and obligations hereunder determined in accordance with this Section 5 (which interest is hereinafter referred to as its "Equity Share"). All of the equity of New Hampshire Hydro will be owned by the Equity Sponsors in proportion to their Equity Shares.

The Equity Share of each Equity Sponsor shall be computed both initially and as changed from time to time in accordance with the terms hereof, by New England Hydro as hereinafter provided. Such computations shall be made as of the first day of any month in which there is a change in the number of Equity Sponsors or any change in the interest of any Equity Sponsor as herein provided. The initial computation is to be made as of September 15, 1985, and subsequent computations are to be made in any month thereafter in which an interest is modified or terminated due (i) to the failure of a signatory to provide proof that it is qualified to be an Equity Sponsor by February 1, 1988, or (ii) to the failure to provide Documentation by September 15, 1988, or (iii) to the failure to be so qualified on the date the first equity contributions are to be made by such Equity Sponsor, or (iv) to the operation of any provision of this Agreement. All computations shall be final unless there is a manifest error. Such computations of Equity Sponsors' Equity Shares as initially calculated and as changed under (i) and (ii) shall be made pursuant to Attachment C. Changes under (iii) shall be made pursuant to

section 5(C) below, and changes under (iv) shall be made pursuant to the appropriate section requiring the change.

B. The Equity Shares on and as of the initial computation date, and as of the date of subsequent computations under subparts (i) and (ii) of the second paragraph of A above, will be calculated as follows:

1.51% to NEES; and

2.49% apportioned among the other Equity Sponsors on the basis of the subscription process as described in

Attachment C.

(Attachment C provides that each Equity Sponsor may specify a maximum percentage of equity and that such maximum shall remain in effect until September 15, 1988 or such later deadline if extended pursuant to Section 2 hereof.) After the initial computation and prior to the Effective Date, each Equity Sponsor may transfer any or all of its Equity Share to one or more other Equity Sponsors. On or before September 1, 1988, any such Equity Sponsor which has transferred or intends to transfer any or all of its Equity Share to one or more other Equity Sponsors, must provide documentation to New Hampshire Hydro covering the transfer. Any apportionment of Equity Shares pursuant to Section 5B(2) above shall be made without regard to (i) any transfers of Participating Shares pursuant to Section 4 of the New Hampshire HVDC Support Agreement or (ii) any transfers of Equity Shares made after the initial computation and prior to the Effective Date, provided that each Equity Sponsor which has agreed to take such transferred Equity Share has provided the required Documentation by September 15, 1988 (including Documentation covering any such transferred Equity Share). Any transfers of Equity Shares, as provided above, shall be taken into account after such apportionment.

Upon execution of this Agreement, MMWEC may receive any such transferred Equity Shares; however, MMWEC shall not be included as an Equity Sponsor in any computations pursuant to the first paragraph of this Section 56.

C. On the basis of New Hampshire Hydro's review of the qualifications of each Equity Sponsor other than NEES as of the date that the first equity contributions are to be made by such Equity Sponsor, if one or more Equity Sponsors are no longer qualified under Section 4, (i) the aggregate Equity Shares of such unqualified Equity Sponsors shall first be offered in writing by New Hampshire Hydro to all then qualified Equity Sponsors other than NEES for voluntary subscription, (ii) second, any remaining shortfall shall be allocated pro rata among such qualified Equity Sponsors not including NEES in proportion to their Equity Shares determined as of June 1, 1986, provided that the aggregate of all involuntary allocations under this Section 4(C) to such qualified Equity Sponsors shall not exceed an aggregate Equity Share of 10%, and further provided that the aggregate of all such involuntary allocations to any such Equity Sponsor shall not increase such Equity Sponsor's Equity Share determined as of September 15, 1988, by more than 25% thereof, and (iii) finally, any remaining shortfalls shall be retained pro rata by such no longer qualified Equity Sponsors in proportion to their Equity Shares determined as of September 15, 1988; provided, however, that NEES and all qualified Equity Sponsors may agree to other allocation arrangements; and further provided that NEES shall not have an Equity Share of less than 51% unless it so consents. (The above deadlines of September 15, 1988, may be extended to a later deadline pursuant to Section 2 hereof.)

All offerings above shall be made in accordance with a voluntary subscription process as specified in New Hampshire Hydro's offering letter, and any oversubscriptions will be treated as provided therein.

Section 6. Relationship among Equity Sponsors

The rights and obligations of the Equity Sponsors hereunder are several, in accordance with their respective Equity Shares, and not joint. The rights and obligations of New Hampshire Hydro hereunder are also several and not joint with those of the Equity Sponsors or any one thereof. There is no intention to create by this Agreement, or by any grant, lease, license, or activity related hereto, an association, joint venture, trust, or partnership or to impose on New Hampshire Hydro or any Equity Sponsor trust or partnership rights or obligations; and any such implied intention is expressly negated. Except as expressly provided in this Agreement, no Equity Sponsor shall have by virtue of this Agreement or of any such grant, lease, license, or activity the right or power to bind any other Equity Sponsor without its express written consent.

Section 7. Equity Contribution

A. Under the New Hampshire HVDC Support Agreement, New Hampshire Hydro has agreed to limit its equity investment to a maximum of 40% of its total capital as of the effective date of that agreement and has agreed to use its best efforts (subject to an exception specified in the New Hampshire HVDC Support Agreement) to continue to limit its equity investment to 40% of its total capital during the time that New Hampshire Hydro has outstanding debt in its capital structure.

New Hampshire Hydro may call from time to time by written notification upon the Equity Sponsors to contribute equity in any of the forms set forth in this Section up to a maximum aggregate amount of \$140 million, provided that Equity Sponsors having 66-2/3% of Equity Shares may agree to increase this maximum aggregate amount; and then all Equity Sponsors shall contribute such requested amount with each Equity Sponsor contributing up to its Equity Share of the new maximum. Any contribution made in response to New Hampshire

Hydro's call in excess of the maximum aggregate amount, as adjusted from time to time, may be made on a voluntary basis by any contributing Equity Sponsor, and New Hampshire Hydro will make an appropriate adjustment in Equity Shares.

B. During the term of this Agreement, New Hampshire Hydro has the option from time to time to call for contribution of equity in any of the following forms:

1. New Hampshire Hydro may offer shares of its common stock to its Equity Sponsors and each Equity Sponsor shall subscribe for and purchase, for cash at a price set by New Hampshire Hydro, its Equity Share of the common stock so offered.
2. After each Equity Sponsor owns common stock of New Hampshire Hydro, New Hampshire Hydro may request that capital contributions be made, and each Equity Sponsor shall contribute to New Hampshire Hydro its Equity Share of the total capital contribution so requested.

C. In order that New Hampshire Hydro may limit its equity investment to a maximum of 40% of its total capital, New Hampshire Hydro may, at its option, from time to time, take any of the following actions:

1. New Hampshire Hydro may repurchase for cash its common stock from Equity Sponsors in amounts that will not change the relative Equity Shares among Equity Sponsors and at a price per share equal to book value per share at the time of repurchase. Each Equity Sponsor shall sell such common stock to New Hampshire Hydro in the full amount so requested.
2. New Hampshire Hydro may return any capital contribution previously received from Equity Sponsors in amounts that will not change the relative

Equity Shares among Equity Sponsors. Each Equity Sponsor shall accept such return of capital contribution in the full amount so returned.

3. New England Hydro may pay dividends out of earnings or make liquidating dividends to the Equity Sponsors.

D. New Hampshire Hydro shall give written notice of any call for contributions of equity under B above to each Equity Sponsor. Such notice shall specify the amount to be contributed, the form of the contribution, and a date, at least thirty days after the date of the notice, that the equity is to be contributed. New Hampshire Hydro will provide annually estimates of its equity requirements and estimated dates when any equity contributions hereunder will be due. New Hampshire Hydro shall give written notice of any action to reduce its equity under C above to each Equity Sponsor. Such notice shall specify the amount and form of the reduction and a date, at least fifteen days after the date of the notice, that the reduction in equity is to occur.

E. New Hampshire Hydro shall use the proceeds of any equity contribution under this Agreement for the sole purpose of meeting its capital requirements under the New Hampshire HVDC Support Agreement.

F. All transactions under B, up to a maximum aggregate amount of \$90 million, and under C above shall be subject to receipt of all necessary regulatory approvals, and New Hampshire Hydro and the Equity Sponsors shall use their best efforts to obtain, or to assist in obtaining, these approvals in advance of the Effective Date.

G. New Hampshire Hydro shall have two classes of common stock, both of which will have the same preferences, qualifications, special or relative rights or privileges except that only one class shall have voting powers. Equity Shares allocated to NEES shall be evidenced by

voting common stock. The Equity Shares allocated to each other Equity Sponsor shall, at the option of such Equity Sponsor, be evidenced by shares of voting common stock or non-voting common stock. Any reallocation of Equity Shares pursuant to Section 5 hereof shall be effected in such manner as to involve the issuance of additional common stock to each Equity Sponsor of the class then held by such Sponsor. Such election to take voting or non-voting stock shall be made in writing to New Hampshire Hydro by September 1, 1988.

H. Notwithstanding any provision of this Agreement to the contrary, prior to the date that New Hampshire Hydro first calls for equity contributions from all Equity Sponsors, all equity of New Hampshire Hydro will be owned and contributed by NEES.

Section 8. Cash Deficiency Guarantee

A. The New Hampshire HVDC Support Agreement provides that, if New Hampshire Hydro has, on any Due Date, a Cash Deficiency attributed to a Participant, the Participant absolutely and unconditionally guarantees to pay its Cash Deficiency on demand of Lenders. (This commitment is made in section 19 of that Agreement.) To provide further credit support to New Hampshire Hydro, each Equity Sponsor absolutely and unconditionally guarantees to pay its then Equity Share of the Cash Deficiency attributed to any Credit Enhanced Participant (as defined in the New Hampshire HVDC Support Agreement) with respect to any third party debt financing of New Hampshire Hydro that was credit enhanced for such Participant, with such amounts to be paid directly on demand to Lenders, in cash, if for any reason a Credit Enhanced Participant fails to pay when due its Cash Deficiency on demand of Lenders. Each Equity Sponsor agrees that its obligations under this Section shall be continuing, absolute, and unconditional and without the benefit of any defense, claim, set-off, recoupment, abatement, or other right, existing or future, which an Equity Sponsor may have against the Lenders, New

Hampshire Hydro, or any other person, and shall remain in full force and effect until all of the obligations of New Hampshire Hydro to the Lenders have been discharged.

Each Equity Sponsor hereby waives diligence, presentment, demand of payment, filing of claims with a court in the event of merger or bankruptcy of any Lender or New Hampshire Hydro or any other Equity Sponsor, protest or notice with respect to this guarantee, and covenants that the obligations contained in this guarantee will not be discharged except by complete performance of the obligations of New Hampshire Hydro to the Lenders.

B. Notwithstanding any other provision contained herein, each Equity Sponsor's obligations under this Section 8 shall be limited to its Equity Share of the Cash Deficiency attributed to any Credit Enhanced Participant with respect to any financing of New Hampshire Hydro that was credit enhanced for such Participant.

C. In no event shall the several guarantees of the Equity Sponsors attributable to Credit Enhanced Participants for each debt financing of New Hampshire Hydro exceed in the aggregate 35% of the aggregate amount of the obligations relating to such financing, provided that Equity Sponsors having an aggregate of at least 80% of the Equity Shares may agree to exceed such 35% maximum and subject to receipt of any necessary regulatory approvals, such agreement shall be binding on all Equity Sponsors.

D. In no event shall Equity Sponsors be required to provide guarantees for a Participant with respect to a particular third party debt financing of New Hampshire Hydro if that would result in Credit Enhanced Participants with respect to that and all other outstanding financings of New England Hydro and New Hampshire Hydro having Participating Shares exceeding 35% under the New Hampshire HVDC Support Agreement, provided that Equity Sponsors having an aggregate of at least 80% of the Equity Shares may agree to exceed such

35% maximum and subject to receipt of any necessary regulatory approvals, such agreement shall be binding on all Equity Sponsors.

E. Each Equity Sponsor shall use its best efforts to obtain and assist others in obtaining all necessary regulatory approvals required for the several guarantees made in this Section.

Section 9. Acceptance of Participating Shares

A. In accordance with section 15 of the New Hampshire HVDC Support Agreement, if a Participant that is a Credit Enhanced Participant is terminated by New Hampshire Hydro as a Participant, each Equity Sponsor or its appointee shall be allocated by New Hampshire Hydro its then Equity Share of the Participating Share of such terminated Participant; such allocation to be made as of the date of such termination. Each Equity Sponsor or its appointee shall accept such allocation from New Hampshire Hydro and shall unconditionally and absolutely assume the rights and obligations associated therewith from the date of such allocation. If a Participant that was not also a Credit Enhanced Participant is terminated, then acceptance of any allocation shall be voluntary by any Equity Sponsor or its appointee and shall be in accordance with New Hampshire Hydro's offer thereof. If required by New Hampshire Hydro, any Equity Sponsor or its appointee assuming rights and obligations under the New Hampshire HVDC Support Agreement shall execute and deliver any documents necessary to effectuate such assumption. If any Equity Sponsor that is the designee of a Participant is unable to deliver these documents to effectuate the assumption, such Equity Sponsor shall take all actions necessary for the Participant that so designated it as an Equity Sponsor to assume such rights and obligations as its appointee.

The appointee of NEES shall be New England Power Company. The appointee(s) of any other Equity Sponsor shall be the Participant(s) for which such Equity Sponsor was acting as a

designee. Each Equity Sponsor agrees that if its appointee is allocated a Participating Share under the New Hampshire HVDC Support Agreement, such Equity Sponsor shall also allocate to it an equal participating share and support share under the Massachusetts HVDC Support Agreement and New England Power and Boston Edison AC Support Agreements, respectively.

B. Each Equity Sponsor shall use its best efforts to obtain and assist others in obtaining all necessary regulatory approvals required for performance of its or its appointee's commitments made in this Section.

Section 10. Character of Payment Obligations

The obligations of each Equity Sponsor to make payments hereunder, and to perform and observe all other agreements on its part contained herein, are absolute and unconditional and shall not be affected by any circumstance, including, without limitation, (i) any insolvency, composition, bankruptcy, reorganization, arrangement, liquidation or similar proceedings relating to New Hampshire Hydro, New England Power Company, Boston Edison Company, the Equity Sponsor, any other Equity Sponsor, or any affiliate thereof, (ii) any invalidity or unenforceability or disaffirmance by New Hampshire Hydro or any Equity Sponsor of any provision of this Agreement or any failure, omission, delay, or inability of New Hampshire Hydro to perform any of its obligations contained herein, (iii) any amendment, extension, or other change of, or any assignment or encumbrance of any rights or obligations under, this Agreement, or any waiver or other action or inaction, or any exercise or nonexercise of any right or remedy, under or in respect to this Agreement, or (iv) any inability of the Equity Sponsor or any other Equity Sponsor to obtain regulatory approvals for financing its Equity Share of any obligations under this Agreement or for meeting any other obligations under this Agreement, it being the intention of the parties hereto that all amounts payable by each Equity Sponsor in respect of this

Agreement shall begin to be payable and shall continue to be payable in all events in the manner and at the time herein provided. In that connection, each Equity Sponsor hereby waives, to the extent permitted by applicable law, any and all rights which it may now have or which may at any time hereafter be conferred upon it, by statute or otherwise, to terminate, cancel, or surrender any of its obligations under this Agreement.

Section 11. Default

A. Any of the following events (Events of Default) that occur and are continuing are Events of Default:

- (i) An Equity Sponsor shall fail to pay to New Hampshire Hydro when due any amount which it has agreed to pay under any provision of this Agreement, and such failure shall continue for more than 15 days after written notice thereof has been given to such Equity Sponsor by New Hampshire Hydro; or
- (ii) An Equity Sponsor shall fail to supply in accordance with the terms hereof any documentation required, by New Hampshire Hydro in connection with financing with Lenders by New Hampshire Hydro (for VELCO and MMWEC, this includes documentation for their respective contracting electric systems), and such failure shall continue for more than 30 days after written notice of such failure has been given to such Equity Sponsor by New Hampshire Hydro; or
- (iii) An Equity Sponsor shall fail to perform any other obligation under this Agreement in accordance with the terms hereof, and such failure shall continue for more than 30 days after written notice thereof has been

given to such Equity Sponsor or any of its affiliates by New Hampshire Hydro.

(iv) An Equity Sponsor shall experience an event of default under the Equity Funding Agreement for New England Hydro.

B. If an Event of Default under Section 12A(i) above shall have occurred, New Hampshire Hydro may, by written notice to each Equity Sponsor, request that the nondefaulting Equity Sponsors on a voluntary basis make the overdue payment to New England Hydro, provided that similar voluntary payments are made under the Equity Funding Agreement for New Hampshire Hydro.

C. New Hampshire Hydro or any Equity Sponsor shall be free to invoke such remedies at law or in equity as may be deemed appropriate against any Equity Sponsor that defaults under this Agreement.

Section 12. Restrictions on Transfer of Common Stock

Each Equity Sponsor agrees that it will not transfer any or all of its common stock of New Hampshire Hydro to any other person unless such person is an Equity Sponsor or meets the requirements for being an Equity Sponsor under sections 4B or 4C or 4D or 4F hereof as of the date of such transfer and a similar transfer is made under the Equity Funding Agreement for New England Hydro.

Section 13. Dividends on Common Stock

Any Equity Sponsor may direct New Hampshire Hydro to withhold the payment of a dividend to such Equity Sponsor and apply such dividend to reduce the current or the next Support Charge payment required to be made under the New Hampshire HVDC Support Agreement by such Equity Sponsor or its appointee.

Section 14. Restrictions on Dividends, Return of Capital and Repurchase of Common Stock

Any Equity Sponsor which is in default hereunder pursuant to Section 12 is not entitled to receive any amounts from New Hampshire Hydro representing such Equity Sponsor's then Equity Share of dividends, return of capital, or proceeds from any repurchase of common stock until all amounts (including interest thereon at an annual rate equal to two percent over the current interest rate on prime commercial loans from time to time in effect at the principal office of the First National Bank of Boston) owed by such Equity Sponsor to New Hampshire Hydro have been paid.

Section 15. Certain Actions of New Hampshire Hydro

A. New Hampshire Hydro shall not take any of the following actions without prior written approval of Equity Sponsors having at that time at least 80% of the Equity Shares:

(i) Amend New Hampshire Hydro's articles of organization or by-laws to adversely affect the rights of the Equity Sponsors as stockholders in a material manner under the Basic Agreements, unless such amendment is required by regulation or law; and

(ii) Merge, consolidate, or sell all or substantially all of the assets of New Hampshire Hydro not otherwise permitted by the New Hampshire HVDC Support Agreement.

B. New Hampshire Hydro shall distribute in a timely manner to each Equity Sponsor copies of (a) its annual audited financial statements, (b) notices of all of its directors' and stockholders' meetings (including any committees thereof), and (c) minutes of all of its directors' and stockholders' meetings.

Section 16. Miscellaneous

A. Successors and Assigns This Agreement shall be binding upon and shall inure to the benefit of, and may be performed by, the successors and assigns of the parties and shall also be binding, insofar as permitted by law, on any receiver or trustee in bankruptcy, receivership, or reorganization of any party. Except for a transfer of any or all of an Equity Sponsor's Equity Share prior to the Effective Date as provided in Section 5B hereof, no assignment of this Agreement shall operate to relieve the assignor of its obligations under this Agreement without the written consent of the parties hereto. Written notice to all parties will be given prior to any assignment hereunder.

Notwithstanding the above, New Hampshire Hydro may collaterally assign this Agreement without the consent of the Equity Sponsors in connection with a third party financing by New Hampshire Hydro.

B. Right of Setoff. No Equity Sponsor shall be entitled to set off against the payments required to be made by it hereunder (1) any amounts owed to it by New Hampshire Hydro, any affiliate of New Hampshire Hydro, or any other Equity Sponsor, or (2) the amount of any claim by it against New Hampshire Hydro, any affiliate of New Hampshire Hydro, or any other Equity Sponsor. However, the foregoing shall not affect in any other way any Equity Sponsor's rights and remedies with respect to any such amounts owed to it by New Hampshire Hydro, any affiliate of New Hampshire Hydro, or any other Equity Sponsor or any such claim by it against New Hampshire Hydro or any other Equity Sponsor.

C. Amendments. Any amendments changing the Equity Shares of the Equity Sponsors or the several nature of the obligations and rights of the Equity Sponsors hereunder as specified in Section 6, shall require consent by all parties. In the event that an Equity Sponsor is obligated to acquire Equity Shares hereunder and does not pay for such Shares, then such

Shares will not be issued to him and such Equity Sponsor's Equity Share will be reduced accordingly. All other amendments to this Agreement shall be by mutual agreement of New Hampshire Hydro and Equity Sponsors owning Equity Shares aggregating at least 80%, evidenced by a written amendment signed by New Hampshire Hydro and such Equity Sponsors; and New Hampshire Hydro and all Equity Sponsors shall be bound by any such amendment.

D. Notices. Except as the parties may otherwise agree, any notice, request, bill, or other communication relating to this Agreement, or the rights, obligations or performance of the parties hereunder, shall be in writing and shall be effective upon delivery. Any such communication shall be considered as duly delivered when delivered in person or mailed by registered or certified mail, postage prepaid, to the respective post office address of the other parties shown following the signatures of such other parties hereto, or such other address as may be designated by written notice given as provided in this paragraph D.

E. Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of The Commonwealth of Massachusetts.

F. Other

- 1.No action, regardless of form, arising out of this Agreement may be brought by any party hereto more than three years after the cause of action has arisen.
- 2.In the event that any clause or provision of this Agreement, or any part thereof, shall be declared invalid or unenforceable by any court having jurisdiction, such invalidity or unenforceability shall not affect the validity or enforceability of the remaining portions of this Agreement.

3. All provisions of this Agreement providing for limitation of, or protection against, liability shall apply to the full extent permitted by law, and regardless of fault, and shall survive either termination pursuant to this Agreement or cancellation.
4. Each party shall, upon request of another party, execute and deliver any document reasonably required to implement any provision hereof.
5. Any number of counterparts of this Agreement may be executed and each shall have the same force and effect as the original.
6. This Agreement, with the other Basic Agreements, Preliminary Quebec Interconnection Support Agreement - Phase II, the agreements with Hydro-Quebec regarding Phase II, and the basic agreements covering Phase I shall constitute the entire understanding among the parties and shall supersede any and all previous understandings pertaining to the subject matter of this Agreement.
7. Terms defined in the New Hampshire HVDC Support Agreement and the New England Power and Boston Edison AC Support Agreements used in this Equity Funding Agreement shall be incorporated herein as defined in such Agreements unless the context indicates otherwise.
8. This Agreement is the act and obligation of the parties hereto in their corporate or governmental capacity, and any claim hereunder against any shareholder, director, officer, employee, or agent of any party, as such, is expressly waived.

IN WITNESS WHEREOF, the signatories have caused this Agreement to be executed by their duly authorized officers or agents.

COMPANY

By: \_\_\_\_\_  
Its President

Address: XXXXXXXXXXXX  
XXXXXXXXXX

Article 32 of the Declaration of Trust of Northeast Utilities dated January 15, 1927, as amended, provides as follows:

No shareholder shall be held to any liability whatever for the payment of any sum of money, or for damages or otherwise under any contract, obligation or undertaking made, entered into or issued by the Trustees or by any officer, agent or representative elected or appointed by the Trustees and no such contract, obligation or undertaking shall be enforceable against the Trustees or any of them in their or his individual capacities or capacity and all such contracts, obligations and undertakings shall be enforceable only against the Trustees as such and every person, firm, association, trust and corporation having any claim or demand arising out of any such contract, obligation or undertaking shall look only to the trust estate for the payment or satisfaction thereof. It shall be the duty of the Trustees and each of them and of every officer, agent or representative elected or appointed by them to include in every written agreement entered into by them or any of them as herein provided, a statement of the immunity provided by this article for the Shareholders and for the Trustees as individuals, and neither the Trustees nor any of them nor any officer, agent or representative appointed or elected by them shall have any power or authority to enter into any agreement or incur any obligation as herein provided except in accordance with the provisions of this Article.

In case any Shareholder shall at any time for any reason be held to or be under any personal liability whatever solely by reason of his being or having been a Shareholder and not by reason of his acts or omissions as a Shareholder, then such Shareholder (or his heirs, executors, administrators, or other legal representatives) shall be held harmless and indemnified out of the trust estate from and of all loss, liability or expense by reason of such liability.

VELCO SCHEDULE 1

<u>Utility</u>	<u>Percentage Interest</u>
Citizens Utilities Company	1.1155
Franklin Electric Light Company	0.0433
Green Mountain Power Corporation	<u>3.1800</u>
	4.3388

Schedule II

Massachusetts Municipal Wholesale Electric Company  
Contracting Electric Systems

Massachusetts Systems

Town of Ashburnham Municipal Light Plant  
Town of Georgetown Municipal Light Department  
Town of Hull Municipal Lighting Plant  
Town of Littleton Electric Light Department  
Town of Mansfield Municipal Electric Department  
Town of Marblehead Municipal Light Department  
Town of Middleton Municipal Electric Department  
Town of Paxton Municipal Light Department  
Town of Templeton Municipal Lighting Plant

Rhode Island System

Pascoag Fire District

ATTACHMENT A

List of Equity Sponsors

New Hampshire Hydro will supply a list of Equity Sponsors as of the date of initial computation and as of each date thereafter that the list changes.

As of February 1, 1988 (1)

Equity Sponsors	Equity Share (%)
New England Electric System	51.0000
Northeast Utilities	22.4245
Boston Edison	10.9335
Vermont Electric Power (2)	4.3388
Canal Electric	3.3885
Montaup	3.2435
Conn. Municipal Electric Coop.	0.8312
Reading	0.4638
Newport Electric	0.4426
Taunton	0.3547
Chicopee	0.3145
Braintree	0.2995
Peabody	0.2746
Holyoke Gas & Electric	0.2362
Westfield	0.2528
Danvers	0.2393
Shrewsbury	0.1612
Hudson	0.1474
Wakefield	0.1245
Hingham	0.1203
Concord	0.1161
North Attleboro	0.1086
Middleborough	0.1065
West Boylston	0.0509
Groton	<u>0.0265</u>
	100.0000

- (1) Boylston and South Hadley signed the Equity Funding Agreements, but have not qualified as Equity Sponsors.
- (2) VELCO has signed as agent for:

Green Mountain Power	3.1800%
Citizens Utilities	1.1155
Franklin Electric	<u>0.0433</u>
	4.3388%

## ATTACHMENT B

Forms of the following documentation:

1. Opinion of Counsel
2. Certificate
3. Incumbency and Signature Certificate
4. Directors' Vote

[Please note - governmental entities may make appropriate modifications to these documents to reflect that they are not corporations.]

[Form of Opinion of Counsel for Each Utility Participant]

New England Hydro-Transmission  
Electric Company, Inc.;  
New England Hydro Transmission  
Corporation; or  
New England Power Company

Gentlemen:

This opinion is furnished in connection with the execution and delivery by \_\_\_\_\_ (the Company) of the following Agreements: \_\_\_\_\_.

We have acted as counsel to the Company, one of the Utility Participants, in connection with the execution and delivery of the Basic Agreements. We participated in reviewing and/or drafting the Agreements.

As general [special] counsel to the Company, we are generally familiar with its affairs. [If special counsel is giving the opinion, describe relationship to the Company.] We have reviewed the proceedings taken by the Company in connection with its authorization, execution, and delivery of the Agreements and any documentation supplied by the Company thereunder. We have also examined executed counterparts of the Agreements, have made such other investigation, and have examined such other records and documents, and have made such examination of law and satisfied ourselves as to such other matters as we have deemed relevant and necessary in order to enable us to express the opinions set forth below.

Based upon and subject to the foregoing and to the further qualifications in this opinion, we are of the opinion that:

1. The Company is a corporation duly organized, validly existing and in good standing under the laws of [the jurisdiction of its incorporation], has the corporate power to own its assets and to transact the business in which it is engaged, and is duly qualified as a foreign corporation in, and is in good standing under the laws of, each jurisdiction in which the conduct of its business or the ownership of its assets requires such qualification.
2. The Company has (and in the case of the Agreements at the time of execution and delivery thereof, had) full corporate power, and legal right to execute, deliver and perform the Agreements, and the Company has taken all necessary corporate action to authorize the execution, delivery, and performance by it of the Agreements.
3. The execution, delivery, and performance by the Company of the Agreements do not (a) contravene the Company's [charter documents] or by-laws, (b) violate any applicable law, rule, regulation, order, writ, judgment, injunction, decree, or award known to us by which the Company is bound, (c) violate any indenture, instrument, or agreement known to us by which the Company is bound, or (d) result in or require the creation or the imposition of any lien pursuant

to the provisions of any indenture, instrument, or agreement known to us by which the Company is bound.

4. No authorization, approval, consent, or other action by, and no notice to or filing with, any federal, state, or other governmental authority or regulatory body which has not been obtained or given and is not in full force and effect is required for the valid and lawful execution, delivery, and performance by the Company of the Agreements. [In this connection, to the extent it may be required by law, the approval of the Massachusetts Department of Public Utilities [Connecticut PUC, or other] has been given for the Agreements and the Company's performance thereunder by order(s) dated \_\_\_\_\_, which remains in full force and effect.]

5. The Agreements have each been duly executed and delivered by the Company and constitute the legal, valid, and binding obligations of the Company enforceable against it in accordance with their respective terms.

6. No action, suit, proceeding, or investigation at law or in equity or by or before any governmental instrumentality or other agency now pending or threatened against or affecting the Company or its property or rights which, if adversely determined, would materially impair the ability of the Company to perform its obligations under the Agreements is known to us.

Our opinion that the Agreements are enforceable, each in accordance with the terms thereof, is qualified to the extent that the enforcement of the rights and remedies created thereby is subject to bankruptcy, insolvency, reorganization, and similar laws of general application affecting the rights and remedies of creditors and secured parties, and to the further extent that the availability of the remedies of specific enforcement, injunctive relief, or any other equitable remedy is subject to the discretion of the court before which any proceeding therefor may be brought.

Very truly yours,

CERTIFICATE

I, (insert name), the Clerk (or Secretary or other principal recording officer) of (insert name of Utility Participant), a (insert state of organization) (the "Company") do hereby certify that:

(1) Attached hereto as Exhibit A is a true and correct copy of a vote duly adopted at a meeting of the Board of

Directors of the Company, duly called and held on \_\_\_\_\_, \_\_\_\_\_, and that such vote and the authority vested thereby have not been amended or revoked and are still in full force and effect.

(2) Attached hereto as Exhibit B is a true and correct copy of the Articles of Organization (or other charter documents) of the Company, as amended and in effect as of the date of this Certificate.

(3) Attached hereto as Exhibit C is a true and correct copy of the By-Laws of the Company, as amended and in effect as of the date of this Certificate.

(4) The persons (or person) listed on Exhibit D have been duly elected to the offices set forth adjacent to their respective names since the first day of June, 1985, and the signatures adjacent to their respective names are the genuine signatures of said officers.

IN WITNESS WHEREOF, I have placed my hand and the seal of the Company this \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

By \_\_\_\_\_

Name:

Title:

CONFIRMATION OF INCUMBENCY AND SIGNATURE OF  
CLERK, SECRETARY, OR OTHER PRINCIPAL RECORDING OFFICER

I, (name), (title) of the Company, do hereby certify that (name of officer executing certificate) is and at all times subsequent to \_\_\_\_\_, \_\_\_\_\_, has been the duly elected (title) of the Company and that the signature adjacent to his (or her) name is the genuine signature of said officer.

By \_\_\_\_\_

Name:

Title:

FORM OF DIRECTORS' VOTE APPROVING AGREEMENTS

VOTED:

That in connection with this Company's participation in the Phase II expansion of the proposed interconnection between the New England Power Pool companies and Hydro-Quebec, the execution and delivery on behalf of this Company by \_\_\_\_\_, President, of the following agreements: (being collectively referred to in this vote as "Agreements") copies of which Agreements have been presented at this meeting, are hereby authorized, approved, ratified, and confirmed, and that the officers of this Company are further authorized severally to take any and all such further actions including the execution and delivery of such further documents, as such officers or any of them may deem necessary or appropriate in connection with the actions and documents authorized by this vote.

ATTACHMENT C

Subscription Process for Determining  
Equity Shares under Section 5(B)

After allocation of 51% of the Equity Shares to NEES pursuant to Section 5(B)(1), the Equity Shares shall be allocated to Equity Sponsors other than NEES as follows:

- (a) Each other Equity Sponsor shall be entitled to a pro rata share of the remainder based on the Participating Share of such Equity Sponsor or the Participant(s) that has designated it as an Equity Sponsor as a percentage of Participating Shares of all other Equity Sponsors or such Participants as shown in the New Hampshire HVDC Support Agreement. For the purpose of this calculation, the Participating Share of each Equity Sponsor designated by VELCO shall be deemed to be a pro rata share of VELCO's Participating Share based on the ratio of such Equity Sponsor's 1980 kwh load to the aggregate 1980 kwh load of all Equity Sponsors designated by VELCO.
- (b) Upon execution of this Agreement, each other Equity Sponsor may subscribe for more or less than its share under (a) above.
- (c) Upon execution of this Agreement, each other Equity Sponsor may specify a maximum limit on its share of such remainder that would apply to any allocations made on or before June 1, 1986 or such later deadline date as is fixed pursuant to Section 2 hereof.
- (d) If there are no undersubscriptions or oversubscriptions under (b) above or if the sum of the shares under (a) or (b) above for all Equity Sponsors equals 100% of such remaining shares, then each Equity Sponsor shall have a share as determined under (a) or (b) above. (For the purposes of this attachment, oversubscription shall mean, with respect to any Equity Sponsor, a subscription under (b) above of more than its share under (a) above. For the same purposes, undersubscription shall mean, with respect to any Equity Sponsor, a subscription under (b) above of less than its share under (a) above. The amount of such oversubscription shall be equal to (b) minus (a) and the amount of such undersubscription shall be equal to (a) minus (b).)
- (e) If there are undersubscriptions but not oversubscriptions or if there are oversubscriptions but no undersubscriptions, then each Equity Sponsor shall have a share as determined under (a) above; provided, however, that no Equity Sponsor shall be allocated more than its specified limit under (c) above. If the sum of all shares heretofore allocated is less than 100%, any remaining share shall be allocated to all Equity Sponsors that have received shares less than their limits under (c) above, pro rata by the difference between their limits under (c) above and their shares as heretofore allocated.

- (f) If the net result of subtracting the aggregate amount of all undersubscriptions from the aggregate amount of all oversubscriptions is greater than zero, the aggregate amount of all oversubscriptions must be reduced to the aggregate amount of all undersubscriptions. This amount shall be referred to as the total permitted amount of oversubscriptions. Each oversubscriber shall initially be allocated a share of the total permitted amount of oversubscriptions (pro rata by the Participating Shares of the oversubscribers or their designators as shown in the New Hampshire HVDC Support Agreement); provided that no oversubscriber shall be allocated more than its requested amount under (b) above. Any remaining unallocated portion of the total permitted amount of oversubscriptions shall be allocated to all oversubscribers that have not yet reached their requested amount under (b) above pro rata by the differences between their requested shares under (b) above and their shares as heretofore allocated.
- (g) If the net result of subtracting the aggregate amount of all oversubscriptions from the aggregate amount of all undersubscriptions is greater than zero, the aggregate amount of all undersubscriptions must be reduced to the aggregate amount of all oversubscriptions. This amount shall be referred to as the total permitted amount of undersubscriptions. The total permitted amount of undersubscriptions shall be allocated to the undersubscribers pro rata by the amounts of their undersubscriptions; provided, however, that no Equity Sponsor shall be allocated more than its specified limit under (c) above. If the sum of all shares heretofore allocated is less than 100%, any remaining share shall be allocated to all Equity Sponsors that have received shares less than their limits under (c) above, pro rata by the difference between their limits under (c) above and their shares as heretofore allocated.
- (h) If Equity Shares are required to be changed pursuant to subpart (i) or (ii) of Section 5(a), this reallocation shall be accomplished in accordance with this Attachment C on the basis of the subscriptions initially made under (b) and the maximum limits specified under (c) by each continuing Equity Sponsor, and giving effect to the termination of any Equity Sponsor pursuant to said subpart (i) or (ii).

[CONFORMED]

AMENDMENT NO. 1  
TO  
EQUITY FUNDING AGREEMENT  
FOR NEW ENGLAND HYDRO-TRANSMISSION CORPORATION

This Amendment, dated as of May 1, 1986, is between New England Hydro-Transmission Corporation (New Hampshire Hydro), and the New England entities that have signed the Equity Funding Agreement for New England Hydro-Transmission Corporation, dated as of June 1, 1985 (the "Equity Funding Agreement"), and amends the Equity Funding Agreement as hereinafter provided.

In consideration of the premises and other good and valuable consideration, receipt of which is hereby acknowledged, and pursuant to the provision of Section 16C of the Equity Funding Agreement, it is hereby agreed as follows:

1. Certain terms defined in the Equity Funding Agreement are used herein with the meanings there provided.
2. Section 4 is amended as follows:
  - (a) Subsection "D" is re-lettered as Subsection "E".
  - (b) The following paragraph is added as new Subsection "D":

"D. A Participant under the New Hampshire HVDC Support Agreement also qualifies to be an Equity Sponsor if it has an Equity Share of four tenths of one percent (0.4%) or less and it has only one long-term debt rating from any of the three rating agencies referred to in B above and such rating is at least "A3" as of September 1, 1985."

- (c) The following paragraph is added as Subsection "FH:

“F. Notwithstanding any provision of Sections 2, 4(B), and 4(D) to the contrary, if a Participant (i) has only one credit rating and seeks to qualify to be an Equity Sponsor under B above, or (ii) has no credit rating at all and seeks to qualify to be an Equity Sponsor under B or D above, such new credit rating or ratings must be received by July 1, 1986, from one or more of the rating agencies referred to in B above and such new credit rating or ratings shall be current. Such Participant must demonstrate by July 1, 1986, to the satisfaction of New Hampshire Hydro that it is qualified to be an Equity Sponsor pursuant to this Section 4. New Hampshire Hydro may extend such July 1, 1986, deadline, but any such extension shall be no later than October 1, 1986.”

3. Any number of counterparts of this Amendment may be executed, and each shall have the same force and effect as an original instrument and as if all the parties to all of the counterparts had signed the same instrument.

IN WITNESS WHEREOF, the signatories have caused this Amendment to be executed by their duly authorized officers or agents.

COMPANY

By: \_\_\_\_\_  
Its President

Address: XXXXXXXX  
XXXXXXXX

Article 32 of the Declaration of Trust of Northeast Utilities dated January 15, 1927, as amended, provides as follows:

No Shareholder shall be held to any liability whatever for the payment of any sum of money, or for damages or otherwise under any contract, obligation or undertaking made, entered into or issued by the Trustees or by any officer, agent or representative elected or appointed by the Trustees and no such contract, obligation or undertaking shall be enforceable against the Trustees or any of them in their or his individual capacities or capacity and all such contracts, obligations and undertakings shall be enforceable only against the Trustees as such and every person, firm, association, trust and corporation having any claim or demand arising out of any such contract, obligation or undertaking shall look only to the trust estate for the payment or satisfaction thereof. It shall be the duty of the Trustees and each of them and of every officer, agent or representative elected or appointed by them to include in every written agreement entered into by them or any of them as herein provided, a statement of the immunity provided by this article for the Shareholders and for the Trustees as individuals, and neither the Trustees nor any of them nor any officer, agent or representative appointed or elected by them shall have any power or authority to enter into any agreement or incur any obligation as herein provided except in accordance with the provisions of this Article.

In case any Shareholder shall at any time for any reason be held to or be under any personal liability whatever solely by reason of his being or having been a Shareholder and not by reason of his acts or omissions as a Shareholder, then such Shareholder (or his heirs, executors, administrators, or other legal representatives) shall be held harmless and indemnified out of the trust estate from and of all loss, liability or expense by reason of such liability.

XXXXXXXXXX

By: \_\_\_\_\_  
Its President

Address: XXXXXXXX  
XXXXXXXXXX

The name "New England Electric System" means the trustee or trustees for the time being (as trustee or trustees but not personally) under an agreement and declaration of trust dated January 2, 1926, as amended, which is hereby referred to, and a copy of which as amended has been filed with the Secretary of the Commonwealth of Massachusetts. Any agreement, obligation or liability made, entered into or incurred by or on behalf of New England Electric System binds only its trust estate, and no shareholder, director, trustee, officer or agent thereof assumes or shall be held to any liability therefor.

XXXXXXXX

By: \_\_\_\_\_  
Its President

Address: XXXXXXX  
XXXXXXX

[CONFORMED]

AMENDMENT No. 2  
TO  
EQUITY FUNDING AGREEMENT  
FOR NEW ENGLAND HYDRO-TRANSMISSION CORPORATION

This Amendment, dated as of September 1, 1987, is between New England Hydro-Transmission Corporation (New Hampshire Hydro), and the New England entities that have signed the Equity Funding Agreement for New England Hydro-Transmission Corporation, dated as of June 1, 1985 as amended by Amendment No. 1 dated as of May 1, 1986 (the "Equity Funding Agreement"), and amends the Equity Funding Agreement as hereinafter provided.

In consideration of the premises and other good and valuable consideration, receipt of which is hereby acknowledged, and pursuant to the provision of Section 16C of the Equity Funding Agreement, it is hereby agreed as follows:

1. Certain terms defined in the Equity Funding Agreement are used herein with the meanings there provided.
2. Section 7A is hereby amended by inserting in the first sentence of the first paragraph after the words "best efforts" the following: "(subject to an exception specified in the New Hampshire HVDC Support Agreement)".
3. Any number of counterparts of this Amendment may be executed, and each shall have the same force and effect as an original instrument and as if all the parties to all of the counterparts had signed the same instrument.

IN WITNESS WHEREOF, the signatories have caused this Amendment to be executed by their duly authorized officers or agents.

XXXXXXXXXX

By: \_\_\_\_\_  
Its President

Address: XXXXXXXX  
XXXXXXXXXX

The name "New England Electric System" means the trustee or trustees for the time being (as trustee or trustees but not personally) under an agreement and declaration of trust dated January 2, 1926, as amended, which is hereby referred to, and a copy of which as amended has been filed with the Secretary of the Commonwealth of Massachusetts. Any agreement, obligation or liability made, entered into or incurred by or on behalf of New England Electric System binds only its trust estate, and no shareholder, director, trustee, officer or agent thereof assumes or shall be held to any liability therefor.

XXXXXXXXXX

By: \_\_\_\_\_  
Its President

Address: XXXXXXXX  
XXXXXXXXXX

CONFORMED

AMENDMENT NO. 3  
TO  
EQUITY FUNDING AGREEMENT  
FOR NEW ENGLAND HYDRO-TRANSMISSION CORPORATION.

This Amendment, dated as of August 1, 1988, is between New England Hydro-Transmission Corporation (New Hampshire Hydro), and the New England entities that have signed the Equity Funding Agreement for New England Hydro-Transmission Corporation dated as of June 1, 1985 as amended (the "Equity Funding Agreement"), and amends the Equity Funding Agreement as hereinafter provided.

In consideration of the premises and other good and valuable consideration, receipt of which is hereby acknowledged, and pursuant to the provision of Section 16C of the Equity Funding Agreement, it is hereby agreed as follows:

1. Certain terms defined in the Equity Funding Agreement are used herein with the meanings therein provided.
2. Section 2 is hereby amended by making the following modifications:

<u>In Paragraph:</u>	<u>Delete:</u>	<u>Insert in lieu thereof:</u>
1	"December 30, 1985"	"February 1, 1988"
2	"June 1, 1986"	"September 15, 1988"
3	"March 1, 1986" (both occurrences)	"September 1, 1988" (both occurrences)
3	"June 1, 1986"	"September 15, 1988"
6	"Section"	"Agreement"

3. Section 4F is hereby amended by deleting the last sentence thereof and by deleting the two references to “July 1, 1986” and inserting in lieu thereof “February 1, 1988.”
4. Section 5A is amended by (i) deleting the reference to “December 30, 1985” and inserting in lieu thereof “February 1, 1988”, and (ii) deleting the reference to “June 1, 1986” and inserting in lieu thereof “September 15, 1988.”
5. Section 5B is hereby amended by deleting the reference to “June 1, 1986” and inserting in lieu thereof “September 15, 1988.”
6. Section 5B is hereby further amended by adding at the end of Section 5B the following paragraph:

“After the initial computation and prior to the Effective Date, each Equity Sponsor may transfer any or all of its Equity Share to one or more other Equity Sponsors. On or before September 1, 1988, any such Equity Sponsor which has transferred or intends to transfer any or all of its Equity Share to one or more other Equity Sponsors, must provide documentation to New Hampshire Hydro covering the transfer. Any apportionment of Equity Shares pursuant to Section 5B(2) above shall be made without regard to (i) any transfers of Participating Shares pursuant to Section 4 of the New Hampshire HVDC Support Agreement or (ii) any transfers of Equity Shares made after the initial computation and prior to the Effective Date, provided that each Equity Sponsor which has agreed to take such transferred Equity Share has provided the required Documentation by September 15, 1988 (including Documentation covering any such transferred

Equity Share). Any transfers of Equity Shares, as provided above, shall be taken into account after such apportionment.

Upon execution of this Agreement, MMWEC may receive any such transferred Equity Shares; however, MMWEC shall not be included as an Equity Sponsor in any computations pursuant to the first paragraph of this Section 5B.”

7. Section 5C is hereby amended by deleting the references to “June 1, 1986” and inserting in lieu thereof “September 15, 1988.”
8. Section 7G is hereby amended by deleting the reference to “December 31, 1985” and inserting in lieu thereof “September 1, 1988.”
9. Section 12 is hereby amended by inserting therein after the words “sections 4B or 4C” the following:  
“or 4D or 4F”
10. Section 16A is hereby amended by adding to the beginning of the second sentence thereof the following:  
“Except for a transfer of any or all of an Equity Sponsor’s Equity Share prior to the Effective Date as provided in Section 5B hereof,”
11. The attached Schedule II is hereby made a part of the Equity Funding Agreement.
12. Attachment A to the Equity Funding Agreement is hereby deleted and replaced with the attached Attachment A.
13. Any number of counterparts of this Amendment may be executed, and each shall have the same force and effect as an original instrument and as if all the parties to all of the counterparts had signed the same instrument.

IN WITNESS WHEREOF, the signatories have caused this Amendment to be executed by their duly authorized officers or agents.

XXXXXXXXXX

By: \_\_\_\_\_  
Its President

Address: XXXXXXXX  
XXXXXXXXXX

Schedule II

Massachusetts Municipal Wholesale Electric Company  
Contracting Electric Systems

Massachusetts Systems

Town of Ashburnham Municipal Light Plant  
Town of Georgetown Municipal Light Department  
Town of Hull Municipal Lighting Plant  
Town of Littleton Electric Light Department  
Town of Mansfield Municipal Electric Department  
Town of Marblehead Municipal Light Department  
Town of Middleton Municipal Electric Department  
Town of Paxton Municipal Light Department  
Town of Templeton Municipal Lighting Plant

Rhode Island System

Pascoag Fire District

ATTACHMENT A

List of Equity Sponsors

New Hampshire Hydro will supply a list of Equity Sponsors as of the date of initial computation and as of each date thereafter that the list changes.

As of February 1, 1988 (1)

Equity Sponsors	Equity Share (%)
New England Electric System	51.0000
Northeast Utilities	22.4245
Boston Edison	10.9335
Vermont Electric Power (2)	4.3388
Canal Electric	3.3885
Montaup	3.2435
Conn. Municipal Electric Coop.	0.8312
Reading	0.4638
Newport Electric	0.4426
Taunton	0.3547
Chicopee	0.3145
Braintree	0.2995
Peabody	0.2746
Holyoke Gas & Electric	0.2362
Westfield	0.2528
Danvers	0.2393
Shrewsbury	0.1612
Hudson	0.1474
Wakefield	0.1245
Hingham	0.1203
Concord	0.1161
North Attleboro	0.1086
Middleborough	0.1065
West Boylston	0.0509
Groton	<u>0.0265</u>
	100.0000

- (1) Boylston and South Hadley signed the Equity Funding Agreements, but have not qualified as Equity Sponsors.
- (2) VELCo has signed as agent for:

Green Mountain Power	3.1800%
Citizens Utilities	1.1155
Franklin Electric	<u>0.0433</u>
	4.3388%

**(COMPOSITE CONFORMED COPY - As amended  
Amendment No. 1 - May 1, 1986  
Amendment No. 2 - February 1, 1987  
Amendment No. 3 - June 1, 1987  
Amendment No. 4 - September 1, 1987  
Amendment No. 5 - October 1, 1987  
Amendment No. 6 - August 1, 1988  
Amendment No. 7- January 1, 1989**

**PHASE II MASSACHUSETTS TRANSMISSION**

**FACILITIES SUPPORT AGREEMENT**

**Dated as of June 1, 1985**

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Signatures X

Schedule I - VELCO	X
Schedule II - MMWEC	X
Attachment A - Kilowatthour Loads	X
Attachment B - Description of Transmission Facilities	X
Attachment C - Documentation	X
Attachment E - Subscription Process for Determining Initial Participating Shares	X
Attachment F - Credit Enhancement Charge	X
Exhibit G - Form of Equity Funding Agreement	X

PHASE II MASSACHUSETTS TRANSMISSION  
FACILITIES SUPPORT AGREEMENT

This AGREEMENT dated as of June 1, 1985, is between New England Hydro-Transmission Electric Company, Inc. (New England Hydro) and the New England utilities listed in Attachment A hereto. Those New England utilities that have executed this Agreement and meet the further conditions for participation hereunder are hereinafter referred to as Participants or individually as a Participant. The Participants, each of which is a member of the New England Power Pool (NEPOOL), are sometimes referred to collectively herein, but their rights and obligations hereunder are several and not joint as described in Section 5 hereof.

In consideration of the premises, the concurrent execution of the other Basic Agreements hereinafter referred to, the mutual covenants hereinafter and therein set forth, and other good and valuable consideration, receipt whereof is hereby acknowledged, it is hereby agreed as follows:

Section 1. Basic Understandings and Purpose

Some or all of the Participants are participants in the existing arrangements for the Phase I interconnection planned by NEPOOL with Hydro-Quebec, which is to consist of a  $\pm$  450 kV HVDC transmission line from a terminal at the Des Cantons Substation on the Hydro-Quebec system near Sherbrooke, Quebec to a terminal having an approximate rating of 690 MW at a substation at the Comerford Generating Station on the Connecticut River (hereinafter referred to as Phase I). The basic arrangements covering the portion of Phase I in the United States are set forth in the New England Power Pool Agreement, as amended (the NEPOOL Agreement) and three contracts among the participants in Phase I as follows:

1. Vermont Transmission Line Support Agreement, dated as of December 1, 1981, as amended, with Vermont Electric Transmission Company, Inc.
2. Phase I Terminal Facilities Support Agreement, dated as of December 1, 1981, as amended, with New England Electric Transmission Corporation, and
3. Agreement With Respect To Use Of Quebec Interconnection, dated as of December 1, 1981, as amended, including the restatement thereof in connection with Phase II (this Agreement as restated to cover Phase II is hereinafter referred to as the Use Agreement).

These Phase I interconnection facilities are currently under construction with completion scheduled during 1986.

With the completion of arrangements for Phase I and the related contracts with Hydro-Quebec, the members of NEPOOL have conducted studies of the benefits of an expanded interconnection for NEPOOL with Hydro-Quebec (Phase II) and have negotiated with Hydro-Quebec a firm energy arrangement to utilize the expanded interconnection facilities. The results of these studies indicate that such an expansion of the interconnection capacity will be beneficial to the New England utilities and to their respective customers.

The portion of Phase II in the United States will consist of an extension of the Phase I DC transmission line from the proposed terminus of Phase I at the Comerford Station through New Hampshire to a site in Massachusetts with additional terminal facilities installed at that site to increase the total transfer capacity between Hydro Quebec and NEPOOL from the 690 MW of Phase I to approximately 2000 MW. Reinforcements to the existing AC transmission system of New England Power and to certain AC facilities of Boston Edison Company will also be required. The United States portion of the Phase II facilities will be designated as pool-planned facilities in the same manner as the United States portion of the Phase I facilities was so designated.

Hydro Quebec and the Participants have agreed to enter into a ten year energy contract for Phase II. Under that contract, the Participants would purchase, at favorable prices from Hydro Quebec, 7 Twh of energy per year. The Phase II energy will provide an opportunity to displace oil as a fuel for generation and should reduce consumers' annual fuel costs in New England. The commitment of Hydro Quebec to supply to the Participants this large amount of energy should also defer New England's need for expensive new generation. There is also the potential for additional benefits from Phase II, such as energy banking, energy interchange, and emergency transfer for mutual reliability purposes.

Studies performed on behalf of and by NEPOOL show that the aggregate present value of these benefits is expected to significantly exceed the cost of Phase II. The Phase I Support Agreements provide for allocation of participation in Phase II pro rata among all Participants based upon their proportionate shares of the 1980 NEPOOL load with provision for some preferential allocations to certain Participants involved in Phase II.

Each Participant acknowledges that it has been represented on the Executive and Planning Committees of NEPOOL that had responsibility for evaluating the feasibility of Phase II and, through this representation, actively participated in the decision of NEPOOL to go forward with Phase II. Furthermore, each Participant represents that it made its own independent investigations and inquiries as it deemed appropriate and did not rely upon representations (other than those contained in this Agreement) of New England Hydro or its affiliates in deciding to enter into this Agreement.

The sharing of benefits among the Participants associated with Phase II is set forth in the Use Agreement. The Use Agreement also permits each Participant to make its own entitlement transactions with Hydro Quebec and to use the interconnection for such transactions. Each Participant acknowledges that the benefits of participating in Phase II set forth in the Use Agreement are the fundamental consideration for its signing of this Agreement and making the significant commitments to each other Participant specified herein.

The provisions of this Agreement cover the Phase II Massachusetts HVDC transmission line and terminal facilities in Massachusetts (the Transmission Facilities) as described in more detail in Attachment B hereto. In accordance with the provisions hereof, New England Hydro agrees to build, own, operate, and maintain the Transmission Facilities. Each Participant hereby agrees to support the construction, operation, maintenance, and capital costs of the Transmission Facilities in accordance with the provisions

hereof. In connection with the HVDC transmission line to be constructed by New England Hydro in Massachusetts, New England Power has agreed to lease rights-of-way to New England Hydro for the full term of this Agreement.

All improvements and reinforcements to AC transmission systems in Massachusetts necessitated by Phase II are covered under the Phase II New England Power AC Facilities Support Agreement and the Phase II Boston Edison AC Facilities Support Agreement.

The portion of the Phase II HVDC transmission line to be constructed in New Hampshire is covered under the Phase II New Hampshire Transmission Facilities Support Agreement among New England Hydro-Transmission Corporation (New Hampshire Hydro), an affiliate of New England Hydro, and the Participants. New Hampshire Hydro will build, own, operate, and maintain these New Hampshire Phase II facilities.

In view of the need to formalize the agreements among the parties at an early date so that (i) binding commitments with Hydro Quebec for Phase II may be made, (ii) binding commitments for ultimate construction and the financing of the United States portion of Phase II may be undertaken consistent with the time schedule anticipated by NEPOOL and with the assurance that the Participants' commitments are in place and (iii) licensing activities may proceed on a schedule that enables completion of such construction consistent with the time schedule anticipated by NEPOOL, the following agreements are concurrently being entered into (the "Basic Agreements") which collectively set forth rights and obligations with respect to the foregoing undertaking: (1) this Agreement; (2) the Equity Funding Agreement for New England Hydro; (3) the Phase II New Hampshire Transmission Facilities Support Agreement; (4) the Equity Funding Agreement for New Hampshire Hydro; (5) the Phase II New England Power AC Facilities Support Agreement; (6) the Use Agreement; (7) various amendments to the NEPOOL Agreement relating to the sharing of savings, capability responsibilities, and Pool transmission arrangements; and (8) the Phase II Boston Edison AC Facilities Support Agreement.

In order to coordinate each Participant's participation in Phase II to the fullest extent possible, each Participant acknowledges that it is to have the same participating interest under each of these agreements: this Agreement, the Phase II New Hampshire Transmission Facilities Support Agreement, the Phase II New England Power AC Facilities Support Agreement, the Phase II Boston Edison AC Facilities Support Agreement, and the Use Agreement. Each Participant acknowledges that these agreements have been drafted with the overriding intent to so coordinate participating interests and that, notwithstanding any provision thereof that may be interpreted to the contrary, the proper interpretation of each of these agreements is to be consistent with such overriding intent. The Equity Funding Agreement for New Hampshire Hydro and the Equity Funding Agreement for New England Hydro have also been drafted to require actions of Equity Sponsors or their appointees affecting such participating interests to be the same under each Equity Funding Agreement in order to also be consistent with such overriding intent.

During the term of this Agreement, New England Hydro shall limit its activities to those necessary or desirable in connection with Phase II unless New England Hydro requests authority from the Advisory Committee for other activities and such authority is granted. New England Hydro shall endeavor to obtain permanent debt financing at reasonable rates with maturities approximating to

the extent practicable the then remaining useful life of the Transmission Facilities or to secure other advantageous financial arrangements. New England Hydro will limit its equity investment to a maximum of 40% of its total capital as of the Effective Date. During the time that New England Hydro has outstanding debt in its capital structure, New England Hydro shall use its best efforts to continue to limit its equity investment to 40% of its total capital; provided, however, that New England Hydro shall be under no obligation to so limit its equity investment in the event that, after the Date of Full Support Payment (as defined in Section 13) the term of its debt financing or other financing arrangements is less than ten years.

New England Hydro's common equity will be provided under the Equity Funding Agreement by the Equity Sponsors thereunder including New England Electric System (NEES) and those Participants or their authorized designees that qualify by having outstanding long-term debt securities rated at least one grade above the lowest investment grade rating as of the date so required under the Equity Funding Agreement. (The form of Equity Funding Agreement is included as Attachment G hereto.) The Equity Funding Agreement requires equity contributions to New England Hydro from Equity Sponsors up to a maximum of \$140 million unless Equity Sponsors having an aggregate of 66-2/3% equity participation agree to increase such maximum.

However, prior to the date that New England Hydro first calls for equity contributions from all Equity Sponsors, all equity of New England Hydro will be contributed by NEES.

To provide assurance that adequate funds will be available to support the financing of the Transmission Facilities, each Participant has agreed, in accordance with Section 14 hereof, to an absolute and unconditional obligation to make payments hereunder and to meet all other commitments hereunder, including but not limited to those of Section 19 hereof. In order to provide further assurance that adequate debt financing will be available to New England Hydro, the Equity Sponsors have agreed in the Equity Funding Agreement to severally guarantee certain obligations under Section 19 hereof of certain Participants with respect to each debt financing of New England Hydro; provided that the several guarantees of the Equity Sponsors are subject to the limits as set forth in section 8 C and D of the Equity Funding Agreement for New England Hydro; and further provided that one or more Equity Sponsors or their appointees may voluntarily agree to guarantee additional amounts of obligations under such debt financing. During the term of each New England Hydro debt financing, any Participant which, on the commitment date of that financing, (a) had below investment grade debt ratings on its most junior long-term debt securities or did not have a debt rating, (b) had not provided substitute credit enhancement in accordance with Attachment F, and (c) is credit enhanced by Equity Sponsors for such financing, is a Credit Enhanced Participant. In addition, any Participant which is a credit enhanced participant under the Phase II New Hampshire Transmission Facilities Support Agreement is also a Credit Enhanced Participant hereunder.

## Section 2. Precedent to Effectiveness

The effectiveness of this Agreement, and all rights, obligations, and performance of the signatories hereunder, is subject to (a)

New England Hydro having executed this Agreement, (b) members of NEPOOL serving at least 66 2/3% of the aggregate kilowatthour load served by all NEPOOL members in 1980 (i) each having executed this Agreement and the other Basic Agreements (except for the two Equity Funding Agreements executed by the Equity Sponsors and the amendments to the NEPOOL Agreement) and (ii) each having satisfied the conditions precedent set forth below, (c) Equity Sponsors covering at least 100% of New England Hydro's equity requirements having executed the Equity Funding Agreement with New England Hydro and covering at least 100% of New Hampshire Hydro's equity requirements having executed the Equity Funding Agreement with New Hampshire Hydro, and (d) members of NEPOOL having executed the amendments to the NEPOOL Agreement for Phase II in order that such amendments may become effective in accordance with the NEPOOL Agreement. The signatories to this Agreement shall also sign and supply any required documentation under the Phase II New Hampshire Transmission Facilities Support Agreement, the Phase II New England Power AC Facilities Support Agreement, the Phase II Boston Edison AC Facilities Support Agreement, the Use Agreement, and amendments to the NEPOOL Agreement relating to Phase II.

By September 15, 1988, each signatory to this Agreement shall provide certificates and legal opinions from counsel satisfactory to New England Hydro, together with certified copies of related resolutions, consents, approvals, authorizations, and other documents (Documentation) necessary to establish to the satisfaction of New England Hydro that all corporate and regulatory consents, waivers, approvals, authorizations and other actions necessary in connection with performance by such signatory of its obligations under the Agreement have been obtained and are in full force and effect, that the Agreement has been duly authorized, executed, and delivered by such signatory, and that it constitutes a binding commitment by the signatory enforceable in accordance with its terms. Forms of Documentation acceptable to New England Hydro are included in Attachment C hereto. Prior to signing this Agreement, each signatory has provided to New England Hydro a listing of all consents, waivers, approvals, authorizations, and other actions required for that signatory to deliver its Documentation.

Since Vermont Electric Power Company, Inc. (VELCO) and Massachusetts Municipal Wholesale Electric Company (MMWEC) represent a number of electric systems, in calculating their respective kilowatthour loads on Attachment A, they are deemed to have signed on behalf of those respective systems listed in Schedules I or II, respectively. By September 1, 1988, VELCO and MMWEC will provide New England Hydro with copies of contracts with those respective systems which impose absolute and unconditional obligations on such systems to pay their proportionate shares of all costs incurred under this Agreement by VELCO or MMWEC, respectively. By that date, VELCO and MMWEC will also provide to New England Hydro, as part of their Documentation, certificates, legal opinions (from counsel satisfactory to New England Hydro), and other documents in form and substance satisfactory to New England Hydro representing unconditionally that all consents, approvals, and authorizations have been obtained by their contracting systems in connection with each such system's performance of its obligations under its respective contract with VELCO or MMWEC and that each such contract imposes absolute and unconditional obligations on such systems to pay their

proportionate shares of all costs incurred under this Agreement by VELCO or MMWEC, respectively, and has been duly authorized, executed, and delivered and is a binding commitment of such system enforceable in accordance with its terms. If regulatory approvals have not been obtained by September 1, 1988, such representations shall be conditioned upon receipt of regulatory approvals. VELCO and MMWEC will have until September 15, 1988 to receive such approvals and make such representations unconditionally. In order that percentages of participation be consistent among the Basic Agreements, VELCO and MMWEC shall have their contracts with their contracting systems cover the necessary commitments for each Basic Agreement.

All expenses in connection with obtaining and delivering any Documentation under this Agreement, including legal opinions, are to be borne by the signatory incurring such expense. New England Hydro will have no responsibility for any expenses incurred by VELCO and MMWEC in providing Documentation for their respective contracting systems. (All expenses of further Documentation including legal opinions required for any financing by New England Hydro with an unaffiliated third party will be borne by the Participants in the same manner).

In the event that VELCO or MMWEC does not provide such contracts and Documentation by the aforementioned deadlines under this Agreement and similar contracts and documentation as required by the other Basic Agreements, for all electric systems shown on Schedules I or II, their respective kilowatthour loads on Attachment A will be automatically adjusted to equal the 1980 kilowatthour loads of those contracting electric systems for which the required contracts and Documentation have been provided. Promptly thereafter, New England Hydro will prepare and distribute an appropriately modified Attachment A with an additional column showing Participating Shares for all Participants and modified Schedules I and II.

If MMWEC provides by December 31, 1985, to New England Hydro at MMWEC's expense an opinion of nationally recognized bond counsel (listed in the Blue Book) stating unequivocally that MMWEC is not legally authorized to enter into and perform the obligations of this Agreement on any basis other than as an obligation payable solely from revenues derived by MMWEC under the contracts entered into with its contracting electric systems, then New England Hydro and the other Participants agree that MMWEC's liability hereunder shall be so limited. Otherwise, MMWEC's liability hereunder shall not be so limited and shall be on the same basis as that of the other Participants.

VELCO and MMWEC hereby grant to New England Hydro, on a pari passu basis with New Hampshire Hydro, New England Power Company, and Boston Edison Company, a security interest in, and pledge of, their respective contracts with their respective systems covering Phase II, including but not limited to all revenues derived or to be derived therefrom. VELCO and MMWEC also agree not to grant to any other party any lien upon, or pledge or assignment of revenues from, such contracts, except as required in connection with any financing by New England Hydro with an unaffiliated third party (Lender) or by New Hampshire Hydro with a Lender, or except with the approval of New England Hydro and New Hampshire Hydro, as required in connection with any financing by MMWEC, the proceeds of which are to be applied exclusively by MMWEC to meet its obligations under Phase II,

provided that such grant by MMWEC to its third party lenders shall be on a pari passu basis with the Lenders, New England Hydro, New Hampshire Hydro, New England Power Company and Boston Edison Company, and provided further that MMWEC shall have its third party lenders execute and deliver intercreditor agreements acceptable to the Lenders, New England Hydro, New Hampshire Hydro, New England Power Company and Boston Edison Company providing an appropriate allocation between MMWEC's third party lenders and the Lenders, New England Hydro, New Hampshire Hydro, New England Power Company and Boston Edison Company of payments made under MMWEC's contract with its systems and including appropriate notice provisions. VELCO and MMWEC will execute and deliver in a timely manner all Documentation requested by New England Hydro to perfect such grants.

Any signatory, that is unable to provide all Documentation by the applicable deadlines required by this Section 2 or that fails to obtain any regulatory approval required to deliver such Documentation by the applicable deadlines, will not be a Participant under this Agreement and will not have any rights and obligations hereunder after the date of such deadline. All obligations of New England Hydro hereunder are subject to obtaining all regulatory approvals necessary for New England Hydro to charge the Participants in accordance with the terms of this Agreement.

New England Hydro by written notice to all signatories may extend any deadline date specified in this Agreement to a later date, provided that any extension for longer than six months requires the consent of the Advisory Committee.

### Section 3. Effective Date and Term

This Agreement shall become effective (the Effective Date) upon the last to occur of the following dates:

- (i) the date that Participants serving at least 66 2/3% of the aggregate kilowatt-hour load in 1980 served by NEPOOL members have satisfied all conditions precedent to effectiveness set forth in Section 2;
- (ii) the date that New England Hydro shall give written notice to all Participants that it has determined (such notice to be promptly given upon such determination) that all regulatory approvals necessary for it to charge the Participants in accordance with the terms of this Agreement have been obtained and are no longer subject to appeal;
- (iii) the date on which New England Hydro shall give written notice to all Participants that it has determined (such notice to be promptly given upon such determination) that all major regulatory approvals and licenses necessary for construction and operation of Phase II have been obtained and are no longer subject to appeal, unless New England Hydro and the Advisory Committee agree that this Agreement shall become effective before one or more of such approvals and licenses has been obtained and is no longer subject to appeal;
- (iv) the date that New England Hydro first receives borrowed funds as part of a financing arranged with Lenders for construction of the Transmission Facilities; and
- (v) the date that the last of the other Basic Agreements (excluding the Use Agreement) becomes effective or would become

effective but for a condition that its effectiveness is subject to this Agreement becoming effective.

Upon execution and delivery of the Agreement by members of NEPOOL serving at least 66 2/31, of the aggregate kilowatthour load in 1980 served by NEPOOL members, and notwithstanding any provision herein to the contrary, no signatory may terminate its obligations hereunder except in accordance with provisions of this Agreement.

Each Participant which is also a participant under the Phase I Support Agreements shall exercise its rights and take all actions under the Phase I Support Agreements to assure that the Phase I facilities are available to permit continued operation of Phase II. (In order to assure that Phase II is permitted to operate for a full maximum term of fifty years, New England Hydro understands that New England Electric Transmission Corporation and Vermont Electric Transmission Company, Inc. have agreed to extend the provisions of the Phase I Support Agreements to the Phase II Participants to cover this time period.)

The initial term of this Agreement shall expire thirty years from the Date of Full Support Payment as defined in Section 13. If (i) the Transmission Facilities are in commercial operation and (ii) there are continuing commitments by Participants to support the full costs of the Transmission Facilities, a Participant at that time shall be entitled not less than two years prior to the expiration of the initial term to elect to continue participation for an additional period not to exceed 20 years upon the terms and conditions of this Agreement. Such additional period is to be determined by the Advisory Committee no later than two years and three months prior to the end of the initial term. The Advisory Committee in determining this additional period shall take into account the then remaining term of the Phase I Support Agreements.

If all regulatory approvals authorizing New England Hydro to charge the Participants in accordance with the Support Charge described in Section 12 hereof are not received by June 1, 1986, New England Hydro may thereafter elect to terminate this Agreement by notice in writing to the signatories.

#### Section 4. Participating Shares

A. Allocation. Each Participant shall have and be charged with a percentage interest in all of the rights and obligations hereunder determined in accordance with this Section 4 (which interest is herein referred to as its "Participating Share").

The Participating Share of each Participant shall be computed both initially and as changed from time to time in accordance with the terms hereof, by New England Hydro as hereinafter provided. Such computations shall be made as of the first day of any month in which there is a change in the number of Participants or any change in the interest of any Participant as herein provided. The initial computation of Participating Shares shall be made on the basis that each signatory to this Agreement as shown in Attachment A is a Participant. After such initial computation and before the Effective Date, each Participant shall be entitled to transfer any or all of its Participating Share to one or more other Participants. On or before September 1, 1988, any Participant listed in Attachment A who has transferred, or intends to transfer, any or all of its Participating Share to one or more other Participants listed in Attachment A must provide documentation to New England Hydro covering the transfer. The initial computation is to be recomputed on and as of the

Effective Date on the basis that each signatory to this Agreement which has provided timely documentation of its participation or transfer is a Participant. Any such transfers of Participating Shares will be taken into account after such recomputation. Any such transfer of Participating Shares hereunder shall have no effect on the interests, rights, or obligations of participants in Phase I. Subsequent computations are to be made thereafter as of the first day of each month in which an interest is modified or terminated pursuant to any provision hereof. All computations shall be final unless there is a manifest error.

B. The Participating Shares on and as of the initial computation will be calculated as follows:

(i) up to 5% to VELCO, if then a Participant;

(ii) up to 5% to Participants that serve “kilowatthour loads” in New Hampshire (New Hampshire Participants), if then Participants, (Apportioned on the basis of their relative “kilowatthour loads” in New Hampshire); and

(iii) the balance (after deducting the percentages, if any, under paragraphs B(1) and B(2) above, respectively) apportioned among all Participants, including VELCO (if then a Participant) and the New Hampshire Participants (if then Participants) on the basis of an initial share allocation determined by the subscription process as described in Attachment E.

C. The term “kilowatthour load,” as used herein, shall mean the sum of a Participant’s 1980 kilowatthour sales as shown on Attachment A hereto.

D. The precise percentages under B(1) and B(2) shall be specified by VELCO and the New Hampshire Participants, on or before the date of signing this Agreement.

#### Section 5. Relationship among Participants

The rights and obligations of the Participants hereunder are several, in accordance with their respective Participating Shares, and not joint. The rights and obligations of New England Hydro hereunder are also several and not joint with those of the Participants, the Equity Sponsors, or any one thereof. There is no intention to create by this Agreement, or by any grant, lease, license, or activity related hereto, an association, joint venture, trust, or partnership or to impose on New England Hydro or any Participant trust or partnership rights or obligations; and any such implied intention is expressly negated. Except as expressly provided in this Agreement, no Participant shall have by virtue of this Agreement or of any such grant, lease, license, or activity the right or power to bind any other Participant without its express written consent.

#### Section 6. Project Control and Advisory Committee

Each Participant may designate in writing, initially on or before June 1, 1986, and from time to time thereafter, a representative and an alternate representative to serve on the Advisory Committee. If a representative is unable to attend, an alternate may attend in his or her place. The Advisory Committee shall have the power and responsibilities set forth in this Agreement and shall adopt its own by-laws, provided that (i) voting shall be by Participating Shares at the time of the vote, (ii) a vote of two-thirds or more of Participating Shares is required to accept a New England Hydro proposal or to take other affirmative action and a vote of more than one-third is

required to reject a New England Hydro proposal, and (iii) one or more Participants having Participating Shares of at least 10% in the aggregate may by reasonable written notice to all Participants call a meeting of the Advisory Committee. The Advisory Committee will advise New England Hydro on all major matters of concern to the Participants regarding the Transmission Facilities and Phase II.

New England Hydro shall make prompt proposals for decisions on the following, and the Advisory Committee shall accept or reject these proposals for decisions on the following:

- (i) Commencement of construction of the Transmission Facilities;
- (ii) The original design concept for the Transmission Facilities;
- (iii) Overall project budget estimate for design, engineering and construction of the Transmission Facilities;
- (iv) Major changes to the original design concept of the Transmission Facilities that, based on reasonable engineering estimates, will increase or decrease the cost by more than 10% of the overall budget approved in (iii) above or might have a significant detrimental effect on reliability or availability; any changes whether changes to the original design concept or otherwise that will result in an increase in the cost to more than 100% above the initial overall project budget approved in (iii), which will require an affirmative vote of at least 80% to accept the changes, or an affirmative vote of a percentage less than 80% in the event that only one Participant (subsidiaries of Northeast Utilities shall be treated as a single Participant for this sole purpose) having more than 20% casts a negative vote;
- (v) General terms of major contracts in excess of \$25 million;
- (vi) Capital additions to the Transmission Facilities in excess of \$5 million;
- (vii) Major changes in operation and maintenance of the Transmission Facilities that will increase operation and maintenance costs by more than 10% of previous year's actual operation and maintenance costs or might have a significant detrimental effect on reliability or availability;
- (viii) Delay, restriction, suspension, termination or cancellation of planning or construction, or shut down of Transmission Facilities, for a period of six months or longer or permanently under Section 16;
- (ix) The term of any New England Hydro debt financing or any other financial arrangements (other than any construction financing) with a principal amount in excess of \$25 million, provided that such term must be between 5 and 30 years; the Advisory Committee may reject the proposed term only if it is less than 10 years and is unreasonable or impracticable; New England Hydro shall consult with the Advisory Committee on the other principal terms of such financings and any construction financing and shall use reasonable efforts to accommodate their reasonable requests;
- (x) The target date for commercial operation of the Transmission Facilities for purposes of Section 13B which shall be determined at least 90 days before the Effective Date; and

(xi) Such other matters as are specified elsewhere in this Agreement.

If New England Hydro makes a proposal for a decision from the Advisory Committee and the Advisory Committee fails, however, to accept or reject such proposal within thirty days, the Advisory Committee shall be deemed by New England Hydro to have approved New England Hydro's proposal and New England Hydro may immediately proceed to implement its proposal.

Each Participant shall be responsible for all of its expenses related to membership on the Advisory Committee.

This Section shall be effective on June 1, 1986, notwithstanding that the Effective Date has not yet occurred.

#### Section 7. Design and Construction of the Transmission Facilities

Except for those areas of responsibility assigned to the Advisory Committee as specified in Section 6, New England Hydro shall be responsible for the design, engineering, procurement, installation, and all other aspects of the construction of the Transmission Facilities, and any modifications or additions made to the Transmission Facilities at any time before or after completion of the Transmission Facilities, all in accordance with good utility practice for the benefit of all Participants, the objective being to achieve an appropriate balance among minimization of construction cost, minimization of operation and maintenance cost, licensing and environmental considerations, and safety and reliability of service. In carrying out these activities, New England Hydro may utilize the services of its affiliates and may also select and employ a financial adviser, legal counsel, design engineering firm, a construction engineering firm, consultants, and such other firms as it considers desirable. To the extent services are performed by an affiliate of New England Hydro, such affiliate will charge on the same basis that it would charge its costs to other affiliates pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) under the Public Utility Holding Company Act of 1935 (the 1935 Act).

In order for the Advisory Committee to meet its responsibilities as specified in Section 6, New England Hydro will provide all necessary information reasonably requested by the Advisory Committee. During the course of the work, New England Hydro shall furnish quarterly reports to all Participants with respect to the progress of the work and an annual report to all Participants of actual and estimated construction expenditures for the Transmission Facilities.

New England Hydro intends, consistent with good utility practice, to construct the Transmission Facilities on a schedule that permits the commercial operation of Phase II by September 1, 1990. However, New England Hydro does not represent that construction will be completed by such date or any other date.

#### Section 8. Operation and Maintenance of the Transmission Facilities

Except for those areas of responsibility assigned to the Advisory Committee as specified in Section 6, New England Hydro shall be responsible for the operation and maintenance of the Transmission Facilities in accordance with good utility practice for the benefit of all Participants, the objective being to operate the Transmission Facilities as efficiently, economically, safely, and reliably as feasible. New England Hydro shall use its best efforts to coordinate the operation and maintenance of the Transmission Facilities with the operation and maintenance of the Phase I facilities and other Phase II facilities. In carrying out these activities, New England Hydro

may utilize the services of its affiliates and may also select and employ a financial adviser, legal counsel, consultants, and such other firms as it considers desirable. In furtherance of its responsibility, New England Hydro may from time to time designate a company, which need not be a Participant, to operate and maintain the Transmission Facilities. To the extent services are performed by an affiliate of New England Hydro, such affiliate will charge its costs on the same basis that it would charge to other affiliates pursuant to the rules and regulations of the SEC under the 1935 Act.

In order for the Advisory Committee to meet its responsibilities as specified in Section 6, New England Hydro will provide all necessary information reasonably requested by the Advisory Committee.

After the Transmission Facilities are placed in commercial operation, New England Hydro shall furnish quarterly reports to all Participants with respect to the operation and maintenance of the Transmission Facilities and an annual report to all Participants of estimated operation and maintenance expenses.

#### Section 9. New England Hydro Relationship to Participants

In carrying out its responsibilities hereunder, New England Hydro agrees that it shall use its best efforts to act for the collective benefit of all Participants and New England Hydro, to include in its contracts with independent contractors the customary provisions for assuring professional and workmanlike performance, including warranties, insurance coverage and other protections consistent with good utility practice, and to enforce its rights under such contracts against the other contracting parties to the extent reasonable, reserving the discretion to settle claims on a reasonable basis. All costs of construction, including damages caused by the risks of negligence (other than gross negligence) and other risks of construction in excess of the recoveries obtained from offending parties or insurers, shall be included as part of investment in the Transmission Facilities (as defined in Section 12 below) and all costs of operating the Transmission Facilities, including damages caused by risks of negligence (other than gross negligence) or other risks of operation in excess of any recoveries obtained from offending parties or insurers, shall be included in New England Hydro's operating costs (as defined in Section 12 below).

#### Section 10. Payment for Preliminary Costs

New England Hydro agrees to pay those New England utilities that initially paid for costs related to the Transmission Facilities incurred under the Preliminary Quebec Interconnection Support Agreement - Phase II (the Preliminary Agreement) that are determined by New England Hydro to be capitalizable costs of the Transmission Facilities, in accordance with the Uniform System (as defined hereinafter in Section 12). It is understood that it is the intention of New England Hydro and the Participants for all costs related to and allocated to the Transmission Facilities incurred under the Preliminary Agreement, to be capitalized to the extent permitted in accordance with good utility practice. Within ninety days after the Effective Date, New England Hydro agrees to make the repayment with interest calculated from the original date of payment using the monthly average rate on one month commercial paper as published in the Federal Reserve Bulletin for each month during such time period.

## Section 11. Transmission and Other Services

In accordance with good utility practice, New England Hydro will make the Transmission Facilities available for the Participants for transmission services as part of Phase II. New England Hydro hereby grants to each Participant an exclusive right to use its Participating Share of the Transmission Facilities in accordance with the Use Agreement.

New England Hydro agrees that it will serve as an agent or in other similar capacity for any Participant that so requests for the buying or selling of power to be transmitted over the Transmission Facilities as an entitlement transaction with Hydro-Quebec pursuant to the terms of the Use Agreement or otherwise, provided, however, that a formal written contract with terms and conditions, including compensation for services, satisfactory to New England Hydro is executed and delivered prior to performance of such services.

## Section 12. Support Charge

Commencing in the month of the Date of Full Support Payment (as defined in Section 13) and in each month thereafter, each Participant shall pay in accordance with Section 13 its Participating Share of a monthly Support Charge in an amount determined in accordance with this Section 12, plus a credit enhancement charge calculated in accordance with Attachment F. The Support Charge shall be equal to New England Hydro's total cost of service related to the Transmission Facilities for such month.

The "total cost of service related to the Transmission Facilities" for any month commencing with the month in which the Date of Full Support Payment occurs shall be the sum of (a) New England Hydro's operating expenses for such month with respect to the Transmission Facilities, plus (b) an amount equal to one-twelfth of the composite percentage for such month times the average net rate base for the Transmission Facilities, less (c) investment earnings of the Debt Service Fund, as defined in Section 18, realized by New England Hydro, less (d) any other income received by New England Hydro resulting from costs or rate base supported by the Participants other than income received pursuant to (a), (b), or (c) above or Credit Enhancement Charges and other income allocated to Equity Sponsors elsewhere under this Agreement. If a Support Charge payment under Section 13 is to be calculated from a date other than the first day of a month, an appropriate proration of the amount determined in (b) above shall be made for such payment only.

"Uniform System" shall mean the appropriate Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC) for Public Utilities and Licensees, as from time to time in effect.

New England Hydro's "operating expenses" shall include all amounts related to the Transmission Facilities and properly chargeable to expense accounts less any applicable credits thereto, in accordance with the Uniform System, including but not limited to operation and maintenance expense such as rent on leased property and administrative and general expenses, state and Federal income and franchise taxes, property taxes, payroll taxes, any other taxes not based on income, and depreciation and/or amortization expense; it being understood that unless the FERC, upon application by New England Hydro, authorizes a shorter depreciation and/or amortization period, for purposes of this Agreement depreciation and/or amortization shall be at a rate sufficient to recover the investment in the Transmission Facilities (including estimated cost of removal less any salvage value which salvage value, for the

purpose of calculating such depreciation and/or amortization, will not exceed the amount of cost of removal) over the greater of: (i) ten years from the Date of Full Support Payment or (ii) the term of New England Hydro's permanent debt financings or other permanent financing arrangements related to the Transmission Facilities, adjusted for multiple maturities and repayment schedules; and it also being understood that rents on leased property shall include the rental of property or property rights related to the Transmission Facilities from any Participant with rent based on book value. In addition, each Participant will pay to New England Hydro, and New England Hydro will pay to New England Power Company, for the benefit of its customers, such Participant's Participating Share of a monthly charge of \$49,000 to compensate New England Power for the lost capacity on its Massachusetts right-of-way, provided however that no such charge shall be paid during such time as construction or operation is suspended on account of a defect in title for such rights-of-way. The allowance for state and Federal income taxes included in operating expenses shall reflect the normalization of timing differences and the flow through of permanent differences between book income and tax income. New England Hydro, as the tax owner of the Transmission Facilities, will be entitled to the benefits and subject to the burdens of such ownership for tax purposes. The allowance for state and Federal income taxes included in operating expenses shall include a provision for taxes on dividends received by stockholders, calculated at the then current statutory rate for corporate stockholders.

The "investment in the Transmission Facilities" shall be the aggregate amount incurred at any time either before or after commercial operation of the Transmission Facilities which relates to the Transmission Facilities and is properly chargeable to New England Hydro's utility plant accounts in accordance with the Uniform System. The investment in the Transmission Facilities shall also include operating expenses incurred prior to the month in which the Date of Full Support Payment occurs and an allowance for funds used during the period prior to the Date of Full Support Payment (AFDC) accrued on the investment in the Transmission Facilities. The AFDC rate shall be calculated pursuant to the last FERC approved AFDC formula including in construction work in progress all investment in the Transmission Facilities prior to the Date of Full Support Payment and using 14 percent as the return on equity for such calculation.

"Composite percentage" shall be computed as of the last day of each month (the "computation date"). "Composite percentage" as of a computation date shall be the sum of (i) Return on Equity then in effect multiplied by the percentage which equity investment as of such date is of the total capital as of such date; plus (ii) the average monthly effective interest rate per annum of each principal amount of indebtedness outstanding on such date for money borrowed, whether long term or short term, multiplied by the percentage which each such principal amount is of total capital as of such date. The effective interest rate shall take into account premiums, discounts, fees, and other costs that are related to the indebtedness.

"Return on Equity" shall be the return on equity on file with the FERC and in effect under The Federal Power Act.

"Equity investment" as of any date shall consist of the sum of (i) all amounts theretofore paid to New England Hydro for all

capital stock theretofore issued, plus all capital contributions, less the sum of any amounts paid by New England Hydro in the form of stock retirements, repurchases or redemptions or return of capital including liquidating dividends; plus (ii) any credit balance in the capital surplus account not included in (i) and any credit balance in the earned surplus (retained earnings) account on the books of New England Hydro as of such date.

“Total capital” as of any date shall be the equity investment plus the total of all indebtedness then outstanding for money borrowed.

From the Date of Full Support Payment until the first to occur of June 30 or December 31 thereafter, the “average net rate base” for the Transmission Facilities shall be the average of the net rate base determined as of the Date of Full Support Payment and the first to occur of June 30 or December 31 thereafter. Thereafter, for subsequent months of January through June, average net rate base shall be the average of the net rate base as of the preceding December 31 and the following June 30. For other months, average net rate base shall be the average of the net rate base as of the preceding June 30 and the following December 31. The “net rate base” shall consist of (i) the investment in the Transmission Facilities, less (ii) the amount of any accumulated provision for depreciation and amortization related to the investment in the Transmission Facilities, less (or plus) (iii) the amount of any reserve for deferred income taxes received (or paid) by New England Hydro, such deferred income taxes to include deferred income taxes due to accelerated depreciation, construction tax benefits, and any other book/tax timing differences related to the Transmission Facilities, less (iv) the amount of any unamortized investment tax credits (ITC), plus (v) such allowances related to the Transmission Facilities for materials and supplies, prepaid items and cash working capital as may from time to time be determined by New England Hydro, as reasonably necessary and in accordance with accepted utility accounting practice, plus (vi) the amounts held in the Debt Service Fund, as described in Section 18. New England Hydro shall normalize ITC over the depreciation and/or amortization period relating to the Transmission Facilities. Any allowance for cash working capital shall be limited to that not sufficiently recovered through the use of estimated billing for the current month.

### Section 13. Payments

A. Commencing on or about the Date of Full Support Payment and for each month thereafter, New England Hydro will render to each Participant an invoice for its Participating Share of the Support Charge and the Credit Enhancement Charge, if any, for such month calculated on an estimated basis for the current month and subject to corrective adjustment in subsequent months. Unless New England Hydro is prevented by circumstances beyond its reasonable control, New England Hydro shall use its best efforts to render final bills within two years after the end of the calendar year in which the estimated bill was rendered. New England Hydro will also render to each Participant an invoice or notice for its Participating Share of any amounts due under this Agreement (other than monthly Support Charge and the Credit Enhancement Charge) including but not limited to payments to be made under Sections 15, 16, 17, and 20D.

Each Participant shall promptly pay to New England Hydro the amount shown on any invoice submitted under this Section. New England Hydro will date and mail monthly invoices for the Support Charge and Credit Enhancement Charge, if any, on or about the 25th day of the month for the coming month and this invoice shall be due and payable by the 15th day of the coming month and if not paid within that time period shall bear interest compounded monthly from the first day of the month in which payment is due to the date when payment is made at an annual rate equal to two percent (2%) over the current interest rate on prime commercial loans from time to time in effect (the Base Rate) at the principal office of The First National Bank of Boston.

Any invoice or notice for payments due under this Agreement (other than a monthly Support Charge and Credit Enhancement Charge invoice), that is not paid when due under this Agreement shall bear interest compounded monthly from the mailing date of the invoice to the date when payment is made at an annual rate equal to two percent (2%) over the Base Rate at the principal office of The First National Bank of Boston.

B. The "Date of Full Support Payment" shall be the later of (i) the target date for commercial operation of the Transmission Facilities as determined by the Advisory Committee, or (ii) the date on which the Transmission Facilities are ready for commercial operation, but in no event later than one year after the date specified in subpart (i) above unless an extension is agreed to in writing by all Lenders. However, if all of Phase II commences commercial operation prior to the target date specified in subpart (i) above, the "Date of Full Support Payment" shall be the date on which Phase II is in commercial operation.

#### Section 14. Character of Payment Obligations

The obligations of each Participant to make payments hereunder, and to perform and observe all other agreements on its part contained herein, are absolute and unconditional and shall not be affected by any circumstance, including, without limitation, (i) any insolvency, composition, bankruptcy, reorganization, arrangement, liquidation or similar proceedings relating to New England Hydro, the Participant, any other Participant, any Equity Sponsor, or any affiliate thereof, (ii) any failure of the Transmission Facilities to operate for any reason, including but not limited to the failure of Hydro-Quebec to sell electric power to the Participants, (iii) any damage to or destruction of the Transmission Facilities, including but not limited to any defect in the title, quality, condition, design, operation, or fitness for use of, or any loss of use of, all or any part of the Transmission Facilities, (iv) any interruption or prohibition of the use or possession by New England Hydro of, or any ouster or dispossession by paramount title or otherwise of New England Hydro from, all or any part of the Transmission Facilities, or any interference with such use or possession by any governmental agency or authority or other person or otherwise, (v) any inability to use the Transmission Facilities because a necessary license or other necessary public authorization cannot be obtained or is revoked, or because the utilization of such a license or authorization is made subject to specified conditions which are not met, (vi) any invalidity or unenforceability or disaffirmance by New England Hydro or any Participant of any provision of this Agreement or any failure, omission, delay, or inability of New England Hydro to perform any of its obligations contained herein, (vii) any amendment, extension, or other change of, or any assignment or encumbrance of any

rights or obligations under, this Agreement, or any waiver or other action or inaction, or any exercise or nonexercise of any right or remedy, under or in respect to this Agreement, (viii) any inability of the Participant or any other Participant to obtain regulatory approvals for financing its Participating Share of any obligations under this Agreement or for meeting any other obligations under this Agreement, or (ix) any inability to start, complete, or use the Transmission Facilities due to any other circumstance, happening, or event whatsoever, whether foreseeable or unforeseeable and whether similar or dissimilar to the foregoing, it being the intention of the parties hereto that all amounts payable by each Participant in respect of this Agreement shall begin to be payable and shall continue to be payable in all events in the manner and at the time herein provided; provided, however, that nothing in this Section 14 shall (a) prevent a Participant from transferring its interests and obligations hereunder to another Participant prior to the Effective Date, or (b) impose any continuing liabilities or obligations on said transferring Participant with respect to this Agreement incurred or relating to the period of time after said transferring Participant's Participating Share has been reduced to zero. In that connection, each Participant hereby waives, to the extent permitted by applicable law, any and all rights which it may now have or which may at any time hereafter be conferred upon it (other than those expressly conferred in this Agreement), by statute or otherwise, to terminate, cancel, or surrender any of its obligations under this Agreement, and agrees that if, for any reason whatsoever, this Agreement shall be terminated in whole or in part by operation of law or otherwise, each Participant will nonetheless promptly pay to New England Hydro amounts as required by Section 16 of this Agreement.

Notwithstanding the character of the above payment obligations, when the net proceeds from a total taking of the Transmission Facilities in an eminent domain proceeding or from insurance in the event of complete destruction of the Transmission Facilities have been received by New England Hydro in an amount equal to or greater than the amounts then due hereunder from the Participants, then no payment shall be required.

#### Section 15. Default

A. If any of the following events (Events of Default) shall occur and be continuing:

(i) a Participant shall fail to pay when due any amount which it has agreed to pay under any provision of this Agreement, and such failure shall continue for more than 10 days after written notice thereof has been given to such Participant by New England Hydro; or

(ii) a Participant shall fail to supply in accordance with the terms hereof any documentation required by New England Hydro in connection with financing with Lenders by New England Hydro (for VELCO and MMWEC, this includes documentation for their respective contracting electric systems), and such failure shall continue for more than 30 days after written notice of such failure has been given to such Participant by New England Hydro; or

(iii) a Participant shall admit in writing its inability to pay its debts, or shall make a general assignment for the benefit of its creditors; or any proceeding shall be instituted against a Participant (and is not dismissed within sixty days), or by a Participant,

seeking to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, or composition of it or its debt under any law relating to bankruptcy, insolvency or reorganization or relief of debtors or seeking appointment of a receiver, trustee, or other similar official for it or for any substantial part of its property; or if a Participant shall take any action to authorize any of the actions set forth in this subsection (iii); or

(iv) prior to the retirement of the last amount of New England Hydro's debt and prior to the reduction of New England Hydro's equity investment to an amount less than or equal to 10% of its highest previous amount, a Participant shall fail to make a payment of principal under any bank loan or other obligation for borrowed money (including financing leases or other similar arrangements) exceeding the lesser of \$1 million or 5% of such Participant's total capitalization, which failure is not excused or cured within the earlier of 30 days or the acceleration of the maturity thereof; or

(v) a Participant shall fail to perform any other obligation under this Agreement in accordance with the terms hereof, and such failure shall continue for more than 30 days after written notice thereof has been given to such Participant by New England Hydro; or

(vi) a Participant shall experience an event of default under any of the other Basic Agreements or under any of the basic agreements for Phase I listed in the first paragraph of Section 1; then, and in any such event, in addition to any other rights or remedies that it may have against such Participant by reason thereof, New England Hydro shall, by written notice to such Participant, terminate all rights of such Participant under this Agreement as of the date of such Event of Default. New England Hydro may with the approval of the Advisory Committee waive any Event of Default hereunder or grant extensions of time to cure any Event of Default.

B. Immediately upon termination of the rights of a Participant pursuant to A above:

(i) if such terminated Participant was then a Credit Enhanced Participant, then New England Hydro shall allocate the Participating Share of the terminated Participant to the Equity Sponsors or their appointees in proportion to the Equity Sponsors' then respective equity percentages;

(ii) if such terminated Participant was not then a Credit Enhanced Participant, then New England Hydro will offer the Participating Share of the terminated Participant as of the date of the termination to the Equity Sponsors or their appointees and upon acceptance of the offer will allocate the Participating Share in accordance with the acceptance (if the offer is oversubscribed by Equity Sponsors, the allocation will be made in proportion to such Equity Sponsors' then respective equity percentages); provided that, if such Participating Share is not so completely allocated, then New England Hydro will offer such unallocated Participating Share to Participants whose most junior long-term debt securities are then rated at least one grade above investment grade or, if not so rated, who have obtained the consent of all New England Hydro's Equity Sponsors (if the

offer is oversubscribed, the allocation will be made in proportion to respective participating shares); and provided further that such Equity Sponsors or their appointees or Participants receiving such an allocation accept an equal support or participating share under the Phase II New England Power AC Facilities Support Agreement, the Phase II Boston Edison AC Facilities Support Agreement, and the Phase II New Hampshire Transmission Facilities Support Agreement; and

(iii) the Equity Sponsors have been allocated B (i) or (ii) above have been allocated B (ii) above or New allocation is made, or their appointees that Participating Shares under or any Participants that Participating Shares under England Hydro, if no such shall be entitled to receive in accordance with the Use Agreement from the escrow agent as liquidated damages the allocated share of all Phase II amounts retained under the Use Agreement on or after the date of such termination for the account of such terminated Participant.

C. The terminated Participant shall immediately pay either (i) if an allocation is made under Section 15B, to the Equity Sponsors or their appointees or any Participants that have received such allocation or (ii) otherwise, to New England Hydro, in addition to any other amounts due under any provisions of this Agreement, an amount equal to its Participating Share of the investment in the Transmission Facilities (including any cost of removal and disposal) less any depreciation and amortization relating to the Transmission Facilities to the date of such payment. New England Hydro will credit any such amounts it receives from the terminated Participant for the benefit of the Equity Sponsors.

D. New England Hydro or any Equity Sponsor or any Participant shall be free to invoke such remedies at law or in equity as may be deemed appropriate against any Participant that defaults under this Agreement.

#### Section 16. Delay, Suspension, Termination, Cancellation, or Shutdown

If at any time New England Hydro determines that continued planning, construction, or operation of the Transmission Facilities is not advisable for any reason New England Hydro deems appropriate, it may, after written notice to all Participants, delay, restrict, or suspend planning, construction, or operation, or shut the Transmission Facilities down for a period of less than six months. In accordance with Section 6, the Advisory Committee has responsibility for accepting or rejecting a proposal submitted by New England Hydro recommending a delay, restriction, suspension, termination, or cancellation of planning or construction, or shut down of the Transmission Facilities for a period of six months or longer or permanently. In any case in which New England Hydro determines that safety considerations require an immediate shutdown, it shall proceed without consultation with the Advisory Committee or written notice to the Participants.

If the Advisory Committee has determined that (i) planning or construction of the Transmission Facilities is to be terminated or cancelled, or (ii) the Transmission Facilities are to be permanently shutdown, then New England Hydro shall give each Participant not less than ninety days advance written notice of any such event. Each Participant shall pay to New England Hydro within such notice period an amount, as specified in such notice and calculated as of the date of the event so notified, equal to the greater of:

- (a) its Participating Share of the investment in the Transmission Facilities (less any depreciation and amortization to the date of payment) together with all costs relating to or resulting from such termination, cancellation or permanent shutdown, including any premiums and penalties incurred because of the early retirement of any indebtedness and further including without limitation any costs of total or partial demolition and disposal of the Transmission Facilities net of any actual salvage value received by New England Hydro including the proceeds from any sale and net of the actual proceeds received by New England Hydro from any condemnation proceeding or insurance for destruction; or
- (b) its Participating Share of the then total capital of New England Hydro plus any premiums and penalties incurred because of the early retirement of any financing plus without limitation any costs of total or partial demolition and disposal of the Transmission Facilities net of any actual salvage value received by New England Hydro including the proceeds from any sale and net of the actual proceeds received by New England Hydro from any condemnation proceeding or insurance for destruction.

If New England Hydro and the Advisory Committee agree on the decision to terminate, cancel or permanently shutdown the Transmission Facilities under this Section 16, New England Hydro shall have and retain, upon termination of this

Agreement, the right to sell the Transmission Facilities at fair market value to any NEES affiliate of New England Hydro. Any amounts received from such sale shall be considered salvage value under (a) or (b) above. If New England Hydro's recommendation to terminate, cancel or permanently shutdown is not adopted by the Advisory Committee, New England Hydro shall be paid an amount determined in accordance with this Section 16 and if directed by the Advisory Committee shall transfer its rights, assets, and obligations related to the Transmission Facilities to the Participants or any group or designee thereof. New England Hydro's lease of the right-of-way shall be assigned in connection with such transfer.

If New England Hydro is paid such amount and transfers its rights, assets, and obligations related to the Transmission Facilities to the Participants or any group or designee thereof, New England Hydro shall refund any costs of total or partial demolition and disposal of the Transmission Facilities to such Participants or group or designee thereof.

#### Section 17. Termination by New England Hydro

If at any time New England Hydro elects and so notifies in writing all Participants that, as a result of a default under Section 15, the Participating Share of a terminated Participant cannot be allocated to Equity Sponsors or their appointees or other Participants pursuant to Section 15B and the aggregate of the Participating Shares of all nonterminated Participants is less than 100%, each such other Participant's participation hereunder shall terminate on a date (effective date of termination) not less than 90 days after the date of New England Hydro's written notice, and each such other Participant on or before the effective date of termination shall pay to New England Hydro an amount calculated in accordance with the second paragraph of Section 16.

Upon termination of this Agreement pursuant to this Section 17, New England Hydro shall offer each Participant which

(i) was not a terminated Participant immediately prior to termination of the Agreement pursuant to this Section 17 and (ii) has paid all amounts due under the first paragraph of this Section 17, an opportunity to participate in a new support agreement, provided that all participants in such new support agreement agree to pay 100% of the costs of service of New England Hydro. The new support agreement will have a term equal to the remaining term of this Agreement. Other provisions of the new support agreement will be substantially similar to those in this Agreement. The investment in the Transmission Facilities under the new support agreement shall be reduced by any amount received as termination payments hereunder which would be properly applied to utility plant accounts in accordance with the Uniform System less any costs of termination or premiums or penalties incurred because of the early retirement of any financing of New England Hydro. Any participant in the new support agreement shall also be a supporter of the AC facilities of New England Power and Boston Edison Company and the transmission facilities of New Hampshire Hydro.

No termination of this Agreement shall relieve any party of any obligation arising prior to making the payment to New England Hydro required by the first paragraph of this Section 17. In addition, notwithstanding the termination of this Agreement for other purposes, this Agreement shall continue in effect to the extent necessary to provide for paying all “windup costs” and final billings, billing adjustments and payments.

#### Section 18. Debt Service Fund

New England Hydro may establish and maintain at its option a Debt Service Fund with funds which may be borrowed from unaffiliated third parties. The Debt Service Fund may be assigned in connection with a financing by New England Hydro with the Lenders in order to provide assurance to such Lenders that New England Hydro will pay its debt service obligations in a timely manner.

The Debt Service Fund shall not exceed the lesser of (i) the amount required to pay six months of interest on indebtedness plus five percent of the largest principal amount of debt outstanding at any time plus any accrued earnings from investment of the amounts in the Debt Service Fund not yet credited to Support Charges as provided in Section 12 or (ii) the total amount of debt service remaining to be paid.

#### Section 19. Cash Deficiency Commitment

A. “Cash Deficiency” attributed to a Participant means with respect to any Due Date, the amount by which that Participant’s Participating Share of the aggregation of the principal of, premium, if any, and interest on any of the funds borrowed by New England Hydro from Lenders to finance the Transmission Facilities or the construction thereof and payable on such Due Date (whether at maturity, pursuant to mandatory prepayment, by acceleration or otherwise) exceeds the amount of cash from such Participant’s payments made under any other section of this Agreement and available to New England Hydro for repayment to Lenders of such borrowed funds.

B. If New England Hydro has a Cash Deficiency attributed to a Participant on any Due Date, that Participant agrees that it

shall absolutely and unconditionally guarantee to pay its Cash Deficiency on demand of Lenders, to be paid directly on demand to Lenders, in cash, provided, however, that no Cash Deficiency attributed to a Participant shall include any unpaid obligations hereunder of other Participants.

For purposes of this Section 19, "Due Date" shall mean the date any payments are due and payable under the terms of any indebtedness of New England Hydro with Lenders.

C. Payments by Participants under this section shall be considered by New England Hydro to be prepayments of amounts due or to become due to New England Hydro pursuant to any other section hereof.

#### Section 20. Miscellaneous

A. Insurance. New England Hydro will at all times during the term of this Agreement keep the Transmission Facilities insured against such risks as electric utility companies, similarly situated, constructing and operating like properties, usually insure against. Any uninsured loss, damage, or liability related to the Transmission Facilities or arising out of New England Hydro's performance hereunder and any expenses in connection with any such loss, damage, or liability shall be deemed to be an expense reimbursable by the Participants in accordance with Section 12. New England Hydro will assist any Participant, at the Participant's expense, in obtaining any other insurance coverage related to the Transmission Facilities that such Participant requires. Upon request, New England Hydro will supply certificates of insurance coverage.

B. Limitation of Liability. For and in consideration of the fact that New England Hydro is undertaking to design, engineer, procure, install, construct, operate, and maintain the Transmission Facilities for and on behalf of Participants without any compensation or charge other than the payments provided under this Agreement, no Participant shall be entitled to recover from New England Hydro or any affiliate or any shareholder, director, officer, employee, or agent of New England Hydro or any affiliate, any damages resulting from error or delay, whether or not due to negligence, in the design, engineering, procurement, installation or construction of the Transmission Facilities, or for any damage to the Transmission Facilities, any curtailment of power, or any other damages of any kind, including but not limited to consequential damages, arising out of or in connection with the performance of this Agreement by New England Hydro. Notwithstanding the above limitation, if New England Hydro is found by a court of competent jurisdiction to have intentionally violated this Agreement in a material manner or to have acted hereunder in a grossly negligent manner and if such court finding is final and no longer subject to appeal, then the Participants shall be entitled to recover from New England Hydro direct damages (but not consequential or any other damages) resulting from such material intentional violation or gross negligence, unless New England Hydro's actions or omissions have been expressly approved in advance by the Advisory Committee. New England Hydro will use its best efforts to enforce all contracts related to the construction and operation of the Transmission Facilities for the benefit of New England Hydro and the Participants.

C. Audit. New England Hydro will arrange for an annual audit to be performed by an independent public accounting firm of recognized standing selected by New England Hydro. The costs of the annual audit will be included in the operating expenses under Section 12. The books and records of New England Hydro (including metering records) shall be open to reasonable inspection and audit by any Participant. The costs of any such additional audit, including the costs of New England Hydro in connection with such audit, shall be borne by the Participant or Participants requesting such audit. New England Hydro will promptly make any reasonable corrections necessitated as a result of the annual audit or an additional audit.

D. Cost Reimbursement. In the event New England Hydro reasonably incurs any costs not provided for elsewhere herein in connection with or as a result of planning, organizing, documenting, construction, suspensions, rescheduling, cancellation, operation, maintenance, shutdown, demolition, disposition, or termination of the Transmission Facilities, or otherwise arising in connection with this Agreement, each Participant shall promptly reimburse to New England Hydro, within 15 days of the mailing date of the invoice, its Participating Share of such costs. However, New England Hydro will endeavor to finance any additional costs, to the extent such additional costs are properly capitalizable, over the shorter of the then remaining useful life of the Transmission Facilities, the remaining term of the Agreement, or the remaining term of its permanent financing.

E. Uncontrollable Force. No delay or failure in the performance of any obligation by New England Hydro shall be deemed to exist if it is the result of an “uncontrollable force”. The term “uncontrollable force” shall be deemed to mean any cause beyond the reasonable control of New England Hydro, which New England Hydro could not reasonably have been expected to avoid by exercise of due diligence and foresight, including, without limiting the generality of the foregoing, storm, flood, lightning, earthquake, fire, explosion, failure of facilities not due to lack of proper care or maintenance, civil disturbance, labor disturbance, sabotage, war, national emergency, or restraint by court or public authority. In such event, New England Hydro shall use reasonable diligence to notify the Participants of such event.

F. Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of, and may be performed by, the successors and assigns of the parties and shall also be binding, insofar as permitted by law, on any receiver or trustee in bankruptcy, receivership, or reorganization of any party. Except (i) for a reallocation resulting from a default as provided in Section 15, (ii) for a sale, merger, or consolidation which is approved by New England Hydro and results in the transfer of substantially all of a Participant’s assets to, and the assumption of all of the Participant’s obligations hereunder by, an electric utility which is a member of NEPOOL, and (iii) for an assignment by New England Hydro to a NEES affiliate of New England Hydro which expressly assumes New England Hydro’s rights and obligations hereunder and acquires the Transmission Facilities, and (iv) for a transfer of any or all of a Participant’s Participating Share prior to the Effective Date as provided in Section 4A hereof, no assignment of this Agreement shall operate to relieve the assignor of its obligations under this Agreement without the written consent of the parties hereto. In addition to New England Hydro’s right to assign to an affiliate, New England Hydro may assign, without the consent of the Participants, its right,

title, and interest in this Agreement, in whole or in part, and any security interests contained herein or granted hereunder, to one or more banks, investment banking firms, insurance companies, other financial institutions, or others as collateral security for New England Hydro's obligations in connection with financing the Transmission Facilities. Written notice to all parties will be given prior to any assignment hereunder.

G. Right of Setoff. No Participant shall be entitled to set off against the payments required to be made by it hereunder (1) any amounts owed to it by New England Hydro, any affiliate of New England Hydro, any Equity Sponsor, or any other Participant or (2) the amount of any claim by it against New England Hydro, any affiliate of New England Hydro, any Equity Sponsor, or any other Participant. However, the foregoing shall not affect in any other way any Participant's rights and remedies with respect to any such amounts owed to it by New England Hydro, any affiliate of New England Hydro, any Equity Sponsor, or any other Participant or any such claim by it against New England Hydro or any other Participant.

H. Amendments. New England Hydro shall have the right to amend the provisions of Section 12 hereof from time to time by serving an appropriate statement of such amendment upon the Participants and filing the same with the Federal Energy Regulatory Commission (or such other regulatory agency as may have jurisdiction) in accordance with the provisions of applicable laws and any rules and regulations thereunder, and the amendment shall thereupon become effective on the date specified therein, subject to any suspension order duly issued by such agency. The Participants have the right to intervene in any regulatory proceeding brought by New England Hydro to consider such amendment of the provisions of Section 12.

Any amendments changing the Participating Shares of the Participants, the rights of the Participants or a Participant as specified in Section 11, or the several nature of the obligations and rights of the Participants hereunder as specified in Section 5, shall require consent by all parties. All other amendments to this Agreement shall be by mutual agreement of New England Hydro and Participants owning Participating Shares aggregating at least 66 2/3%, evidenced by a written amendment signed by New England Hydro and such Participants; and New England Hydro and all Participants shall be bound by any such amendment.

I. Notices. Except as the parties may otherwise agree, any notice, request, bill, or other communication, relating to this Agreement, or the rights, obligations or performance of the parties hereunder, shall be in writing and shall be effective upon delivery. Any such communication shall be considered as duly delivered when delivered in person or mailed by registered or certified mail, postage prepaid, to the respective post office address of the other parties shown following the signatures of such other parties hereto, or such other address as may be designated by written notice given as provided in this paragraph I.

J. Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of The Commonwealth of Massachusetts.

K. Other.

- (1) No action, regardless of form, arising out of this Agreement may be brought by any party hereto more than three years after the cause of action has arisen.
- (2) In the event that any clause or provision of this Agreement, or any part thereof, shall be declared invalid or unenforceable by any court having jurisdiction, such invalidity or unenforceability shall not affect the validity or enforceability of the remaining portions of this Agreement.
- (3) All provisions of this Agreement providing for limitation of, or protection against, liability shall apply to the full extent permitted by law, and regardless of fault, and shall survive either termination pursuant to this Agreement or cancellation.
- (4) Each party shall, upon request of another party, execute and deliver any document reasonably required to implement any provision hereof.
- (5) Any number of counterparts of this Agreement may be executed and each shall have the same force and effect as the original.
- (6) This Agreement, with the other Basic Agreements, Preliminary Quebec Interconnection Support Agreement - Phase II, the agreements with Hydro-Quebec regarding Phase II, and the basic agreements covering Phase I shall constitute the entire understanding among the parties and shall supersede any and all previous understandings pertaining to the subject matter of this Agreement.
- (7) This Agreement is the act and obligation of the parties hereto in their corporate or governmental capacity, and any claim hereunder against any shareholder, director, officer, employee, or agent of any party, as such, is expressly waived.

Section 21. Refund of Gain on Sale or Other Disposition of Transmission Facilities

In the event that any of the Transmission Facilities are sold or otherwise disposed of during the term of this Agreement, if the Net Proceeds (defined as the amount received from such sale or disposition less all costs relating to or resulting from such sale or disposition, including without limitation any income taxes relating to or resulting from such sale or disposition, any premiums and penalties incurred because of the early retirement of any indebtedness associated with the sold or disposed of Transmission Facilities, and any costs of total or partial demolition of the sold or otherwise disposed of Transmission Facilities) from such sale or disposition exceed the greater of (i) the investment in the entire Transmission Facilities (less any depreciation and amortization to the date of sale or disposition) or (ii) the then total capital of New England Hydro (as defined in Section 12), New England Hydro shall (a) refund to the then current Participants, in proportion to their then current Participating Shares, any such excess, and (b) credit to the accumulated provision for depreciation and amortization related to the investment in the Transmission Facilities the investment in the entire Transmission Facilities (less any depreciation and amortization to the date of sale or disposition). The total capital of New England Hydro, for the purposes of this section, may exceed the investment in the entire Transmission Facilities (less any depreciation and amortization to the date of sale or disposition) due to (1) any reserve for deferred income taxes paid by New England Hydro or (2) for

other reasons related to the investment in the Transmission Facilities. If the Net Proceeds do not exceed the greater of (i) or (ii) above, the Net Proceeds will be credited to the accumulated provision for depreciation and amortization related to the investment in the Transmission Facilities in lieu of payment to the Participants. The Participants agree to flow through any such refunds to their customers and shall seek any necessary regulatory approvals to reflect in their rates any such refunds and the effect of any such credits to the accumulated provision for depreciation and amortization related to the investment in the Transmission Facilities; except that to the extent that a Participant's customers' rates have not reflected all or a portion of that Participant's share of the costs of the Transmission Facilities, then that Participant agrees that a complete flow-through of such refunds may not be appropriate and that particular Participant shall seek any necessary regulatory approvals for the appropriate disposition of an appropriate portion of such refunded amounts or credits.

IN WITNESS WHEREOF, the signatories have caused this Agreement to be executed by their duly authorized officers or agents.

COMPANY

By: \_\_\_\_\_  
 It's President

Address XXXXX  
 XXXXX

VELCO SCHEDULE 1

<u>Vermont Phase II Participant</u>	<u>1980 Kilowatthour Load</u>	<u>Percentage Interest</u>
Central Vermont Public Service Corporation	1,895,922,200	58.1197
Citizens Utilities Company	184,496,600	5.6558
Franklin Electric Light Company, Inc.	7,159,900	0.2195
Green Mountain Power Corporation	1,174,519,500	36.0050

Schedule I

Vermont Electric Power Company, Inc.  
Contracting Electric Systems

Central Vermont Public Service Corporation  
Citizens Utilities Company  
Franklin Electric Light Company, Inc.  
Green Mountain Power Corporation

Schedule II

Massachusetts Municipal Wholesale Electric Company  
Contracting Electric Systems

Massachusetts Systems

Town of Ashburnham Municipal Light Plant  
Town of Georgetown Municipal Light Department  
Town of Hull Municipal Lighting Plant  
Town of Littleton Electric Light Department  
Town of Mansfield Municipal Electric Department  
Town of Marblehead Municipal Light Department  
Town of Middleton Municipal Electric Department  
Town of Paxton Municipal Light Department  
Town of Templeton Municipal Lighting Plant

Rhode Island System

Pascoag Fire District

ATTACHMENT A

Except as provided below, if any participant does not receive required consents, waivers, regulatory approvals, or other actions of governmental authorities within the time period required by this Agreement, the listing of Participants and 1980 kilowatthour load will be appropriately modified.

<u>Participant</u>	<u>1980 Kilowatthour Load</u>
The Connecticut Light and Power Company	16,002,437,000
Western Massachusetts Electric Company	3,252,432,000
Holyoke Water Power Company	106,905,000
Holyoke Power and Electric Company	0
New England Power Company	15,444,975,840 (a), (b)
Boston Edison Company (Edison)	9,531,773,000 (b), (c)
Central Maine Power Company	6,053,571,000
Public Service Company of New Hampshire	5,043,242,871 (d)
The United Illuminating Company	4,715,078,120
Vermont Electric Power Company	3,262,098,200
Canal Electric Company	3,227,553,000
Montaup Electric Company	3,096,872,000 (e)

Bangor Hydro-Electric Company	1,305,625,118	
Connecticut Municipal Electric Energy Cooperative	718,177,538	
UNITIL Power Corp.	609,873,261	(f)
Massachusetts Municipal Wholesale Electric Company	470,025,000	
Town of Reading Municipal Light Department	401,795,000	
Newport Electric Corporation	382,745,000	
Fitchburg Gas and Electric Light Co.	369,055,118	
Taunton Municipal Lighting Plant	307,460,361	
City of Chicopee Municipal Lighting Plant	279,273,169	
Town of Braintree Electric Light Department	267,289,000	
City of Peabody Municipal Light Plant	245,010,000	
City of Westfield Gas & Electric Light Department	219,026,000	
City of Holyoke Gas & Electric Light Department	214,448,000	
Town of Danvers Electric Department	206,806,000	
Town of Shrewsbury Electric Light Department	146,303,000	
Hudson Light and Power Department	127,808,000	
Town of Wakefield Municipal Lighting Department	107,609,000	
Town of Hingham Municipal Lighting	103,929,000	
Town of South Hadley Electric Light Department	99,981,000	
Town of North Attleborough Electric Department	93,816,000	
Town of Middleborough Gas and Electric Department	92,081,000	
Town of Holden Municipal Light Department	63,676,000	
Town of West Boylston Municipal Lighting Department	43,974,000	
Town of Sterling Municipal Electric Department	24,510,000	
Town of Groton Electric Light Department	22,908,000	
Town of Boylston Municipal Light Department	17,324,000	
Town of Rowley Municipal Light Department	13,551,000	
Princeton Municipal Light Department	7,130,000	
Town of Concord Municipal Light Plant	0	(c)
	76,698,146,596	

- (a) Includes New Hampshire retail 1980 kilowatthour load of 434,290,243.
- (b) The 1980 Kilowatthour loads shown for Boston Edison Company and New England Power Company have been adjusted to reflect the current status of Norwood as a full requirements customer of New England Power Company.
- (c) As of June 1, 1985, Concord continues to be a full requirements customer of Edison. At such time as Concord ceases to be a full requirements customer of Edison, for purposes of this Agreement, Concord shall have an additional Participating Share equal to 1.087% of Edison's initial Participating Share (based on a 1980 Kwh load of 103,629,000 Kwh for Concord) and Edison's Participating Share shall be reduced by such amount.
- (d) Includes New Hampshire retail 1980 kilowatthour load of 4,939,218,744.
- (e) The amount shown for Montaup Electric Company includes the load of the other members of the Eastern Utilities Associates system.
- (f) The amount shown for UNITIL Power Corp. represents the 1980 kilowatthour load of its affiliates, Concord Electric Company and Exeter & Hampton Electric Company.

Description of the Transmission Facilities

The Transmission Facilities will include the following:

- (1) the continuation of a single circuit  $\pm$  450 kV DC line on an existing right-of-way from the New Hampshire state line at Tyngsboro to Sandy Pond Substation in Ayer, a distance of 12.1 miles;
- (2) the converter terminal (1800 MW) and the site thereof to be located in the vicinity of the Sandy Pond substation;
- (3) electric power equipment and associated structures in the switchyard at the converter terminal location;
- (4) communication equipment located in Massachusetts; and
- (5) such other facilities in Massachusetts as approved by the Advisory Committee.

ATTACHMENT C

Forms of the following documentation:

1. Opinion of Counsel
2. Certificate
3. Incumbency and Signature Certificate
4. Directors' Vote

[Please note - governmental entities may make appropriate modifications to these documents to reflect that they are not corporations.]

[Form of Opinion of Counsel for Each Utility Participant]

New England Hydro-Transmission  
Electric Company, Inc.;  
New England Hydro Transmission  
Corporation; or  
New England Power Company

Gentlemen:

This opinion is furnished in connection with the execution and delivery by \_\_\_\_\_ (the Company) of the following Agreements:

\_\_\_\_\_.

We have acted as counsel to the Company, one of the Utility Participants, in connection with the execution and delivery of the Basic Agreements. We participated in reviewing and/or drafting the Agreements.

As general [special] counsel to the Company, we are generally familiar with its affairs. [If special counsel is giving the opinion, describe relationship to the Company.] We have reviewed the proceedings taken by the Company in connection with its authorization, execution, and delivery of the Agreements and any documentation supplied by the Company thereunder. We have also examined executed counterparts of the Agreements, have made such other investigation, and have examined such other records and documents, and have made such examination of law and satisfied ourselves as to such other matters as we have deemed relevant and necessary in order to enable us to express the opinions set forth below.

Based upon and subject to the foregoing and to the further qualifications in this opinion, we are of the opinion that:

1. The Company is a corporation duly organized, validly existing and in good standing under the laws of [the jurisdiction of its incorporation], has the corporate power to own its assets and to transact the business in which it is engaged, and is duly qualified as a foreign corporation in, and is in good standing under the laws of, each jurisdiction in which the conduct of its business or the ownership of its assets requires such qualification.

2. The Company has (and in the case of the Agreements at the time of execution and delivery thereof, had) full corporate power, and legal right to execute, deliver and perform the Agreements, and the Company has taken all necessary corporate action to authorize the execution, delivery, and performance by it of the Agreements.

3. The execution, delivery, and performance by the Company of the Agreements do not (a) contravene the Company's [charter documents] or by-laws, (b) violate any applicable law, rule, regulation, order, writ, judgment, injunction, decree, or award known to us by which the Company is bound, (c) violate any indenture, instrument, or agreement known to us by which the Company is bound, or (d) result in or require the creation or the imposition of any lien pursuant to the provisions of any indenture, instrument, or agreement known to us by which the Company is bound.

4. No authorization, approval, consent, or other action by, and no notice to or filing with, any federal, state, or other governmental authority or regulatory body which has not been obtained or given and is not in full force and effect is required for the valid and lawful execution, delivery, and performance by the Company of the Agreements. [In this connection, to the extent it may be required by law, the approval of the Massachusetts Department of Public Utilities [Connecticut PUC, or other] has been given for the Agreements and the Company's performance thereunder by order(s) dated \_\_\_\_\_, which remains in full force and effect.]

5. The Agreements have each been duly executed and delivered by the Company and constitute the legal, valid, and binding obligations of the Company enforceable against it in accordance with their respective terms.

6. No action, suit, proceeding, or investigation at law or in equity or by or before any governmental instrumentality or other agency now pending or threatened against or affecting the Company or its property or rights which, if adversely determined, would materially impair the ability of the Company to perform its obligations under the Agreements is known to us.

Our opinion that the Agreements are enforceable, each in accordance with the terms thereof, is qualified to the extent that the enforcement of the rights and remedies created thereby is subject to bankruptcy, insolvency, reorganization, and similar laws of general application affecting the rights and remedies of creditors and secured parties, and to the further extent that the availability of the remedies of specific enforcement, injunctive relief, or any other equitable remedy is subject to the discretion of the court before which any proceeding therefor may be brought.

Very truly yours,

#### CERTIFICATE

I, (insert name), the Clerk (or Secretary or other principal recording officer) of (insert name of Utility Participant), a (insert state of organization) (the "Company") do hereby certify that:

(1) Attached hereto as Exhibit A is a true and correct copy of a vote duly adopted at a meeting of the Board of Directors of the Company, duly called and held on \_\_\_\_\_, \_\_\_\_\_, and that such vote and the authority vested thereby have not been amended or revoked and are still in full force and effect.

(2) Attached hereto as Exhibit B is a true and correct copy of the Articles of Organization (or other charter documents) of the Company, as amended and in effect as of the date of this Certificate.

(3) Attached hereto as Exhibit C is a true and correct copy of the By-Laws of the Company, as amended and in effect as of the date of this Certificate.

(4) The persons (or person) listed on Exhibit D have been duly elected to the offices set forth adjacent to their respective names since the first day of June, 1985, and the signatures adjacent to their respective names are the genuine signatures of said officers.

IN WITNESS WHEREOF, I have placed my hand and the seal of the Company this \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

By: \_\_\_\_\_

Name:

Title:

CONFIRMATION OF INCUMBENCY AND SIGNATURE OF  
CLERK, SECRETARY, OR OTHER PRINCIPAL RECORDING OFFICER

I, (name), (title) of the Company, do hereby certify that (name of officer executing certificate) is and at all times subsequent to \_\_\_\_\_, \_\_\_\_\_, has been the duly elected (title) of the Company and that the signature adjacent to his (or her) name is the genuine signature of said officer.

By: \_\_\_\_\_

Name:

Title:

FORM OF DIRECTORS' VOTE APPROVING AGREEMENTS

VOTED:

That in connection with this Company's participation in the Phase II expansion of the proposed interconnection between the New England Power Pool companies and Hydro-Quebec, the execution and delivery on behalf of this Company by \_\_\_\_\_, President, of the following agreements: (being collectively referred to in this vote as "Agreements") copies of which Agreements have been presented at this meeting, are hereby authorized, approved, ratified, and confirmed, and that the officers of this Company are further authorized severally to take any and all such further actions including the execution and delivery of such further documents, as such officers or any of them may deem necessary or appropriate in connection with the actions and documents authorized by this vote.

ATTACHMENT E

Subscription Process for Determining  
Initial Participating Shares

After allocation of up to 10% of the Participating Shares pursuant to Section 4(B)(1) and (2), the remaining shares shall be allocated to Participants as follows:

- a. Each Participant shall be entitled to a pro rata share of the remainder based on its 1980 Kwh load as a percentage of all Participants' 1980 Kwh loads.
- b. Upon execution of this Agreement, each Participant may subscribe for more or less than its share under (a) above.

- c. If there are no undersubscriptions or oversubscriptions under (b) above or if the sum of the shares under (a) or (b) above for all Participants equals 100% of such remaining shares, then each Participant shall have a share as determined under (a) or (b) above. (For the purposes of this section, oversubscription shall mean, with respect to any Participant, a subscription under (b) above of more than its share under (a) above. For the same purposes, undersubscription shall mean, with respect to any Participant, a subscription under (b) above of less than its share under (a) above. The amount of such oversubscription shall be equal to (b) minus (a) and the amount of such undersubscription shall be equal to (a) minus (b).)
- d. If there are undersubscriptions but no oversubscriptions or if there are oversubscriptions but no undersubscriptions, then each Participant shall have a share as determined under (a) above.
- e. If the net result of subtracting the aggregate amount of all undersubscriptions from the aggregate amount of all oversubscriptions is greater than zero, the aggregate amount of all oversubscriptions must be reduced to the aggregate amount of all undersubscriptions. This amount shall be referred to as the total permitted amount of oversubscriptions. Each oversubscriber shall initially be allocated a share of the total permitted amount of oversubscriptions (pro rata by the 1980 kwh loads of the oversubscribers); provided that no oversubscriber shall be allocated more than its requested amount under (b) above. Any remaining unallocated portion of the total permitted amount of oversubscriptions shall be allocated to all oversubscribers that have not yet reached their requested amount under (b) above pro rata by the differences between their requested amounts under (b) above and their amounts allocated thus far under this section (d).
- f. If the net result of subtracting the aggregate amount of all oversubscriptions from the aggregate amount of all undersubscriptions is greater than zero, the aggregate amount of all undersubscriptions must be reduced to the aggregate amount of all oversubscriptions. This amount shall be referred to as the total permitted amount of undersubscriptions. The total permitted amount of undersubscriptions shall be allocated to the undersubscribers pro rata by the amounts of their undersubscriptions.

## ATTACHMENT F

As a result of the support arrangements for building, owning, and financing the Transmission Facilities, Equity Sponsors have provided credit support for the project in excess of their Participating Shares. This enhances New England Hydro's ability to finance the project. The status of a Participant as a Credit Enhanced Participant that receives credit enhancement or not will be determined in connection with, and as of the date of commitment for, each debt financing, including any construction financing, in accordance with Section 1 hereof, and the Credit Enhancement Charge will be determined with respect to each such financing and will continue to be paid as long as the financing is outstanding and as long as any accrued unamortized Credit Enhancement Charges for said Participant remain outstanding.

An "investment grade" Participant is defined in this Agreement as a Participant which has outstanding junior long-term debt securities which have qualified debt ratings by two of the three major rating agencies. An "investment grade" Participant is also defined as a Participant which has a Participating Share of four-tenths of one percent (0.4%) or less and which has outstanding junior long-term debt securities having a rating from only one of the three major rating agencies with that rating being a qualified debt rating. (For these purposes, the outstanding junior long-term debt securities of a Participant shall mean (i) its outstanding long-term debentures, or (ii) if no long-term debentures are outstanding, its most junior outstanding long-term mortgage or revenue bonds, or (iii) if no long-term debentures, mortgage bonds or revenue bonds are outstanding, its most junior outstanding long-term debt.) "Qualified debt ratings" are defined as a minimum rating of Baa3 by Moody's Investors Service, BBB- by Standard & Poor's Corporation and D&P 10 by Duff & Phelps, Inc.

Any "substitute credit enhancement" shall mean, with respect to any New England Hydro debt financing, including any construction financing (i) a letter of credit from a commercial bank having capital, surplus, and undivided profits of at least \$250 million and a credit rating of "AA" or better in form and substance satisfactory to New England Hydro or (ii) a credit support that is equivalent to (i) above which is satisfactory in form and substance to New England Hydro, or (iii) a guarantee from an Equity Sponsor which at that time the guarantee is made satisfies the requirements to be an Equity Sponsor as set forth in section 4 of the Equity Funding Agreements; provided that such enhancement is irrevocable until the final maturity of such debt financing, including any optional extensions thereof. The first time that a Participant supplies substitute credit enhancement under this Agreement or under the Phase II Massachusetts Facilities Support Agreement, the substitute credit enhancement shall also cover such Participant's share of the debt obligations of New England Power Company and Boston Edison Company relating to their respective AC Facilities and the term of such credit enhancement shall extend for the full term of the then remaining depreciation period for the AC facilities supported under

such AC Facilities Support Agreements.

The principal amount of such substitute credit enhancement shall equal that Participant's Participating Share of the maximum amount of obligations under such New England Hydro debt financing plus, if not already provided in connection with any other debt financing of New England Hydro or New Hampshire Hydro, that Participant's Participating Share of the maximum amount of debt obligations of New England Power Company and Boston Edison Company relating to the AC Facilities as determined by New England Power and Boston Edison, respectively.

For any substitute credit enhancement that covers that Participant's Participating Share of the debt obligations of Boston Edison Company and New England Power Company relating to the AC Facilities, such substitute credit enhancement shall provide for direct payment to New England Power and Boston Edison, respectively, of the amounts included therein for covering such debt obligations.

As compensation to Equity Sponsors for providing this additional credit support, a Credit Enhancement Charge, as calculated in connection with each debt financing is required to be paid by the Participants. If a Participant is a Credit Enhanced Participant by reason of below-investment grade, withdrawn or suspended debt ratings, the Credit Enhancement Charge attributed to that Credit Enhanced Participant will be paid by all Participants with each Participant paying its Participating Share thereof; provided, however, that if a Participant is a Credit Enhanced Participant due to lack of debt ratings, the Credit Enhancement Charge attributed to that Credit Enhanced Participant shall be paid by such Participant.

The Credit Enhancement Charge (E) attributed to a Credit Enhanced Participant is a dollar value determined monthly for each Credit Enhanced Participant by the following formula:

$$E = \sum_{i=1}^n F_i$$

$$\text{where } F_i = \left( \frac{G}{100} \times H_i \times \frac{I_i}{100} \times 0.8 \times \frac{1}{12} \right) + J_i$$

F = the Credit Enhancement Charge for each New England Hydro debt financing that is credit enhanced for the Participant.

i = a number from 1 to n representing each of New England Hydro debt financings.

n = total number of such financings.

G = the Participant's Participating Share (in percent)

H = the maximum outstanding amount of New England Hydro debt during the month which was credit enhanced for such Participant

I = debt premium (in percent) for the Credit Enhanced Participant as shown in the following table:

<u>Participant's Debt Rating*</u>	<u>I(%)</u>
Below B3 or not rated	7.57
B3	5.32

B2	4.82
B1	4.32
Ba3	3.82
6a2	3.32
Ba1	2.82

\* Debt rating shall be the lower of the two highest ratings assigned to the Participant's outstanding junior long-term debt securities by Moody's, Standard and Poor's, and Duff & Phelps, converted to a Moody's equivalent as measured at the commitment date of such New England Hydro debt financing. If the Participant has a Participating Share of four tenths of one percent (0.4%) or less and has only one debt rating, then the debt rating for such Participant shall be that rating converted to a Moody's equivalent as measured at the commitment date of such New England Hydro debt financing.

J = an amount calculated as follows:

During the period from the Effective Date to the Date of Full Support Payment, J shall equal 0 and the Credit Enhancement Charge calculated during such period pursuant to the above formula shall be accrued for each Participant during such period with interest calculated at New England Hydro's AFDC rate. After the Date of Full Support Payment, such previously accrued amount for such Participant shall be treated as if it represented additional investment in the Transmission Facilities relating only to such Participant. As a result J shall include monthly amounts attributable to such Participant (whether or not it continues to be a Credit Enhanced Participant after the Date of Full Support Payment and whether or not the debt being enhanced continues to be outstanding) representing amortization of such previously accrued amount (with amortization over the period that the investment in the Transmission Facilities is being amortized) plus one-twelfth of the composite percentage (as defined in Section 12 hereof) times the unamortized accrued amount plus a provision for income taxes.

ATTACHMENT G  
FORM OF  
EQUITY FUNDING AGREEMENT  
FOR

NEW ENGLAND HYDRO-TRANSMISSION ELECTRIC COMPANY, INC.

This AGREEMENT dated as of June 1, 1985, is between New England Hydro-Transmission Electric Company, Inc. (New England Hydro) and the New England entities listed in Attachment A hereto. New England Power Company is signing this Agreement only with respect to the commitments made to it by the Equity Sponsors under Section 10 hereof. Those New England entities that have executed this Agreement and that meet the further conditions for participation and qualification hereunder are hereinafter referred to as Equity Sponsors or individually as an Equity Sponsor. The Equity Sponsors are sometimes referred to collectively herein, but their rights and obligations hereunder are several and not joint as described in Section 6 hereof.

In consideration of the premises, the concurrent execution of the other Basic Agreements hereinafter referred to, the mutual covenants hereinafter and therein set forth, and other good and valuable consideration, receipt whereof is hereby acknowledged, it is hereby agreed as follows:

Section 1. Basic Understandings and Purpose

New England utilities are currently participating in the arrangements for the Phase I interconnection planned by the New England Power Pool (NEPOOL) with Hydro-Quebec, which is to consist of a  $\pm$  450 kV HVDC transmission line from a terminal at the DES Cantons Substation on the Hydro-Quebec system near Sherbrooke, Quebec to a terminal having an approximate rating of 690 MW at a substation at the Comerford Generating Station on the Connecticut River (hereinafter referred to as Phase I). The basic arrangements covering the portion of Phase I in the United States are set forth in the New England Power Pool Agreement, as amended (the NEPOOL Agreement) and three contracts among the participants in Phase I as follows:

(1) Vermont Transmission Line Support Agreement, dated as of December 1, 1981, as amended, with Vermont Electric Transmission Company, Inc.

(2) Phase I Terminal Facilities Support Agreement, dated as of December 1, 1981, as amended, with New England Electric Transmission Corporation, and

(3) Agreement With Respect To Use Of Quebec Interconnection, dated as of December 1, 1981, as amended, including the restatement thereof in connection with Phase II (this Agreement as restated to cover Phase II is hereinafter referred to as the Use Agreement).

These Phase I interconnection facilities are currently under construction with completion scheduled during 1986.

With the completion of arrangements for Phase I and the related contracts with Hydro-Quebec, the members of NEPOOL have conducted studies of the benefits of an expanded interconnection for NEPOOL with Hydro-Quebec (Phase II) and have negotiated with Hydro-Quebec a firm energy arrangement to utilize the expanded interconnection facilities.

The portion of Phase II in the United States will consist of an extension of the Phase I DC transmission line from the proposed terminus of Phase I at the Comerford Station through New Hampshire to a site in Massachusetts with additional terminal facilities installed at that site to increase the total transfer capacity between Hydro Quebec and NEPOOL from the 690 MW of Phase I to approximately 2000 MW. Reinforcements to the existing AC transmission system of New England Power and to certain AC facilities of Boston Edison Company will also be required. The United States portion of the Phase II facilities will be designated as pool-planned facilities in the same manner as the United States portion of the Phase I facilities was so designated.

Each Equity Sponsor acknowledges that it has been represented on the Executive and Planning Committees of NEPOOL that had responsibility for evaluating the feasibility of Phase II and, through this representation, actively participated in the decision of NEPOOL to go forward with Phase II. Furthermore, each Equity Sponsor represents that it made its own independent investigations

and inquiries as it deemed appropriate and did not rely upon representations (other than those contained in this Agreement) of New England Hydro or its affiliates in deciding to enter into this Agreement.

The share of benefits among the New England utilities associated with Phase II is set forth in the Use Agreement. The Use Agreement also permits each New England utility to make its own entitlement transactions with Hydro Quebec and to use the interconnection for such transactions.

The provisions of the Phase II Massachusetts Transmission Facilities Support Agreement (Massachusetts HVDC Support Agreement) cover the Phase II Massachusetts HVDC transmission line and terminal facilities in Massachusetts. New England Hydro will build, own, operate, and maintain those Massachusetts HVDC transmission facilities.

The portion of the Phase II HVDC transmission line to be constructed in New Hampshire is covered under the Phase II New Hampshire Transmission Facilities Support Agreement (New Hampshire HVDC Support Agreement). New England Hydro—Transmission Corporation (New Hampshire Hydro, an affiliate of New England Hydro) will build, own, operate, and maintain those New Hampshire HVDC transmission facilities.

All improvements and reinforcements to the AC transmission system in Massachusetts necessitated by Phase II are covered under the Phase II New England Power AC Facilities Support Agreement (New England Power AC Support Agreement) and the Phase II Boston Edison AC Facilities Support Agreement (Boston Edison AC Support Agreement).

The provisions of this Agreement cover the commitments of the Equity Sponsors of New England Hydro to contribute equity funds to New England Hydro, to provide certain limited credit support in connection with debt financing of New England Hydro, to provide certain limited credit support in connection with the New England Power AC Support Agreement and the Boston Edison AC Support Agreement, and to accept an allocation of a share of Phase II in the event of a default by certain participating New England utilities under certain other Basic Agreements.

In view of the need to formalize the agreements among the parties at an early date so that (i) binding commitments with Hydro Quebec for Phase II may be made, (ii) binding commitments for ultimate construction and the financing of the United States portion of Phase II may be undertaken consistent with the time schedule anticipated by NEPOOL and with the assurance that commitments among the New England utilities are in place, and (iii) licensing activities may proceed on a schedule that enables completion of such construction consistent with the time schedule anticipated by NEPOOL, the following agreements are concurrently being entered into (the “Basic Agreements”) which collectively set forth rights and obligations with respect to the foregoing undertaking: (1) this Agreement, (2) the Massachusetts HVDC Support Agreement; (3) the New Hampshire HVDC Support Agreement; (4) the Equity Funding Agreement for New Hampshire Hydro; (5) the New England Power AC Support Agreement; (6) the Use Agreement; (7) various amendments to the NEPOOL Agreement relating to the sharing of savings, capability responsibilities, and Pool transmission arrangements; and (8) the Boston Edison AC Support Agreement.

In order to coordinate each participating utility's interest in Phase II to the fullest extent possible, each of the following Basic Agreements have been drafted with the intent that the participating interest of each participating utility will be the same under each agreement: the Massachusetts HVDC Support Agreement, the New Hampshire HVDC Support Agreement, the New England Power AC Support Agreement, the Boston Edison AC Support Agreement, and the Use Agreement. These Basic Agreements also provide that, notwithstanding any provision thereof that may be interpreted to the contrary, the proper interpretation of each of these Basic Agreements is to be consistent with such overriding intent. Each Equity Sponsor acknowledges this overriding intent and agrees that any action by it or its appointee affecting such participating interests shall be the same under this Agreement and the Equity Funding Agreement with New Hampshire Hydro in order to also be consistent with such overriding intent.

## Section 2. Conditions Precedent to Effectiveness

The effectiveness of this Agreement, and all rights, obligations, and performance of the signatories hereunder, is subject to (i) New England Electric System (NEES) and other signatories having executed this Agreement committing in the aggregate to Equity Shares (as hereinafter defined) equal to at least 100%, and each such signatory having demonstrated by December 30, 1985, to the satisfaction of New England Hydro that is qualified to be an Equity Sponsor pursuant to Section 4, (ii) New England Hydro or New Hampshire Hydro or New England Power or Boston Edison and members of NEPOOL (including Boston Edison and New England Power) serving at least 66-2/3% of the aggregate kilowatt-hour load served by NEPOOL members in 1980 having executed the other Basic Agreements (except for the Equity Funding Agreement for New Hampshire Hydro and the amendments to the NEPOOL Agreement), (iii) each signatory having also executed the Equity Funding Agreement for New Hampshire Hydro and having the same percentage of New Hampshire Hydro's equity as its Equity Share hereunder, (iv) members of NEPOOL having executed the amendments to the NEPOOL Agreement for Phase II in order that such amendments may become effective in accordance with the NEPOOL Agreement, and (v) each signatory having satisfied the conditions precedent set forth below.

By June 1, 1986, each signatory to this Agreement shall provide certificates and legal opinions from counsel satisfactory to New England Hydro, together with certified copies of related resolutions, consents, approvals, authorizations, and other documents (Documentation) necessary to establish to the satisfaction of New England Hydro that all corporate and regulatory consents, waivers, approvals, authorizations and other actions necessary in connection with performance by such signatory of its obligations under the Agreement have been obtained and are in full force and effect, that the Agreement has been duly authorized, executed, and delivered by such signatory, and that it constitutes a binding commitment by the signatory enforceable in accordance with its terms. Forms of Documentation acceptable to New England Hydro are included in Attachment B hereto. Prior to signing this Agreement, each signatory has provided to New England Hydro a listing of all consents, waivers, approvals, authorizations, and other actions required for that signatory to deliver its Documentation.

Vermont Electric Power Company, Inc. (VELCO) and Massachusetts Municipal Wholesale Electric Company (MMWEC) represent a number of electric systems. If they desire and are qualified to be Equity Sponsors, they shall be deemed to have signed on behalf of those respective systems listed in Schedules I or II, respectively. By March 1, 1986, VELCO and MMWEC will provide New England Hydro with copies of contracts with their respective systems which impose absolute and unconditional obligations on such systems to pay their proportionate shares of all costs or obligation incurred under this Agreement by VELCO or MMWEC, respectively. By that date, VELCO and MMWEC will also provide to New England Hydro as part of their Documentation certificates, legal opinions (from counsel satisfactory to New England Hydro), and other documents in form and substance satisfactory to New England Hydro representing unconditionally that all consents, approvals, and authorizations have been obtained by their contracting systems in connection with each such system's performance of its obligations under its respective contract with VELCO or MMWEC and that each such contract imposes absolute and unconditional obligations on such systems to pay their proportionate shares of all costs incurred under this Agreement by VELCO or MMWEC, respectively, and has been duly authorized, executed, and delivered and is a binding commitment of such system enforceable in accordance with its terms. If regulatory approvals have not been obtained by March 1, 1986, such representations shall be conditioned upon receipt of regulatory approvals. VELCO and MMWEC will have until June 1, 1986, to receive such approvals and make such representations unconditionally. In order that percentages of participation be consistent among the Basic Agreements, VELCO and MMWEC shall have their contracts with their contracting systems cover the necessary commitments for each Basic Agreement.

All expenses in connection with obtaining and delivering any Documentation under this Agreement, including legal opinions, are to be borne by the signatory incurring such expense. New England Hydro will have no responsibility for any expenses incurred by VELCO and MMWEC in providing Documentation for their respective contracting systems.

Any signatory that fails to meet the requirements of Section 2 by the deadlines contained herein will not be an Equity Sponsor under this Agreement and will not have any rights and obligations hereunder.

New England Hydro by written notice to all signatories may extend any deadline date specified in this Section to a later date, provided that any extension for longer than six months requires the consent of the Advisory Committee under the Massachusetts HVDC Support Agreement.

### Section 3. Effective Date and Term

This Agreement shall become effective (the Effective Date) upon the last to occur of the following dates:

- (i) the date that the Equity sponsors, committing in the aggregate to Equity Shares (as hereinafter defined) equal to at least 100%, have met the requirements of Section 2; and
- (ii) the date that the last of the other Basic Agreements (excluding the Use Agreement) becomes effective or would become effective but for a condition that its effectiveness is subject to this Agreement becoming effective.

Upon execution and delivery of the Agreement by New England Hydro and NEES and other signatories committing in the aggregate to Equity Shares (as hereinafter defined) equal to no less than 100%, and notwithstanding any provision herein to the contrary, no signatory may terminate its obligations hereunder except in accordance with provisions of this Agreement.

The term of this Agreement shall expire on the alter to occur of the termination dates of the Massachusetts HVDC Support Agreement or the New England Power and Boston Edison AC Support Agreements.

#### Section 4. Equity Sponsor Qualification

A. In order to enhance New England Hydro's ability to finance its portion of Phase II as required under the Massachusetts HVDC Support Agreement and to enhance the credit support of certain Supporters under the AC Support Agreement, some or all of the New England utilities participating in Phase II whose credit ratings are at least one grade above the lowest investment grade have agreed to provide, or to cause their designees to provide, credit support for those New England utilities participating in Phase II whose credit ratings are below investment grade. NEES and those New England utilities or their designees which have agreed to provide this credit support are the Equity Sponsors of New England Hydro under this Agreement.

B. A Participant under the Massachusetts HVDC Support Agreement or its authorized designee qualifies to be an Equity Sponsor by having its outstanding long-term debentures rated at least one grade above the lowest investment grade rating as of September 1, 1985. If no long-term debentures are outstanding, the ratings used shall be those of such company's most junior long-term mortgage or revenue bonds. If no mortgage bonds, revenue bonds, or debentures are outstanding, the ratings used shall be those of the most junior long-term debt. VELCO shall qualify to be an Equity Sponsor if 80% or more of its common stock is owned by utilities whose debt securities qualify pursuant to this subsection 4(B).

For purposes of this Agreement, "one grade above the lowest investment grade rating" means a rating equal to the following ratings from two of these rating agencies: Standard and Poor's Corporation - Rating BBB; Moodys Investor Service - Rating Baal; and Duff & Phelps - Rating D&P 9 (or the equivalent municipal ratings).

C. A "designee" shall be authorized to be an Equity Sponsor if it is a parent company of such Participant and (i) its debt securities meet the appropriate test specified in B above, or (ii) at least 80% of its consolidated utility revenues are derived from subsidiaries whose debt securities meet the appropriate test specified in B above. (For VELCO, each stockholder of VELCO shall be a parent company of VELCO.) On or before the date of execution of this Agreement, each Participant shall identify its designee, if any.

D. In order that the necessary credit enhancement is provided as specified in A above, the qualification of each Equity Sponsor shall be reviewed by New England Hydro as of the date that the first equity contributions are to be made by such Equity Sponsor. If an Equity Sponsor fails to qualify on such date, appropriate actions and allocations shall be instituted as provided elsewhere in this Agreement.

#### Section 5. Equity Shares

A. Each Equity Sponsor shall have and be charged with a percentage interest in all rights and obligations hereunder determined in accordance with this Section 5 (which interest is hereinafter referred to as its "Equity Share"). All of the equity of New England Hydro will be owned by the Equity Sponsors in proportion to their Equity Shares.

The Equity Share of each Equity Sponsor shall be computed both initially and as changed from time to time in accordance with the terms hereof, by New England Hydro as hereinafter provided. Such computations shall be made as of the first day of any month in which there is a change in the number of Equity Sponsors or any change in the interest of any Equity Sponsor as herein provided. The initial computation is to be made as of September 15, 1985, and subsequent computations are to be made in any month thereafter in which an interest is modified or terminated due (i) to the failure of a signatory to provide proof that it is qualified to be an Equity Sponsor by December 30, 1985, or (ii) to the failure to provide Documentation by June 1, 1986, or (iii) to the failure to be so qualified on the date the first equity contributions are to be made by such Equity Sponsor, or (iv) to the operation of any provision of this Agreement. All computations shall be final unless there is a manifest error. Such computations of Equity Sponsors' Equity Shares as initially calculated and as changed under (i) and (ii) shall be made pursuant to Attachment C. Changes under (iii) shall be made pursuant to section 5(C) below, and changes under (iv) shall be made pursuant to the appropriate section requiring the change.

B. The Equity Shares on and as of the initial computation date, and as of the date of subsequent computations under subparts (i) and (ii) of the second paragraph of A above, will be calculated as follows:

1. 51% to NEES; and
2. 49% apportioned among the other Equity Sponsors on the basis of the subscription process as described in Attachment C.

(Attachment C provides that each Equity Sponsor may specify a maximum percentage of equity and that such maximum shall remain in effect until June 1, 1986 or such later deadline if extended pursuant to Section 2 hereof.)

C. On the basis of New England Hydro's review of the qualifications of each Equity Sponsor other than NEES as of the date that the first equity contributions are to be made by such Equity Sponsor, if one or more Equity Sponsors are no longer qualified under Section 4, (i) the aggregate Equity Shares of such unqualified Equity Sponsors shall first be offered in writing by New England Hydro to all then qualified Equity Sponsors other than NEES for voluntary subscription, (ii) second, any remaining shortfall shall be allocated pro rata among such qualified Equity Sponsors not including NEES in proportion to their Equity Shares determined as of June 1, 1986, provided that the aggregate of all involuntary allocations under this Section 4(C) to such qualified Equity Sponsors shall not exceed an aggregate Equity Share of 10%, and further provided that the aggregate of all such involuntary allocations to any such Equity Sponsor shall not increase such Equity Sponsor's Equity Share determined as of June 1, 1986, by more than 25% thereof, and (iii) finally, any remaining shortfalls shall be retained pro rata by such no longer qualified Equity Sponsors in proportion to their Equity Shares

determined as of June 1, 1986; provided, however, that NEES and all qualified Equity Sponsors may agree to other allocation arrangements; and further provided that NEES shall not have an Equity Share of less than 51% unless it so consents. (The above deadlines of June 1, 1986 may be extended to a later deadline pursuant to Section 2 hereof.)

All offerings above shall be made in accordance with a voluntary subscription process as specified in New England Hydro's offering letter, and any oversubscriptions will be treated as provided therein.

#### Section 6. Relationship Among Equity Sponsors

The rights and obligations of the Equity Sponsors hereunder are several, in accordance with their respective Equity Shares, and not joint. The rights and obligations of New England Hydro hereunder are also several and not joint with those of the Equity Sponsors or any one thereof. There is no intention to create by this Agreement, or by any grant, lease, license, or activity related hereto, an association, joint venture, trust, or partnership or to impose on New England Hydro or any Equity Sponsor trust or partnership rights or obligations; and any such implied intention is expressly negated. Except as expressly provided in this Agreement, no Equity Sponsor shall have by virtue of this Agreement or of any such grant, lease, license, or activity the right or power to bind any other Equity Sponsor without its express written consent.

#### Section 7. Equity Contribution

A. Under the Massachusetts HVDC Support Agreement, New England Hydro has agreed to limit its equity investment to a maximum of 40% of its total capital as of the effective date of that agreement and has agreed to use its best efforts to continue to limit its equity investment to 40% of its total capital during the time that New England Hydro has outstanding debt in its capital structure.

New England Hydro may call from time to time by written notification upon the Equity Sponsors to contribute equity in any of the forms set forth in this Section up to a maximum aggregate amount of \$140 million, provided that Equity Sponsors having 66-2/3% of Equity Shares may agree to increase this maximum aggregate amount; and then all Equity Sponsors shall contribute such requested amount with each Equity Sponsor contributing up to its Equity Share of the new maximum. Any contribution made in response to New England Hydro's call in excess of the maximum aggregate amount, as adjusted from time to time, may be made on a voluntary basis by any contributing Equity Sponsor, and New England Hydro will make an appropriate adjustment in Equity Shares.

B. During the term of this Agreement, New England Hydro has the option from time to time to call for contribution of equity in any of the following forms:

(1) New England Hydro may offer shares of its common stock to its Equity Sponsors and each Equity Sponsor shall subscribe for and purchase, for cash at a price set by New England Hydro, its Equity Share of the common stock so offered.

(2) After each Equity Sponsor owns common stock of New England Hydro, New England Hydro may request that capital contributions be made, and each Equity Sponsor shall contribute to New England Hydro its Equity Share of the total capital contribution so requested.

C. In order that New England Hydro may limit its equity investment to a maximum of 40% of its total capital, New England Hydro may, at its option, from time to time, take any of the following actions:

(1) New England Hydro may repurchase for cash its common stock from Equity Sponsors in amounts that will not change the relative Equity Shares among Equity Sponsors and at a price per share equal to book value per share at the time of repurchase. Each Equity Sponsor shall sell such common stock to New England Hydro in the full amount so requested.

(2) New England Hydro may return any capital contribution previously received from Equity Sponsors in amounts that will not change the relative Equity Shares among Equity Sponsors. Each Equity Sponsor shall accept such return of capital contribution in the full amount so returned.

(3) New England Hydro may pay dividends out of earnings or make liquidating dividends to the Equity Sponsors.

D. New England Hydro shall give written notice of any call for contributions of equity under B above to each Equity Sponsor. Such notice shall specify the amount to be contributed, the form of the contribution, and a date, at least thirty days after the date of the notice, that the equity is to be contributed. New England Hydro will provide annually estimates of its equity requirements and estimated dates when any equity contributions hereunder will be due. New England Hydro shall give written notice of any action to reduce its equity under C above to each Equity Sponsor. Such notice shall specify the amount and form of the reduction and a date, at least fifteen days after the date of the notice, that the reduction in equity is to occur.

E. New England Hydro shall use the proceeds of any equity contribution under this Agreement for the sole purpose of meeting its capital requirements under the Massachusetts HVDC Support Agreement.

F. All transactions under B, up to a maximum aggregate amount of \$140 million, and under C above shall be subject to receipt of all necessary regulatory approvals, and New England Hydro and the Equity Sponsors shall use their best efforts to obtain, or to assist in obtaining, these approvals in advance of the Effective Date.

G. New England Hydro shall have two classes of common stock, both of which will have the same preferences, qualifications, special or relative rights or privileges, except that only one class shall have voting powers. Equity Shares allocated to NEES shall be evidenced by voting common stock. The Equity Shares allocated to each other Equity Sponsor shall, at the option of such Equity Sponsor, be evidenced by shares of voting common stock or non-voting common stock. Any reallocation of Equity Shares pursuant to Section 5 hereof shall be effected in such manner as to involve the issuance of additional common stock to each Equity Sponsor of the class then held by such Sponsor. Such election to take voting or non-voting stock shall be made in writing to New England Hydro by December 31, 1985.

H. Notwithstanding any provision of this Agreement to the contrary, prior to the date that New England Hydro first calls for equity contributions from all Equity Sponsors, all equity of New England Hydro will be owned and contributed by NEES.

Section 8. Cash Deficiency Guarantee

A. The Massachusetts HVDC Support Agreement provides that, if New England Hydro has, on any Due Date, a Cash Deficiency attributed to a Participant, the Participant absolutely and unconditionally guarantees to pay its Cash Deficiency on demand of Lenders. (The commitment is made in section 19 of that Agreement.) To provide further credit support to New England Hydro, each Equity Sponsor absolutely and unconditionally guarantees to pay its then Equity share of the Cash Deficiency attributed to any Credit Enhanced Participant (as defined in the Massachusetts HVDC Support Agreement) with respect to any third party debt financing of New England Hydro that was credit enhanced for such Participant, with such amounts to be paid directly on demand to Lenders, in cash, if for any reason a Credit Enhanced Participant fails to pay when due its Cash Deficiency on demand of Lenders. Each Equity Sponsor agrees that its obligations under this Section shall be continuing, absolute, and unconditional and without the benefit of any defense, claim, set-off, recoupment, abatement, or other right, existing or future, which an Equity Sponsor may have against the Lenders, New England Hydro, or any other person, and shall remain in full force and effect until all of the obligations of New England Hydro to the Lenders have been discharged.

Each Equity Sponsor hereby waives diligence, presentment, demand of payment, filing of claims with a court in the event of merger or bankruptcy of any Lender or New England Hydro or any other Equity Sponsor, protest or notice with respect to this guarantee, and covenants that the obligations contained in this guarantee will not be discharged except by complete performance of the obligations of New England Hydro to the Lenders.

B. Notwithstanding any other provision contained herein, each Equity Sponsor's obligations under this Section 8 shall be limited to its Equity Share of the Cash Deficiency attributed to any Credit Enhanced Participant with respect to any financing of any New England Hydro that was credit enhanced for such Participant.

C. In no event shall the several guarantees of the Equity Sponsors attributable to Credit Enhanced Participants for each debt financing of New England Hydro exceed in the aggregate 35% of the aggregate amount of the obligations relating to such financing, provided that Equity Sponsors having an aggregate of at least 80% of the Equity Shares may agree to exceed such 35% maximum and subject to receipt of any necessary regulatory approvals, such agreement shall be binding on all Equity Sponsors.

D. In no event shall Equity Sponsors be required to provide guarantees for a Participant with respect to a particular third party debt financing of New England Hydro if that would result in Credit Enhanced Participants with respect to that and all other outstanding financings of New England Hydro and New Hampshire Hydro having Participating Shares exceeding 35% under the Massachusetts HVDC Support Agreement, provided that Equity Sponsors having an aggregate of at least 80% of the Equity Shares may agree to exceed such 35% maximum and subject to receipt of any necessary regulatory approvals, such agreement shall be binding on all Equity Sponsors.

E. Each Equity Sponsor shall use its best efforts to obtain and assist others in obtaining all necessary regulatory approvals

required for the several guarantees made in this Section.

Section 9. Acceptance of Participating Shares

A. In accordance with section 15 of the Massachusetts HVDC Support Agreement, if a Participant that is a Credit Enhanced Participant is terminated by New England Hydro as a Participant, each Equity Sponsor or its appointee shall be allocated by New England Hydro its then Equity Share of the Participating Share of such terminated Participant; such allocation to be made as of the date of such termination. Each Equity Sponsor or its appointee shall accept such allocation from New England Hydro and shall unconditionally and absolutely assume the rights and obligations associated therewith from the date of such allocation. If a Participant that was not also a Credit Enhanced Participant is terminated, then acceptance of any allocation shall be voluntary by any Equity Sponsor or its appointee and shall be in accordance with New England Hydro's offer thereof. If required by New England Hydro, any Equity Sponsor or its appointee assuming rights and obligations under the Massachusetts HVDC Support Agreement shall execute and deliver any documents necessary to effectuate such assumption. If any Equity Sponsor that is the designee of a Participant is unable to deliver these documents to effectuate the assumption, such Equity Sponsor shall take all actions necessary for the Participant that so designated it as an Equity Sponsor to assume such rights and obligations as its appointee.

The appointee of NEES shall be New England Power Company. The appointee(s) of any other Equity Sponsor shall be the Participant(s) for which such Equity Sponsor was acting as a designee. Each Equity Sponsor agrees that if its appointee is allocated a Participating Share under the Massachusetts HVDC Support Agreement, such Equity sponsor shall also allocate to it an equal participating share and support share under the New Hampshire HVDC Support Agreement and New England Power and Boston Edison AC Support Agreements, respectively.

B. Each Equity Sponsor shall use its best efforts to obtain and assist others in obtaining all necessary regulatory approvals required for performance of its or its appointee's commitments made in this Section.

Section 10. Commitments under the AC Support Agreements

A. In accordance with sections 4 of the New England Power and Boston Edison AC Support Agreements, if a Credit Enhanced Supporter thereunder is terminated, each Equity Sponsor or its appointee shall be allocated its then Equity Share of the Support Share of such terminated Supporter; such allocation to be made as of the date of such termination. Each Equity Sponsor or its appointee shall accept such allocation made by New England Power and Boston Edison and shall unconditionally and absolutely assume the rights and obligations associated therewith from the date of such allocation. If a Supporter under the AC Support Agreements which is not also a Credit Enhanced Supporter is terminated, then acceptance of any allocation shall be voluntary by any Equity Sponsor or its appointee and shall be made in accordance with New England Power's and Boston Edison's offer thereof. If required by New England Power or Boston Edison, any Equity Sponsor or its appointee assuming rights and obligations under the AC Support Agreements shall execute and deliver any documents necessary to effectuate such assumption. If any Equity Sponsor that is a

designee of a Participant is unable to deliver these documents to effectuate the assumption, such Equity Sponsor shall take all actions necessary for the Participant that so designated it as an Equity Sponsor to assume such rights and obligation as its appointee.

The appointee of NEES shall be New England Power Company. The appointee(s) of any other Equity Sponsor shall be the Supporter for which such Equity Sponsor was acting as a designee. Each Equity Sponsor agrees that if its appointee is allocated a Support Share under the New England Power and Boston Edison AC Support Agreements, such Equity Sponsor shall also allocate to it an equal participating share under the New Hampshire HVDC Support Agreement and Massachusetts HVDC Support Agreement, respectively.

B. Recognizing the need to provide additional financial security to induce New England Power, Boston Edison, and the Supporters to undertake the substantial obligations of these AC Support Agreements, each Equity Sponsor agrees that it shall absolutely and unconditionally pay (or cause its appointee to pay), promptly upon request and in addition to any Support Share payment, its then Equity Share of any unpaid amounts attributed to a Credit Enhanced Supporter as specified in, and in accordance with, sections 14 of these AC Support Agreements (excluding any amounts due pursuant to sections 17 and 18 thereof).

C. Each Equity Sponsor shall use its best efforts to obtain and assist others in obtaining all necessary regulatory approvals required for performance of its commitments made in this Section.

#### Section 11. Character of Payment Obligations

The obligations of each Equity Sponsor to make payments hereunder, and to perform and observe all other agreements on its part contained herein, are absolute and unconditional and shall not be affected by any circumstances, including, without limitation, (i) any insolvency, composition, bankruptcy, reorganization, arrangement, liquidation or similar proceedings relating to New England Hydro, New England Power Company, Boston Edison Company, the Equity Sponsor, any other Equity Sponsor, or any affiliate thereof, (ii) any invalidity or unenforceability or disaffirmance by New England Hydro or any Equity Sponsor of any provision of this Agreement or any failure, omission, delay, or inability of New England Hydro to perform any of its obligations contained herein, (iii) any amendment, extension, or other change of, or any assignment or encumbrance of any rights or obligations under, this Agreement, or any waiver or other action or inaction, or any exercise or nonexercise of any right or remedy, under or in respect to this Agreement, or (iv) any inability of the Equity Sponsor or any other Equity Sponsor to obtain regulatory approvals for financing its Equity Share of any obligations under this Agreement, it being the intention of the parties hereto that all amounts payable by each Equity Sponsor in respect of this Agreement shall begin to be payable and shall continue to be payable in all events in the manner and at the time herein provided. In that connection, each Equity Sponsor hereby waives, to the extent permitted by applicable law, any and all rights which it may now have or which may at any time hereafter be conferred upon it, by statute or otherwise, to terminate, cancel, or surrender any of its obligations under this Agreement.

#### Section 12. Default

A. Any of the following events (Events of Default) that occur and are continuing are Events of Default:

(i) An Equity Sponsors shall fail to pay to New England Hydro when due any amount which it has agreed to pay under any provision of this Agreement, and such failure shall continue for more than 15 days after written notice thereof has been given to such Equity Sponsor by New England Hydro; or

(ii) Any Equity Sponsor shall fail to supply in accordance with the terms hereof any documentation required by New England Hydro in connection with financing with Lenders by New England Hydro (for VELCO and MMWEC, this includes documentation for their respective contracting electric systems), and such failure shall continue for more than 30 days after written notice of such failure has been given to such Equity Sponsor by New England Hydro; or

(iii) An Equity Sponsor shall fail to perform any other obligation under this Agreement in accordance with the terms hereof, and such failure shall continue for more than 30 days after written notice thereof has been given to such Equity Sponsor or any of its affiliates by New England Hydro.

(iv) Any Equity Sponsor shall experience an event of default under the Equity Funding Agreement for New Hampshire Hydro.

B. If an Event of Default under Section 12A(i) above shall have occurred, New England Hydro may, by written notice to each Equity Sponsor, request that the nondefaulting Equity Sponsors on a voluntary basis make the overdue payment to New England Hydro, provided that similar voluntary payments are made under the Equity Funding Agreement for New Hampshire Hydro.

C. New England Hydro or any Equity Sponsor shall be free to invoke such remedies at law or in equity as may be deemed appropriate against any Equity Sponsor that defaults under this Agreement.

### Section 13. Restrictions on Transfer of Common Stock

Each Equity Sponsor agrees that it will not transfer any or all of its common stock of New England Hydro to any other person unless such person is an Equity Sponsor or meets the requirements for being an Equity Sponsor under sections 4B or 4C hereof as of the date of such transfer and a similar transfer is made under the Equity Funding Agreement for New Hampshire Hydro.

### Section 14. Dividends on Common Stock

Any Equity Sponsor may direct New England Hydro to withhold the payment of a dividend to such Equity Sponsor and apply such dividend to reduce the current or the next Support Charge payment required to be made under the Massachusetts HVDC Support Agreement by such Equity Sponsor or its appointee.

### Section 15. Restrictions on Dividends, Return of Capital and Repurchase of Common Stock

Any Equity Sponsor which is in default hereunder pursuant to Section 12 is not entitled to receive any amounts from New England Hydro representing such Equity Sponsor's then Equity Share of dividends, return of capital, or proceeds from any repurchase of common stock until all amounts (including interest thereon at an annual rate equal to two percent over the current interest rate on

prime commercial loans from time to time in effect at the principal office of the First National Bank of Boston) owed by such Equity Sponsor to New England Hydro have been paid.

Section 16. Certain Actions of New England Hydro

A. New England Hydro shall not take any of the following actions without prior written approval of Equity Sponsors having at that time at least 80% of the Equity Shares:

- (i) Amend New England Hydro's articles of organization or by-laws to adversely affect the rights of the Equity Sponsors as stockholders in a material manner under the Basic Agreements, unless such amendment is required by regulation or law; and
- (ii) Merge, consolidate, or sell all or substantially all of the assets of New England Hydro not otherwise permitted by the Massachusetts HVDC Support Agreement.

B. New England Hydro shall distribute in a timely manner to each Equity Sponsor copies of (a) its annual audited financial statements, (b) notices of all of its directors' and stockholders' meetings (including any committees thereof), and (c) minutes of all of its directors' and stockholders' meetings.

Section 17. Miscellaneous

A. Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of, and may be performed by, the successors and assigns of the parties and shall also be binding, insofar as permitted by law, on any receiver or trustee in bankruptcy, receivership, or reorganization of any party. No assignment of this Agreement shall operate to relieve the assignor of its obligations under this Agreement without the written consent of the parties hereto. Written notice to all parties will be given prior to any assignment hereunder.

Notwithstanding the above, New England Hydro may collaterally assign this Agreement without the consent of the Equity Sponsors in connection with a third party financing by New England Hydro.

B. Right of Setoff. No Equity Sponsor shall be entitled to set off against the payments required to be made by it hereunder (1) any amounts owed to it by New England Hydro, any affiliate of New England Hydro, or any other Equity Sponsor, or (2) the amount of any claim by it against New England Hydro, any affiliate of New England Hydro, or any other Equity Sponsor. However, the foregoing shall not affect in any other way any Equity Sponsor's rights and remedies with respect to any such amounts owed to it by New England Hydro, any affiliate of New England Hydro, or any other Equity Sponsor or any such claim by it against New England Hydro or any other Equity Sponsor.

C. Amendments. Any amendments changing the Equity Shares of the Equity Sponsors or the several nature of the obligations and rights of the Equity Sponsors hereunder as specified in Section 6, shall require consent by all parties. In the event that an Equity Sponsor is obligated to acquire Equity Shares hereunder and does not pay for such Shares, then such Shares will not be

issued to him and such Equity Sponsor's Equity Share will be reduced accordingly. All other amendments to this Agreement shall be by mutual agreement of New England Hydro and Equity Sponsors owning Equity Shares aggregating at least 80%, evidenced by a written amendment signed by New England Hydro and such Equity Sponsors; and New England Hydro and all Equity Sponsors shall be bound by any such amendment.

D. Notices. Except as the parties may otherwise agree, any notice, request, bill, or other communication relating to this Agreement, or the rights, obligations or performance of the parties hereunder, shall be in writing and shall be considered as duly delivered when delivered in person or mailed by registered or certified mail, postage prepaid, to the respective post office address of the other parties shown following the signatures of such other parties hereto, or such other address as may be designated by written notice given as provided in this paragraph D.

E. Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of The Commonwealth of Massachusetts.

F. Other.

(1) No action, regardless of form, arising out of this Agreement may be brought by any party hereto more than three years after the cause of action has arisen.

(2) In the event that any clause or provision of this Agreement, or any part thereof, shall be declared invalid or unenforceable by any court having jurisdiction, such invalidity or unenforceability shall not affect the validity or enforceability of the remaining portions of this Agreement.

(3) All provisions of this Agreement providing for limitation of, or protection against, liability shall apply to the full extent permitted by law, and regardless of fault, and shall survive either termination pursuant to this Agreement or cancellation.

(4) Each party shall, upon request of another party, execute and deliver any document reasonably required to implement any provision hereof.

(5) Any number of counterparts of this Agreement may be executed and each shall have the same force and effect as the original.

(6) This Agreement, with the other Basic Agreements, Preliminary Quebec Interconnection Support Agreement - Phase II, the agreements with Hydro-Quebec regarding Phase II, and the basic agreements covering Phase I shall constitute the entire understanding among the parties and shall supersede any and all previous understandings pertaining to the subject matter of this Agreement.

(7) Terms defined in the Massachusetts HVDC Support Agreement and the New England Power and Boston Edison AC Support Agreements used in this Equity Funding Agreement shall be incorporated herein as defined in such Agreements unless the context indicates otherwise.

(8) This Agreement is the act and obligation of the parties hereto in their corporate or governmental capacity, and any claim

hereunder against any shareholder, director, officer, employee, or agent of any party, as such, is expressly waived.

IN WITNESS WHEREOF, the signatories have caused this Agreement to be executed by their duly authorized officers or agents.

COMPANY

By: \_\_\_\_\_  
Its

Address: XXXXXX  
XXXXXX

With respect to the Equity Sponsors' commitments under Section 10 hereof, New England Power Company hereby acknowledges these commitments.

COMPANY

By: \_\_\_\_\_

#### ATTACHMENT A

##### List of Equity Sponsors

New England Hydro will supply a list of Equity Sponsors as of the date of initial computation and as of each date thereafter that the list changes.

#### ATTACHMENT B

Forms of the following documentation:

1. Opinion of Counsel
2. Certificate
3. Incumbency and Signature Certificate

#### 4. Directors' Vote

[Please note - governmental entities may make appropriate modifications to these documents to reflect that they are not corporations.]

[Form of Opinion of Counsel for Each Utility Participant]

New England Hydro-Transmission  
Electric Company, Inc.;  
New England Hydro-Transmission  
Corporation; or  
New England Power Company

Gentlemen:

This opinion is furnished in connection with the execution and delivery by \_\_\_\_\_ (the Company) of the following Agreements: \_\_\_\_\_.

We have acted as counsel to the Company, one of the Utility Participants, in connection with the execution and delivery of the Basic Agreements. We participated in reviewing and/or drafting the Agreements.

As general [special] counsel to the Company, we are generally familiar with its affairs. [If special counsel is giving the opinion, describe relationship to the Company.] We have reviewed the proceedings taken by the Company in connection with its authorization, execution, and delivery of the Agreements and any documentation supplied by the Company thereunder. We have also examined executed counterparts of the Agreements, have made such other investigation, and have examined such other records and documents, and have made such examination of law and satisfied ourselves as to such other matters as we have deemed relevant and necessary in order to enable us to express the opinions set forth below.

Based upon and subject to the foregoing and to the further qualifications in this opinion, we are of the opinion that:

1. The Company is a corporation duly organized, validly existing and in good standing under the laws of [the jurisdiction of its incorporation], has the corporate power to own its assets and to transact the business in which it is engaged, and is duly qualified as a foreign corporation in, and is in good standing under the laws of, each jurisdiction in which the conduct of its business or the ownership of its assets requires such qualification.

2. The Company has (and in the case of the Agreements at the time of execution and delivery thereof, had) full corporate power, and legal right to execute, deliver and perform the Agreements, and the Company has taken all necessary corporate action to authorize the execution, delivery, and performance by it of the Agreements.

3. The execution, delivery, and performance by the Company of the Agreements do not (a) contravene the Company's [charter documents] or by-laws, (b) violate any applicable law, rule, regulation, order, writ, judgment, injunction, decree, or award known to us by which the Company is bound, (c) violate any indenture, instrument, or agreement known to us by which the Company is bound, or (d) result in or require the creation or the imposition of any lien pursuant to the provisions of any indenture, instrument, or agreement known to us by which the Company is bound.

4. No authorization, approval, consent, or other action by, and no notice to or filing with, any federal, state, or other governmental authority or regulatory body which has not been obtained or given and is not in full force and effect is required for the valid and lawful execution, delivery, and performance by the Company of the Agreements. [In this connection, to the extent it may be required by law, the approval of the Massachusetts Department of Public Utilities [Connecticut PUC, or other] has been given for the Agreements and the Company's performance thereunder by order(s) dated \_\_\_\_\_, which remains in full force and effect.]

5. The Agreements have each been duly executed and delivered by the Company and constitute the legal, valid, and binding obligations of the Company enforceable against it in accordance with their respective terms.

6. No action, suit, proceeding, or investigation at law or in equity or by or before any governmental instrumentality or other agency now pending or threatened against or affecting the Company or its property or rights which, if adversely determined, would materially impair the ability of the Company to perform its obligations under the Agreements is known to us.

Our opinion that the Agreements are enforceable, each in accordance with the terms thereof, is qualified to the extent that the enforcement of the rights and remedies created thereby is subject to bankruptcy, insolvency, reorganization, and similar laws of general application affecting the rights and remedies of creditors and secured parties, and to the further extent that the availability of the remedies of specific enforcement, injunctive relief, or any other equitable remedy is subject to the discretion of the court before which any proceeding therefor may be brought.

Very truly yours,

CERTIFICATE

I, (insert name), the Clerk (or Secretary or other principal recording officer) of (insert name of Utility Participant), a (insert state of organization) (the "Company") do hereby certify that:

(1) Attached hereto as Exhibit A is a true and correct copy of a vote duly adopted at a meeting of the Board of

Directors of the Company, duly called and held on \_\_\_\_\_, \_\_\_\_, and that such vote and the authority vested thereby have not been amended or revoked and are still in full force and effect.

(2) Attached hereto as Exhibit B is a true and correct copy of the Articles of Organization (or other charter documents) of the Company, as amended and in effect as of the date of this Certificate.

(3) Attached hereto as Exhibit C is a true and correct copy of the By-Laws of the Company, as amended and in effect as of the date of this Certificate.

(4) The persons (or person) listed on Exhibit D have been duly elected to the offices set forth adjacent to their respective names since the first day of June, 1985, and the signatures adjacent to their respective names are the genuine signatures of said officers.

IN WITNESS WHEREOF, I have placed my hand and the seal of the Company this  
\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_.

By \_\_\_\_\_

Name:

Title:

CONFIRMATION OF INCUMBENCY AND SIGNATURE OF  
CLERK, SECRETARY, OR OTHER PRINCIPAL RECORDING OFFICER

I, (name), (title) of the Company, do hereby certify that (name of officer executing certificate) is and at all times subsequent to \_\_\_\_\_, \_\_\_\_, has been the duly elected (title) of the Company and that the signature adjacent to his (or her) name is the genuine signature of said officer.

By \_\_\_\_\_

Name:

Title:

FORM OF DIRECTORS' VOTE APPROVING AGREEMENTS

VOTED: That in connection with this Company's participation in the Phase II expansion of the proposed interconnection between the New England Power Pool companies and Hydro-Quebec, the execution and delivery on behalf of this Company by \_\_\_\_\_, President, of the following agreements: (being collectively referred to in this vote as "Agreements") copies of which Agreements have been presented at this meeting, are hereby authorized, approved, ratified, and confirmed, and that the officers of this Company are further authorized severally to take any and all such further actions including the execution and delivery of such further documents, as such officers or any of them may deem necessary or appropriate in connection with the actions and documents authorized by this vote.

ATTACHMENT C

Subscription Process for Determining  
Equity Shares under Section 5(B)

After allocation of 51% of the Equity Shares to NEES pursuant to Section 5(B)(1), the Equity Shares shall be allocated to Equity sponsors other than NEES as follows:

- (a) Each other Equity Sponsor shall be entitled to a pro rata share of the remainder based on the Participating Share of such Equity Sponsor or the Participant(s) that has designated it as an Equity Sponsor as a percentage of Participating Shares of all other Equity Sponsors or such Participants as shown in the New Hampshire HVDC Support Agreement. For the purpose of this calculation, the Participating Share of each Equity Sponsor designated by VELCO shall be deemed to be a pro rata share of VELCO's Participating Share based on the ratio of such Equity Sponsor's 1980 kwh load to the aggregate 1980 kwh load of all Equity Sponsors designated by VELCO.
- (b) Upon execution of this Agreement, each other Equity Sponsor may subscribe for more or less than its share under (a) above.
- (c) Upon execution of this Agreement, each other Equity Sponsor may specify a maximum limit on its share of such remainder that would apply to any allocations made on or before June 1, 1986 or such later deadline date as is fixed pursuant to Section 2 hereof.
- (d) If there are no undersubscriptions or oversubscriptions under (b) above or if the sum of the shares under (a) or (b) above for all Equity Sponsors equals 100% of such remaining shares, then each Equity Sponsor shall have a share as determined under (a) or (b) above. (For the purposes of this attachment, oversubscription shall mean, with respect to any Equity Sponsor, a subscription under (b) above of more than its share under (a) above. For the same purposes, undersubscription shall mean, with respect to any Equity Sponsor, a subscription under (b) above of less than its share under (a) above. The amount of such oversubscription shall be equal to (b) minus (a) and the amount of such undersubscription shall be equal to (a) minus (b).)
- (e) If there are undersubscriptions but not oversubscriptions or if there are oversubscriptions but no undersubscriptions, then each Equity Sponsor shall have a share as determined under (a) above; provided, however, that no Equity Sponsor shall be allocated more than its specified limit under (c) above. If the sum of all shares heretofore allocated is less than 100%, any remaining share shall be allocated to all Equity Sponsors that have received shares less than their limits under (c) above, pro rata by the difference between their limits under (c) above and their shares as heretofore allocated.
- (f) If the net result of subtracting the aggregate amount of all undersubscriptions from the aggregate amount of all oversubscriptions is greater than zero, the aggregate amount of all oversubscriptions must be reduced to the aggregate amount of all undersubscriptions. This amount shall be referred to as the total permitted amount of oversubscriptions. Each oversubscriber shall initially be allocated a share of the total permitted amount of oversubscriptions (pro rata by the Participating Shares of the oversubscribers or their designators as shown in the New Hampshire HVDC Support Agreement); provided that no oversubscriber shall be allocated more than its requested amount under (b) above. Any remaining unallocated portion of the total permitted amount of oversubscriptions shall be allocated to all oversubscribers that have not yet reached their requested amount under (b) above pro rata by the differences between their requested shares under (b) above and their shares as heretofore allocated.

- (g) If the net result of subtracting the aggregate amount of all oversubscriptions from the aggregate amount of all undersubscriptions is greater than zero, the aggregate amount of all undersubscriptions must be reduced to the aggregate amount of all oversubscriptions. This amount shall be referred to as the total permitted amount of undersubscriptions. The total permitted amount of undersubscriptions shall be allocated to the undersubscribers pro rata by the amounts of their undersubscriptions; provided, however, that no Equity Sponsor shall be allocated more than its specified limit under (c) above. If the sum of all shares heretofore allocated is less than 100%, any remaining share shall be allocated to all Equity Sponsors that have received shares less than their limits under (c) above, pro rata by the difference between their limits under (c) above and their shares as heretofore allocated.
- (h) If Equity Shares are required to be changed pursuant to subpart (i) or (ii) of Section 5(a), this reallocation shall be accomplished in accordance with this Attachment G on the basis of the subscriptions initially made under (b) and the maximum limits specified under (c) by each continuing Equity Sponsor, and giving effect to the termination of any Equity Sponsor pursuant to said subpart (i) or (ii).

CONFORMED

AMENDMENT NO. 1  
TO  
PHASE II NEW HAMPSHIRE TRANSMISSION  
FACILITIES SUPPORT AGREEMENT

This Amendment, dated as of May 1, 1986, is between New England Hydro-Transmission Corporation (New Hampshire Hydro), and the New England utilities listed in Attachment A to the Phase II New Hampshire Transmission Facilities Support Agreement, dated as of June 1, 1985 (the "New Hampshire DC Support Agreement"), and amends the New Hampshire DC Support Agreement as hereinafter provided.

In consideration of the premises and other good and valuable consideration, receipt of which is hereby acknowledged, and pursuant to the provision of Section 20H of the New Hampshire DC Support Agreement, it is hereby agreed as follows:

1. Certain terms defined in the New Hampshire DC Support Agreement are used herein with the meanings there provided.
2. Attachments A and F of the New Hampshire DC Support Agreement are hereby deleted and replaced with the Attachments A and F attached hereto.
3. This Amendment shall become binding upon New England Hydro and the Participants-when it has been executed by New England Hydro and Participants owning Participating Shares aggregating at least 66-2/3%.
4. Any number of counterparts of this Amendment may be executed, and each shall have the same force and effect as an original instrument and as if all the parties to all of the counterparts had signed the same instrument.

IN WITNESS WHEREOF, the signatories have caused this Amendment to be executed by their duly authorized officers or agents.

COMPANY

By: \_\_\_\_\_  
Its

Address: XXXXXX  
XXXXXX

NH-5/29/86

ATTACHMENT A

If any participant does not receive required consents, waivers, regulatory approvals, or other actions of governmental authorities within the time period required by this Agreement, the listing of participants and 1980 kilowatthour load will be appropriately modified.

<u>Participant</u>	<u>1980 Kilowatthour Load</u>
Fitchburg Gas and Electric Light Co.	369,055,118
The United Illuminating Company	4,715,078,120
New England Power Company (NEP)	15,444,975,840 (a), (d)
Bangor Hydro-Electric Company	1,305,625,118
Canal Electric Company	3,227,553,000
Public Service Company of New Hampshire	5,043,242,871
Central Maine Power Company	6,053,571,000
Vermont Electric Power Company	3,262,098,200
Boston Edison Company (Edison)	9,531,773,000 (c), (d)
City of Chicopee Municipal Lighting Plant	279,273,169
The Connecticut Light and Power Company	16,002,437,000
Western Massachusetts Electric Company	3,252,432,000
Holyoke Water Power Company	106,905,000
Holyoke Power and Electric Company	0
Newport Electric Corporation	382,745,000
Montaup Electric Company	3,096,872,000 (b)
Connecticut Municipal Electric Energy Cooperative	718,177,538
Massachusetts Municipal Wholesale Electric Company (MMWEC)	483,576,000 (c), (f)
Taunton Municipal Lighting Plant	307,460,361
UNITIL Power Corp.	609,873,261 (e)
Town of Peabody Municipal Light Plant	245,010,000 (f)
Town of Holden Municipal Light Department	63,676,000 (f)
Hudson Light and Power Department	127,808,000 (f)
Town of Middleborough Gas and Electric Department	92,081,000 (f)
Town of Braintree Electric Light Department	267,289,000 (f)
Town of Hingham Municipal Lighting Plant	103,929,000 (f)
Town of Boylston Municipal Light Department	17,324,000 (f)
Town of North Attleborough Electric Department	93,816,000 (f)
Town of Wakefield Municipal Lighting Department	107,609,000 (f)

City of Westfield Gas & Electric Light Department	219,026,000 (f)
Town of Danvers Electric Department	206,806,000 (f)
Town of West Boylston Municipal Lighting Plant	43,974,000 (f)
City of Holyoke Gas & Electric Light Department	214,448,000 (f)
Town of Reading Municipal Light Department	401,795,000 (f)
Town of Concord Municipal Light Plant	0 (c), (f)
Town of Groton Electric Light Department	22,908,000 (f)
Princeton Municipal Light Department	7,130,000 (f)
Town of Shrewsbury Electric Light Department	146,303,000 (f)
Town of Sterling Municipal Electric Department	24,510,000 (f)
Town of South Hadley	99,981,000 (f)

(a) Includes New Hampshire retail 1980 kilowatthour load of 434,290,243.

(b) The amount shown for Montaup Electric Company includes the load of the other members of the Eastern Utilities Associates system.

(c) (1) Concord Municipal Light Plant has elected to be a direct signatory to this Agreement. However, if it does not receive required consents, waivers, regulatory approvals, or other actions of governmental authorities within the time period required, Concord will be grouped with MMWEC. (2) As of June 1, 1985, Concord continues to be a full requirements customer of Edison. At such time as Concord ceases to be a full requirements customer of Edison, for purposes of this Agreement, either Concord or MMWEC, whichever is appropriate, shall have an additional Participating Share equal to 1.087% of Edison's initial Participating Share (based on a 1980 Kwh load of 103,629,000 Kwh for Concord) and Edison's Participating Share shall be reduced by such amount.

(d) The 1980 Kilowatthour loads shown for Boston Edison Company and New England Power Company have been adjusted to reflect the current status of Norwood as a full requirements customer of New England Power Company.

(e) The amount shown for UNITIL Power Corp. represents the 1980 kilowatthour load of its affiliates, Concord Electric Company and Exeter & Hampton Electric Company.

(f) The amount shown for any of these municipal utilities will be added to MMWEC's amount if such municipal (i) does not receive the required consents, waivers, regulatory approvals, or other actions of governmental authorities within the time period required by this Agreement, and (ii) elects at that time to be grouped with MMWEC.

5/29/86

#### ATTACHMENT F

As a result of the support arrangements for building, owning, and financing the Transmission Facilities, Equity Sponsors have provided credit support for the project in excess of their Participating Shares. This enhances New Hampshire Hydro's ability to finance the project. As compensation to Equity Sponsors for providing this additional credit support, a Credit Enhancement Charge, as calculated in connection with each debt financing, is required to be paid by each Credit Enhanced Participant which has its credit enhanced for such debt financing. The status of a Participant as a Credit Enhanced Participant that receives credit enhancement or not will be determined in connection with, and as of the date of commitment for, each debt financing, including any construction financing, in accordance with Section 1 hereof, and the Credit Enhancement Charge will be determined with respect to each such financing and will continue to be paid as long as the financing is outstanding and as long as any accrued unamortized Credit Enhancement Charges for said Participant remain outstanding.

An "investment grade" Participant is defined in this Agreement as a Participant which has outstanding junior long-term debt securities which have qualified debt ratings by two of the three major rating agencies. An "investment grade" Participant is also defined as a Participant which has a Participating Share of four-tenths of one percent (0.4%) or less and which has outstanding junior long-term debt securities having a rating from only one of the three major rating agencies with that rating being a qualified debt rating. (For these purposes, the outstanding junior long-term debt securities of a Participant shall mean (i) its outstanding long-term debentures, or (ii) if

no long-term debentures are outstanding, its most junior outstanding long-term mortgage or revenue bonds, or (iii) if no long-term debentures, mortgage bonds or revenue bonds are outstanding, its most junior outstanding long-term debt.)’ “Qualified debt ratings” are defined as a minimum rating-of Baa3 by Moody’s Investors Service, BBB- by Standard & Poor’s Corporation and D&P 10 by Duff & Phelps, Inc.

Any “substitute credit enhancement” shall mean, with respect to any New Hampshire Hydro debt financing, including any construction financing (i) a letter of credit from a commercial bank having capital, surplus, and undivided profits of at least \$250 million and a credit rating of “AA” or better in form and substance Satisfactory to New Hampshire Hydro or (ii) a credit support that is equivalent to (i) above which is satisfactory in form and substance to New Hampshire Hydro, or (iii) a guarantee in form and substance satisfactory to New Hampshire Hydro from an Equity Sponsor which at that time the guarantee is made satisfies the requirements to be an Equity Sponsor as set forth in section 4 of the Equity Funding Agreements; provided that such enhancement is irrevocable until the final maturity of such debt financing, including any optional extensions thereof. The first time that a Participant supplies substitute credit enhancement under this Agreement or under the Phase II Massachusetts Facilities Support Agreement, the substitute credit enhancement shall also cover such Participant’s share of the debt obligations of New England Power Company and Boston Edison Company relating to their respective AC Facilities and the term of such credit enhancement shall extend for the full term of the then remaining depreciation period for the AC facilities supported under such AC Facilities Support Agreements.

The principal amount of such substitute credit enhancement shall equal that Participant’s Participating Share of the maximum amount of obligations under such New Hampshire Hydro debt financing plus, if not already provided in connection with any other debt financing of New v Hydro or New Hampshire Hydro, that Participant’s Participating Share of the maximum amount of debt obligations of New England Power Company and Boston Edison Company relating to the AC Facilities as determined by New England Power and Boston Edison, respectively.

For any substitute credit enhancement that covers that Participant’s Participating Share of the debt obligations of Boston Edison Company and New England Power Company relating to the AC Facilities, such substitute credit enhancement shall provide for direct payment to New England Power and Boston Edison, respectively, of the amounts included therein for covering such debt obligations.

The Credit Enhancement Charge (E) for each Participant that has its credit enhanced is a dollar value determined monthly for each Credit Enhanced Participant by the following formula:

$$E = \sum_{i=1}^n F_i$$

$$\text{where } F_i = \left( \frac{G}{100} \times H_i \times \frac{I_i}{100} \times 0.8 \times \frac{1}{12} \right) + J_i$$

F = the Credit Enhancement Charge for each New England Hydro debt financing that is credit enhanced for the Participant.

i = a number from 1 to n representing each of New Hampshire Hydro debt financings.

n = total number of such financings.

G = the Participant’s Participating Share (in percent)

H = the maximum outstanding amount of New Hampshire Hydro debt during the month which was credit enhanced for such Participant

I = debt premium (in percent) for the Credit Enhanced Participant as shown in the following table:

<u>Participant's Debt Rating*</u>	<u>I(%)</u>
Below B3 or not rated	7.57
B3	5.32
B2	4.82
B1	4.32
Ba3	3.82
6a2	3.32
Ba1	2.82

\* Debt rating shall be the lower of the two highest ratings assigned to the Participant's outstanding junior long-term debt securities by Moody's, Standard and Poor's, and Duff & Phelps, converted to a Moody's equivalent as measured at the commitment date of such New Hampshire Hydro debt financing. If the Participant has a Participating Share of four tenths of one percent (0.4%) or less and has only one debt rating, then the debt rating for such Participant shall be that rating converted to a Moody's equivalent as measured at the commitment date of such New Hampshire Hydro debt financing.

J = an amount calculated as follows:

During the period from the Effective Date to the Date of Full Support Payment, J shall equal O and the Credit Enhancement Charge calculated during such period pursuant to the above formula shall be accrued for each Participant during such period with interest calculated at New Hampshire Hydro's AFDC rate. After the Date of Full Support Payment, such previously accrued amount for such Participant shall be treated as if it represented additional investment in the Transmission Facilities relating only to such Participant. As a result J shall include monthly amounts attributable to such Participant (whether or not it continues to be a Credit Enhanced Participant after the Date of Full Support Payment and whether or not the debt being enhanced continues to be outstanding) representing amortization of such previously accrued amount (with amortization over the period that the investment in the Transmission Facilities is being amortized) plus one-twelfth of the composite percentage (as defined in Section 12 hereof) times the unamortized accrued amount plus a provision for income taxes.

CONFORMED

AMENDMENT NO.2  
TO  
PHASE II NEW HAMPSHIRE TRANSMISSION  
FACILITIES SUPPORT AGREEMENT

This Amendment, dated as of February 1, 1987, is between New England Hydro-Transmission Corporation (New Hampshire Hydro), and the New England utilities listed in Attachment A to the Phase II New Hampshire Transmission Facilities Support Agreement, dated as of June 1, 1985, as amended by Amendment No. 1, dated as of May 1, 1986 (the "New Hampshire DC Support Agreement"), and amends the Massachusetts DC Support Agreement as hereinafter provided.

In consideration of the premises and other good and valuable consideration, receipt of which is hereby acknowledged, and pursuant to the provision of Section 20H of the New Hampshire DC Support Agreement, it is hereby agreed as follows:

1. Certain terms defined in the New Hampshire DC Support Agreement are used herein with the meanings there provided.
2. Attachment D of the New Hampshire DC Support Agreement is hereby deleted and replaced with the following

Attachment D:

“ATTACHMENT D

1. “Return on Equity” shall be the return on equity on file with the FERC and in effect under the Federal Power Act. Any filing of a return on equity by New Hampshire Hydro shall be subject to Section 2 of this Attachment D or, if Section 2 is not accepted by the FERC, then any such filing shall be subject to Section 3 of this Attachment D.

2. New Hampshire Hydro shall request from the FERC a rate of return on equity determined by the applicable formula in Section 4 of this Attachment D. In February of each year following the initial filing of this Agreement with the FERC, New Hampshire Hydro shall file with the FERC a revised Exhibit 1 to this Attachment D, reflecting a new “Y” for the initial formula in Section 4, below. The value of “Y” shall be added to the fixed 1.9% value of “P”, which represents a levelized premium over the life of the project to reflect the unique risks of the project in addition to the risks encountered by a typical utility. New Hampshire Hydro shall request that the revised Exhibit 1 be made effective on February 1, of the calendar year in which the filing is made, without suspension. Each Participant agrees not to intervene in opposition to a change in “Y” filed by New Hampshire Hydro in accordance with this Section 2.

3. If Section 2 of this Attachment D is not accepted by the FERC, New Hampshire Hydro shall from time to time request from the FERC a specific rate of return on equity. Each Participant agrees not to intervene in opposition to a request for a rate of return on equity filed by New Hampshire Hydro on or before the tenth anniversary of the Date of Full Support Payment if such rate is equal to or lower than the rate that would have been determined under the applicable provision of such Section 4. Nothing in this Section 3 shall affect (i) the right of New Hampshire Hydro to request a rate of return on equity greater than that determined in accordance with such Section 4, or (ii) the right of any Participant to intervene in opposition to any such request.

4. The formula for the rate of return on equity referred to in Section 2 or Section 3 of this Attachment D, whichever is accepted by the FERC, shall be as follows:

$$R = Y + P$$

where:

R = the requested return on equity;

Y = the FERC generic return on equity in effect for filings made as of the date of the filing as set out in Exhibit 1 to this Attachment D;

P = 1.9, which represents a levelized premium to adjust the FERC generic return-for the unique risks of the project in addition to the risks encountered by a typical utility.

The following is a sample calculation of the Return on Equity as of February through April 1987:

$$R = 11.2 + 1.9 - 13.1\%$$

Application of this formula at this time thus yields an initial Return on Equity of 13.1%.

In the event that the FERC generic return on equity is no longer published for rate making purposes, then the following formula shall be used to determine "Y" in the above formula:

$$Y = A + B + C + D$$

where:

(i) A = Weighted average return on the average of three money market indicators

$$A = \frac{.25(E + F + G) + .75(H + I + J)}{3}$$

where:

E = The most recently available yield to maturity for Moody's "A" rated Public Utility Bonds.

F = The most recently available yield for 10 year Constant Maturity Treasury Bonds.

G = The most recently released figure for the annualized increase in the United States GNP price deflator.

H = The average yield to maturity for the most recently available 36 month period for Moody's "A" rated Public Utility Bonds4,,

I = The average yield for 10 year Constant Maturity Treasury Bonds for the most recently available 36 month period.

J = The average of the annualized percentage increases in the United States GNP price deflator for the most recent 36 month period.

(ii) B = The average equity premium required for utility stocks over the past 20 years.

$$B = K - \frac{L + M + N}{3}$$

where:

- K = the average for the most recent 20 years of the sum of (i) the average annual yield for Moody's Electric Utility Common Stock, plus (ii) the ten year growth in dividends per share for such group of electric utilities.
- L = the average for the most recent 20 years of yields to maturity for Moody's "A" rated Utility Bonds.
- M = The average for the most recent 20 years of the yield on en year constant maturity treasury bonds.
- N = The average for the most recent 20 years of the average annual percentage change in the United States GNP price deflator.

(iii) C = issuance cost for common equity

C = .05(A + B)

(iv) D = a dilution allowance to compensate the Equity Sponsors of New England Hydro for sale of common shares at a market price below book value

D = a percentage from 0 to 1 determined on a straight tine basis where 1 represents the weighted average of the common shares of the Equity Sponsors of New Hampshire Hydro selling at 30% below book and 0 represents those shares selling at book value. Such weighted average shall be calculated by weighting the market to book ratio of each Equity Sponsor by its respective equity ownership share in New Hampshire Hydro. This percentage shall be calculated semiannually as of January 1 and July 1 of each year until the Transmission Facilities goes into commercial operation. Each calculation shall cover the period beginning as of January 1 in the year this Agreement is dated as of and ending as of the date of the calculation. Book value is the average month end book value during a calculation period, and market price is the average of each quarters high and low market price during calculation period. The calculation made as of January or July next preceding the date of commercial operation of the Transmission Facilities will be the percentage used thereafter until the end of the term of this Agreement.

Should any of the indices used in calculating the values of A and B be discontinued, or should the underlying basis for the calculations in any of these indices be modified, New Hampshire Hydro may substitute a substantially similar index for such discontinued or modified index.

Recognizing that this is a long-term contract and that money market conditions can drastically change over time, New Hampshire Hydro retains the option, if the above formulae produce for two consecutive months a number lower than the arithmetic average of the return on common equity approved within the last twelve months by regulatory commissions having jurisdiction over rates for each of the investor owned public electric utilities as reported in the publication "Argus Utility Scope Regulatory Service - Returns Authorized" to use such average return as the Return on Equity. In the event this publication is no longer currently available,

New Hampshire Hydro will use a substantially similar publication which is available.

#### EXHIBIT 1 TO ATTACHMENT D

In determining the Return on Equity in accordance with the formula set out in Section 4 of Attachment D, the value of “Y” shall be \_\_\_\_\_. Applying this value of “Y” in the formula and adding it to the fixed 1.9% value of “P”, which represents a levelized premium over the life of the project, yields a Return on Equity of \_\_\_\_\_%.”

3. Section 6 is hereby amended by inserting in item (ix) of the second paragraph thereof after the words “debt financing” the following:

“or any other financial arrangements”

4. Section 12 of the New Hampshire DC Support Agreement is hereby amended by deleting the seventh paragraph thereof and substituting the following:

“Return on Equity’ shall be determined in accordance with Attachment D.”

5. Section 12 of the New Hampshire DC Support Agreement is hereby amended by adding the following sentence to the end of the fourth paragraph thereof:

“The allowance for state and federal income taxes included in operating expenses shall include a provision for taxes on dividends received by stockholders, calculated at the then current statutory rate for corporate stockholders.”

6. This Amendment shall become binding upon New Hampshire Hydro and the Participants when it has been executed by New Hampshire Hydro and Participants owning Participating Shares aggregating at least 66-2/3%.

7. Any number of counterparts of this Amendment may be executed, and each shall have the same force and effect as an original instrument and as if all the parties to all of the counterparts had signed the same instrument.

IN WITNESS WHEREOF, the signatories have caused this Amendment to be executed by their duly authorized officers or agents.

COMPANY

By: \_\_\_\_\_  
Its President

Address: XXXXXXXXXXXX  
XXXXXXXXXX

CONFORMED

AMENDMENT NO. 3  
TO  
PHASE II NEW HAMPSHIRE TRANSMISSION  
FACILITIES SUPPORT AGREEMENT

This Amendment, dated as of June 1, 1987, is between New England Hydro-Transmission Electric Company, Inc. (New England Hydro), and the New England utilities listed in Attachment A to the Phase II Massachusetts Transmission Facilities Support Agreement, dated as of June 1, 1985, as amended by Amendment No. 1 dated as of May 1, 1986, and Amendment No. 2, dated as of February 1, 1987, (the "Massachusetts DC Support Agreement"), and amends the Massachusetts DC Support Agreement as hereinafter provided.

In consideration of the premises and other good and valuable consideration, receipt of which is hereby acknowledged, and pursuant to the provision of Section 20H of the Massachusetts DC Support Agreement, it is hereby agreed as follows:

1. Certain terms defined in the Massachusetts DC Support Agreement are used herein with the meanings there provided.
2. Attachment D of the Massachusetts DC Support Agreement is hereby revised by deleting the last sentence of paragraph 2 thereof and by deleting the second and third sentences of paragraph 3 thereof.
3. This Amendment shall become binding upon New England Hydro and the Participants when it has been executed by New England Hydro and Participants owning Participating Shares aggregating at least 66-2/3%.
4. Any number of counterparts of this Amendment may be executed, and each shall have the same force and effect as an original instrument and as if all the parties to all of the counterparts had signed the same instrument.

IN WITNESS WHEREOF, the signatories have caused this Amendment to be executed by their duly authorized officers or agents.

COMPANY

By: \_\_\_\_\_  
Its President

Address: XXXXXXXXXXXX  
XXXXXXXXXXXX

CONFORMED

AMENDMENT NO. 4  
TO  
PHASE II MASSACHUSETTS TRANSMISSION  
FACILITIES SUPPORT AGREEMENT

This Amendment, dated as of September 1, 1987, is between New England Hydro—Transmission Electric Company, Inc. (New England Hydro), and the New England utilities listed in Attachment A to the Phase II Massachusetts Transmission Facilities Support Agreement, dated as of June 1, 1985, as amended by Amendment No. 1 dated as of May 1, 1966, Amendment No. 2, dated as of February 1, 1987, and Amendment No. 3, dated as of June 1, 1987, (the “Massachusetts DC Support Agreement”), and amends the Massachusetts DC Support Agreement as hereinafter provided.

In consideration of the premises and other good and valuable consideration, receipt of which is hereby acknowledged, and pursuant to the provision of Section 20H of the Massachusetts DC Support Agreement, it is hereby agreed as follows:

1. Certain terms defined in the Massachusetts DC Support Agreement are used herein with the meanings there provided.
2. Section 1 is hereby amended by adding the following clause to the end of the last sentence of the thirteenth paragraph thereof:

“; provided, however, that New England Hydro shall be under no obligation to so limit its equity investment in the event that, after the Date of Full Support Payment (as defined in Section 13) the term of its debt financing or other financing arrangements is less than ten years”.

3. Section 12 is hereby deleted and replaced with the following Section 12.

Section 12. Support Charge

Commencing in the month of the Date of Full Support Payment (as defined in Section 13) and in each month thereafter, each Participant shall pay in accordance with Section 13 its Participating Share of a monthly Support Charge in an amount determined in accordance with this Section 12, plus a credit enhancement charge calculated in accordance with Attachment F. The Support Charge shall be equal to New England Hydro’s total cost of service related to the

Transmission Facilities for such month.

The “total cost of service related to the Transmission Facilities” for any month commencing with the month in which the Date of Full Support Payment occurs shall be the sum of (a) New England Hydro’s operating expenses for such month with respect to the Transmission Facilities, plus (b) an amount equal to one-twelfth of the composite percentage for such month times the average net rate base for the Transmission Facilities, less (c) investment earnings of the Debt Service Fund, as defined in Section 18, realized by New England Hydro, less (d) any other income received by New England Hydro resulting from costs or rate base supported by the Participants other than income received pursuant to (a), (b), or (c) above or Credit Enhancement Charges and other income allocated to Equity Sponsors elsewhere under this Agreement. If a Support Charge payment under Section 13 is to be calculated from a date other than the first day of a month, an appropriate proration of the amount determined in (b) above shall be made for such payment only.

“Uniform System” shall mean the appropriate Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC) for Public Utilities and Licensees, as from time to time in effect.

New England Hydro’s “operating expenses” shall include all amounts related to the Transmission Facilities and properly chargeable to expense accounts less any applicable credits thereto. in accordance with the Uniform System, including but not limited to operation and maintenance expense such as rent on leased property and administrative and general expenses, state and Federal income and franchise taxes, property taxes, payroll taxes, any other taxes not based on income, and depreciation and/or amortization expense; it being understood that for purposes of this Agreement depreciation and/or amortization shall be at a rate sufficient to recover the investment in the Transmission Facilities (including estimated cost of removal less any salvage value which salvage value, for the purpose of calculating such depreciation or amortization, will not exceed the amount of cost of removal) over the shorter of: (i) the estimated remaining useful life of the Transmission Facilities as determined by New England Hydro or (ii) the term of New England Hydro’s debt financings or other financing arrangements related to the Transmission Facilities, adjusted for multiple maturities and repayment schedules, unless the term of such financing or other financing arrangements is less\* than ten years in which case such term shall, for purposes of this subpart (ii), be deemed to be ten years from the Date of Full Support Payment; and it also being understood that rents on leased property shall include the rental of property or property rights related to the Transmission Facilities from any Participant with rent based on book value. In addition, each Participant will pay to New England Power Company, for the benefit of its customers, such Participant’s Participating Share of a monthly charge of \$49,000 to compensate New England Power for the lost capacity on its Massachusetts right-of-way, provided however that no such charge shall be paid during such time as construction or

operation is suspended on account of a defect in title for such rights-of-way. The allowance for state and Federal income taxes included in operating expenses shall reflect the normalization of timing differences and the flow through of permanent differences between book income and tax income. New England Hydro as the tax owner of the Transmission Facilities, will be entitled to the benefits and subject to the burdens of such ownership for tax purposes. The allowance for state and Federal income taxes included in operating expenses shall include a provision for taxes on dividends received by stockholders, calculated at the then current statutory rate for corporate stockholders.

The “investment in the Transmission Facilities” shall be the aggregate amount incurred at any time either before or after commercial operation of the Transmission Facilities which relates to the Transmission Facilities and is properly chargeable to New England Hydro’s utility plant accounts in accordance with the Uniform System. The investment in the Transmission Facilities shall also include operating expenses incurred prior to the month in which the Date of Full Support Payment occurs and an allowance for funds used during the period prior to the Date of Full Support Payment (AFDC) accrued on the investment in the Transmission Facilities. The AFDC rate shall be calculated pursuant to the last FERC approved AFDC formula including in construction work in progress all investment in the Transmission Facilities prior to the Date of Full Support Payment and using 14 percent as the return on equity for such calculation.

“Composite percentage” shall be computed as of the last day of each month (the “computation date”). “Composite percentage” as of a computation date shall be the sum of (i) Return on Equity then in effect multiplied by the percentage which equity investment as of such date is of the total capital as of such date; plus (ii) the average monthly effective interest rate per annum of each principal amount of indebtedness outstanding on such date for money borrowed, whether long term or short term, multiplied by the percentage which each such principal amount is of total capital as of such date. The effective interest rate shall take into account premiums, discounts, fees, and other costs that are related to the indebtedness.

“Return on Equity” shall be the return on equity on file with the FERC and in effect under The Federal Power Act.

“Equity investment” as of any date shall consist of the sum of (i) all amounts theretofore paid to New England Hydro for all capital stock theretofore issued, plus all capital contributions, less the sum of any amounts paid by New England Hydro in the form of stock retirements, repurchases or redemptions or return of capital including liquidating dividends; plus (ii) any credit balance in the capital surplus account not included in (1) and any credit balance in the earned surplus (retained earnings) account on the books of New England Hydro as of such date.

“Total capital” as of any date shall be the equity investment plus the total of all indebtedness then outstanding for money borrowed.

From the Date of Full Support Payment until the first to occur of June 30 or December 31 thereafter, the “average net rate base” for the Transmission Facilities shall be the average of the net rate base determined as of the Date of Full Support Payment and the first to occur of June 30 or December 31 thereafter. Thereafter, for subsequent months of January through June, average net rate base shall be the average of the net rate base as of the preceding December 31 and the following June 30. For other months, average net rate base shall be the average of the net rate base as of the preceding June 30 and the following December 31. The “net rate base” shall consist of (i) the investment in the Transmission Facilities, less (ii) the amount of any accumulated provision for depreciation and amortization related to the investment in the Transmission Facilities, less (or plus) (iii) the amount of any reserve for deferred income taxes received (or paid) by New England Hydro, such deferred income taxes to include deferred income taxes due to accelerated depreciation, construction tax benefits, and any other book/tax timing differences related to the Transmission Facilities, less (iv) the amount of any unamortized investment tax credits (ITC), plus (v) such allowances related to the Transmission Facilities for materials and supplies, prepaid items and cash working capital as may from time to time be determined by New England Hydro, as reasonably necessary and in accordance with accepted utility accounting practice, plus (vi) the amounts held in the Debt Service Fund, as described in Section 18. New England Hydro shall normalize ITC over the depreciation and/or amortization period relating to the Transmission Facilities. Any allowance for cash working capital shall be limited to that not sufficiently recovered through the use of estimated billing for the current month.

[End of Section 12]

4. The Massachusetts DC Support Agreement is hereby amended by adding the following Section 21:

Section 21. Refund of Gain on Sale or Other Disposition of Transmission Facilities

In the event that any of the Transmission Facilities are sold or otherwise disposed of during the term of this Agreement, if the Net Proceeds (defined as the amount received from such sale or disposition less all costs relating to or resulting from such sale or disposition, including without limitation any income taxes relating to or resulting from such sale or disposition, any premiums and penalties incurred because of the early retirement of any indebtedness associated with the sold or disposed of Transmission Facilities, and any costs of total or partial demolition of the sold or otherwise disposed of Transmission Facilities) from such sale or disposition exceed the greater of (i) the investment in the entire Transmission Facilities (less any depreciation and amortization to the date of sale or disposition) or (ii) the then total capital of New England Hydro (as defined in Section 12), New England Hydro shall (a) refund to the then current Participants, in proportion to their then current Participating Shares, any such excess, and (b) credit to the accumulated

provision for depreciation and amortization related to the investment in the Transmission Facilities the investment in the entire Transmission Facilities (less any depreciation and amortization to the date of sale or disposition). The total capital of New England Hydro, for the purposes of this section, may exceed .the investment in the entire Transmission Facilities (less any depreciation and amortization to the date of sale or disposition) due to (1) any reserve for deferred income taxes paid by New England Hydro or (2) for other reasons related to the investment in the Transmission Facilities. If the Net Proceeds do not exceed the greater of (i) or (ii) above, the Net Proceeds will be credited to the accumulated provision for depreciation and amortization related to the investment in the Transmission Facilities in lieu of payment to the Participants. The Participants agree to flow through any such refunds to their customers and shall seek any necessary regulatory approvals to reflect in their rates any such refunds and the effect of any such credits to the accumulated provision for depreciation and amortization related to the investment in the Transmission Facilities; except that to the extent that a Participant's customers' rates have not reflected all or a portion of that Participant's share of the costs of the Transmission Facilities, then that Participant agrees that a complete flow-through of such refunds may not be appropriate and that particular Participant shall seek any necessary regulatory approvals for the appropriate disposition of an appropriate portion of such refunded amounts or credits.

[End of Section 21]

5. Attachment D of the Massachusetts DC Support Agreement is hereby deleted.
6. Attachment F of the Massachusetts DC Support Agreement is hereby deleted and replaced with the following Attachment F:

#### ATTACHMENT F

As a result of the support arrangements for building, owning, and financing the Transmission Facilities, Equity Sponsors have provided credit support for the project in excess of their Participating Shares. This enhances New England Hydro's ability to finance the project. The status of a Participant as a Credit Enhanced Participant that receives credit enhancement or not will be determined in connection with, and as of the date of commitment for, each debt financing, including any construction financing, in accordance with Section 1 hereof, and the Credit Enhancement Charge will be determined with respect to each such financing and will continue to be paid as long as the financing is outstanding and as long as any accrued unamortized Credit Enhancement Charges for said Participant remain outstanding.

An "investment grade" Participant is defined in this Agreement as a Participant which has outstanding junior long-term debt securities which have qualified debt ratings by two of the three major rating agencies. An "investment grade" Participant is also defined as a Participant which has a Participating Share of four-tenths of one percent (0.47.) or less and which has outstanding junior long-term

debt securities having a rating from only one of the three major rating agencies with that rating being a qualified debt rating. (For these purposes, the outstanding junior long-term debt securities- of a Participant shall mean (i) its outstanding long-term debentures, or (ii) if no long-term debentures are outstanding, its most junior outstanding long-term mortgage or revenue bonds, or (iii) if no long-term debentures, mortgage bonds or revenue bonds are outstanding, its most junior outstanding long-term debt.) “Qualified debt ratings” are defined as a minimum rating of Baa3 by Moody’s Investors Service, BBB- by Standard & Poor’s Corporation and D&P 10 by Duff & Phelps, Inc.

Any “substitute credit enhancement” shall mean, with respect to any New England Hydro debt financing, including any construction financing (i) a letter of credit from a commercial bank having capital, surplus, and undivided profits of at least \$250 million and a credit rating of “AA” or better in form and substance satisfactory to New England Hydro or (ii) a credit support that is equivalent to (i) above which is satisfactory in form and substance to New England Hydro, or (iii) a guarantee from an Equity Sponsor which at that time the guarantee is made satisfies the requirements to be an Equity Sponsor as set forth in section 4 of the Equity Funding Agreements; provided that such enhancement is irrevocable until the final maturity of such debt financing, including any optional extensions thereof. The first time that a Participant supplies substitute credit enhancement under this Agreement or under the Phase II Massachusetts Facilities Support Agreement, the substitute credit enhancement shall also cover such Participant’s share of the debt obligations of New England Power Company and Boston Edison Company relating to their respective AC Facilities and the term of such credit enhancement shall extend for the full term of the then remaining depreciation period for the AC facilities supported under such AC Facilities Support Agreements.

The principal amount of such substitute credit enhancement shall equal that Participant’s Participating Share of the maximum amount of obligations under such New England Hydro debt financing plus, if not already provided in connection with any other debt financing of New England Hydro or New Hampshire Hydro, that Participant’s Participating Share of the maximum amount of debt obligations of New England Power Company and Boston Edison Company relating to the AC Facilities as determined by New England Power and Boston Edison, respectively.

For any substitute credit enhancement that covers that Participant’s Participating Share of the debt obligations of Boston Edison Company and New England Power. Company relating to the AC Facilities, such substitute credit enhancement shall provide for direct payment to New England Power and Boston Edison, respectively. of the amounts included therein for covering such debt obligations.

As compensation to Equity Sponsors for providing this additional credit support, a Credit Enhancement Charge, as calculated in connection with each debt financing is required to be paid by the Participants. If a Participant is a Credit Enhanced Participant by reason of below-investment grade, withdrawn or suspended debt ratings, the Credit Enhancement Charge attributed to that Credit Enhanced Participant will be paid by all Participants with each Participant paying its Participating Share thereof; provided, however, that if a Participant is a Credit Enhanced Participant due to lack of debt ratings, the Credit Enhancement Charge attributed to that Credit

Enhanced Participant shall be paid by such Participant.

The Credit Enhancement Charge (E) attributed to a Credit Enhanced Participant is a dollar value determined monthly for each Credit Enhanced Participant by the following formula:

$$E = \sum_{i=1}^n F_i$$

$$\text{where } F_i = \left( \frac{G}{100} \times H_i \times \frac{I_i}{100} \times 0.8 \times \frac{1}{12} \right) + J_i$$

F = the Credit Enhancement Charge for each New England Hydro debt financing that is credit enhanced for the Participant.

I = a number from 1 to n representing each of New England Hydro debt financings.

n = total number of such financings.

G = the Participant's Participating Share (in percent)

H = the maximum outstanding amount of New England Hydro debt during the month which was credit enhanced for such Participant

I = debt premium (in percent) for the Credit Enhanced Participant as shown in the following table:

<u>Participant's Debt Rating*</u>	<u>I(%)</u>
Below B3 or not rated	7.57
B3	5.32
B2	4.82
B1	4.32
Ba3	3.82
6a2	3.32
Ba1	2.82

\* Debt rating shall be the lower of the two highest ratings assigned to the Participant's outstanding junior long-term debt securities by Moody's, Standard and Poor's, and Duff & Phelps, converted to a Moody's equivalent as measured at the commitment date of such New England Hydro debt financing. If the Participant has a Participating Share of four tenths of one percent (0.4%) or less and has only one debt rating, then the debt rating for such Participant shall be that rating converted to a Moody's equivalent as measured at the commitment date of such New England Hydro debt financing.

J+ an amount calculated as follows:

During the period from the Effective Date to the Date of Full Support Payment, J shall equal 0 and the Credit Enhancement Charge calculated during such period pursuant to the above formula shall be accrued for each Participant during such period with interest calculated at New England Hydro’s AFDC rate. After the Date of Full Support Payment, such previously accrued amount for such Participant shall be treated as if it represented additional investment in the Transmission Facilities relating only to such Participant. As a result J shall include monthly amounts attributable to such Participant (whether or not it continues to be a Credit Enhanced Participant after the Date of Full Support Payment and whether or not the debt being enhanced continues to be outstanding) representing amortization of such previously accrued amount (with amortization over the period that the investment in the Transmission Facilities is being amortized) plus one-twelfth of the composite percentage (as defined in Section 12 hereof) times the unamortized accrued amount plus a provision for income taxes.

[End of Attachment F]

- 7. This Amendment shall become binding upon New England Hydro and the Participants when it has been executed by New England Hydro and Participants owning Participating Shares aggregating at least 66-2/3%.
- 8. Any number of counterparts of this Amendment may be executed, and each shall have the same force and effect as an original instrument and as if all the parties to all of the counterparts had signed the same instrument.

IN WITNESS WHEREOF, the signatories have caused this Amendment to be executed by their duly authorized officers or agents.

COMPANY

By: \_\_\_\_\_  
Its President

Address: XXXXXXXXXXXX  
XXXXXXXXXX

CONFORMED'

AMENDMENT NO. 5  
TO  
PHASE II MASSACHUSETTS TRANSMISSION  
FACILITIES SUPPORT AGREEMENT

This Amendment, dated as of October 1, 1987, is between New England Hydro-Transmission Electric Company, Inc. (New England Hydro), and the New England utilities listed in Attachment A to the Phase II Massachusetts Transmission Facilities Support Agreement, dated as of June 1, 1985, as amended by Amendment No. 1, dated as of May 1, 1986, Amendment No. 2, dated as of February 1, 1987, Amendment No. 3, dated as of June 1, 1987, and Amendment No. 4, dated as of September 1, 1987, (the "Massachusetts DC Support Agreement"), and amends the Massachusetts DC Support Agreement as hereinafter provided.

In consideration of the premises and other good and valuable consideration, receipt of which is hereby acknowledged, and pursuant to the provision of Section 20H of the Massachusetts DC Support Agreement, it is hereby agreed as follows:

1. Certain terms defined in the Massachusetts DC Support Agreement are used herein with the meanings there provided.
2. Section 12 is hereby amended by deleting the first sentence of the fourth paragraph thereof and replacing it with the following sentence:

New England Hydro's "operating expenses" shall include all amounts related to the Transmission Facilities and properly chargeable to expense accounts less any applicable credits thereto, in accordance with the Uniform System, including but not limited to operation and maintenance expense such as rent on leased property and administrative and general expenses, state and Federal income and franchise taxes, property taxes, payroll taxes, any other taxes not based on income, and depreciation and/or amortization expense; it being understood that unless the FERC, upon application by New England Hydro, authorizes a shorter depreciation and/or amortization period, for purposes of this Agreement depreciation and/or amortization shall be at a rate sufficient to recover the investment in the Transmission Facilities (including estimated cost of removal less any salvage value which salvage value, for the purpose of calculating such depreciation and/or amortization, will not exceed the amount of cost of removal) over the greater of: (i) ten years from the Date of Full Support Payment or (ii) the term of New England Hydro's permanent debt financings or other permanent financing arrangements related to the Transmission Facilities, adjusted for multiple maturities and repayment schedules; and it also being understood that rents on leased property shall include the rental of property or property rights related to the Transmission Facilities from any Participant with rent based on book value.

3. This Amendment shall become binding upon New England Hydro and the Participants when it has been executed by New England Hydro and Participants owning Participating Shares aggregating at least 66-2/3%.
4. Any number of counterparts of this Amendment may be executed, and each shall have the same force and effect as an original instrument and as if all the parties to all of the counterparts had signed the same instrument.

IN WITNESS WHEREOF, the signatories have caused this Amendment to be executed by their duly authorized officers or agents.

COMPANY

By: \_\_\_\_\_  
Its President

Address: XXXXXXXXXXXX  
XXXXXXXXXXXX

CONFORMED

AMENDMENT NO. 6  
TO  
PHASE II MASSACHUSETTS TRANSMISSION  
FACILITIES SUPPORT AGREEMENT

This Amendment, dated as of August 1, 1988, is between New England Hydro—Transmission Electric Company, Inc. (New England Hydro), and the New England utilities listed in Attachment A to the Phase II Massachusetts Transmission Facilities Support Agreement, dated as of June 1, 1985, as amended (the “Massachusetts DC Support Agreement”), and amends the Massachusetts DC Support Agreement as hereinafter provided.

In consideration of the premises and other good and valuable consideration, receipt of which is hereby acknowledged, and pursuant to the provision of Section 20H of the Massachusetts DC Support Agreement, it is hereby agreed as follows:

1. Certain terms defined in the Massachusetts DC Support Agreement are used herein with the meanings therein provided.
2. Section 1 is hereby amended by deleting the first sentence of the fifteenth paragraph thereof.
3. Section 2 is hereby amended by (i) changing each reference to a “June 1, 1986” deadline to “September 15, 1988” and (ii) changing each reference to a “March 1, 1986” deadline to “September 1, 1988.”
4. Section 2 is hereby amended further by deleting, in the last paragraph thereof, the words “Section 2” and inserting in lieu thereof “Agreement.”
5. Section 4A is hereby amended by deleting the third sentence of the second paragraph thereof and inserting in lieu thereof the following:

“The initial computation of Participating Shares shall be made on the basis that each signatory to this Agreement as shown in Attachment A is a Participant. After such initial computation and before the Effective Date, each Participant shall be entitled to transfer any or all of its Participating Share to one or more other Participants. On or before September 1, 1988, any Participant listed in Attachment A who has transferred, or intends to transfer, any or all of its Participating Share to one or more other Participants listed in Attachment A must provide documentation to New England Hydro covering the transfer. The initial computation is to be recomputed on and as of the Effective Date on the basis that each signatory to this Agreement which has provided timely documentation of its participation or transfer is a Participant. Any such transfers of Participating Shares will be taken into account after such recomputation. Any such transfer of Participating Shares hereunder shall have no effect on the interests, rights, or obligations of participants in Phase I. Subsequent computations are to be made thereafter as of the first day of each month in which an interest is modified or terminated pursuant to any provision hereof.”

6. Section 4B is hereby amended by deleting, in the first sentence thereof, the word “date”.
7. Section 12 is hereby amended by inserting into the second sentence of the fourth paragraph thereof following the words “In addition, each Participant will pay to” the following:

“New England Hydro, and New England Hydro will pay to”
8. Section 14 is hereby amended by adding the following clause to the end of the first sentence thereof:

“; provided, however, that nothing in this Section 14 shall (a) prevent a Participant from transferring its interests and obligations hereunder to another Participant prior to the Effective Date, or (b) impose any continuing liabilities or obligations on said transferring Participant with respect to this Agreement incurred or relating to the period of time after said transferring Participant’s Participating Share has been reduced to zero.”
9. Section 20F is hereby amended by inserting into the second sentence thereof following the words “the Transmission Facilities,” the following:

and (iv) for a transfer of any or all of a Participant’s Participating Share prior to the Effective Date as provided in Section 4A hereof,”
10. The first attached Schedule I is hereby deleted and replaced with the second attached Schedule I.
11. Schedule II to the Agreement is hereby deleted and replaced with the attached Schedule II.
12. Attachment A to the Agreement is hereby deleted and replaced with the attached Attachment A.
- 13 Any number of counterparts of this Amendment may be executed, and each shall have the same force and effect as

an original instrument and as if all the parties to all of the counterparts had signed the same instrument.

IN WITNESS WHEREOF, the signatories have caused this Amendment to be executed by their duly authorized officers or agents.

COMPANY

By: \_\_\_\_\_  
Its President

Address: XXXXXXXXXXXX  
XXXXXXXXXX

Schedule I

Vermont Electric Power Company, Inc.  
Contracting Electric Systems

City of Burlington Electric Department  
Central Vermont Public Service Corporation  
Citizens Utilities Company  
Village of Enosburg Falls Water & Light Department  
Franklin Electric Light Company  
Green Mountain Power Corporation  
Village of Hardwick Electric Department  
Village of Ludlow Electric Light Department  
Village of Lyndonville Electric Department  
Village of Morrisville Water & Light Department  
Village of Northfield Electric Department  
Village of Stowe Water and Light Department  
Village of Swanton  
Electric Generation & Transmission .Coop., Inc.  
Vermont Marble Company  
Washington Electric Cooperative, Inc.

[DELETED]

Schedule I

Vermont Electric Power Company, Inc.  
Contracting Electric Systems

Central Vermont Public Service Corporation  
Citizens Utilities Company  
Franklin Electric Light Company, Inc.

Schedule Ii

Massachusetts Municipal Wholesale Electric Company  
Contracting Electric Systems

Massachusetts Systems

Town of Ashburnham Municipal Light Plant  
Town of Georgetown Municipal Light Department  
Town of Hull Municipal Lighting Plant  
Town of Littleton Electric Light Department  
Town of Mansfield. Municipal Electric Department  
Town of Marblehead Municipal Light Department  
Town of Middleton Municipal Electric Department  
Town of Paxton Municipal Light Department  
Town of Templeton Municipal Lighting Plant

Rhode Island System

Pascoag Fire District

ATTACHMENT A

Except as provided below, if any participant does not receive required consents, waivers, regulatory approvals, or other actions of governmental authorities within the time period required by this Agreement, the listing of participants and 1980 kilowatthour load will be appropriately modified.

Participant	1980 Kilowatthour Load
The Connecticut. Light and Power Company	16,002,437,000
western Massachusetts Electric Company	3,252,432,000
Holyoke Water Power Company	106,905,000
Holyoke Power and Electric Company	0
New. England Power Company	15,444,975,840 (a), (b)
Boston Edison Company (Edison)	9,531,773,000 (b), (c)
Central Maine Power Company	6,053,571,000
Public Service Company of New Hampshire	5,043,242,871 (d)
The United Illuminating Company	4,715,078,120
Vermont Electric Power Company	3,262,098,200
Canal Electric Company	3,227,553,000
Montaup Electric Company	3,096,872,000 (e)
Bangor Hydro-Electric Company	1,305,625,118
Connecticut Municipal Electric Energy Cooperative	718,177,538
UNITIL Power Corp.	609,873,261 (f)
Massachusetts Municipal Wholesale Electric Company	470,025,000

Town of Reading Municipal Light Department	401,795,000
Newport Electric Corporation	382,745,000
Fitchburg Gas and Electric Light Co.	369,055,118
Taunton Municipal Lighting Plant	307,460,361
City of Chicopee Municipal Lighting Plant	279,273,169
Town of Braintree Electric Light Department	267,289,000
City of Peabody Municipal Light Plant	245,010,000
City of Westfield Gas & Electric Light Department	219,026,000
City of Holyoke Gas & Electric Light Department	214,448,000
Town of Danvers Electric Department	206,806,000
Town of Shrewsbury Electric Light Department	146,303,000
Hudson Light and Power Department	127,808,000
Town of Wakefield Municipal Lighting Department	107,609,000
Town of Hingham Municipal Lighting	103,929,000
Town of South Hadley Electric Light Department	99,981,000
Town of North Attleborough Electric Department	93,816,000
Town of Middleborough Gas and Electric Department	92,081,000
Town of Holden Municipal Light Department	63,676,000
Town of West Boylston Municipal Lighting Department	43,974,000
Town of Sterling Municipal Electric Department	24,510,000
Town of Groton Electric Light Department	22,908,000
Town of Boylston Municipal Light Department	17,324,000
Town of Rowley Municipal Light Department	13,551,000
Princeton Municipal Light Department	7,130,000
Town of Concord Municipal Light Plant	0 (c)
	<hr/>
	76,698,146,596

- (a) Includes New Hampshire retail 1980 kilowatthour load of 434,290,243.
- (b) The 1980 Kilowatthour loads shown for Boston Edison Company and New England Power Company have been adjusted to reflect the current status of Norwood as a full requirements customer of New England Power Company.
- (c) As of June 1, 1985, Concord continues to be a full requirements customer of Edison. At such time as Concord ceases to be a full requirements customer of Edison, for purposes of this Agreement, Concord shall have an additional Participating Share equal to 1.087% of Edison's initial Participating Share (based on a 1980 Kwh load of 103,629,000 Kwh for Concord) and Edison's Participating Share shall be reduced by such amount.
- (d) Includes New. Hampshire retail 1980 kilowatthour load of 4,939,218,744.
- (e) The amount shown for Montaup Electric Company includes the load of the other members of the Eastern Utilities Associates system.
- (s) The amount shown for UNITIL Power Corp. represents the 1980 kilowatthour load of its affiliates, Concord Electric Company and Exeter & Hampton Electric Company.

TO  
PHASE II MASSACHUSETTS TRANSMISSION  
FACILITIES SUPPORT AGREEMENT

This Amendment, .dated as of January 1, 1989, is between New England Hydro-Transmission Electric Company, Inc. (New England Hydro), and the New England utilities listed in Attachment A to the Phase II Massachusetts Transmission Facilities Support Agreement, dated as of June 1, 1985, as amended (the "Massachusetts DC Support Agreement"), and amends the Massachusetts DC Support Agreement as hereinafter provided.

In consideration of the premises and other good and valuable consideration, receipt of which is hereby acknowledged, and pursuant to the provisions of Section 20H of the Massachusetts DC Support Agreement, it is hereby agreed as follows:

1. Certain terms defined in the Massachusetts DC Support Agreement are used herein with the meanings therein provided.
2. Section 2 is hereby amended by inserting the following at the end of the second sentence of paragraph seven thereof:

“, or except with the approval of New England Hydro and New Hampshire Hydro, as required in connection with any financing by MMWEC, the proceeds of which are to be applied exclusively by MMWEC to meet its obligations under Phase II, provided that such grant by MMWEC to its third party lenders shall be on a pari passu basis with the Lenders, New England Hydro, New Hampshire Hydro, New England Power Company and Boston Edison Company, and provided further that MMWEC shall have its third party lenders execute and deliver intercreditor agreements acceptable to the Lenders, New England Hydro, New Hampshire Hydro, New England Power Company and Boston Edison Company providing an appropriate allocation between MMWEC’s third party lenders and the Lenders, New England Hydro, New Hampshire Hydro, New England Power Company and Boston Edison Company of payments made under MMWEC’s contract with its systems and including appropriate notice provisions.”
3. This amendment shall become effective upon acceptance thereof by the Federal Energy Regulatory Commission.
4. Any number of counterparts of this Amendment may be executed, and each shall have the same force and effect as an original instrument and as if all the parties to all of the counterparts had signed the same instrument.

IN WITNESS WHEREOF, the signatories have caused this Amendment to be executed by their duly authorized officers or agents.

COMPANY

By: \_\_\_\_\_  
Its President

Address: XXXXXXXXXXXX  
XXXXXXXXXX

(COMPOSITE CONFORMED COPY - as amended)

Amendment No. 1-May 1, 1986  
Amendment No. 2-February 1, 1987  
Amendment No. 3-June 1, 1987  
Amendment No. 4-September 1, 1987  
Amendment No. 5-August 1, 1988

PHASE II NEW ENGLAND POWER  
AC FACILITIES SUPPORT AGREEMENT

Dated as of June 1, 1985

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## PHASE II NEW ENGLAND POWER AC FACILITIES SUPPORT AGREEMENT

This AGREEMENT dated as of June 1, 1985, is between New England Power Company (New England Power) and the New England utilities listed in Attachment A hereto. Those New England utilities that have executed this Agreement and that meet the further conditions for participation hereunder and New England Power are hereinafter referred to as Supporters or individually as a Supporter. The Supporters, each of which is a member of the New England Power Pool (NEPOOL), are sometimes referred to collectively herein, but their rights and obligations hereunder are several and not joint as described in Section 5 hereof.

In consideration of the premises, the concurrent execution of the other Basic Agreements hereinafter referred to, the mutual covenants hereinafter and therein set forth, and other good and valuable consideration, receipt whereof is hereby acknowledged, it is hereby agreed as follows:

### Section I. Basic Understandings and Purpose

Some or all of the Supporters are participants in the existing arrangements for the Phase I interconnection planned by NEPOOL with Hydro-Quebec, which is to consist of a  $\pm$  450 kV HVDC transmission line from a terminal at the Des Cantons Substation on the Hydro-Quebec system near Sherbrooke, Quebec to a terminal having an approximate rating of 690 MW at a

-2-

substation at the Comerford Generating Station on the Connecticut River (hereinafter referred to as Phase I). The basic arrangements covering the portion of Phase I in the United States are set forth in the New England Power Pool Agreement, as amended (the NEPOOL Agreement) and three contracts among the participants in Phase I as follows:

1. Vermont Transmission Line Support Agreement, dated as of December 1, 1981, as amended, with Vermont Electric Transmission Company, Inc.
2. Phase I Terminal Facilities Support Agreement, dated as of December 1, 1981, as amended, with New England Electric Transmission Corporation, and
3. Agreement With Respect To Use Of Quebec Interconnection, dated as of December 1, 1981, as amended, including the restatement thereof in connection with Phase II (the Use Agreement).

These Phase I interconnection facilities are currently under construction with completion scheduled during 1986.

With the completion of arrangements for Phase I and the related contracts with Hydro-Quebec, the members of NEPOOL have conducted studies of the benefits of an expanded interconnection for NEPOOL with Hydro-Quebec (Phase II) and have negotiated with Hydro-Quebec a firm energy (the Phase II Firm Energy Contract) arrangement to utilize the expanded interconnection facilities. The results of these NEPOOL

studies indicate that such an expansion of the interconnection capacity will be beneficial to the New England utilities and to their respective customers.

The portion of Phase II in the United States will consist of an extension of the Phase I DC transmission line from the proposed terminus of Phase I at the Comerford Station through New Hampshire to a site in Massachusetts with additional terminal facilities installed at that site to increase the total transfer capacity between Hydro Quebec and NEPOOL from the 690 MW of Phase I to approximately 2000 MW. Reinforcements to the existing transmission system of New England Power and to certain AC facilities of Boston Edison Company will also be required. Although about 2 miles of Boston Edison's transmission line are covered under this Agreement, Boston Edison has the option to have this line covered under the Phase II Boston Edison AC Facilities Support Agreement. The United States portion of the Phase II facilities will be designated as pool-planned facilities in the same manner as the United States portion of the Phase I facilities was so designated.

Each Supporter acknowledges that it has been represented on the Executive and Planning Committees of NEPOOL that had responsibility for evaluating the feasibility of Phase II and, through this representation, actively participated in the decision of NEPOOL to go forward with Phase II. Furthermore, each Supporter, other than New England Power, represents that

it made its own independent investigations and inquiries as it deemed appropriate and did not rely upon representations (other than those contained in this Agreement and the other Basic Agreements referred to hereinafter) of New England Power or its affiliates in deciding to enter into this Agreement.

The sharing of benefits among the New England utilities associated with Phase II is set forth in the Use Agreement. The Use Agreement also permits each participating New England utility to make its own entitlement transactions with Hydro Quebec and to use the interconnection for such transactions. Each Supporter acknowledges that the benefits of participating in Phase II set forth in the Use Agreement are the fundamental consideration for its signing of this Agreement and making the significant commitments to each other Supporter specified herein.

All improvements and reinforcements to Boston Edison Company's AC transmission system are covered under the Phase II Boston Edison AC Facilities Support Agreement.

The provisions of this Agreement cover all improvements and reinforcements to New England Power's AC transmission system in Massachusetts necessitated by Phase II as described in more detail in Attachment B hereto (the AC Facilities).

The provisions of the Phase II Massachusetts Transmission Facilities Support Agreement cover the Phase II Massachusetts HVDC transmission line and terminal facilities in

Massachusetts. New England Hydro-Transmission Electric Company, Inc. (New England Hydro), an affiliate of New England Power, will build, own, operate, and maintain those Massachusetts HVDC transmission facilities.

The portion of the Phase II HVDC transmission line to be constructed in New Hampshire is covered under the Phase II New Hampshire Transmission Facilities Support Agreement. New England Hydro-Transmission Corporation (New

Hampshire Hydro), an affiliate of New England Power, will build, own, operate, and maintain those New Hampshire HVDC transmission facilities.

In view of the need to formalize the agreements among the parties at an early date so that (i) binding commitments with Hydro Quebec for Phase II may be made, (ii) binding commitments for ultimate construction and the financing of the United States portion of Phase II may be undertaken consistent with the time schedule anticipated by NEPOOL and with the assurance that commitments among the New England utilities are in place and (iii) licensing activities may proceed on a schedule that enables completion of such construction consistent with the time schedule anticipated by NEPOOL, the following agreements are concurrently being entered into (the "Basic Agreements") which collectively set forth rights and obligations with respect to the foregoing undertaking: (1) this Agreement; (2) the Phase II Massachusetts Transmission Facilities Support Agreement; (3) an Equity Funding Agreement for New England

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Hydro; (4) the Phase II New Hampshire Transmission Facilities Support Agreement; (5) an Equity Funding Agreement for New Hampshire Hydro; (6) an amendment of the Use Agreement, setting forth the rights of the Participants in the benefits of Phase II; (7) various amendments to the NEPOOL Agreement relating to the sharing of savings, capability responsibilities, and transmission arrangements; and (8) the Phase II Boston Edison AC Facilities Support Agreement.

In order to coordinate each Supporter's participation in Phase II to the fullest extent possible, each Supporter acknowledges that it is to have the same participating interest under each of these Agreements: this Agreement, the Phase II New Hampshire Transmission Facilities Support Agreement, the Phase II Massachusetts Transmission Facilities Support Agreement, the Phase II Boston Edison AC Facilities Support Agreement, and the Use Agreement. Each Supporter acknowledges that these Basic Agreements have been drafted with the overriding intent to so coordinate participating interests and that, notwithstanding any provision thereof that may be interpreted to the contrary, the proper interpretation of each of these Basic Agreements is to be consistent with such overriding intent. The Equity Funding Agreement for New Hampshire Hydro and the Equity Funding Agreement for New England Hydro have also been drafted to require actions of Equity Sponsors or their appointees affecting such

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participating interests to be the same under each Equity Funding Agreement in order to also be consistent with such overriding intent.

#### Section 2. Conditions Precedent to Effectiveness

The effectiveness of this Agreement, and all rights, obligations, and performance of the signatories hereunder, is subject to (a) New England Power and other members of NEPOOL serving at least 66 2/3% of the aggregate kilowatt-hour load served by all NEPOOL members in 1980 (i) having executed this Agreement and the other Basic Agreements (except for the two Equity Funding Agreements and the amendments to the NEPOOL Agreement relating to Phase II) and (ii) having satisfied the conditions precedent set forth below; (b) Equity Sponsors under each of the Equity Funding Agreements covering 100% of New England Hydro's and New Hampshire Hydro's equity requirements, respectively, having executed those Agreements; (c) members of NEPOOL having executed the amendments to the NEPOOL Agreement for Phase II in order that such amendments may become effective in accordance with the NEPOOL Agreement; and (d) the signatories to this Agreement having also signed and supplied all required documentation under the Phase II Massachusetts Transmission

Facilities Support Agreement, the Phase II New Hampshire Transmission Facilities Support Agreement, the Phase II Boston Edison AC Facilities Support Agreement, the Use Agreement, and amendments to the NEPOOL Agreement relating to Phase II.

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By September 15, 1988, each signatory to this Agreement shall provide certificates and legal opinions from counsel satisfactory to New England Power. together with certified copies of related resolutions, consents, approvals, authorizations, and other documents (Documentation) necessary to establish to the satisfaction of New England Power that all corporate and regulatory consents. waivers, approvals, authorizations and other actions necessary in connection with performance by such signatory of its obligations under the Agreement have been obtained and are in full force and effect, that the Agreement has been duly authorized, executed, and delivered by such signatory, and that it constitutes a binding commitment by the signatory enforceable in accordance with its terms. Forms of Documentation acceptable to New England Power are included in Attachment C hereto. Prior to signing this Agreement, each signatory has provided to New England Power a listing of all consents, waivers, approvals, authorizations, and other actions required for that signatory to deliver its Documentation.

Since Vermont Electric Power Company, Inc. (VELCO) and Massachusetts Municipal Wholesale Electric Company (MMWEC) represent a number of electric systems, in calculating their respective kilowatthour loads on Attachment A, they are deemed to have signed on behalf of those respective systems listed in Schedules I or II, respectively. By September 1, 1988, VELCO

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and MMWEC will provide New England Power with copies of contracts with those respective systems which impose absolute and unconditional obligations on such systems to pay their proportionate shares of all costs incurred under this Agreement by VELCO or MMWEC, respectively. By that date, VELCO and MMWEC will also provide to New England Power as part of their Documentation certificates, legal opinions (from counsel satisfactory to New England Power), and other documents in form and substance satisfactory to New England Power representing unconditionally that all consents, waivers, approvals, and authorizations have been obtained by their contracting systems in connection with each such system's performance of its obligations under its respective contract with VELCO or MMWEC and that each such contract imposes "absolute and unconditional obligations on such systems to pay their proportionate shares of all costs incurred under this Agreement by VELCO or MMWEC, respectively, and has been duly authorized, executed, and delivered and is a binding commitment of such system enforceable in accordance with its terms. If regulatory approvals have not been obtained by September 1, 1988, such representations shall be conditioned upon receipt of regulatory approvals. VELCO and MMWEC will have until September 15, 1988, to receive such approvals and make such representations unconditionally. In order that percentages of participation be consistent among the Basic Agreements, VELCO and MMWEC shall have their contracts with their contracting systems cover the necessary commitments for each Basic Agreement.

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All expenses in connection with obtaining and delivering any Documentation under this Agreement, including legal opinions, are to be borne by the signatory incurring such expense. New England Power will have no responsibility for any expenses incurred by VELCO and MMWEC in providing Documentation for their respective contracting systems.

In the event that VELCO or MMWEC does not provide such contracts and Documentation by the aforementioned deadlines, under this Agreement and similar contracts and documentation as required by the other Basic Agreements, for all electric systems shown on Schedules I or II, their respective kilowatthour loads on Attachment A will be automatically adjusted to equal the 1980 kilowatthour loads of those contracting electric systems for which the required contracts and Documentation have been provided. Promptly thereafter, New England Power will prepare and distribute an appropriately modified Attachment A with an additional column showing Support Shares for all Supporters and modified Schedules I and II.

Any signatory, that is unable to provide all Documentation by the applicable deadlines required by this Section 2 and all similar documentation as required by the other Basic Agreements or that fails to obtain any regulatory approval required to deliver such Documentation by the applicable deadlines, will not be a Supporter under this Agreement and will not have any rights and obligations hereunder after the date of such

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deadline. All obligations of New England Power hereunder are subject to all regulatory approvals necessary for it to charge the Supporters in accordance with the terms of this Agreement having been obtained and no longer subject to appeal.

New England Power by written notice to all signatories may extend any deadline date specified in this Agreement to a later date, provided that any extension for longer than six months requires the consent of signatories that would have an aggregate Support Share of 66-2/3%.

### Section 3. Effective Date and Term

This Agreement shall become effective (the Effective Date) upon the last to occur of the following dates:

- (i) the date that members of NEPOOL (including New England Power) serving at least 66 2/3% of the aggregate kilowatthour load in 1980 served by NEPOOL members have satisfied all conditions precedent to effectiveness set forth in Section 2;
- (ii) the date that New England Power shall give written notice to all other Supporters that it has determined (such notice to be promptly given upon such determination) that all regulatory approvals necessary for it to charge the Supporters in accordance with the terms of this Agreement have been obtained and are no longer subject to appeal; and

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- (iii) the date that the last of the other Basic Agreements (excluding the Use Agreement) becomes effective or would become effective but for a condition that its effectiveness is subject to this Agreement becoming effective.

Upon execution and delivery of the Agreement by New England

Power and other members of NEPOOL serving at least 66 2/3% of the aggregate kilowatthour load in 1980 served by NEPOOL members, and notwithstanding any provision herein to the contrary, no signatory may terminate its obligations hereunder except in accordance with provisions of this Agreement.

The term of this Agreement shall expire on the later of (1) thirty years from the Date of Full Support Payment as defined in Section 14, or (ii) the date that the Phase II Massachusetts Transmission Facilities Support Agreement and the Phase II New Hampshire Transmission Facilities Support Agreement (the Phase II HVDC Support Agreements) ultimately terminate taking into account any optional renewal term. If all regulatory approvals authorizing New England Power to charge the Supporters in accordance with the Support Charge described in Section 13 hereof are not received by June 1, 1986, New England Power may thereafter elect to terminate this Agreement by notice in writing to the Supporters.

#### Section 4. Support Shares

A. Allocation. Each Supporter shall have and be charged with a percentage interest in all of the rights and obligations

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of the Supporters hereunder determined in accordance with this Section 4 (which interest is hereinafter referred to as its "Support Share").

The Support Share of each Supporter shall be computed both initially and as changed from time to time in accordance with the terms hereof by New England Power as hereinafter provided. Such computations shall be made as of the first day of any month in which there is a change in the number of Supporters or any change in the interest of any Supporter as herein

provided. The initial computation is to be made on or before the Effective Date and subsequent computations are to be made in any month thereafter as of the first day of each month in which an interest is modified or terminated pursuant to any provision hereof. All computations shall be final unless there is a manifest error.

B. The Support Share of each Supporter, on and as of the initial computation, will be equal to its Participating Share at the time of calculation under the Phase II Massachusetts Transmission Facilities Support Agreement.

C. In the event that a Credit Enhanced Supporter (as defined in Section 13) is terminated hereunder after its initial Support Share is determined under Section 48 and the Phase II HVDC Support Agreements continue in effect at the time of such termination, the Support Share for each Supporter will

be equal to its Participating Share at that time under the Phase II Massachusetts Transmission Facilities Support Agreement reflecting any reallocation on account of the terminated Supporter's termination of participation thereunder. If Equity Sponsors under the Equity Funding Agreements or their appointees are allocated Participating Shares under the Phase II HVDC Support Agreements, the Equity Funding Agreements provide that the Equity Sponsors or their appointees will become Supporters hereunder and shall execute appropriate documentation.

D. In the event that a Credit Enhanced Supporter (as defined in Section 13) is terminated hereunder after its initial Support Share is determined under Section 48, and the Phase II HVDC Support Agreements are terminated at the time of such termination, the Support Share for such terminated Credit Enhanced Supporter will be reallocated in accordance with the Equity Funding Agreements. If Equity Sponsors under the Equity Funding Agreements or their appointees are to be allocated Support Shares, the Equity Funding Agreements provide that the Equity Sponsors or their appointees will become Supporters hereunder and shall execute appropriate documentation.

E. Notwithstanding any provision in Section 4 A through D to the contrary, no reallocations under C or D above shall be made in the event of a default in any payment under Sections 17 or 18.

F. In the event that the Support Share of a terminated Supporter cannot be allocated under C above and the Phase II HVDC Support Agreements are in effect at the time of such termination, one or more Equity Sponsors or their appointees (as defined under the Equity Funding Agreements) may elect to increase their respective Support Shares by the Support Share of such terminated Supporter, provided that an equivalent election is made under the Phase II HVDC Support Agreements and the Phase II Boston Edison AC Facilities Support Agreement in order that support percentages hereunder are consistent therewith. If a Participant which is not an Equity Sponsor or an appointee of an Equity Sponsor accepts a voluntary allocation of participating shares under the Phase II HVDC Support Agreements, an equivalent allocation of the Support Shares of a terminated Supporter hereunder and under the Phase II Boston Edison AC Support Agreement shall be made. In the event that the Support Share of a terminated Supporter cannot be allocated under D above, and the Phase II HVDC Support Agreements are terminated at the time of such termination, one or more Equity Sponsors or their appointees (as defined under the Equity Funding Agreements) may elect to increase their respective Support Shares by the Support Share of such terminated Supporter. New England Power shall, by written notice to each Equity Sponsor, offer the Support Share of such terminated Supporter on a voluntary basis to the Equity

Sponsors or their appointees in accordance with a subscription process described in New England Power's offering letter, provided that if such Support Share is not so completely allocated, then New England Power will offer such unallocated Support Share as provided in Section 16B(ii) hereof.

Section 5. Relationship among Supporters

The rights and obligations of the Supporters hereunder are several, in accordance with their respective Support Shares, and not joint. The rights and obligations of New England Power hereunder are also several and not joint with those of the other Supporters or any one thereof. There is no intention to create by this Agreement, or by any grant, lease, license, or activity related hereto, an association, joint venture, trust, or partnership or to impose on New England Power or any other Supporter trust or partnership rights or obligations; and any such implied intention is expressly negated. Except as expressly provided in this Agreement, no Supporter shall have by virtue of this Agreement or of any such grant, lease, license, or activity the right or power to bind any other Supporter without its express written consent.

#### Section 6. Design and Construction of the AC Facilities

New England Power shall be responsible for the design, engineering, procurement, installation, and all other aspects of the construction of the AC Facilities, and any modifications or additions made to the AC Facilities at any time before or

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after completion of the AC Facilities, all in accordance with good utility practice. In carrying out these activities, New England Power may utilize the services of its affiliates and may also select and employ a financial adviser, legal counsel, design engineering firm, a construction engineering firm, consultants, and such other firms as it considers desirable. To the extent services are performed by an affiliate of New England Power, such affiliate will charge on the same basis that it would charge its costs to other affiliates pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) under the Public Utility Holding Company Act of 1935 (the 1935 Act).

New England Power shall not commence construction of the AC Facilities until so authorized by Supporters (including New England Power) having at least 66-2/3 of the Support Shares. The date of commencement of construction of the AC Facilities shall mean the first firm commitment in excess of \$5 million for procurement or construction of the AC Facilities.

New England Power intends, consistent with good utility practice, to construct the AC Facilities on a schedule consistent with the commercial operation of Phase II by September 1, 1990. However, New England Power does not represent that construction will be completed by such date or any other date.

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#### Section 7. Operation and Maintenance of the AC Facilities

New England Power shall be responsible for the operation and maintenance of the AC Facilities in accordance with good utility practice. New England Power shall use its best efforts to coordinate the operation and maintenance of the AC Facilities with the operation and maintenance of the Phase I and Phase II facilities. In carrying out these activities, New England Power may utilize the services of its affiliates and may also select and employ a financial adviser, legal counsel, consultants, and such other firms as it considers desirable. In

furtherance of its responsibility, New England Power may from time to time designate a company, which need not be a Supporter, to operate and maintain the AC Facilities. To the extent services are performed by an affiliate of New England Power, such affiliate will charge on the same basis that it would charge its costs to other affiliates pursuant to the rules and regulations of the SEC under the 1935 Act.

#### Section 8. Termination of Phase II HVDC Support Agreements

Recognizing that the AC Facilities are necessary for the proper operation of Phase II as well as a part of New England Power's AC transmission system, New England Power shall use its best efforts to coordinate the construction and operation of the AC Facilities with the Phase I and Phase II facilities and its own AC transmission system in accordance with good utility practice. In the event that the Phase II HVDC Support

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Agreements are terminated, New England Power, no less than 60 days before the effective date of termination of the Phase II HVDC Support Agreements (as such date is defined therein), shall request, in writing, that each Supporter respond to New England Power, in writing, within 30 days as to whether it desires the continued construction and/or operation of the AC Facilities, other than the AC Facilities described in item number 4 to Attachment B hereto. Failure to respond within such 30-day period by a Supporter shall be deemed to be an election by such Supporter to continue. If Supporters other than New England Power with Support Shares aggregating 50% or more respond that they desire to discontinue further construction and/or terminate operation of AC Facilities, the investment in AC Facilities with respect to such AC Facilities (other than those described in item number 4 to Attachment B hereto) shall be limited to those costs previously incurred or committed by New England Power or which are necessary to restore the right-of-way or other facilities to their original condition consistent with good utility practice.

If Supporters other than New England Power with Support Shares aggregating less than 50% respond that they desire to discontinue further construction and/or terminate operation of such other AC Facilities, New England Power Company shall continue to construct and/or operate all of the AC Facilities and all Supporters shall continue to be bound by this

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Agreement. However, any Supporter electing not to continue may terminate its participation hereunder upon payment of its share of the net investment in the AC Facilities, provided that the other Supporters voluntarily agree to support 100% of the costs of the AC Facilities hereunder after such payment. If the other Supporters do not so agree to support 100% of such costs, then construction shall be discontinued and/or operation terminated of the AC Facilities as though Supporters other than New England Power with Support Shares aggregating 50% or more responded that they so desired to discontinue and/or terminate.

Notwithstanding any provision of this Section 8 to the contrary, in the event that the Phase II HVDC Support Agreements are terminated and construction has commenced on the portion of the AC facilities described in item number 4 to Attachment B hereto or such AC Facilities have commenced operation, New England Power may continue such construction and/or operation and if it continues shall do so in a manner consistent with good utility practice recognizing the

desire of the Supporters to minimize costs.

#### Section 9. New England Power Relationship to Supporters

In carrying out its responsibilities hereunder, New England Power agrees that it shall use its best efforts to act for the collective benefit of all Supporters, to include in its contracts with independent contractors the customary provisions for assuring professional and workmanlike performance,

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including warranties, insurance coverage and other protections consistent with good utility practice, and to enforce its rights under such contracts against the other contracting parties to the extent reasonable, reserving the discretion to settle claims on a reasonable basis. All costs of construction, including damages caused by the risks of negligence (other than gross negligence) and other risks of construction in excess of the recoveries obtained from offending parties or insurers, shall be included as part of investment in the AC Facilities (as defined in Section 13 below) and all costs of operating the AC Facilities, including damages caused by risks of negligence (other than gross negligence) or other risks of operation in excess of any recoveries obtained from offending parties or insurers, shall be included in New England Power's operating costs (as defined in Section 13 below).

#### Section 10. Payment for Preliminary Costs

New England Power agrees to pay those New England utilities for costs initially paid by them that (i) were related to the AC Facilities incurred under the Preliminary Quebec Interconnection Support Agreement - Phase II (the Preliminary Agreement), and (ii) that are determined by New England Power to be capitalizable costs of the AC Facilities, in accordance with the Uniform System (as defined hereinafter in Section 13). Within ninety days after the Effective Date, New England

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Power agrees to make the payment with interest calculated from the original date of payment using the monthly average rate on one month commercial paper as published in the Federal Reserve Bulletin for each month during such time period.

#### Section 11. Transmission of Power

A. The AC Facilities are expected to be part of at least two transmission interfaces of NEPOOL (AC Facilities Interface). These include:

1. The transmission interface between substations at Sandy Pond and Millbury (Interface A); and
2. The transmission interface between substations at Millbury and West Medway (Interface B).

Based on studies to be performed from time-to-time, NEPOOL will

periodically determine the share of the interface transfer capability that the AC Facilities have contributed to each of the

interfaces, allocated on an appropriate basis consistent with NEPOOL practice at the time (AC Facilities Interface Transfer Capability Share).

Each Supporter shall have a right to the delivery of power over each interface in an amount equal to its Support Share of the AC Facilities Interface Transfer Capability Share for that interface at the time (Supported Transfer Capability Share). The aggregate of the Supported Transfer Capability Shares less any portion of a Supporter's Supported Transfer Capability Share which is required for its specific entitlement

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transactions with Hydro-Quebec shall be available for the transfer of energy purchased by NEPOOL under the Phase II Firm Energy Contract.

For any transaction not covered by the NEPOOL Agreement or in the event that the NEPOOL Agreement is no longer in effect, each Supporter so using these interface transfer capabilities shall pay New England Power's then current applicable transmission rate.

B. In accordance with A. above, and subject to Section 12, New England Power shall deliver power over Interface A and/or Interface B or any other AC Facilities Interface as directed by the NEPEX Dispatch Center. Electrical losses incurred in the transmission of this power shall be for the account of the Phase II Savings Fund in the case of the Phase II Firm Energy Contract, or for the account of the purchaser in the case of an entitlement transaction, and shall be determined in accordance with whatever NEPOOL procedures are applicable or in absence of such procedures, in accordance with procedures that New England Power then uses for others.

C. All payments made directly to New England Power under this Section 11 shall be made in accordance with the invoice procedure specified in Section 14.

#### Section 12. Sharing of Costs of Capacity Restrictions

A. After the AC Facilities are in commercial operation, if there is a transfer restriction on any AC Facilities Interface

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either with all facilities in service or with, one or more out of service, the total of the Supporters' share of any costs associated with the use of the interface for Phase II Firm Energy Contract transfers or Hydro-Quebec entitlement transactions during any hour that the restriction exists shall be determined in accordance with Attachment G hereto and shall be chargeable to the Hydro-Quebec Phase II Savings Fund or to individual Supporters who had Hydro-Quebec entitlement transactions during the hour the restriction occurred.

There may be a restriction and resultant sharing of costs on one AC Facilities Interface without there being any restrictions on other AC Facilities Interfaces. To the extent that the transfer capability of any of the AC Facilities Interfaces is restricted, New England Power's obligation to deliver power under Section 11 shall be appropriately reduced during the

duration of the restriction.

B. In accordance with NEPEX procedures, prompt notification of the existence and magnitude of any such restriction will be made. All computations of the amount of restriction of the transfer capability of Interface A or B or any other Interface shall be made by NEPEX and shall be final unless there is a manifest error. NEPEX shall make all computations of the sharing of the costs of such restriction which shall be final unless there is a manifest error.

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### Section 13. Support Charge

Commencing with the month in which the Date of Full Support Payment occurs (as defined in Section 14) and in each month thereafter, each Supporter shall pay in accordance with Section 14 its Support Share of a monthly Support Charge in an amount determined in accordance with this Section 13, plus a Credit Enhancement Charge as calculated in accordance with Attachment F.

The Support Charge shall be equal to New England Power's total supported cost of service related to the AC Facilities for such month. The "total supported cost of service related to the AC Facilities" for any month commencing with the month in which the Date of Full Support Payment occurs shall equal (A+ B) where:

A= the Monthly Fixed Costs as determined in accordance with

Attachment D; and

B = the Monthly Operating Costs as determined in accordance with Attachment E.

All costs included in the total cost of service related to the AC Facilities shall be in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission, as from time to time in effect.

If a Support Charge payment under Section 14 is to be calculated from a date other than the first day of a month, an appropriate proration of "A" and "B" above shall be made for such payment only.

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On the fifteenth day of each month, New England Power will promptly pay to each Equity Sponsor its pro rata share of the Credit Enhancement Charges received through the preceding month.

### Section 14. Payments

Commencing on or about the date that the AC Facilities are completed and ready for service (Date of Full Support Payment) and for each month thereafter, New England Power will render to each other Supporter an invoice for its Support Share of the Support Charge for such month calculated on an estimated basis for the current month and subject to corrective adjustment in subsequent months. Unless New England Power is prevented by circumstances beyond its reasonable control, New England Power shall use its best efforts to render final bills within two years after the end of the calendar year in which the estimated bill was rendered. New England Power will also render to each Supporter an invoice or notice for its Support Share of any amounts due under this Agreement (other than monthly Support Charges) including but not limited to payments to be made under Sections 16, 17, 18, and 19D.

Each Supporter shall promptly pay to New England Power the amount shown on any invoice submitted under this

Section. New England Power will date and mail its monthly invoice for Support Charge on or about the 25th day of the month for the coming month and this invoice shall be due and payable by the 15th day of the coming month and if not paid within that time period

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shall bear interest compounded monthly from the first day of the month in which payment is due to the date when payment is made at an annual rate equal to two percent (2%) over the current interest rate on prime commercial loans from time to time in effect (the Base Rate) at the principal office of The First National Bank of Boston.

Any invoice or notice for payments due under this Agreement (other than a monthly Support Charge invoice) that is not paid when due shall bear interest compounded monthly from the mailing date of the invoice to the date when payment is made at an annual rate equal to two percent (2%) over the Base Rate at the principal office of The First National Bank of Boston.

Recognizing the need to provide additional financial security to induce New England Power and the Supporters to undertake the substantial obligations of this Agreement, each Equity Sponsor has agreed in the Equity Funding Agreement to pay, promptly upon request of New England Power a proportionate share of any invoice or notice rendered to a Credit Enhanced Supporter (as defined in Attachment F) under Section 14 (other than one for payments to be made under Sections 17 and 18) which remains unpaid for ninety days after the mailing date of the invoice. New England Power may render to each Equity Sponsor an invoice for its proportionate share, calculated as if participation of such nonpaying Credit Enhanced Supporter had been terminated and appropriate reallocation had been made under

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Section 4, of the amount of such unpaid invoice or notice plus accrued interest thereon calculated at New England Power's short term borrowing rate or, if New England Power has no short term borrowings, at the Base Rate defined above.

All further invoices or notices as provided in the preceding paragraph shall be telecopied or delivered by overnight courier and shall be paid within 15 days of the date thereof. If not paid within that time period, interest shall accrue on the unpaid balance from the date thereof at the rate of 2% above the Base Rate as specified in this Section 14. In the event that any such invoice or notice remains unpaid for 15 days after its date, New England Power may render to those paying Equity Sponsors further invoices or notices as specified above and subject to the provisions of Section 4E until all amounts due are paid. To the extent that any Equity Sponsor pays to New England Power any amount due pursuant to the preceding paragraph, it shall be subrogated to the rights of New England Power to recover from the nonpaying Supporter the excess it paid to New England Power with interest at the rate of 2% above the Base Rate as specified in this Section 14.

Since New England Power is also a Supporter, New England Power will bear its Support Share of the payments due hereunder without the need to issue an invoice or notice to itself.

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#### Section 15. Character of Payment Obligations

The obligations of each Supporter to make payments hereunder, and to perform and observe all other agreements on its part contained herein, are absolute and unconditional and shall not be affected by any circumstance, including, without limitation, (i) any insolvency, composition, bankruptcy, reorganization, arrangement, liquidation or similar proceedings relating to New England Power, any other Supporter, or any affiliate thereof, (ii) any failure of the AC Facilities to operate for any reason, including but not limited to the failure of Hydro-Quebec to sell electric power to the Supporters, (iii) any damage to or destruction of the AC Facilities, including but not limited to any defect in the quality, condition, design, operation, or fitness for use of, or any loss of use of, all or any part of the AC Facilities, (iv) any interruption or prohibition of the use or possession by New England Power of, or any ouster or dispossession by paramount title or otherwise of New England Power from, all or any part of the AC Facilities, or any interference with such use or possession by any governmental agency or authority or other person or otherwise, (v) any inability to use the AC Facilities because a necessary license or other necessary public authorization cannot be obtained or is revoked, or because the utilization of such a license or authorization is made subject to specified conditions which are not met, (vi) any invalidity or unenforceability or

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disaffirmance by New England Power or any other Supporter of any provision of this Agreement or any failure, omission, delay, or inability of New England Power to perform any of its obligations contained herein, (vii) any amendment, extension, or other change of, or any assignment or encumbrance of any rights or obligations under, this Agreement, or any waiver or other action or inaction, or any exercise or nonexercise of any right or remedy, under or in respect to this Agreement, (viii) any inability of any Supporter or any other Supporter to obtain regulatory approvals for financing its Support Share of any obligations under this Agreement or for meeting any other obligations under this Agreement, or (ix) any inability to start, complete, or use the AC Facilities due to any other circumstance, happening, or event whatsoever, whether foreseeable or unforeseeable and whether similar or dissimilar to the foregoing, it being the intention of the parties hereto that all amounts payable by each Supporter in respect of this Agreement shall begin to be payable and shall continue to be payable in all events in the manner and at the time herein provided; provided, however, that nothing in this Section 15 shall (a) prevent a Supporter from transferring its interests and obligations hereunder to another Supporter prior to the Effective Date, or (b) impose any continuing liabilities or obligations on said transferring Supporter with respect to this Agreement incurred or relating to the period of time after said transferring Supporter's Support Share has been reduced to

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zero. In that connection, each Supporter hereby waives, to the extent permitted by applicable law, any and all rights which it may now have or which may at any time hereafter be conferred upon it, by statute or otherwise, to terminate, cancel, or surrender any of its obligations under this Agreement, and agrees that if, for any reason whatsoever, this Agreement shall be terminated in whole or in part by operation of law or otherwise, each Supporter will nonetheless promptly pay to New England Power amounts as required by Section 16 of this Agreement.

Notwithstanding the character of the above payment obligations, when the net proceeds from a total taking of the AC Facilities in an eminent domain proceeding or from insurance in the event of complete destruction of the AC Facilities have been received by New England Power in an amount equal to or greater than the amounts then due hereunder from the

Supporters, then no payment shall be required.

Section 16. Default

A. If any of the following events (Events of Default) shall occur and be continuing:

- (i) a Supporter other than New England Power shall fail to pay to New England Power when due any amount which it has agreed to pay under any provision of this Agreement, and such failure shall continue for more than 15 days after written notice thereof has been given to such Supporter by New England Power; or

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- (ii) a Supporter other than New England Power shall admit in writing its inability to pay its debts, or shall make a general assignment for the benefit of its creditors; or any proceeding shall be instituted against a Supporter other than New England Power (and is not dismissed within sixty days), or by a Supporter other than New England Power, seeking to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, or composition of it or its debt under any law relating to bankruptcy, insolvency or reorganization or relief of debtors or seeking appointment of a receiver, trustee, or other similar official for it or for any substantial part of its property; or if a Supporter other than New England Power shall take any action to authorize any of the actions set forth above in this subsection (ii); or
- (iii) a Supporter other than New England Power shall fail to perform any other obligation under this Agreement in accordance with the terms hereof, and such failure shall continue for more than 30 days after written notice thereof has been given to such Supporter by New England Power; or
- (iv) a Supporter other than New England Power shall experience an event of default under any of the other Basic Agreements or under any of the basic agreements for Phase I listed in the first paragraph of Section 1;

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then, and in any such event, in addition to any other rights or remedies that it may have against such Supporter by reason thereof, New England Power shall, by written notice to such Supporter, terminate as of the date of such Event of Default, all rights of such Supporter under this Agreement; provided, however, that in no event shall New England Power terminate a defaulting Supporter under this Section 16 if planning or construction of the AC Facilities is terminated or cancelled under Section 17 or the AC Facilities are permanently shutdown under Section 17 or termination under Section 18 occurs (since no reallocation of Support Shares is required in such events). New England Power may with the approval of Supporters (including New England Power) having 66-2/3% or more of the Support Shares waive any Event of Default hereunder or grant extensions of time to cure any Event of Default.

B. Immediately upon termination of the rights of a Supporter pursuant to A above:

- (i) if such defaulting Supporter was a Credit Enhanced Supporter as of the date of the Event of Default, then New England Power shall allocate the Support Share of the defaulting Supporter to Equity Sponsors or their appointees in accordance with Section 4C or D hereof; or

(ii) if such defaulting Supporter was not a Credit Enhanced Supporter as of the date of the Event of Default or the Support Share of the defaulting

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Supporter cannot be allocated under Section 4C or D hereof, then New England Power shall offer the Support Share of such defaulting Supporter to Equity Sponsors or their appointees in accordance with Section 4F hereof; provided that, if such Support Share is not so completely allocated, then New England Power will offer such unallocated Support Share to any Supporter whose most junior long term debt securities are then rated at least one grade above investment grade or, if not so rated, who has obtained the consent of New England Power and Supporters, including New England Power, then having 66-2/3% or more of the Support Shares (such offer and allocation to be made in accordance with Section 4F hereof); and provided further that such Equity Sponsors, or their appointees or Supporters receiving such an allocation accept an equal participating share under the Phase II HVDC Support Agreements and the Phase II Boston Edison AC Facilities Support Agreement; and

(iii) the defaulting Supporter shall pay to New England Power, in addition to any other amounts due under any provisions of this Agreement, an amount equal to its Support Share of the investment in the AC Facilities (including any cost of removal and disposal) less any depreciation and amortization relating to the AC Facilities to the date of such

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payment. New England Power will credit any amounts so received (less any costs incurred by New England Power relating to such default) to the depreciation and amortization accounts for the AC Facilities.

C. New England Power or any Supporter shall be free to invoke such remedies at law or in equity as may be deemed appropriate against any Supporter that defaults under this Agreement.

#### Section 17. Delay, Suspension, Termination, Cancellation, or Shutdown of the AC Facilities

If at any time New England Power determines that continued planning, construction, or operation of the AC Facilities is not advisable for any reason New England Power deems appropriate, it may delay, restrict, suspend, terminate or cancel planning or construction, terminate operation, or shut the AC Facilities down.

If (i) planning or construction of the AC Facilities is to be terminated or cancelled, or (ii) the AC Facilities are to be permanently shutdown, then New England Power shall give each Supporter not less than ninety (90) days advance written notice of any such event. Each Supporter shall pay to New England Power within not less than ninety (90) days of New England Power's notice thereof an amount, as specified in such notice and calculated as of such date of payment, equal to the sum of its Support Share of the investment in AC Facilities (less any depreciation and amortization to the date of payment) together

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with all costs relating to or resulting from such termination, cancellation or permanent shutdown, including without limitation any costs of total or partial demolition and disposal of the AC Facilities net of any actual salvage value received by New England Power including the proceeds from any sale.

If because of serious financial constraints New England Power determines that it cannot continue construction of the AC Facilities, New England Power has the right to request contributions in aid of construction from the Supporters. If Supporters (of which New England Power shall be one) having at least 66-2/3 of the Support Shares agree to make the requested contributions, then all Supporters, including New England Power, shall make such payments in accordance with Section 14, and New England Power will credit the amount of such payments to the investment in AC Facilities. If Supporters having at least 66-2/3 of the Support Shares do not so agree to make the requested contributions, then New England Power may terminate construction of the AC facilities in accordance with the immediately preceding paragraph.

If Supporters other than New England Power Company with aggregate Support Shares of 50% or more do not agree with New England Power's decision to terminate or cancel construction of the AC Facilities under this Section 17 other than a termination made pursuant to the immediately preceding

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paragraph, New England Power shall, upon receipt of the full amounts due pursuant to this Section, undertake to permit one or more Supporters, as designated by such Supporters with aggregate Support Shares of 50% or more, to continue construction of the AC Facilities and to use and operate the AC Facilities upon completion of construction for the remaining term of this Agreement.

#### Section 18. Termination by New England Power

If at any time New England Power elects and so notifies in writing all other Supporters that, as a result of a default under Section 16, the Support Share of a terminated Supporter is not allocated pursuant to the required or voluntary reallocation provisions under this Agreement, each Supporter's participation hereunder shall terminate not less than 90 days after the date of New England Power's written notice (the "effective date of termination"), and each Supporter on or before the effective date of termination shall pay to New England Power an amount calculated in accordance with the second paragraph of Section 17.

Upon termination of this Agreement pursuant to this Section 18, New England Power shall offer each Supporter which (i) was not a terminated Supporter immediately prior to termination of the Agreement pursuant to this Section 18 and (ii) has paid all amounts due under the first paragraph of this Section 18, an opportunity to participate in a new support agreement, provided

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that participants in such new support agreement agree to pay 100% of the costs of service of New England Power related to the AC Facilities. The new support agreement will have a term equal to the remaining term of this Agreement. Other provisions of the new support agreement will be substantially similar to those in this Agreement. The investment in AC

Facilities under the new support agreement shall be reduced by any amount received as termination payments hereunder which would be properly applied to utility plant accounts in accordance with the Uniform System less any costs of termination. Any participant in the new support agreement shall also be a supporter of the AC facilities of Boston Edison Company and, if the Phase II HVDC Support Agreements have not been terminated, of the transmission facilities of New Hampshire Hydro and New England Hydro.

No termination of this Agreement shall relieve any party of any obligation arising prior to making the payment to New England Power required by the first paragraph of this Section 18. In addition, notwithstanding the termination of this Agreement for other purposes, this Agreement shall continue in effect to the extent necessary to provide for paying all "windup costs" and final billings, billing adjustments and payments.

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#### Section 19. Miscellaneous

A. Insurance. New England Power will at all times during the term of this Agreement keep the AC Facilities insured against such risks as electric utility companies, similarly situated, constructing and operating like properties, usually insure against. Any uninsured loss, damage, or liability related to the AC Facilities or arising out of New England Power's performance hereunder and any expenses in connection with any such loss, damage, or liability shall be deemed to be an expense reimbursable by the Supporters in accordance with Section 13. New England Power will assist any Supporter, at the Supporter's expense, in obtaining any other insurance coverage related to the AC Facilities that such Supporter requires. Upon request, New England Power will supply certificates of insurance coverage.

B. Limitation of Liability. For and in consideration of the fact that New England Power is undertaking to design, engineer, procure, install, construct, operate, and maintain the AC Facilities for and on behalf of the other Supporters and itself without any compensation or charge other than the payments provided under this Agreement, no Supporter shall be entitled to recover from New England Power or any affiliate or any shareholder, officer, director, employee, or agent of New England Power or any affiliate, any damages resulting from error or delay, whether or not due to negligence, in the

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design, engineering, procurement, installation or construction of the AC Facilities, or for any damage to the AC Facilities, any curtailment of power, or any other damages of any kind, including but not limited to consequential damages, arising out of or in connection with the performance of this Agreement by New England Power. Notwithstanding the above limitation, if New England Power is found by a court of competent jurisdiction to have intentionally violated this Agreement in a

material manner or to have acted hereunder in a grossly negligent manner and if such court finding is final and no longer subject to appeal, then the Supporters shall be entitled to recover from New England Power direct damages (but not consequential or any other damages), resulting from such material intentional violation or gross negligence. New England Power will use its best efforts to enforce all contracts related to the construction and operation of the AC Facilities for the benefit of New England Power and the Supporters.

C. Audit. The books and records of New England Power (including metering records) related to this project shall be open to reasonable inspection and audit by any Supporter. The costs of any such audit, including the costs of New England Power in connection with such audit, shall be borne by the Supporter or Supporters requesting such audit. New England Power will promptly make any reasonable corrections necessitated as a result of such audit.

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D. Cost Reimbursement. In the event New England Power reasonably incurs any costs not provided for elsewhere herein in connection with or as a result of planning, organizing, documenting, construction, suspensions, rescheduling, cancellation, operation, maintenance, shutdown, demolition, disposition, or termination of the AC Facilities, or otherwise arising in connection with this Agreement, each Supporter shall promptly reimburse to New England Power, within 15 days of the mailing date of the invoice, its Support Share of such costs. However, New England Power will endeavor to account for any additional costs, to the extent such additional costs are properly capitalizable, over the shorter of the then remaining useful life of the AC Facilities or the remaining term of the Agreement.

E. Uncontrollable Force. No delay or failure in the performance of any obligation by New England Power shall be deemed to exist if it is the result of an "uncontrollable force". The term "uncontrollable force" shall be deemed to mean any cause beyond the reasonable control of New England Power, which New England Power could not reasonably have been expected to avoid by exercise of due diligence and foresight, including, without limiting the generality of the foregoing, storm, flood, lightning, earthquake, fire, explosion, failure of facilities not due to lack of proper care or maintenance, civil disturbance, labor disturbance, sabotage, war, national

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emergency, or restraint by court or public authority. In such event, New England Power shall use reasonable diligence to notify the Participants of such event.

F. Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of, and may be performed by, the successors and assigns of the parties and shall also be binding, insofar as permitted by law, on any receiver or trustee in bankruptcy, receivership, or reorganization of any party. Except (i) for a reallocation under Section 4 resulting from a default as provided in Section 16, (ii) for a sale, merger, or consolidation which results in the transfer of substantially all of a Supporter's assets to, and the assumption of all of the Supporter's obligations hereunder by, an electric utility which is a member of NEPOOL, and (iii) for an assignment by New England Power to an affiliated company of New England Power which expressly assumes New England Power's rights and obligations hereunder and acquires the

AC Facilities, and (iv) for a transfer of any or all of a Supporter's Support Share prior to the Effective Date as provided in Section 4 hereof, no assignment of this Agreement shall operate to relieve the assignor of its obligations under this Agreement without the written consent of the parties hereto. Written notice to all parties will be given prior to any assignment hereunder.

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G. Right of Setoff. No Supporter shall be entitled to set off against the payments required to be made by it hereunder (1) any amounts owed to it by New England Power, any affiliate of New England Power, or any other Supporter or (2) the amount of any claim by it against New England Power, any affiliate of New England Power, or any other Supporter. However, the foregoing shall not affect in any other way any Supporter's rights and remedies with respect to any such amounts owed to it by New England Power, any affiliate of New England Power, or any other Supporter or any such claim by it against New England Power or any other Supporter.

H. Amendments. New England Power shall have the right to amend the provisions of Section 13, including Attachments D and E, hereof from time to time by serving an appropriate statement of such amendment upon the Supporters and filing the same with the Federal Energy Regulatory Commission (or such other regulatory agency as may have jurisdiction) in accordance with the provisions of applicable laws and any rules and regulations thereunder, and the amendment shall thereupon become effective on the date specified therein, subject to any suspension order duly issued by such agency. The Supporters have the right to intervene in any regulatory proceeding brought by New England Power to consider such amendment of the provisions of Section 13.

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Any amendments changing the Support Shares of the Supporters (other than changes in Support Shares pursuant to Sections 4 and 16), the rights of the Supporters or a Supporter as specified in Sections 11 and 12, or the several nature of the obligations and rights of the Supporters hereunder as specified in Section 5, shall require consent by all parties. All other amendments to this Agreement shall be by mutual agreement of Supporters (of which New England Power shall be one) owning Support Shares aggregating at least 66-2/3%, evidenced by a written amendment signed by New England Power and such Supporters; and New England Power and all Supporters shall be bound by any such amendment.

I. Notices. Except as the parties may otherwise agree, any notice, request, bill, or other communication relating to this Agreement, or the rights, obligations or performance of the parties hereunder, shall be in writing and shall be effective upon delivery. Any such communication shall be considered as duly delivered when delivered in person or mailed by registered or certified mail, postage prepaid, to the respective post office address of the other parties shown following the signatures of such other parties hereto, or such other address as may be designated by written notice given as provided in this paragraph I.

J. Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of The Commonwealth of Massachusetts.

K. Other.

(1) No action, regardless of form, arising out of this Agreement may be brought by any party hereto more than three years after the cause of action has arisen.

(2) In the event that any clause or provision of this Agreement, or any part thereof, shall be declared invalid or unenforceable by any court having jurisdiction, such invalidity or unenforceability shall not affect the validity or enforceability of the remaining portions of this Agreement.

(3) All provisions of this Agreement providing for limitation of, or protection against, liability shall apply to the full extent permitted by law and shall survive either termination pursuant to this Agreement or cancellation.

(4) Each party shall, upon request of another party, execute and deliver any document reasonably required to implement any provision hereof.

(5) Any number of counterparts of this Agreement may be executed and each shall have the same force and effect as the original.

(6) This Agreement, with the other Basic. Agreements, Preliminary Quebec Interconnection Support Agreement - Phase II, the agreements with Hydro-Quebec regarding Phase II, and the basic agreements covering Phase I shall constitute the entire understanding among the parties and shall supersede any and all previous understandings pertaining to the subject matter of this Agreement.

(7) This Agreement is the act and obligation of the parties hereto in their corporate or governmental capacity, and any claim hereunder against any shareholder, director, officer, employee, or agent of any party, as such, is expressly waived.

IN WITNESS WHEREOF, the signatories have caused this Agreement to be executed by their duly authorized officers or agents.

NEW ENGLAND POWER COMPANY

By s/R.O. Bigelow  
Its Vice President

Address: 25 Research Drive  
Westborough, MA 01582

Vermont Electric Power Company, Inc., as agent for each Vermont electric utility named, and with authority to bind each By such utility to the Its President extent of the percentage interest of the VELCO entitlement hereunder that is specified, on Schedule 1 to this signature page.

VERMONT ELECTRIC POWER COMPANY, INC.

By s/ John Zuckernick  
Its President

Address: Pinnacle Ridge Road  
P. O. Box 548  
Rutland, VT 05701

CENTRAL MAINE POWER COMPANY

By s/ Donald F. Kelly  
Its Vice President of Power Supply

Address: Edison Drive  
Augusta, ME 04336

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BOSTON EDISON COMPANY

By s/ Stephen J. Sweeney  
Its President & CEO

Address: 800 Boylston Street  
Boston, MA 02199

CHICOPEE MUNICIPAL LIGHTING PLANT

By s/ Herve L. Plasse  
Its Manager

Address: 725 Front Street  
Chicopee, MA 01013

CENTRAL MAINE POWER COMPANY

By s/ Donald F. Kelly  
Its Vice President of Power Supply

Address: Edison Drive  
Augusta, ME 04336

THE CONNECTICUT LIGHT AND POWER COMPANY  
WESTERN MASSACHUSETTS ELECTRIC COMPANY  
HOLYOKE WATER POWER COMPANY  
HOLYOKE POWER AND ELECTRIC COMPANY

By s/ William B. Ellis  
Their Chairman  
c/o Northeast Utilities Service Co.

Address: P.O. Box 270  
Hartford, CT 06141-0270

FITCHBURG GAS AND ELECTRIC LIGHT COMPANY

By s/ Frank L. Childs  
Their Chairman

Address: 285 John Fitch Highway  
P. O. Box 2070  
Fitchburg, MA 01420

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THE UNITED ILLUMINATING COMPANY

By s/ Richard J. Grossi  
Its Exec. Vice President

Address: 80 Temple Street  
New Haven, CT 06506

BANGOR HYDRO-ELECTRIC COMPANY

By s/ T.A. Greenquist  
Its President

Address: 33 State Street  
Bangor, ME 04401

CANAL ELECTRIC COMPANY

By s/ Jeremiah V. Donovan  
Its President

Address: 675 Massachusetts Avenue  
Cambridge, MA 02139

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

By s/R. J. Harrison  
Its President & Chief Executive Officer

Address: 1000 Elm Street  
P. O. Box 330  
Manchester, NH 03105

MONTAUP ELECTRIC COMPANY

By s/Arthur A. Hatch  
Its Vice President

Address: c/o Eastern Utilities Associates  
P. O. Box 2333  
Boston, MA 02107

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MASSACHUSETTS MUNICIPAL WHOLESALE  
ELECTRIC COMPANY

By s/ Richard K. Byrne  
Its General Manager & Secretary

Address: P. O. Box 426  
Ludlow, MA 01056

TAUNTON MUNICIPAL LIGHTING PLANT

By s/ Joseph M. Blain  
Its General Manager

Address: 55 Weir Street  
Taunton, MA 02780

CONNECTICUT MUNICIPAL ELECTRIC ENERGY  
COOPERATIVE

By s/ Maurice R. Scully  
Its Executive Director

Address: 268 Thomas Road  
Groton, CT 06340

NEWPORT ELECTRIC CORPORATION

By s/ Elliot G. Whitney  
Its President & Gen. Mgr.

Address: 12 Turner Road  
P. O. Box 4128  
Middletown, R.I.  
02840-0011

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UNITIL POWER CORP.

By s/ David K. Foote  
Its Vice President

Address: 436 South River Road  
RFD #9  
Bedford, NH 03102-6197

PEABODY MUNICIPAL LIGHT PLANT

By s/ Bruce P. Patten  
Its Manager

Address: 70 Endicott Street  
Peabody, MA 01960

APPROVED:

By s/William A. Kennedy, Jr.  
Town Manager of Town of Holden

Town of Holden

TOWN OF HOLDEN

By s/Neil E. Murray  
Its Light Department Operating Manager

Address: Reservoir Street  
Holden, MA 01520

Light Department's  
1980 Kilowatthour load 63,676,000

TOWN OF MIDDLEBOROUGH

By s/John W. Dunfey  
Its General Manager

Address: 32 South Main Street  
Middleborough, MA 02346

Town of Middleborough

Light Department's  
1980 Kilowatthour load 92,081,000

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TOWN OF WAKEFIELD

By s/ William J. Wallace  
Its Manager

Wakefield Mun. Lt. Dept.  
Address: 9 Albion Street  
Wakefield, MA 01880

Town of Wakefield

Light Department's  
1980 Kilowatthour load 107,609,000

TOWN OF NORTH ATTLEBORO

By s/ David Sweetland  
Its Manager

Address: P.O. Box 790  
North Attleboro, MA 02761

Town of North Attleboro

Light Department's  
1980 Kilowatthour load 93,816,000

TOWN OF BOYLSTON

By s/ Edward H. Kimbell  
Its Manager

Address: Sanatorium Road  
Boylston, MA 01505

Town of Boylston

Light Department's  
1980 Kilowatthour load 17,324,000

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TOWN OF HINGHAM

By s/ Joseph R. Spadea, Jr.  
Its Manager

Address: Hingham Municipal  
Lighting Plant  
19 Elm Street  
Hingham, MA 02043

Town of Hingham

Light Department's  
1980 Kilowatthour load 103,929,000

TOWN OF ROWLEY

By s/ G. Robert Merry  
Its Manager

Address: Rowley Municipal Lighting Plant  
47 Summer Street  
Rowley, MA 01969

Town of Rowley

Light Department's  
1980 Kilowatthour load 13,551,000

TOWN OF HUDSON

By s/ Horst Huehmer  
Its Manager

Address: TOWN OF HUDSON,  
Light & Power Department,  
Hudson, MA

WESTFIELD GAS & ELECTRIC LIGHT DEPARTMENT

By s/ Daniel Golubek  
Its Manager

Address: 100 Elm Street  
Westfield, MA 01085

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TOWN OF BRAINTREE ELECTRIC LIGHT DEPARTMENT

By s/ Walter R. McGrath  
Its General Manager

Address: 44 Allen Street  
Braintree, MA 02184

Town of Braintree

Light Department's  
1980 Kilowatthour load 267,289,000

TOWN OF DANVERS

By s/ Wayne P. Marquis  
Its Town Manager

By s/ Michael W. Madore  
Its Electric Superintendent

Address: Electric Division  
2 Burroughs Street  
Danvers, MA 01923

Town of Danvers

Light Department's  
1980 Kilowatthour load 206,806,000

TOWN OF WEST BOYLSTON

By s/ Charles H. Coughlin  
Its Manager

Address: 4 Crescent Street  
West Boylston, MA 01583

Town of West Boylston

Light Department's  
1980 Kilowatthour load 43,974,000

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CITY OF HOLYOKE

By s/ G.E. Leary  
Its Manager

Address: Gas & Electric Department  
70 Suffolk Street  
Holyoke, MA 01040

City of Holyoke Light Department's  
1980 Kilowatthour load 232,301,707

TOWN OF READING

By s/ Allan Ames  
Its Secretary, Reading Municipal Light Board

Address: 25 Haven Street  
P.O. Box 150  
Reading, MA 01867

Town of Reading

Light Department's  
980 Kilowatthour load 401,794,849

CONCORD MUNICIPAL LIGHT PLANT

By s/Steven E. Sheiffer  
Its Town Manager  
Address: 135 Keyes Road  
Concord, MA 01742

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TOWN OF GROTON

By s/Roger H. Beeltje  
Its Manager of Municipal Light

Address: Groton Electric Light Department  
Station Avenue  
Groton, MA 01450

Town of Groton

Light Department's  
1980 Kilowatthour load 22,908,000

TOWN OF PRINCETON

By s/ Richard F. Wheeler  
Its Manager

Address: Municipal Light Department  
4 Town Hall Drive  
P.O. Box 247  
Princeton, MA 01541-0247

Town of Princeton

Light Department's  
1980 Kilowatthour load 7,130,000

TOWN OF SHREWSBURY

By s/ Thomas R. Josie  
Its Acting General Mgr

Address: 100 Maple Avenue  
Shrewsbury, MA 01545

Town of Shrewsbury

Light Department's  
1980 Kilowatthour load 146,303,000

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TOWN OF STERLING

By s/William H. Rugg  
Its Manager

Address: 50 Main Street  
Sterling, MA 01564-0430

Town of Sterling

Light Department's  
1980 Kilowatthour load 24,510,000

TOWN OF SOUTH HADLEY

By s/Wayne D. Doerpholz  
Its Manager

Address: 85 Main Street  
South Hadley, MA

Town of South Hadley

Light Department's  
1980 Kilowatthour load 99,981,000

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VELCO SCHEDULE 1

<u>Vermont Phase II Participant</u>	1980 Kilowatthour <u>Load</u>	Percentage <u>Interest</u>
Central Vermont Public Service Corporation	1,895,922,200	58.1197
Citizens Utilities Company	184,496,600	5.6558
Franklin Electric Light Company, Inc.	7,159,900	0.2195
Green Mountain Power Corporation	1,174,519,500	36.0050

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Schedule I

Vermont Electric Power Company, Inc.  
Contracting Electric Systems

Central Vermont Public Service Corporation  
Citizens Utilities Company  
Franklin Electric Light Company, Inc.  
Green Mountain Power Corporation

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Schedule II

Massachusetts Municipal Wholesale Electric Company  
Contracting Electric Systems

Massachusetts Systems

Town of Ashburnham Municipal Light Plant  
 Town of Georgetown Municipal Light Department  
 Town of Hull Municipal Lighting Plant  
 Town of Littleton Electric Light Department  
 Town of Mansfield Municipal Electric Department  
 Town of Marblehead Municipal Light Department  
 Town of Middleton Municipal Electric Department  
 Town of Paxton Municipal Light Department  
 Town of Templeton Municipal Lighting Plant

Rhode Island System

Pascoag Fire District

ATTACHMENT A

Except as provided below, if any participant does not receive required consents, waivers, regulatory approvals, or other actions of governmental authorities within the time period required by this Agreement, the listing of Participants and 1980 kilowatthour load will be appropriately modified.

Participant	1980 Kilowatthour Load
The Connecticut Light and Power Company	16,002,437,000
Western Massachusetts Electric Company	3,252,432,000
Holyoke Water Power Company	106,905,000
Holyoke Power and Electric Company	0
New England Power Company	15,444,975,840 (a), (b)
Boston Edison Company (Edison)	9,531,773,000 (b), (c)
Central Maine Power Company	6,053,571,000
Public Service Company of New Hampshire	5,043,242,871 (d)
The United Illuminating Company	4,715,078,120
Vermont Electric Power Company	3,262,098,200
Canal Electric Company	3,227,553,000
Montaup Electric Company	3,096,872,000 (e)
Bangor Hydro-Electric Company	1,305,625,118
Connecticut Municipal Electric Energy Cooperative	718,177,538
UNITIL Power Corp.	609,873,261 (f)
Massachusetts Municipal Wholesale Electric Company	470,025,000
Town of Reading Municipal Light Department	401,795,000
Newport Electric Corporation	382,745,000
Fitchburg Gas and Electric Light Co.	369,055,118
Taunton Municipal Lighting Plant	307,460,361
City of Chicopee Municipal Lighting Plant	279,273,169
Town of Braintree Electric Light Department	267,289,000
City of Peabody Municipal Light Plant	245,010,000
City of Westfield Gas & Electric Light Department	219,026,000
City of Holyoke Gas & Electric Light Department	214,448,000
Town of Danvers Electric Department	206,806,000
Town of Shrewsbury Electric Light Department	146,303,000
Hudson Light and Power Department	127,808,000
Town of Wakefield Municipal Lighting Department	107,609,000
Town of Hingham Municipal Lighting	103,929,000
Town of South Hadley Electric Light Department	99,981,000
Town of North Attleborough Electric Department	93,816,000
Town of Middleborough Gas and Electric Department	92,081,000
Town of Holden Municipal Light Department	63,676,000
Town of West Boylston Municipal Lighting Department	43,974,000
Town of Sterling Municipal Electric Department	24,510,000
Town of Groton Electric Light Department	22,908,000

Town of Boylston Municipal Light Department	17,324,000
Town of Rowley Municipal Light Department	13,551,000
Princeton Municipal Light Department	7,130,000
Town of Concord Municipal Light Plant	0 (c)
	<hr/>
	76,698,146,596

(a) Includes New Hampshire retail 1980 kilowatthour load of 434,290,243.

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(b) The 1980 Kilowatthour loads shown for Boston Edison Company and New England Power Company have been adjusted to reflect the current status of Norwood as a full requirements customer of New England Power Company.

(c) As of June 1, 1985, Concord continues to be a full requirements customer of Edison. At such time as Concord ceases to be a full requirements customer of Edison, for purposes of this Agreement, Concord shall have an additional Participating Share equal to 1.087% of Edison's initial Participating Share (based on a 1980 Kwh load of 103,629,000 Kwh for Concord) and Edison's Participating Share shall be reduced by such amount.

(d) Includes New Hampshire retail 1980 kilowatthour load of 4,939,218,744.

(e) The amount shown for Montaup Electric Company includes the load of the other members of the Eastern Utilities Associates system.

(f) The amount shown for UNITIL Power Corp. represents the 1980 kilowatthour load of its affiliates, Concord Electric Company and Exeter & Hampton Electric Company.

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#### ATTACHMENT B

##### Description of the AC Facilities

The AC Facilities will include the following:

- 1) 35.8 miles of 345 kV ac transmission line connecting Sandy Pond and Millbury #3 substations.
- 2) 16.0 miles of 345 kV ac transmission line connecting Millbury #3 to the West Medway substations (including about 2 miles of transmission line under lease from Boston Edison which provides Boston Edison with an option to terminate the lease and include such line under the Phase II Boston Edison AC Facilities Support Agreement).
- 3) 345 kV ac circuit breakers and miscellaneous equipment at Sandy Pond and Millbury #3.
- 4) Remove and rebuild two sections of two 115 kV ac transmission lines and remove and rebuild portions of two 69 kV ac transmission lines and support structures on the Sandy Pond to Millbury right-of-way; and install 115 kV ac circuit breakers and miscellaneous substation equipment.
- 5) Such other AC Facilities in Massachusetts as approved by the Supporters with aggregate Support Shares of 66 2/3% or more.

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#### ATTACHMENT C

Forms of the following documentation:

1. Opinion of Counsel
2. Certificate
3. Incumbency and Signature Certificate
4. Directors' Vote

[Please note - governmental entities may make appropriate modifications to these documents to reflect that they are not corporations.]

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[Form of Opinion of Counsel for Each Utility Participant]

New England Hydro-Transmission Electric Company, Inc.;  
 New England Hydro Transmission Corporation; or  
 New England Power Company

Gentlemen:

This opinion is furnished in connection with the execution and delivery by \_\_\_\_\_ (the Company) of the following Agreements: \_\_\_\_\_

We have acted as counsel to the Company, one of the Utility Participants, in connection with the execution and delivery of the Basic Agreements. We participated in reviewing and/or drafting the Agreements.

As general [special] counsel to the Company, we are generally familiar with its affairs. [If special counsel is giving the opinion, describe relationship to the Company.] We have reviewed the proceedings taken by the Company in connection with its authorization, execution, and delivery of the Agreements and any documentation supplied by the Company thereunder. We have also examined executed counterparts of the Agreements, have made such other investigation, and have examined such other records and documents, and have made such examination of law and satisfied ourselves as to such other matters as we have deemed relevant and necessary in order to enable us to express the opinions set forth below.

Based upon and subject to the foregoing and to the further qualifications in this opinion, we are of the opinion that:

1. The Company is a corporation duly organized, validly existing and in good standing under the laws of [the jurisdiction of its incorporation], has the corporate power to own its assets and to transact the business in which it is engaged, and is duly qualified as a foreign corporation in, and is in good standing under the laws of, each jurisdiction in which the conduct of its business or the ownership of its assets requires such qualification.

2. The Company has (and in the case of the Agreements at the time of execution and delivery thereof, had) full corporate power, and legal right to execute, deliver and perform the Agreements, and the Company has taken all necessary corporate action to authorize the execution, delivery, and performance by it of the Agreements.

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3. The execution, delivery, and performance by the Company of the Agreements do not (a) contravene the Company's [charter documents] or by-laws, (b) violate any applicable law, rule, regulation, order, writ, judgment, injunction, decree, or award known to us by which the Company is bound, (c) violate any indenture, instrument, or agreement known to us by which the Company is bound, or (d) result in or require the creation or the imposition of any lien pursuant to the provisions of any indenture, instrument, or agreement known to us by which the Company is bound.

4. No authorization, approval, consent, or other action by, and no notice to or filing with, any federal, state, or other governmental authority or regulatory body which has not been obtained or given and is not in full force and effect is required for the valid and lawful execution, delivery, and performance by the Company of the Agreements. [In this connection, to the extent it may be required by law, the approval of the Massachusetts Department of Public Utilities [Connecticut PUC, or other] has been given for the Agreements and the Company's performance thereunder by order(s) dated \_\_\_\_\_, which remains in full force and effect.]

5. The Agreements have each been duly executed and delivered by the Company and constitute the legal, valid, and binding obligations of the Company enforceable against it in accordance with their respective terms.

6. No action, suit, proceeding, or investigation at law or in equity or by or before any governmental instrumentality or other agency now pending or threatened against or affecting the Company or its property or rights which, if adversely determined, would materially impair the ability of the Company to perform its obligations under the Agreements is known to us. Our opinion that the Agreements are enforceable, each in accordance with the terms thereof, is qualified to the extent that the enforcement of the rights and remedies created thereby is subject to bankruptcy, insolvency, reorganization, and similar laws of general application affecting the rights and remedies of creditors and secured parties, and to the further extent that the availability of the remedies of specific enforcement, injunctive relief, or any other equitable remedy is subject to the discretion of the court before which any proceeding therefor may be brought.

Very truly yours,

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#### CERTIFICATE

I, (insert name), the Clerk (or Secretary or other principal recording officer) of (insert name of Utility Participant), a (insert state of organization) (the "Company") do hereby certify that:

(1) Attached hereto as Exhibit A is a true and correct copy of a vote duly adopted at a meeting of the Board of Directors of the

Company, duly called and held on \_\_\_\_\_, 198\_, and that such vote and the authority vested thereby have not been amended or revoked and are still in full force and effect.

(2) Attached hereto as Exhibit B is a true and correct copy of the Articles of Organization (or other charter documents) of the Company, as amended and in effect as of the date of this Certificate.

(3) Attached hereto as Exhibit C is a true and correct copy of the By-Laws of the Company, as amended and in effect as of the date of this Certificate.

(4) The persons (or person) listed on Exhibit D have been duly elected to the offices set forth adjacent to their respective names since the first day of June, 1985, and the signatures adjacent to their respective names are the genuine signatures of said officers.

IN WITNESS WHEREOF, I have placed my hand and the seal of the Company this \_\_\_\_\_ day of \_\_\_\_\_, 198\_.

By: \_\_\_\_\_

Name:

Title:

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CONFIRMATION OF INCUMBENCY AND SIGNATURE OF  
CLERK, SECRETARY, OR OTHER PRINCIPAL RECORDING OFFICER

I, (name), (title) of the Company, do hereby certify that (name of officer executing certificate) is and at all times subsequent to \_\_\_\_\_, 198\_, has been the duly elected (title) of the Company and that the signature adjacent to his (or her) name is the genuine signature of said officer.

By: \_\_\_\_\_

Name:

Title:

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FORM OF DIRECTORS' VOTE APPROVING AGREEMENTS

VOTED: That in connection with this Company's participation in the Phase II expansion of the proposed interconnection between the New England Power Pool companies and Hydro-Quebec, the execution and delivery on behalf of this Company by \_\_\_\_\_, President, of the following agreements: (being collectively referred to in this vote as "Agreements") copies of which Agreements have been presented at this meeting, are hereby authorized, approved, ratified, and confirmed, and that the officers of this Company are further authorized severally to take any and all such further actions including the execution and delivery of such further documents, as such officers or any of them may deem necessary or appropriate in connection with the actions and documents authorized by this vote.

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ATTACHMENT D

Determination of Monthly Fixed Costs

Monthly Fixed Costs shall be 1/12 of the sum of Items 4, 5, 6, and 7 below.

Item 1. Investment in AC Facilities

Investment in AC Facilities shall be the total cost incurred by New England Power from time to time, as reflected in its plant accounts, of constructing the AC Facilities including construction work in progress, less a credit to reflect the difference in cost between the size of the existing conductors and those being installed for facilities described in item 4 of Attachment B. The amount of any contributions in aid of construction made in accordance with Section 17 shall be credited to the investment in AC Facilities. The net book value of the portion of New England Power's rights of way allocable to the new 345 kV facilities shall be included in the

investment in the AC Facilities. New England Power shall credit to investment in AC Facilities any amounts it receives from Boston Edison for the sale of a portion of the AC Facilities described in item (2) to Attachment B hereto, excluding any expenses relating to such sale.

#### Item 2. Net Investment in AC Facilities

The net investment in AC Facilities at any time shall be the investment in the AC Facilities determined in accordance with Item 1 less the sum of the following taken at the same time:

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(a) Accumulated depreciation accrued at the rate applicable in accordance with Item 7 and reflecting retirements, costs of removal and salvage, and

(b) Accumulated deferred Federal and state income taxes (not including any reserves for investment tax credits) arising from liberalized depreciation which are available to New England Power with respect to the AC Facilities under tax laws existing from time to time during the term of this Agreement.

#### Item 3. Prepaid Items and Working Capital

Prepaid items and working capital shall be the cost to New England Power of prepaid expenses and materials and supplies reasonably required to be on hand for the AC Facilities plus an allowance for cash working capital. Any allowance for cash working capital shall be limited to that not sufficiently recovered through the use of estimated billing for the current month.

#### Item 4. Investment Expense

The annual investment expense shall be the annual cost of capital related to the AC Facilities determined by multiplying (a) the arithmetic average of the sum of Items 2 and 3 determined as of the beginning and end of the current year by (b) the overall rate of return determined in accordance with the further provisions of this Item 4.

The overall rate of return shall equal the sum of the long-term debt, preferred stock, and common equity components, determined as follows:

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##### (a) Long-term Debt Component

The long-term debt component shall be the product of (1) the weighted average effective cost of money of 30-year taxable bonds issued by New England Power during the period from the Effective Date to the Date of Full Support Payment or, in the event that no such bonds are issued in this period, the yield on "A" utility bonds at the end of the year prior to the Date of Full Support Payment as published by Moody's Investors Service, times (2) the actual ratio of long-term debt to total permanent capital of New England Power at the end of the year prior to the Date of Full Support Payment.

##### (b) Preferred Stock Component

The preferred stock component shall be the product of (1) the weighted average effective cost of money of preferred stock issued by New England Power during the period from the Effective Date to the Date of Full Support Payment or, in the event that no such preferred stock is issued in this period, the dividend rate on "A" utility preferred stocks at the end of the year prior to the Date of Full Support Payment as published by Moody's Investors Service, times (2) the actual ratio of preferred stock to total permanent capital of New England Power at the end of the year prior to the Date of Full Support Payment.

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##### (c) Common Equity Component

The common equity component shall be the product of (1) the Return on Equity times (2) the actual ratio of common equity to total permanent capital of New England Power at the end of the year prior to the Date of Full Support Payment.

"Return on Equity" shall be the return on equity on file with the FERC and in effect under the Federal Power Act. New England Power shall from time to time request from the FERC a specific return on equity.

Item 5. Income and Franchise Tax Expenses

The income and franchise tax expenses shall be the annual amount of such taxes charged to expense by New England Power with respect to the AC Facilities after taking into account the normalization of timing differences and the flow through of permanent differences between book income and tax income. New England Power shall normalize investment tax credits relating to the AC Facilities by crediting expenses by an amount sufficient to amortize the balance in New England Power's unamortized investment tax credit account relating to the AC Facilities over the same period which NEP depreciates its other facilities which are similar to the AC Facilities.

Item 6. Property and Other Tax Expense

The property and other tax expense shall be the annual property tax expense and any other tax expense charged by New England Power to expense and directly allocable with respect to the AC Facilities.

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Item 7. Depreciation Expense

The annual depreciation expense shall be a percentage of the depreciable portion of the investment in the AC Facilities determined in accordance with Item 1 (including estimated cost of removal less any salvage which salvage value, for the purpose of calculating such depreciation will not exceed the amount of cost of removal). The percentage shall be established on a straight line basis over the same period which NEP depreciates its other facilities which are similar to the AC Facilities.

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ATTACHMENT E

Determination of Monthly Operating Costs

Monthly operating costs shall be the actual expense related to operation and maintenance of the AC Facilities or reasonable estimates thereof for the billed month as reportable on FERC Form No. 1, or any amendment thereto or replacement thereof, plus overheads consisting of allocable administrative and general expenses and payroll-related taxes. Procedures used in determining appropriate overheads shall be in accordance with good utility accounting practice and consistent with New England Power's usual practices. After the AC Facilities described in item number 4 on Attachment B are completed, monthly operating costs shall exclude any such costs relating to such AC Facilities.

Prior to the Date of Full Support Payment, New England Power will accrue all monthly operating costs incurred which relate to the AC Facilities in a deferred asset account on its books. On or about the Date of Full Support Payment and monthly thereafter, New England Power will include with its current monthly operating cost charges relating to the AC Facilities amounts sufficient to amortize such previously accrued operating costs over five years. Until such costs are billed and recovered from the Supporters, New England Power will accrue interest on such unamortized deferred operating cost charges at a rate equivalent to its current overall rate of return including a provision for taxes.

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ATTACHMENT F

As a result of the support arrangements for building, owning, and financing the AC Facilities, Equity Sponsors under the Equity Funding Agreements have provided certain credit support for the project in excess of their Support Shares or those of their appointees.

A Credit Enhanced Supporter shall mean any Supporter which is also then a Credit Enhanced Participant under either of the Phase II HVDC Support Agreements. If the Phase II HVDC Support Agreements have been terminated, then a Credit Enhanced Supporter shall mean any Supporter that, immediately prior to the effective date of termination of the Phase II HVDC Support Agreements, was also a Credit Enhanced Participant thereunder.

As compensation to Equity Sponsors for providing this additional credit support, a Credit Enhancement Charge is required to be paid by the Supporters. If a Supporter is a Credit Enhanced Supporter by reason of below-investment grade, withdrawn or suspended debt ratings, the Credit Enhancement Charge attributed to that Credit Enhanced Supporter will be paid by all Supporters with each Supporter paying its Support Share thereof; provided, however, that if a Supporter is a Credit Enhanced Supporter due to lack of debt

ratings, the Credit Enhancement Charge attributed to that Credit Enhanced Supporter shall be paid by such Supporter.

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The Credit Enhancement Charge (A) attributed to a Credit Enhanced Supporter is a dollar value determined monthly by the following formula for each Supporter which is a Credit Enhanced Supporter (or was a Credit Enhanced Supporter):

$$A = 1/12 \times B/100 \times C/100 \times D \times E/100 + F$$

where B = the Supporter's Support Share (in percent)

C = the ratio of long-term debt to total permanent capital of New England Power (a) if prior to the month in which the Date of Full Support Payment occurs, at the end of the month, or (b) if in or after the month in which the Date of Full Support Payment occurs, at the end of the calendar year prior to the Date of Full Support Payment (in percent).

D = the net investment in AC Facilities at the end of the month.

E = debt premium (in percent) for the Credit Enhanced Supporter as shown in the following table:

<u>Credit Enhanced Supporter's Debt Rating*</u>	<u>E(%)</u>
Below B3 or not rated	7.57
B3	5.32
B2	4.82
B1	4.32
Ba3	3.82
Ba2	3.32
Ba1	2.82

\*Debt rating shall be the lower of the two highest ratings assigned to the Credit Enhanced

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Supporter's junior long-term debt by Moody's, Standard and Poor's, and Duff & Phelps, converted to a Moody's equivalent as measured at the date such Supporter first became a Credit Enhanced Supporter. If the Supporter has a Support Share of four tenths of one percent (0.4%) or less and has only one debt rating, then the debt rating for that Supporter shall be such rating converted to a Moody's equivalent as measured at the date such Supporter first became a Credit Enhanced Supporter.

F = an amount calculated as follows: During the period from the Effective Date to the Date of Full Support Payment, F shall equal 0 and the Credit Enhancement Charge calculated during such period pursuant to the above formula shall be accrued for each Supporter with interest calculated at New England Power's AFDC rate. After the Date of Full Support Payment, such previously accrued amount for such Supporter shall be treated as if it represented additional investment in the AC Facilities relating only to such Supporter. As a result, F shall include monthly amounts representing amortization of such previously accrued amount (with amortization over the same period which the investment in the AC Facilities is being amortized) plus one-twelfth of the overall rate of return (as defined in Attachment D hereof) times such unamortized accrued amount plus a provision for income taxes.

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#### ATTACHMENT G

#### Determination of Supporters' Share of Costs Associated with Interface Restrictions

The following methodology is meant to provide a general framework to determine the sharing of costs under Section 12A. The Supporters recognize that given the term of this Agreement, this methodology may have to be changed from time to time to reflect then current practices. Modifications shall be proposed by New England Power Company for approval by Supporters with aggregate Support Shares of 66-2/3% or more.

Determination of such costs shall be as follows:

1. Separate load flow studies will be made from time to time for each Hydro-Quebec purchase with deliveries from Hydro-Quebec represented by an appropriate allocation between Comerford and Sandy Pond. These load flow studies will be revised with each major change in transmission system configuration.
2. For the load flow case representing the Phase II Firm Energy Contract, a load equal to each Supporter's percent share of the Hydro-Quebec maximum delivery, less any reductions for any entitlement transactions with Hydro-Quebec, will be represented at each Supporter's load center(s). For each load flow case representing a specific entitlement purchase from Hydro-Quebec, the entire maximum delivery from Hydro-Quebec will be represented at the load center(s) of the purchaser.
3. For each load-flow case, the aggregate resulting flow across the limited interface will be calculated.
4. In each case, this resulting flow will then be compared (i) to the AC Facilities Interface Transfer Capability Share less reductions for entitlements in the case of the Phase II Firm Energy Contract or (ii) to the individual Supporter's Supported Transfer Capability Share or fraction thereof in the case of an entitlement transaction with Hydro-Quebec. If the flow is in excess of the allocated transfer capability, the amount in excess will be used in the then applicable NEPOOL procedure to determine the dollar amount (if any) chargeable as a result of the restriction either to the Phase II Hydro-Quebec

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Savings Fund or to the individual Supporter, as applicable. If the allocated transfer capability exceeds the above determined flow, there is no charge related to the transaction with Hydro-Quebec and this excess may be used by the Supporter for other transactions.

CONFORMED

AMENDMENT NO. 1  
TO  
PHASE II NEW ENGLAND POWER AC  
FACILITIES SUPPORT AGREEMENT

This Amendment, dated as of May 1, 1986, is between New England Power Company (New England Power), and the New England utilities listed in Attachment A to the Phase II New England Power AC Support Agreement, dated as of June 1, 1985 (the "New England Power AC Support Agreement"), and amends the New England Power AC Support Agreement as hereinafter provided.

In consideration of the premises and other good and valuable consideration, receipt of which is hereby acknowledged, and pursuant to the provision of Section 19H of the New England Power AC Support Agreement, it is hereby agreed as follows:

- 1 Certain terms defined in the New England Power AC Support Agreement are used herein with the meanings there provided.
2. Attachments A and F of the New England Power AC Support Agreement are hereby deleted and replaced with the Attachments A and F attached hereto.
3. This Amendment shall become binding upon New England Power and the Supporters when it has been executed by Supporters (of which New England Power shall be one) owning Support Shares aggregating at least 66-2/3%.
4. Any number of counterparts of this Amendment may be executed, and each shall have the same force and effect as an original instrument and as if all the parties to all of the counterparts had signed the same instrument.

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IN WITNESS WHEREOF, the signatories have caused this Amendment to be executed by their duly authorized officers or agents.

NEW ENGLAND POWER COMPANY

By s/ J.F. Kaslow  
Its President

Address: 25 Research Drive  
Westborough, MA 01582

VERMONT ELECTRIC POWER COMPANY, INC., as  
Agent for Central Vermont Public Service  
Corporation, Citizens Utilities Company,  
Franklin Electric Light Company, Inc., and  
Green Mountain Power Corporation

By s/ Richard W. Mallery  
Its President

Address: Pinnacle Ridge Road  
P. O. Box 548  
Rutland, VT 05701

CENTRAL MAINE POWER COMPANY

By s/ Donald F. Kelly  
Its Vice President, Power Supply

Address: Edison Drive  
Augusta, ME 04336

BOSTON EDISON COMPANY

By s/ Stephen J. Sweeney  
Its President & CEO

Address: 800 Boylston Street  
Boston, MA 02199

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CHICOPEE MUNICIPAL LIGHTING PLANT

By s/ Herve L. Plasse  
Its Manager

Address: 725 Front Street  
Chicopee, MA 01013

THE CONNECTICUT LIGHT AND POWER COMPANY  
WESTERN MASSACHUSETTS ELECTRIC COMPANY  
HOLYOKE WATER POWER COMPANY  
HOLYOKE POWER AND ELECTRIC COMPANY

By s/ W.T. Schultheis  
Their Vice President

Address: c/o Northeast Utilities Service Company  
P.O. Box 270  
Hartford, CT 06141-0270

FITCHBURG GAS AND ELECTRIC LIGHT COMPANY

By s/ Frank L. Childs  
Its President

Address: 285 John Fitch Highway  
P. O. Box 2070  
Fitchburg, MA 01420

THE UNITED ILLUMINATING COMPANY

By s/ Richard J. Grossi  
Its Exec. Vice President & COO

Address: 80 Temple Street  
New Haven, CT 06506

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BANGOR HYDRO-ELECTRIC COMPANY

By s/ T.A. Greenquist  
Its Chairman of the Board and President

Address: 33 State Street  
Bangor, ME 04401

CANAL ELECTRIC COMPANY

By s/ Jeremiah V. Donovan  
Its President

Address: 675 Massachusetts Avenue  
Cambridge, MA 02139

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

By s/ R. J. Harrison  
Its President and Chief Executive Officer

Address: 1000 Elm Street  
P. O. Box 330  
Manchester, NH 03105

MONTAUP ELECTRIC COMPANY

By s/Arthur A. Hatch  
Its Vice President

Address: c/o Eastern Utilities Associates  
P. O. Box 2333  
Boston, MA 02107

MASSACHUSETTS MUNICIPAL WHOLESALE  
ELECTRIC COMPANY

By s/Richard K. Byrne

Its General Manager & Secretary  
Address: P. O. Box 426  
Ludlow, MA 01056

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TAUNTON MUNICIPAL LIGHTING PLANT

By s/ Joseph M. Blain  
Its General Manager

Address: 55 Weir Street  
Taunton, MA 02780

CONNECTICUT MUNICIPAL ELECTRIC ENERGY  
COOPERATIVE

By s/Maurice R. Scully  
Its Executive Director

Address: 268 Thomas Road  
Groton, CT 06340

NEWPORT ELECTRIC CORPORATION

By s/Elliot G. Whitney  
Its President & Gen. Mgr.

Address: 12 Turner Road  
P. O. Box 4128  
Middletown, R.I.  
02840-0011

UNITIL POWER CORP.

By s/David K. Foote  
Its Vice President

Address: 40 Constitution Drive  
Bedford, NH 03102-6197

PEABODY MUNICIPAL LIGHT PLANT

By s/ Bruce P. Patten  
Its Manager

Address: 70 Endicott Street  
Peabody, MA 01960

TOWN OF HOLDEN

By s/ Neil E. Murray  
Its Light Department Op. Mgr.

By s/ Brian J. Bullock  
Its Town Manager

Address: Reservoir Street  
Holden, MA 01520

TOWN OF MIDDLEBOROUGH

By s/ John W. Dunfey  
Its Manager

Address: Town Hall  
Nickerson Avenue  
Middleborough, MA 02346

TOWN OF WAKEFIELD

By s/ William J. Wallace  
Its Manager

Address: 9 Albion Street  
Wakefield, MA 01880

TOWN OF NORTH ATTLEBORO

By s/ David Sweetland  
Its Manager

Address: P.O. Box 790  
North Attleboro, MA 02761

TOWN OF BOYLSTON

By  
Its  
Address: Sanatorium Road  
Boylston, MA 01505

TOWN OF HINGHAM

By s/ Joseph R. Spadea, Jr.  
Its Manager  
Address: Hingham Municipal Lighting Plant  
19 Elm Street  
Hingham, MA 02043

TOWN OF ROWLEY

By s/ G. Robert Merry  
Its Manager  
Address: Rowley Municipal Lighting Plant  
47 Summer Street  
Rowley, MA 01969

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TOWN OF HUDSON LIGHT AND POWER DEPARTMENT

By s/ Horst Huehmer  
Its Manager

Address: Hudson, MA

WESTFIELD GAS & ELECTRIC LIGHT DEPARTMENT

By s/ Daniel Golubek  
Its Manager

Address: 100 Elm Street  
Westfield, MA 01085

TOWN OF BRAINTREE ELECTRIC LIGHT DEPARTMENT

By s/ Walter R. McGrath  
Its General Manager

Address: 44 Allen Street  
Braintree, MA 02184

TOWN OF DANVERS

By s/ Michael w. Madore s/ Newton H. Sweet, Jr.  
Its Electric Supt. / Acting Town Manager

TOWN OF WEST BOYLSTON

By s/Charles H. Coughlin  
Its Manager

Address: 4 Crescent Street  
West Boylston, MA 01583

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CITY OF HOLYOKE

By s/G.E. Leary  
Its Mgr.

Address: Gas & Electric Department  
70 Suffolk Street  
Holyoke, MA 01040

TOWN OF READING

By s/Allan Ames  
Its Secretary, Reading Municipal Light Board

Address: 25 Haven Street  
P.O. Box 150  
Reading, MA 01867

CONCORD MUNICIPAL LIGHT PLANT

By s/Steven E. Sheiffer  
Its Town Manager

Address: 135 Keyes Road  
Concord, MA 01742

TOWN OF GROTON

By s/Roger H. Beeltje  
Its Manager

Address: Groton Electric Light Department  
Station Avenue  
Groton, MA 01450

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TOWN OF PRINCETON

By s/ Richard F. Wheeler  
Its Manager

Address: Municipal Light Department  
4 Town Hall Drive  
P.O. Box 247  
Princeton, MA 01541-0247

TOWN OF SHREWSBURY

By s/ Thomas R. Josie  
Its General Mgr

Address: 100 Maple Avenue  
Shrewsbury, MA 01545

TOWN OF STERLING

By s/William H. Rugg  
Its Manager

Address: 50 Main Street  
Sterling, MA 01564-0430

TOWN OF SOUTH HADLEY

By s/Wayne D. Doerpholz  
Its Manager

Address: 85 Main Street  
South Hadley, MA

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ATTACHMENT A

If any participant does not receive required consents, waivers, regulatory approvals, or other actions of governmental authorities within the time period required by this Agreement, the listing of Supporters and 1980 kilowatthour load will be appropriately modified.

SUPPORTERS

1980 KILOWATTHOUR LOAD

Fitchburg Gas and Electric Light Co.	369,055,118
The United Illuminating Company	4,715,078,120
Bangor Hydro-Electric Company	1,305,625,118
Canal Electric Company	3,227,553,000
Public Service Company of New Hampshire	5,043,242,871
Central Maine Power Company	6,053,571,000
Vermont Electric Power Company	3,262,098,200
Boston Edison Company (Edison)	9,531,773,000 (c), (d)
City of Chicopee Municipal Lighting Plant	279,273,169
The Connecticut Light and Power Company	16,002,437,000
Western Massachusetts Electric Company	3,252,432,000
Holyoke Water Power Company	106,905,000
Holyoke Power and Electric Company	0

Newport Electric Corporation	382,745,000
Montaup Electric Company	3,096,872,000 (b)
Connecticut Municipal Electric Energy Cooperative	718,177,538
Massachusetts Municipal Wholesale Electric Company (MMWEC)	483,576,000 (c), (f)
Taunton Municipal Lighting Plant	307,460,361
UNITIL Power Corp.	609,873,261 (e)
New England Power Company (NEP)	15,444,975,840 (a), (d)
Town of Peabody Municipal Light Plant	245,010,000 (f)
Town of Holden Municipal Light Department	63,676,000 (f)
Hudson Light and Power Department	127,808,000 (f)
Town of Middleborough Gas and Electric Department	92,081,000 (f)
Town of Braintree Electric Light Department	267,289,000 (f)
Town of Hingham Municipal Lighting Plant	103,929,000 (f)
Town of Boylston Municipal Light Department	17,324,000 (f)
Town of North Attleborough Electric Department	93,816,000 (f)
Town of Wakefield Municipal Lighting Department	107,609,000 (f)
City of Westfield Gas & Electric Light Department	219,026,000 (f)
Town of Danvers Electric Department	206,806,000 (f)
Town of West Boylston Municipal Lighting Plant	43,974,000 (f)
City of Holyoke Gas & Electric Light Department	214,448,000 (f)
Town of Reading Municipal Light Department	401,795,000 (f)
Town of Concord Municipal Light Plant	0 (c), (f)
Town of Groton Electric Light Department	22,908,000 (f)

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Princeton Municipal Light Department	7,130,000 (f)
Town of Shrewsbury Electric Light Department	146,303,000 (f)
Town of Sterling Municipal Electric Department	24,510,000 (f)
Town of South Hadley	99,981,000 (f)

(a) Includes New Hampshire retail 1980 kilowatthour load of 434,290,243.

(b) The amount shown for Montaup Electric Company includes the load of the other members of the Eastern Utilities Associates system.

(c) (1) Concord Municipal Light Plant has elected to be a direct signatory to this Agreement. However, if it does not receive required consents, waivers, regulatory approvals, or other actions of governmental authorities within the time period required, Concord will be grouped with MMWEC. (2) As of June 1, 1985, Concord continues to be a full requirements customer of Edison. At such time as Concord ceases to be a full requirements customer of Edison, for purposes of this Agreement, either Concord or MMWEC, whichever is appropriate, shall have an additional Support Share equal to 1.087% of Edison's initial Support Share (based on a 1980 Kwh load of 103,629,000 Kwh for Concord) and Edison's Support Share shall be reduced by such amount.

(d) The 1980 kilowatthour loads shown for Boston Edison Company and New England, Power Company have been adjusted to reflect the current status of Norwood as a full requirements customer of New England Power Company.

(e) The amount shown for UNITIL Power Corp. represents the 1980 kilowatthour load of its affiliates, Concord Electric Company and Exeter & Hampton Electric Company.

(f) The amount shown for any of these municipal utilities will be added to MWEC's amount if such municipal (i) does not receive the required consents, waivers, regulatory approvals, or other actions of governmental authorities within the time period required by this Agreement, and (ii) elects at that time to be grouped with MMWEC.

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5/29/86

As a result of the support arrangements for building, owning, and financing the AC Facilities, Equity Sponsors under the Equity Funding Agreements have provided certain credit support for the project in excess of their Support Shares or those of their appointees. As compensation to Equity Sponsors for providing this additional credit support, a Credit Enhancement Charge is required to be paid by each Supporter which is a Credit Enhanced Supporter or was a Credit Enhanced Supporter during construction of the AC Facilities that has not fully paid its Credit Enhancement Charge accrued during the construction period.

The Credit Enhancement Charge (A) is a dollar value determined monthly by the following formula for each Supporter which is a Credit Enhanced Supporter (or was a Credit Enhanced Supporter as described above):

$$A = 1/12 \times B/100 \times C/100 \times D \times E/100 + F$$

where B = the Supporter's Support Share (in percent)

C = the ratio of long-term debt to total permanent capital of New England Power (a) if prior to the month in which the Date of Full Support Payment occurs, at the end of the month, or (b) if in or after the month in which the Date of Full Support Payment occurs, at the end of the calendar year prior to the Date of Full Support Payment (in percent).

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5/29/86

D = the net investment in AC Facilities at the end of the month.

E = debt premium (in percent) for the Credit Enhanced Supporter as shown in the following table:

<u>Credit Enhanced Supporter's Debt Rating*</u>	<u>E(%)</u>
Below B3 or not rated	7.57
B3	5.32
B2	4.82
B1	4.32
Ba3	3.82
Bat	3.32
Bal	2.82

\*Debt rating shall be the lower of the two highest ratings assigned to the Credit Enhanced Supporter's junior long-term debt by Moody's, Standard and Poor's, and Duff & Phelps, converted to a Moody's equivalent as measured at the date such Supporter first became a Credit Enhanced Supporter. If the Supporter has a Support Share of four tenths of one percent (0.4%) or less and has only one debt rating, then the debt rating for that Supporter shall be such rating converted to a Moody's equivalent as measured at the date such Supporter first became a Credit Enhanced Supporter.

F = an amount calculated as follows: During the period from the Effective Date to the Date of Full Support Payment, F shall equal 0 and the Credit Enhancement Charge calculated during such period pursuant to the above formula shall be accrued for each Supporter with interest calculated at New England Power's AFDC rate. After the Date of Full Support Payment, such previously accrued amount for such Supporter shall be treated as if it represented additional investment in the AC Facilities relating only to such Supporter. As a result, each such Supporter shall pay as F monthly amounts representing amortization of such previously accrued amount (with amortization over the same period which the investment in the AC Facilities is being amortized) plus one-twelfth of the overall rate of return (as defined in Attachment D hereof) times such unamortized accrued amount plus a provision for income taxes.

CONFORMED

AMENDMENT NO. 2  
TO  
PHASE II NEW ENGLAND POWER AC  
FACILITIES SUPPORT AGREEMENT

This Amendment, dated as of February 1, 1987, is between New England Power Company (New England Power), and the New

England utilities listed in Attachment A to the Phase II New England Power AC Support Agreement, dated as of June 1, 1985, as amended by Amendment No. 1, dated as of May 1, 1986, (the "New England Power AC Support Agreement"), and amends the New England Power AC Support Agreement as hereinafter provided.

In consideration of the premises and other good and valuable consideration, receipt of which is hereby acknowledged, and pursuant to the provision of Section 19H of the New England Power AC Support Agreement, it is hereby agreed as follows:

1. Certain terms defined in the New England Power AC Support Agreement are used herein with the meanings there provided.

2. Attachment D of the New England Power AC Support Agreement is hereby amended by deleting paragraph (c) of Item 4 thereof and replacing it with the following:

"(c) Common Equity Component

The common equity component shall be the product of (1) the Return on Equity times (2) the actual ratio of common equity to total permanent capital of New England Power at the end of the year prior to the Date of Full Support Payment.

"Return on Equity" shall be the return on equity on file with the FERC and in effect under the Federal Power Act.

New England Power shall from time to time request from the FERC a specific return on equity.

(i) Each Supporter agrees not to intervene in opposition to a request for a rate of return on equity ("R") filed by New England Power if such return is equal to or less than the rate determined in accordance with the applicable formula in paragraph (ii) below. Nothing in this section shall affect (a) the right of New England Power to request a rate of return on equity greater than that determined in accordance with the applicable formula in paragraph (ii) below or (b) the right of any Supporter to intervene in opposition to any such request.

(ii) If the FERC generic return on equity continues to be published for rate making purposes, then "R" shall be equal to the FERC generic return on equity in effect for filings made as of the date of the filing. If the FERC generic return on equity is no longer published for rate making purposes, then "R" shall be determined in accordance with the following formula:

$$R = A + B + C + D$$

where:

(1) A = Weighted average return on the average of three money market indicators

$$A = \frac{.25(E + F + G) + .75(H + I + J)}{3}$$

where:

E = The most recently available yield to maturity for Moody's "A" rated Public Utility Bonds.

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F = The most recently available yield for 10 year Constant Maturity Treasury Bonds.

G = The most recently released figure for the annualized increase in the United States GNP price deflator.

H = The average yield to maturity for the most recently available 36 month period for Moody's "A" rated Public Utility Bonds.

I = The average yield for 10 year Constant Maturity Treasury Bonds for the most recently available 36 month period.

J = The average of the annualized percentage increases in the United States GNP price deflator for the most recent 36 month period.

(2) B = The average equity premium required for utility stocks over the past 20 years.

$$B = K - \frac{L + M + N}{3}$$

where:

K = the average for the most recent 20 years of the sum of (i) the average annual yield for Moody's Electric Utility Common Stock, plus (ii) the ten year growth in dividends per share for such group of electric utilities.

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L = the average for the most recent 20 years of yields to maturity for Moody's "A" rated Utility Bonds.

M = The average for the most recent 20 years of the yield on ten year constant maturity treasury bonds.

N = The average for the most recent 20 years of the average annual percentage change in the United States GNP price deflator.

(3) C = issuance cost for common equity

$$C = .05(A + 8)$$

(4) D = a dilution allowance to compensate the parent company of New England Power for sale of common shares at a market price below book value

D = a percentage from 0 to 1 determined on a straight line basis where 1 represents the weighted average of the common shares of the parent company of New England Power selling at 30% below book and 0 represents those shares selling at book value. This percentage shall be calculated semiannually as of January 1 and July 1 of each year until the AC Facilities go into commercial operation. Each calculation shall cover the period beginning as of January 1 in the year this Agreement is dated as of and ending as of the date of the calculation. Book value is the average month end book value during a calculation period, and

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market price is the average of each quarter's high and low market price during calculation period. The calculation made as of January or July next preceding the date of commercial operation of the AC Facilities will be the percentage used thereafter until the end of the term of this Agreement.

Should any of the indices used in calculating the values of A and B be discontinued, or should the underlying basis for the calculations in any of these indices be modified, New England Power may substitute a substantially similar index for such discontinued or modified index.

Recognizing that this is a long-term contract and that money market conditions can drastically change over time, New England Power retains the option, if the above formulae produce for two consecutive months a number lower than the arithmetic average of the return on common equity approved within the last twelve months by regulatory commissions having jurisdiction over rates for each of the investor owned public electric utilities as reported in the publication "Argus Utility Scope Regulatory Service - Returns Authorized" to use such average return as the return on equity. In the event this publication is no longer currently available, New England Power will use a substantially similar publication which is available."

3. This Amendment shall become binding upon New England Power and the Supporters when it has been executed by Supporters (of which New England Power shall be one) owning Support Shares aggregating at least 66-2/3%.

4. Any number of counterparts of this Amendment may be executed, and each shall have the same force and effect as an original instrument and as if all the parties to all of the counterparts had signed the same instrument.

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IN WITNESS WHEREOF, the signatories have caused this Amendment to be executed by their duly authorized officers or agents.

NEW ENGLAND POWER COMPANY

By s/J.F. Kaslow  
Its President

Address: 25 Research Drive  
Westborough, MA 01582

BANGOR HYDRO-ELECTRIC COMPANY

By s/T.A. Greenquist  
Its Chairman and President

Address: 33 State Street  
Bangor, ME 04401

BOSTON EDISON COMPANY

By s/Stephen J. Sweeney  
Its Pres. and CEO

Address: 800 Boylston Street  
Boston, MA 02199

CANAL ELECTRIC COMPANY on its behalf  
and/or as agent for COMMONWEALTH  
ELECTRIC COMPANY and/or CAMBRIDGE  
ELECTRIC LIGHT COMPANY

By s/Jeremiah V. Donovan  
Its President

Address: 2421 Cranberry Highway  
Wareham, MA 02571

CENTRAL MAINE POWER COMPANY

By s/Donald F. Kelly  
Its Vice President, Power Supply

Address: Edison Drive  
Augusta, ME 04336

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CONNECTICUT MUNICIPAL ELECTRIC ENERGY  
COOPERATIVE

By s/Maurice R. Scully  
Its Executive Director

Address: 268 Thomas Road  
Groton, CT 06340

FITCHBURG GAS AND ELECTRIC LIGHT COMPANY

By s/Lawrence T. Gingrow, Jr.  
Its Vice President

Address: 285 John Fitch Highway  
Fitchburg, MA 01420

MONTAUP ELECTRIC COMPANY

By s/Donald G. Pardus  
Its President

Address: c/o Eastern Utilities Associates  
P. O. Box 2333  
Boston, MA. 02107

NEWPORT ELECTRIC CORPORATION

By s/Elliott G. Whitney  
Its President

Address: 12 Turner Road  
P. O. Box 4128  
Middletown, R.I. 02840

THE CONNECTICUT LIGHT AND POWER COMPANY  
WESTERN MASSACHUSETTS ELECTRIC COMPANY  
HOLYOKE WATER POWER COMPANY  
HOLYOKE POWER AND ELECTRIC COMPANY

By s/Walter F. Torrance, Jr.  
Its Senior Vice President

Address: P. O. Box 270  
Hartford, CT 06141-0270

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THE UNITED ILLUMINATING COMPANY

By s/James T. Crowe  
Its Senior Vice President,  
Marketing

Address: 80 Temple Street  
New Haven, CT 06506

UNITIL POWER CORP.

By s/David K. Foote  
Its Vice President

Address: 40 Constitution Drive  
Bedford, NH 03102-1959

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CONFORMED

AMENDMENT NO. 3  
TO  
PHASE II NEW ENGLAND POWER AC  
FACILITIES SUPPORT AGREEMENT

This Amendment, dated as of June 1, 1987, is between New England Power Company (New England Power), and the New England utilities listed in Attachment A to the Phase II New England Power AC Support Agreement, dated as of June 1, 1985, as amended by Amendment No. 1, dated as of May 1, 1986, and Amendment No. 2, dated as of February 1, 1987, (the "New England Power AC Support Agreement"), and amends the New England Power AC Support Agreement as hereinafter provided.

In consideration of the premises and other good and valuable consideration, receipt of which is hereby acknowledged, and pursuant to the provision of Section 19H of the New England Power AC Support Agreement, it is hereby agreed as follows:

1. Certain terms defined in the New England Power AC Support Agreement are used herein with the meanings there provided.

2. Attachment D of the New England Power AC Support Agreement is hereby amended by deleting paragraph (c) of Item 4 thereof and replacing it with the following:

"(c) Common Equity Component

The common equity component shall be the product of (1) the Return on Equity times (2) the actual ratio of common equity to total permanent capital of New England Power at the end of the year prior to the Date of Full Support Payment.

"Return on Equity" shall be the return on equity on file with the FERC and in effect under the Federal Power Act.

New England Power shall from time to time request from the FERC a specific return on equity."

3. This Amendment shall become binding upon New England Power and the Supporters when it has been executed by Supporters (of which New England Power shall be one) owning Support Shares aggregating at least 66-2/3%.

4. Any number of counterparts of this Amendment may be executed, and each shall have the same force and effect as an original instrument and as if all the parties to all of the counterparts had signed the same instrument.

IN WITNESS WHEREOF, the signatories have caused this Amendment to be executed by their duly authorized officers or agents.

NEW ENGLAND POWER COMPANY

By s/ R. O. Bigelow  
Its Vice President

Address: 25 Research Drive  
Westborough, MA 01582

BANGOR HYDRO-ELECTRIC COMPANY

By s/ T. A. Greenquist  
Its Chairman of the Board &  
President

Address: 33 State Street  
P.O. Box 932  
Bangor, ME 04401

BOSTON EDISON COMPANY

By s/ Stephen J. Sweeney  
Its Pres. & CEO

Address: 800 Boylston Street  
Boston, MA 02199

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WEST BOYLSTON MUNICIPAL LIGHTING PLANT

By s/ Charles H. Coughlin  
Its Manager

Address: 4 Crescent Street  
West Boylston, MA 01583

WESTFIELD GAS & ELECTRIC DEPT.

By s/ Daniel Colubec  
Its Manager

Address: 100 Elm Street  
Westfield, MA 01085

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CONFORMED

AMENDMENT NO. 4  
TO  
PHASE II NEW ENGLAND POWER AC  
FACILITIES SUPPORT AGREEMENT

This Amendment, dated as of September 1, 1987, is between New England Power Company (New England Power), and the New England utilities listed in Attachment A to the Phase II New England Power AC Support Agreement, dated as of June 1, 1985, as amended by Amendment No. 1, dated as of May 1, 1986, Amendment No. 2, dated as of February 1, 1987, and Amendment No. 3, dated as of June 1, 1987, (the "New England Power AC Support Agreement") and amends the New England Power AC Support Agreement as hereinafter provided.

In consideration of the premises and other good and valuable consideration, receipt of which is hereby acknowledged, and pursuant to the provision of Section 19H of the New England Power AC Support Agreement, it is hereby agreed as follows:

1. Certain terms defined in the New England Power AC Support Agreement are used herein with the meanings there provided.
2. Section 13 is hereby deleted and replaced with the following Section 13:

Section 13. Support Charge

Commencing with the month in which the Date of Full Support Payment occurs (as defined in Section 14) and in each month thereafter, each Supporter shall pay in accordance with Section 14 its Support Share of a monthly Support Charge in an amount determined in accordance with this Section 13, plus a Credit Enhancement Charge as calculated in accordance with Attachment F.

The Support Charge shall be equal to New England Power's total supported cost of service related to the AC Facilities for such month. The "total supported cost of service related to the AC Facilities" for any month commencing with the month in which the Date of Full Support Payment occurs shall equal (A + B) where:

- A = the Monthly Fixed Costs as determined in accordance with Attachment D; and  
B = the Monthly Operating Costs as determined in accordance with Attachment E.

All costs included in the total cost of service related to the AC Facilities shall be in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission, as from time to time in effect.

If a Support Charge payment under Section 14 is to be calculated from a date other than the first day of a month, an appropriate proration of "A" and "B" above shall be made for such payment only.

On the fifteenth day of each month, New England Power will promptly pay to each Equity Sponsor its pro rata share of the Credit Enhancement Charges received through the preceding month.

[End of Section 13]

3. Section 14 is hereby amended by inserting in the first sentence of the fourth paragraph thereof after the words "Credit Enhanced Supporter" the following:

"(as defined in Attachment F)"

4. Attachment F of the New England Power AC Support Agreement is hereby deleted and replaced with the following Attachment F:

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#### ATTACHMENT F

As a result of the support arrangements for building, owning, and financing the AC Facilities, Equity Sponsors under the Equity Funding Agreements have provided certain credit support for the project in excess of their Support Shares or those of their appointees.

A Credit Enhanced Supporter shall mean any Supporter which is also then a Credit Enhanced Participant under either of the Phase II HVDC Support Agreements. If the Phase II HVDC Support Agreements have been terminated, then a Credit Enhanced Supporter shall mean any Supporter that, immediately prior to the effective date of termination of the Phase II HVDC Support Agreements, was also a Credit Enhanced Participant thereunder.

As compensation to Equity Sponsors for providing this additional credit support, a Credit Enhancement Charge is required to be paid by the Supporters. If a Supporter is a Credit Enhanced Supporter by reason of below-investment grade, withdrawn or suspended debt ratings, the Credit Enhancement Charge attributed to that Credit Enhanced Supporter will be paid by all Supporters with each Supporter paying its Support Share thereof; provided, however, that if a Supporter is a Credit Enhanced Supporter due to lack of debt ratings, the Credit Enhancement Charge attributed to that Credit Enhanced Supporter shall be paid by such Supporter.

The Credit Enhancement Charge (A) attributed to a Credit Enhanced Supporter is a dollar value determined monthly by the following formula for each Supporter which is a Credit Enhanced Supporter (or was a Credit Enhanced Supporter):

$$A = 1/12 \times B/100 \times C/100 \times D \times E/100 + F$$

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where B = the Supporter's Support Share (in percent)

C = the ratio of long-term debt to total permanent capital of New England Power (a) if prior to the month in which the Date of Full Support Payment occurs, at the end of the month, or (b) if in or after the month in which the Date of Full Support Payment occurs, at the end of the calendar year prior to the Date of Full Support Payment (in percent).

D = the net investment in AC Facilities at the end of the month.

E = debt premium (in percent) for the Credit Enhanced Supporter as shown in the following table:

<u>Credit Enhanced Supporter's Debt Rating*</u>	<u>E(%)</u>
Below B3 or not rated	7.57
B3	5.32
B2	4.82
B1	4.32
Ba3	3.82
Ba2	3.32
Ba1	2.82

\*Debt rating shall be the lower of the two highest ratings assigned to the Credit Enhanced Supporter's junior long-term debt by Moody's, Standard and Poor's, and Duff & Phelps, converted to a Moody's equivalent as measured at the date such Supporter first became a Credit Enhanced Supporter. If the Supporter has a Support Share of four tenths of one percent (0.4%) or less and has only one debt rating, then the debt rating for that Supporter shall be such rating converted to a Moody's equivalent as measured at the date such Supporter first became a Credit Enhanced Supporter.

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F = an amount calculated as follows:

During the period from the Effective Date to the Date of Full Support Payment, F shall equal 0 and the Credit Enhancement Charge calculated during such period pursuant to the above formula shall be accrued for each Supporter with interest calculated at New England Power's AFDC rate. After the Date of Full Support Payment, such previously accrued amount for such Supporter shall be treated as if it represented additional investment in the AC Facilities relating only to such Supporter. As a result, F shall include monthly amounts representing amortization of such previously accrued amount (with amortization over the same period which the investment in the AC Facilities is being amortized) plus one-twelfth of the overall rate of return (as defined in Attachment D hereof) times such unamortized accrued amount plus a provision for income taxes.

[End of Attachment F]

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5. This Amendment shall become binding upon New England Power and the Supporters when it has been executed by Supporters (of which New England Power shall be one) owning Support Shares aggregating at least 66-2/3%.
6. Any number of counterparts of this Amendment may be executed, and each shall have the same force and effect as an original instrument and as if all the parties to all of the counterparts had signed the same instrument.

IN WITNESS WHEREOF, the signatories have caused this Amendment to be executed by their duly authorized officers or agents.

NEW ENGLAND POWER COMPANY

By s/R.O. Bigelow  
Its Vice President

Address: 25 Research Drive  
Westborough, MA 01582

BOSTON EDISON COMPANY

By s/Stephen J. Sweeney  
Its Chairman and CEO

Address: 800 Boylston Street  
Boston, MA 02199

CANAL ELECTRIC COMPANY

By s/Jeremiah V. Donovan  
Its President

Address: 2421 Cranberry Highway  
Wareham, MA 02571

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CONNECTICUT MUNICIPAL ELECTRIC ENERGY  
COOPERATIVE

By s/Maurice R. Scully  
Its Executive Director

Address: 268 Thomas Road  
Groton, CT 06340

FITCHBURG GAS AND ELECTRIC LIGHT COMPANY

By s/Frank L. Childs

Its President

Address: P. O. Box 2070  
Fitchburg, MA 01420

MONTAUP ELECTRIC COMPANY

By s/Donald G. Pardus  
Its President

Address: c/o Eastern Utilities Associates  
P. O. Box 2333  
Boston, MA. 02107

NEWPORT ELECTRIC CORPORATION

By s/Elliott G. Whitney  
Its President

Address: 12 Turner Road  
P. O. Box 4128  
Middletown, R.I 02840

THE CONNECTICUT LIGHT AND POWER COMPANY  
WESTERN MASSACHUSETTS ELECTRIC COMPANY  
HOLYOKE WATER POWER COMPANY  
HOLYOKE POWER AND ELECTRIC COMPANY

By s/Walter F. Torrance, Jr.  
Its Senior Vice President

Address: P. O. Box 270  
Hartford, CT 06141-0270

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PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

By s/R.J. Harrison  
Its President and Chief Executive  
Officer

Address: 1000 Elm Street  
P.O. Box 330  
Manchester, NH 03105-0330

THE UNITED ILLUMINATING COMPANY

By s/Richard J. Grossi  
Its Executive Vice President & COO

Address: 80 Temple Street  
New Haven, CT 06506

UNITIL POWER CORP.

By s/David K. Foote  
Its Vice President

Address: 40 Constitution Drive  
Bedford, NH 03102-1959

VERMONT ELECTRIC POWER COMPANY, INC., as  
Agent for Citizens Utilities Co.,  
Franklin Electric Light Co., Green  
Mountain Power Corp., and Central  
Vermont Public Service Corporation

By s/Richard W. Mallery  
Its President

Address: Pinnacle Ridge Road  
P.O. Box 548  
Rutland, Vermont 05701

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CONFORMED

AMENDMENT NO. 5  
TO  
PHASE II NEW ENGLAND POWER AC  
FACILITIES SUPPORT AGREEMENT

This Amendment, dated as of August 1, 1988, is between New England Power Company (New England Power), and the New England utilities listed in Attachment A to the Phase II New England Power AC Support Agreement, dated as of June 1, 1985, as amended (the "New England Power AC Support Agreement") and amends the New England Power AC Support Agreement as hereinafter provided.

In consideration of the premises and other good and valuable consideration, receipt of which is hereby acknowledged, and pursuant to the provision of Section 19H of the New England Power AC Support Agreement, it is hereby agreed as follows:

1. Certain terms defined in the New England Power AC Support Agreement are used herein with the meanings therein provided.
2. Section 2 is hereby amended by (i) changing each reference to a "June 1, 1986" deadline to "September 15, 1988," and (ii) changing each reference to a "March 1, 1986" deadline to "September 1, 1988."
3. Section 2 is hereby amended by deleting, in the last paragraph thereof, the word "Section" and inserting in lieu thereof "Agreement."
4. Section 4A is hereby amended by deleting, in the second paragraph thereof, the words "on and as of June 1, 1986, (or such other later deadline as specified by New England Power under Section 2)," and inserting in lieu thereof "on or before the Effective Date."
5. Section 4B is hereby amended by deleting the word "date".
6. Section 15 is hereby amended by adding the following clause to the end of the first sentence thereof:  
"; provided, however, that nothing in this Section 15 shall (a) prevent a Supporter from transferring its interests and obligations hereunder to another Supporter prior to the Effective Date, or (b) impose any continuing liabilities or obligations on said transferring Supporter with respect to this Agreement incurred or relating to the period of time after said transferring Supporter's Support Share has been reduced to zero."
7. Section 19F is hereby amended by inserting into the second sentence thereof after the words "the AC Facilities," the following:  
"and (iv) for a transfer of any or all of a Supporter's Support Share prior to the Effective Date as provided in Section 4 hereof,"
8. The first attached Schedule I is hereby deleted and replaced with the second attached Schedule I.
9. Schedule II is hereby deleted and replaced with the attached Schedule II.

10. Attachment A to the Agreement is hereby deleted and replaced with the attached Attachment A.

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11. Any number of counterparts of this Amendment may be executed, and each shall have the same force and effect as an original instrument and as if all the parties to all of the counterparts had signed the same instrument.

IN WITNESS WHEREOF, the signatories have caused this Amendment to be executed by their duly authorized officers or agents.

NEW ENGLAND POWER COMPANY

By s/ J.F. Kaslow  
Its President

Address: 25 Research Drive  
Westborough, MA 01582

BOSTON EDISON COMPANY

By s/ Stephen J. Sweeney  
Its President & CEO

Address: 800 Boylston Street  
Boston, MA 02199

BOYLSTON MUNICIPAL LIGHT DEPT

By s/ H. Bradford White, Jr.  
Its Manager

Address: Sanatorium Road  
Boylston, MA 01505

BRAINTREE ELECTRIC LIGHT DEPARTMENT

By s/ Walter R. McGrath  
Its General Manager

Address: 44 Allen Street  
Braintree, MA 02184

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CANAL ELECTRIC COMPANY

By s/ Jeremiah V. Donovan  
Its President

Address: 2421 Cranberry Highway  
Wareham, MA 02571

CITY OF CHICOPEE MUNICIPAL LIGHTING PLANT

By s/ Barry W. Soden  
Its Manager

Address: 725 Front Street  
Chicopee, MA 01013

CONCORDS MUNICIPAL LIGHT PLANT

By s/ Daniel J. Sack  
Its Superintendent

Address: 135 Keyes Road  
Concord, MA 01742

CONNECTICUT MUNICIPAL ELECTRIC ENERGY  
COOPERATIVE

By s/ Maurice R. Scully  
Its Executive Director

Address: 30 Stott Avenue  
Norwich, CT 06360-1535

TOWN OF DANVERS ELECTRIC DIVISION

By s/ Wayne P. Marquis  
Its Town Manager

Address: 2 Burroughs Street  
Danvers, MA 01923

FITCHBURG GAS AND ELECTRIC LIGHT COMPANY

By s/ Frank L. Childs  
Its President

Address: 285 John Fitch Highway  
Fitchburg, MA 01420-8207

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GROTON ELECTRIC LIGHT DEPT.

By s/ Roger H. Beeltje  
Its Manager

Address: P. O. Box 679  
Station Avenue  
Groton, MA 01450

HINGHAM MUNICIPAL LIGHTING PLANT

By s/ Joseph R. Spadea, Jr.  
Its General Manager

Address: 19 Elm Street  
Hingham, MA 02043  
TOWN OF HOLDEN

By s/ Brian J. Bullock  
Its Town Manager

Address: 1204 Main Street  
Holden, MA 01520

HOLYOKE GAS AND ELECTRIC DEPARTMENT

By s/ G.E. Leary  
Its Manager

Address: 70 Suffolk Street  
Holyoke, MA 01040

HUDSON LIGHT AND POWER DEPARTMENT

By s/ Horst Huehmer  
Its Manager

Address: 49 Forest Avenue  
Hudson, MA 01749

MIDDLEBOROUGH GAS & ELECTIC DEPARTMENT

By s/ John W. Dunfey  
Its General Manager

Address: 32 South Main Street  
Middleborough, MA 02346 -2396

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MONTAUP ELECTRIC COMPANY

By s/ Robert F. Wolff  
Its Vice President

Address: c/o Eastern Utilities Associates  
P. O. Box 2333  
Boston, MA 02107

NEWPORT ELECTRIC CORPORATION

By s/ Elliot G. Whitney  
Its President

Address: 12 Turner Road  
P. O. Box 4128  
Middletown, RI 02840-0011

THE CONNECTICUT LIGHT AND POWER COMPANY  
WESTERN MASSACHUSETTS ELECTRIC COMPANY  
HOLYOKE WATER POWER COMPANY  
HOLYOKE POWER AND ELECTRIC COMPANY

By s/ W. T. Schultheis  
Its Vice President

Address: P. O. Box 270  
Hartford, CT 06141

PEABODY MUNICIPAL LIGHT PLANT

By s/ Victor Unhao  
Its Assistant Manager

Address: 70 Endicott Street  
Peabody, MA 01960

PRINCETON MUNICIPAL LIGHT DEPT.

By s/ Sharon A. Staz  
Its Manager

Address: P. O. Box 247  
Princeton, MA 01541

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\*Signature of this amendment in no way affects PSNH's right to assume or reject the underlying contract and the amendment will be treated as if executed immediately before PSNH filed its petition in Bankruptcy.

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

By s/ R. J. Harrison  
Its President and Chief Executive Officer

Address: 1000 Elm Street  
P. O. Box 330  
Manchester, NH 03105-0330

ROWLEY MUNICIPAL LIGHTING PLANT

By s/ Robert Merry  
Its Manager

Address: 47 Summer Street  
Rowley, MA 01969

SHREWSBURY'S ELECTRIC LIGHT PLANT

By s/ Thomas R. Josie  
Its General Manager

Address: 100 Maple Avenue  
Shrewsbury, MA 01545

TAUNTON MUNICIPAL LIGHT PLANT

By s/ Joseph M. Blain  
Its General Manager

Address: 55 Weir Street  
Taunton, MA 02780

UNITED ILLUMINATING COMPANY

By s/ James F. Crowe  
Its Senior Vice President

Address: 80 Temple Street  
New Haven, CT 06506

UNITIL POWER CORP.

By s/ David K. Foote  
Its Vice President

Address: 216 Epping Road  
Exeter, NH 03833

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VERMONT ELECTRIC POWER COMPANY, INC.

By s/ Richard W. Mallary  
Its President

Address: P. O. Box 548  
Rutland, VT 05701

WAKEFIELD MUN. LT. DEPT.

By s/ William J. Wallace  
Its Manager

Address: 9 Albion Street  
Wakefield, MA 01880

WEST BOYLSTON MUNICIPAL LIGHTING PLANT

By s/ Robert E. Goodnow  
Its Chairman

Address: 4 Crescent Street  
West Boylston, MA 01583

WESTFIELD GAS & ELECTRIC LIGHT DEPARTMENT

By s/ Daniel Golubek  
Its Manager

Address: 100 Elm Street  
Westfield, MA 01085

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Schedule I

Vermont Electric Power Company, Inc.  
Contracting Electric Systems

City of Burlington Electric Department  
Central Vermont Public Service Corporation  
Citizens Utilities Company  
Village of Enosburg Falls Water & Light Department  
Franklin Electric Light Company  
Green Mountain Power Corporation  
Village of Hardwick Electric Department  
Village of Ludlow Electric Light Department  
Village of Lyndonville Electric Department  
Village of Morrisville Water & Light Department  
Village of Northfield Electric Department  
Village of Stowe Water and Light Department  
Village of Swanton  
Vermont Electric Generation & Transmission Coop., Inc.  
Vermont Marble Company  
Washington Electric Cooperative, Inc.

[DELETED]

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Schedule I

Vermont Electric Power Company, Inc.  
Contracting Electric Systems

Central Vermont Public Service Corporation  
Citizens Utilities Company  
Franklin Electric Light Company, Inc.  
Green Mountain Power Corporation

[INSERTED]

Schedule II

Massachusetts Municipal Wholesale Electric Company  
Contracting Electric Systems

Massachusetts Systems

Town of Ashburnham Municipal Light Plant  
Town of Georgetown Municipal Light Department  
Town of Hull Municipal Lighting Plant  
Town of Littleton Electric Light Department  
Town of Mansfield Municipal Electric Department  
Town of Marblehead Municipal Light Department  
Town of Middleton Municipal Electric Department  
Town of Paxton Municipal Light Department  
Town of Templeton Municipal Lighting Plant

Rhode Island System

Pascoag Fire District

ATTACHMENT A

Except as provided below, if any participant does not receive required consents, waivers, regulatory approvals, or other actions of governmental authorities within the time period required by this Agreement, the listing of Participants and 1980 kilowatthour load will be appropriately modified.

<u>Participant</u>	<u>1980 Kilowatthour Load</u>
The Connecticut Light and Power Company	16,002,437,000
Western Massachusetts Electric Company	3,252,432,000
Holyoke Water Power Company	106,905,000
Holyoke Power and Electric Company	0
New England Power Company	15,444,975,840 (a), (b)
Boston Edison Company (Edison)	9,531,773,000 (b), (c)
Central Maine Power Company	6,053,571,000
Public Service Company of New Hampshire	5,043,242,871 (d)
The United Illuminating Company	4,715,078,120
Vermont Electric Power Company	3,262,098,200
Canal Electric Company	3,227,553,000
Montaup Electric Company	3,096,872,000 (e)
Bangor Hydro-Electric Company	1,305,625,118
Connecticut Municipal Electric Energy Cooperative	718,177,538
UNITIL Power Corp.	609,873,261 (f)
Massachusetts Municipal Wholesale Electric Company	470,025,000
Town of Reading Municipal Light Department	401,795,000
Newport Electric Corporation	382,745,000
Fitchburg Gas and Electric Light Co.	369,055,118
Taunton Municipal Lighting Plant	307,460,361
City of Chicopee Municipal Lighting Plant	279,273,169
Town of Braintree Electric Light Department	267,289,000
City of Peabody Municipal Light Plant	245,010,000
City of Westfield Gas & Electric Light Department	219,026,000
City of Holyoke Gas & Electric Light Department	214,448,000
Town of Danvers Electric Department	206,806,000
Town of Shrewsbury Electric Light Department	146,303,000
Hudson Light and Power Department	127,808,000
Town of Wakefield Municipal Lighting Department	107,609,000

Town of Hingham Municipal Lighting	103,929,000
Town of South Hadley Electric Light Department	99,981,000
Town of North Attleborough Electric Department	93,816,000
Town of Middleborough Gas and Electric Department	92,081,000
Town of Holden Municipal Light Department	63,676,000
Town of West Boylston Municipal Lighting Department	43,974,000
Town of Sterling Municipal Electric Department	24,510,000
Town of Groton Electric Light Department	22,908,000
Town of Boylston Municipal Light Department	17,324,000
Town of Rowley Municipal Light Department	13,551,000
Princeton Municipal Light Department	7,130,000
Town of Concord Municipal Light Plant	0 (c)
	<hr/>
	76,698,146,596

(a) Includes the New Hampshire retail 1980 kilowatthour load of 434,290,243.

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- (b) The 1980 Kilowatthour loads shown for Boston Edison Company and New England Power Company have been adjusted to reflect the current status of Norwood as a full requirements customer of New England Power Company.
- (c) As of June 1, 1985, Concord continues to be a full requirements customer of Edison. At such time as Concord ceases to be a full requirements customer of Edison, for purposes of this Agreement, Concord shall have an additional Participating Share equal to 1.087% of Edison's initial Participating Share (based on a 1980 Kwh load of 103,629,000 Kwh for Concord) and Edison's Participating Share shall be reduced by such amount.
- (d) Includes New Hampshire retail 1980 kilowatthour load of 4,939,218,744.
- (e) The amount shown for Montaup Electric Company includes the load of the other members of the Eastern Utilities Associates system.
- (f) The amount shown for UNITIL Power Corp. represents the 1980 kilowatthour load of its affiliates, Concord Electric Company and Exeter & Hampton Electric Company.

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**(COMPOSITE CONFORMED COPY - as amended)**

- Amendment No. 1- May 1, 1986**
- Amendment No. 2-February 1, 1987**
- Amendment No. 3-June 1, 1987**
- Amendment No. 4-Sept. 1, 1987**
- Amendment No. 5-October 1, 1987**
- Amendment No. 6-August 1, 1988**
- Amendment No. 7-January 1, 1989**
- Amendment No. 8-January 1, 1990**

**PHASE II NEW HAMPSHIRE TRANSMISSION**

**FACILITIES SUPPORT AGREEMENT**

**Dated as of June 1, 1985**

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PHASE II NEW HAMPSHIRE TRANSMISSION  
FACILITIES SUPPORT AGREEMENT

This AGREEMENT dated as of June 1, 1985, is between New England Hydro-Transmission Corporation (New Hampshire Hydro) and the New England utilities listed in Attachment A hereto. Those New England utilities that have executed this Agreement and meet the further conditions for participation hereunder are hereinafter referred to as Participants or individually as a Participant. The Participants, each of which is a member of the New England Power Pool (NEPOOL), are sometimes referred to collectively herein, but their rights and obligations hereunder are several and not joint as described in Section 5 hereof.

In consideration of the premises, the concurrent execution of the other Basic Agreements hereinafter referred to, the mutual covenants hereinafter and therein set forth, and other good and valuable consideration, receipt whereof is hereby acknowledged, it is hereby agreed as follows:

Section 1. Basic Understandings and Purpose

Some or all of the Participants are participants in the existing arrangements for the Phase I interconnection planned by NEPOOL with Hydro-Quebec, which is to consist of a  $\pm$  450 kV HVDC transmission line from a terminal at the Des Cantons Substation on the Hydro-Quebec system near Sherbrooke, Quebec to a terminal having an approximate rating of 690 MW at a substation at the Comerford Generating Station on the Connecticut River (hereinafter referred to as Phase I). The basic arrangements covering the portion of Phase I in the United States are set forth in the New England Power Pool Agreement, as amended (the NEPOOL Agreement) and three contracts among the participants in Phase I as follows:

1. Vermont Transmission Line Support Agreement, dated as of December 1, 1981, as amended, with Vermont Electric Transmission Company, Inc.
2. Phase I Terminal Facilities Support Agreement, dated as of December 1, 1981, as amended, with New England Electric Transmission Corporation, and
3. Agreement With Respect To Use Of Quebec Interconnection, dated as of December 1, 1981, as amended, including the restatement thereof in connection with Phase II (this Agreement as restated to cover Phase II is hereinafter referred to as the Use Agreement).

These Phase I interconnection facilities are currently under construction with completion scheduled during 1986.

With the completion of arrangements for Phase I and the related contracts with Hydro-Quebec, the members of NEPOOL have conducted studies of the benefits of an expanded interconnection for NEPOOL with Hydro-Quebec (Phase II) and have negotiated with Hydro-Quebec a firm energy arrangement to utilize the expanded interconnection facilities. The results of these studies indicate that such an expansion of the interconnection capacity will be beneficial to the New England utilities and to their respective customers.

The portion of Phase II in the United States will consist of an extension of the Phase I DC transmission line from the proposed terminus of Phase I at the Comerford Station through New Hampshire to a site in Massachusetts with additional terminal facilities installed at that site to increase the total transfer capacity between Hydro Quebec and NEPOOL from the 690 MW of Phase I to approximately 2000 MW. Reinforcements to the existing AC transmission system of New England Power and to certain AC facilities of Boston Edison Company will also be required. The United States portion of the Phase II facilities will be designated as pool-planned

facilities in the same manner as the United States portion of the Phase I facilities was so designated.

Hydro Quebec and the Participants have agreed to enter into a ten year energy contract for Phase II. Under that contract, the Participants would purchase, at favorable prices from Hydro Quebec, 7 Twh of energy per year. The Phase II energy will provide an opportunity to displace oil as a fuel for generation and should reduce consumers' annual fuel costs in New England. The commitment of Hydro Quebec to supply to the Participants this large amount of energy should also defer New England's need for expensive new generation. There is also the potential for additional benefits from Phase II, such as energy banking, energy interchange, and emergency transfer for mutual reliability purposes.

Studies performed on behalf of and by NEPOOL show that the aggregate present value of these benefits is expected to significantly exceed the cost of Phase II. The Phase I Support Agreements provide for allocation of participation in Phase II pro rata among all Participants based upon their proportionate shares of the 1980 NEPOOL load with provision for some preferential allocations to certain Participants involved in Phase II.

Each Participant acknowledges that it has been represented on the Executive and Planning Committees of NEPOOL that had responsibility for evaluating the feasibility of Phase II and, through this representation, actively participated in the decision of NEPOOL to go forward with Phase II. Furthermore, each Participant represents that it made its own independent investigations and inquiries as it deemed appropriate and did not rely upon representations (other than those contained in this Agreement) of New Hampshire Hydro or its affiliates in deciding to enter into this Agreement.

The sharing of benefits among the Participants associated with Phase II is set forth in the Use Agreement. The Use Agreement also permits each Participant to make its own entitlement transactions with Hydro Quebec and to use the interconnection for such transactions. Each Participant acknowledges that the benefits of participating in Phase II set forth in the Use Agreement are the fundamental consideration for its signing of this Agreement and making the significant commitments to each other Participant specified herein.

The provisions of this Agreement cover the Phase II New Hampshire HVDC transmission line (the Transmission Facilities) as described in more detail in Attachment B hereto. In accordance with the provisions hereof, New Hampshire Hydro agrees to build, own, operate, and maintain the Transmission Facilities. Each

Participant hereby agrees to support the construction, operation, maintenance, and capital costs of the Transmission Facilities in accordance with the provisions hereof. In connection with the HVDC transmission line to be constructed by New Hampshire Hydro in New Hampshire, New England Power and Public Service Company of New Hampshire have agreed to lease rights-of-way to New Hampshire Hydro for the full term of this Agreement.

All improvements and reinforcements to AC transmission systems in Massachusetts necessitated by Phase II are covered under the Phase II New England Power AC Facilities Support Agreement and the Phase II Boston Edison AC Facilities Support Agreement.

The portion of the Phase II HVDC transmission line to be constructed in Massachusetts and the terminal facilities to be constructed in Massachusetts are covered under the Phase II Massachusetts Transmission Facilities Support Agreement among New England Hydro-Transmission Electric Company, Inc. (New England Hydro), an affiliate of New Hampshire

Hydro, and the Participants. New England Hydro will build, own, operate, and maintain these Massachusetts Phase II facilities.

In view of the need to formalize the agreements among the parties at an early date so that (i) binding commitments with Hydro Quebec for Phase II may be made, (ii) binding commitments for ultimate construction and the financing of the United States portion of Phase II may be undertaken consistent with the time schedule anticipated by NEPOOL and with the assurance that the Participants' commitments are in place and (iii) licensing activities may proceed on a schedule that enables completion of such construction consistent with the time schedule anticipated by NEPOOL, the following agreements are concurrently being entered into (the "Basic Agreements") which collectively set forth rights and obligations with respect to the foregoing undertaking: (1) this Agreement; (2) the Equity Funding Agreement for New Hampshire Hydro; (3) the Phase II Massachusetts Transmission Facilities Support Agreement; (4) the Equity Funding Agreement for New England Hydro; (5) the Phase II New England Power AC Facilities Support Agreement; (6) the Use Agreement; (7) various amendments to the NEPOOL Agreement relating to the sharing of savings, capability responsibilities, and Pool transmission arrangements; and (8) the Phase II Boston Edison AC Facilities Support Agreement.

In order to coordinate each Participant's participation in Phase II to the fullest extent possible, each Participant acknowledges that it is to have the same participating interest under each of these agreements: this Agreement, the Phase II Massachusetts Transmission Facilities Support Agreement, the Phase II New England Power AC Facilities Support Agreement, the Phase II Boston Edison AC Facilities Support Agreement, and the Use Agreement. Each Participant acknowledges that these agreements have been drafted with the overriding intent to so coordinate participating interests and that, notwithstanding any provision thereof that may be

interpreted to the contrary, the proper interpretation of each of these agreements is to be consistent with such overriding intent. The Equity Funding Agreement for New Hampshire Hydro and the Equity Funding Agreement for New England Hydro have also been drafted to require actions of Equity Sponsors or their appointees affecting such participating interests to be the same under each Equity Funding Agreement in order to also be consistent with such overriding intent.

During the term of this Agreement, New Hampshire Hydro shall limit its activities to those necessary or desirable in connection with Phase II unless New Hampshire Hydro requests authority from the Advisory Committee for other activities and such authority is granted. New Hampshire Hydro shall endeavor to obtain permanent debt financing at reasonable rates with maturities approximating to the extent practicable the then remaining useful life of the Transmission Facilities or to secure other advantageous financial arrangements. New Hampshire Hydro will limit its equity investment to a maximum of 40% of its total capital as of the Effective Date. During the time that New Hampshire Hydro has outstanding debt in its capital structure, New Hampshire Hydro shall use its best efforts to continue to limit its equity investment to 40% of its total capital; provided, however, that New Hampshire Hydro shall be under no obligation to so limit its equity investment in the event that, after the Date of Full Support Payment (as defined in Section 13) the term of its debt financing or other financing arrangements is less than ten years.

New Hampshire Hydro's common equity will be provided under the Equity Funding Agreement by the Equity Sponsors thereunder including New England Electric System (NEES) and those Participants or their authorized designees that qualify by having outstanding long-term debt securities rated at least one grade above the lowest investment grade rating as of the date so

required under the Equity Funding Agreement. (The form of Equity Funding Agreement is included as Attachment G hereto.) The Equity Funding Agreement requires equity contributions to New Hampshire Hydro from Equity Sponsors up to a maximum of \$90 million unless Equity Sponsors having an aggregate of 66-2/3% equity participation agree to increase such maximum.

However, prior to the Effective Date, all equity of New Hampshire Hydro will be contributed by NEES.

To provide assurance that adequate funds will be available to support the financing of the Transmission Facilities, each Participant has agreed, in accordance with Section 14 hereof, to an absolute and unconditional obligation to make payments hereunder and to meet all other commitments hereunder, including but not limited to those of Section 19 hereof. In order to provide further assurance that adequate debt financing will be available to New Hampshire Hydro, the Equity Sponsors have agreed in the Equity Funding Agreement to severally guarantee certain obligations under Section 19 hereof of certain Participants with respect to each debt financing of New Hampshire Hydro; provided that the several guarantees of the Equity Sponsors are subject to the limits as set forth in section 8 C and D of the Equity Funding Agreement for New Hampshire Hydro; and further provided that one or more Equity Sponsors or their appointees may voluntarily agree to guarantee additional amounts of obligations under such debt financing. During the term of each New Hampshire Hydro debt financing, any Participant which, on the commitment date of that financing, (a) had below investment grade debt ratings on its most junior long-term debt securities or did not have a debt rating, (b) had not provided substitute credit enhancement in accordance with Attachment F, and (c) is credit enhanced by Equity Sponsors for such financing, is a Credit Enhanced Participant. In addition, any

Participant which is a credit enhanced participant under the Phase II Massachusetts Transmission Facilities Support Agreement is also a Credit Enhanced Participant hereunder.

Section 2. Precedent to Effectiveness

The effectiveness of this Agreement, and all rights, obligations, and performance of the signatories hereunder, is subject to (a) New Hampshire Hydro having executed this Agreement, (b) members of NEPOOL serving at least 66 2/3% of the aggregate kilowatthour load served by all NEPOOL members in 1980 (i) each having executed this Agreement and the other Basic Agreements (except for the two Equity Funding Agreements executed by the Equity Sponsors and the amendments to the NEPOOL Agreement) and (ii) each having satisfied the conditions precedent set forth below, (c) Equity Sponsors covering at least 100% of New Hampshire Hydro's equity requirements having executed the Equity Funding Agreement with New Hampshire Hydro and covering at least 100% of New England's Hydro's equity requirements having executed the Equity Funding Agreement with New England Hydro, and (d) members of NEPOOL having executed the amendments to the NEPOOL Agreement for Phase II in order that such amendments may become effective in accordance with the NEPOOL Agreement. The signatories to this Agreement shall also sign and supply any required documentation under the Phase II Massachusetts Transmission Facilities Support Agreement, the Phase II New England Power AC Facilities Support Agreement, the Phase II Boston Edison AC Facilities Support Agreement, the Use Agreement, and amendments to the NEPOOL Agreement relating to Phase II.

By September 15, 1988, each signatory to this Agreement shall provide certificates and legal opinions from counsel satisfactory to New Hampshire Hydro, together with certified copies of related resolutions, consents, approvals, authorizations, and other documents (Documentation)

necessary to establish to the satisfaction of New Hampshire Hydro that all corporate and regulatory consents, waivers, approvals, authorizations and other actions necessary in connection with performance by such signatory of its obligations under the Agreement have been obtained and are in full force and effect, that the Agreement has been duly authorized, executed, and delivered by such signatory, and that it constitutes a binding commitment by the signatory enforceable in accordance with its terms. Forms of Documentation acceptable to New Hampshire Hydro are included in Attachment C hereto. Prior to signing this Agreement, each signatory has provided to New Hampshire Hydro a listing of all consents, waivers, approvals, authorizations, and other actions required for that signatory to deliver its Documentation.

Since Vermont Electric Power Company, Inc. (VELCO) and Massachusetts Municipal Wholesale Electric Company (MMWEC) represent a number of electric systems, in calculating their respective kilowatthour loads on Attachment A, they are deemed to have signed on behalf of those respective systems listed in Schedules I or II, respectively. By September 1, 1988, VELCO and MMWEC will provide New Hampshire Hydro with copies of contracts with those respective systems which impose absolute and unconditional obligations on such systems to pay their proportionate shares of all costs incurred under this Agreement by VELCO or MMWEC, respectively. By that date, VELCO and MMWEC will also provide to New Hampshire Hydro, as part of their Documentation, certificates, legal opinions (from counsel satisfactory to New England Hydro), and other documents in form and substance satisfactory to New Hampshire Hydro representing unconditionally that all consents, approvals, and authorizations have been obtained by their contracting systems in connection with each such system's performance of its obligations under its respective contract with VELCO or MMWEC and that each such contract imposes absolute and unconditional obligations on such systems to pay their proportionate shares

of all costs incurred under this Agreement by VELCO or MMWEC, respectively, and has been duly authorized, executed, and delivered and is a binding commitment of such system enforceable in accordance with its terms. If regulatory approvals have not been obtained by September 1, 1988, such representations shall be conditioned upon receipt of regulatory approvals. VELCO and MMWEC will have until September 15, 1988 to receive such approvals and make such representations unconditionally. In order that percentages of participation be consistent among the Basic Agreements, VELCO and MMWEC shall have their contracts with their contracting systems cover the necessary commitments for each Basic Agreement.

All expenses in connection with obtaining and delivering any Documentation under this Agreement, including legal opinions, are to be borne by the signatory incurring such expense. New Hampshire Hydro will have no responsibility for any expenses incurred by VELCO and MMWEC in providing Documentation for their respective contracting systems. (All expenses of further Documentation including legal opinions required for any financing by New Hampshire Hydro with an unaffiliated third party will be borne by the Participants in the same manner).

In the event that VELCO or MMWEC does not provide such contracts and Documentation by the aforementioned deadlines under this Agreement and similar contracts and documentation as required by the other Basic Agreements, for all electric systems shown on Schedules I or II, their respective kilowatthour loads on Attachment A will be automatically adjusted to equal the 1980 kilowatthour loads of those contracting electric systems for which the required contracts and Documentation have been provided. Promptly thereafter, New Hampshire Hydro will prepare and distribute an appropriately modified Attachment A with an additional column showing Participating Shares for all Participants and modified Schedules I and II.

If MMWEC provides by December 31, 1985, to New Hampshire Hydro at MMWEC's expense an opinion of nationally recognized bond counsel (listed in the Blue Book) stating unequivocally that MMWEC is not legally authorized to enter into and perform the obligations of this Agreement on any basis other than as an obligation payable solely from revenues derived by MMWEC under the contracts entered into with its contracting electric systems, then New Hampshire Hydro and the other Participants agree that MMWEC's liability hereunder shall be so limited. Otherwise, MMWEC's liability hereunder shall not be so limited and shall be on the same basis as that of the other Participants.

VELCO and MMWEC hereby grant to New Hampshire Hydro, on a pari passu basis with New England Hydro, New England Power Company, and Boston Edison Company, a security interest in, and pledge of, their respective contracts with their respective systems covering Phase II, including but not limited to all revenues derived or to be derived therefrom. VELCO and MMWEC also agree not to grant to any other party any lien upon, or pledge or assignment of revenues from, such contracts, except as required in connection with any financing by New Hampshire Hydro with an unaffiliated third party (Lender) or by New England Hydro with a Lender, or except with the approval of New England Hydro and New Hampshire Hydro, as required in connection with any financing by MMWEC, the proceeds of which are to be applied exclusively by MMWEC to meet its obligations under Phase II, provided that such grant by MMWEC to its third party lenders shall be on a pari passu basis with the Lenders, New England Hydro, New Hampshire Hydro, New England Power Company and Boston Edison Company, and provided further that MMWEC shall have its third party lenders execute and deliver intercreditor agreements acceptable to the Lenders, New England Hydro, New Hampshire Hydro, New England Power Company and Boston Edison Company providing an appropriate

allocation between MMWEC's third party lenders and the Lenders, New England Hydro, New Hampshire Hydro, New England Power Company and Boston Edison Company of payments made under MMWEC's contract with its systems and including appropriate notice provisions. VELCO and MMWEC will execute and deliver in a timely manner all Documentation requested by New Hampshire Hydro to perfect such grants.

Any signatory, that is unable to provide all Documentation by the applicable deadlines required by this Section 2 or that fails to obtain any regulatory approval required to deliver such Documentation by the applicable deadlines, will not be a Participant under this Agreement and will not have any rights and obligations hereunder after the date of such deadline. All obligations of New Hampshire Hydro hereunder are subject to obtaining all regulatory approvals necessary for New Hampshire Hydro to charge the Participants in accordance with the terms of this Agreement.

New Hampshire Hydro by written notice to all signatories may extend any deadline date specified in this Agreement to a later date, provided that any extension for longer than six months requires the consent of the Advisory Committee.

Section 3. Effective Date and Term

This Agreement shall become effective (the Effective Date) upon the last to occur of the following dates:

- (i) the date that Participants serving at least 66 2/3% of the aggregate kilowatt-hour load in 1980 served by NEPOOL members have satisfied all conditions precedent to effectiveness set forth in Section 2;
- (ii) the date that New Hampshire Hydro shall give written notice to all Participants that it has determined (such notice to be promptly given upon such determination) that all regulatory

approvals necessary for it to charge the Participants in accordance with the terms of this Agreement have been obtained and are no longer subject to appeal;

(iii) the date on which New Hampshire Hydro shall give written notice to all Participants that it has determined (such notice to be promptly given upon such determination) that all major regulatory approvals and licenses necessary for construction and operation of Phase II have been obtained and are no longer subject to appeal, unless New Hampshire Hydro and the Advisory Committee agree that this Agreement shall become effective before one or more of such approvals and licenses has been obtained and is no longer subject to appeal;

(iv) the date that New Hampshire Hydro first receives borrowed funds as part of a financing arranged with Lenders for construction of the Transmission Facilities; and

(v) the date that the last of the other Basic Agreements (excluding the Use Agreement) becomes effective or would become effective but for a condition that its effectiveness is subject to this Agreement becoming effective.

Upon execution and delivery of the Agreement by members of NEPOOL serving at least 66 2/31, of the aggregate kilowatt-hour load in 1980 served by NEPOOL members, and notwithstanding any provision herein to the contrary, no signatory may terminate its obligations hereunder except in accordance with provisions of this Agreement.

Each Participant which is also a participant under the Phase I Support Agreements shall exercise its rights and take all actions under the Phase I Support Agreements to assure that the Phase I facilities are available to permit continued operation of Phase II. (In order to assure that Phase II is permitted to operate for a full maximum term of fifty years, New Hampshire Hydro understands that New England Electric Transmission Corporation and Vermont Electric

Transmission Company, Inc. have agreed to extend the provisions of the Phase I Support Agreements to the Phase II Participants to cover this time period.)

The initial term of this Agreement shall expire thirty years from the Date of Full Support Payment as defined in Section 13. If (i) the Transmission Facilities are in commercial operation and (ii) there are continuing commitments by Participants to support the full costs of the Transmission Facilities, a Participant at that time shall be entitled not less than two years prior to the expiration of the initial term to elect to continue participation for an additional period not to exceed 20 years upon the terms and conditions of this Agreement. Such additional period is to be determined by the Advisory Committee no later than two years and three months prior to the end of the initial term. The Advisory Committee in determining this additional period shall take into account the then remaining term of the Phase I Support Agreements.

If all regulatory approvals authorizing New Hampshire Hydro to charge the Participants in accordance with the Support Charge described in Section 12 hereof are not received by June 1, 1986, New Hampshire Hydro may thereafter elect to terminate this Agreement by notice in writing to the signatories.

Section 4. Participating Shares

A. Allocation. Each Participant shall have and be charged with a percentage interest in all of the rights and obligations hereunder determined in accordance with this Section 4 (which interest is herein referred to as its "Participating Share").

The Participating Share of each Participant shall be computed both initially and as changed from time to time in accordance with the terms hereof, by New Hampshire Hydro as hereinafter provided. Such computations shall be made as of the first day of any month in which there is a change in the number of Participants or any change in the interest of any Participant as

herein provided. The initial computation of Participating Shares shall be made on the basis that each signatory to this Agreement as shown in Attachment A is a Participant. After such initial computation and before the Effective Date, each Participant shall be entitled to transfer any or all of its Participating Share to one or more other Participants. On or before September 1, 1988, any Participant listed in Attachment A who has transferred, or intends to transfer, any or all of its Participating Share to one or more other Participants listed in Attachment A must provide documentation to New Hampshire Hydro covering the transfer. The initial computation is to be recomputed on and as of the Effective Date on the basis that each signatory to this Agreement which has provided timely documentation of its participation or transfer is a Participant. Any such transfers of Participating Shares will be taken into account after such recomputation. Any such transfer of Participating Shares hereunder shall have no effect on the interests, rights, or obligations of participants in Phase I. Subsequent computations are to be made thereafter as of the first day of each month in which an interest is modified or terminated pursuant to any provision hereof. All computations shall be final unless there is a manifest error.

B. The Participating Shares on and as of the initial computation will be calculated as follows:

- (i) up to 5% to VELCO, if then a Participant;
- (ii) up to 5% to Participants that serve “kilowatthour loads” in New Hampshire (New Hampshire Participants), if then Participants, (Apportioned on the basis of their relative “kilowatthour loads” in New Hampshire); and
- (iii) the balance (after deducting the percentages, if any, under paragraphs B(1) and B(2) above, respectively) apportioned among all Participants, including VELCO (if then a Participant) and

the New Hampshire Participants (if then Participants) on the basis of an initial share allocation determined by the subscription process as described in Attachment E.

C. The term "kilowatthour load," as used herein, shall mean the sum of a Participant's 1980 kilowatthour sales as shown on Attachment A hereto.

D. The precise percentages under B(1) and B(2) shall be specified by VELCO and the New Hampshire Participants, on or before the date of signing this Agreement.

Section 5. Relationship among Participants

The rights and obligations of the Participants hereunder are several, in accordance with their respective Participating Shares, and not joint. The rights and obligations of New Hampshire Hydro hereunder are also several and not joint with those of the Participants, the Equity Sponsors, or any one thereof. There is no intention to create by this Agreement, or by any grant, lease, license, or activity related hereto, an association, joint venture, trust, or partnership or to impose on New Hampshire Hydro or any Participant trust or partnership rights or obligations; and any such implied intention is expressly negated. Except as expressly provided in this Agreement, no Participant shall have by virtue of this Agreement or of any such grant, lease, license, or activity the right or power to bind any other Participant without its express written consent.

Section 6. Project Control and Advisory Committee

Each Participant may designate in writing, initially on or before June 1, 1986, and from time to time thereafter, a representative and an alternate representative to serve on the Advisory Committee. If a representative is unable to attend, an alternate may attend in his or her place. The Advisory Committee shall have the power and responsibilities set forth in this Agreement and shall adopt its own by-laws, provided that (i) voting shall be by Participating Shares at the

time of the vote, (ii) a vote of two-thirds or more of Participating Shares is required to accept a New Hampshire Hydro proposal or to take other affirmative action and a vote of more than one-third is required to reject a New Hampshire Hydro proposal, and (iii) one or more Participants having Participating Shares of at least 10% in the aggregate may by reasonable written notice to all Participants call a meeting of the Advisory Committee. The Advisory Committee will advise New Hampshire Hydro on all major matters of concern to the Participants regarding the Transmission Facilities and Phase II.

New Hampshire Hydro shall make prompt proposals for decisions on the following, and the Advisory Committee shall accept or reject these proposals for decisions on the following:

- (i) Commencement of construction of the Transmission Facilities;
- (ii) The original design concept for the Transmission Facilities;
- (iii) Overall project budget estimate for design, engineering and construction of the Transmission Facilities;
- (iv) Major changes to the original design concept of the Transmission Facilities that, based on reasonable engineering estimates, will increase or decrease the cost by more than 10% of the overall budget approved in (iii) above or might have a significant detrimental effect on reliability or availability; any changes whether changes to the original design concept or otherwise that will result in an increase in the cost to more than 100% above the initial overall project budget approved in (iii), which will require an affirmative vote of at least 80% to accept the changes, or an affirmative vote of a percentage less than 80% in the event that only one Participant (subsidiaries of Northeast Utilities shall be treated as a single Participant for this sole purpose) having more than 20% casts a negative vote;
- (v) General terms of major contracts in excess of \$25 million;

- (vi) Capital additions to the Transmission Facilities in excess of \$5 million;
- (vii) Major changes in operation and maintenance of the Transmission Facilities that will increase operation and maintenance costs by more than 10% of previous year's actual operation and maintenance costs or might have a significant detrimental effect on reliability or availability;
- (viii) Delay, restriction, suspension, termination or cancellation of planning or construction, or shut down of Transmission Facilities, for a period of six months or longer or permanently under Section 16;
- (ix) The term of any New Hampshire Hydro debt financing or any other financial arrangements (other than any construction financing) with a principal amount in excess of \$25 million, provided that such term must be between 5 and 30 years; the Advisory Committee may reject the proposed term only if it is less than 10 years and is unreasonable or impracticable; New Hampshire Hydro shall consult with the Advisory Committee on the other principal terms of such financings and any construction financing and shall use reasonable efforts to accommodate their reasonable requests;
- (x) The target date for commercial operation of the Transmission Facilities for purposes of Section 13B which shall be determined at least 90 days before the Effective Date; and
- (xi) Such other matters as are specified elsewhere in this Agreement.

If New Hampshire Hydro makes a proposal for a decision from the Advisory Committee and the Advisory Committee fails, however, to accept or reject such proposal within thirty days, the Advisory Committee shall be deemed by New Hampshire Hydro to have approved New Hampshire Hydro's proposal and New Hampshire Hydro may immediately proceed to implement its proposal.

Each Participant shall be responsible for all of its expenses related to membership on the Advisory Committee.

This Section shall be effective on June 1, 1986, notwithstanding that the Effective Date has not yet occurred.

Section 7. Design and Construction of the Transmission Facilities

Except for those areas of responsibility assigned to the Advisory Committee as specified in Section 6, New Hampshire Hydro shall be responsible for the design, engineering, procurement, installation, and all other aspects of the construction of the Transmission Facilities, and any modifications or additions made to the Transmission Facilities at any time before or after completion of the Transmission Facilities, all in accordance with good utility practice for the benefit of all Participants, the objective being to achieve an appropriate balance among minimization of construction cost, minimization of operation and maintenance cost, licensing and environmental considerations, and safety and reliability of service. In carrying out these activities, New Hampshire Hydro may utilize the services of its affiliates and may also select and employ a financial adviser, legal counsel, design engineering firm, a construction engineering firm, consultants, and such other firms as it considers desirable. To the extent services are performed by an affiliate of New Hampshire Hydro, such affiliate will charge on the same basis that it would charge its costs to other affiliates pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) under the Public Utility Holding Company Act of 1935 (the 1935 Act).

In order for the Advisory Committee to meet its responsibilities as specified in Section 6, New Hampshire Hydro will provide all necessary information reasonably requested by the Advisory Committee. During the course of the work, New Hampshire Hydro shall furnish

quarterly reports to all Participants with respect to the progress of the work and an annual report to all Participants of actual and estimated construction expenditures for the Transmission Facilities.

New Hampshire Hydro intends, consistent with good utility practice, to construct the Transmission Facilities on a schedule that permits the commercial operation of Phase II by September 1, 1990. However, New Hampshire Hydro does not represent that construction will be completed by such date or any other date.

Section 8. Operation and Maintenance of the Transmission Facilities

Except for those areas of responsibility assigned to the Advisory Committee as specified in Section 6, New Hampshire Hydro shall be responsible for the operation and maintenance of the Transmission Facilities in accordance with good utility practice for the benefit of all Participants, the objective being to operate the Transmission Facilities as efficiently, economically, safely, and reliably as feasible. New Hampshire Hydro shall use its best efforts to coordinate the operation and maintenance of the Transmission Facilities with the operation and maintenance of the Phase I facilities and other Phase II facilities. In carrying out these activities, New Hampshire Hydro may utilize the services of its affiliates and may also select and employ a financial adviser, legal counsel, consultants, and such other firms as it considers desirable. In furtherance of its responsibility, New Hampshire Hydro may from time to time designate a company, which need not be a Participant, to operate and maintain the Transmission Facilities. To the extent services are performed by an affiliate of New Hampshire Hydro, such affiliate will charge its costs on the same basis that it would charge to other affiliates pursuant to the rules and regulations of the SEC under the 1935 Act.

In order for the Advisory Committee to meet its responsibilities as specified in Section 6, New Hampshire Hydro will provide all necessary information reasonably requested by the Advisory Committee.

After the Transmission Facilities are placed in commercial operation, New Hampshire Hydro shall furnish quarterly reports to all Participants with respect to the operation and maintenance of the Transmission Facilities and an annual report to all Participants of estimated operation and maintenance expenses.

Section 9. New Hampshire Hydro Relationship to Participants

In carrying out its responsibilities hereunder, New Hampshire Hydro agrees that it shall use its best efforts to act for the collective benefit of all Participants and New Hampshire Hydro, to include in its contracts with independent contractors the customary provisions for assuring professional and workmanlike performance, including warranties, insurance coverage and other protections consistent with good utility practice, and to enforce its rights under such contracts against the other contracting parties to the extent reasonable, reserving the discretion to settle claims on a reasonable basis. All costs of construction, including damages caused by the risks of negligence (other than gross negligence) and other risks of construction in excess of the recoveries obtained from offending parties or insurers, shall be included as part of investment in the Transmission Facilities (as defined in Section 12 below) and all costs of operating the Transmission Facilities, including damages caused by risks of negligence (other than gross negligence) or other risks of operation in excess of any recoveries obtained from offending parties or insurers, shall be included in New Hampshire Hydro's operating costs (as defined in Section 12 below).

Section 10. Payment for Preliminary Costs

New Hampshire Hydro agrees to pay those New England utilities that initially paid for costs related to the Transmission Facilities incurred under the Preliminary Quebec Interconnection Support Agreement - Phase II (the Preliminary Agreement) that are determined by New Hampshire Hydro to be capitalizable costs of the Transmission Facilities, in accordance with the Uniform System (as defined hereinafter in Section 12). It is understood that it is the intention of New Hampshire Hydro and the Participants for all costs related to and allocated to the Transmission Facilities incurred under the Preliminary Agreement, to be capitalized to the extent permitted in accordance with good utility practice. Within ninety days after the Effective Date, New Hampshire Hydro agrees to make the repayment with interest calculated from the original date of payment using the monthly average rate on one month commercial paper as published in the Federal Reserve Bulletin for each month during such time period.

Section 11. Transmission and Other Services

In accordance with good utility practice, New Hampshire Hydro will make the Transmission Facilities available for the Participants for transmission services as part of Phase II. New Hampshire Hydro hereby grants to each Participant an exclusive right to use its Participating Share of the Transmission Facilities in accordance with the Use Agreement.

New Hampshire Hydro agrees that it will serve as an agent or in other similar capacity for any Participant that so requests for the buying or selling of power to be transmitted over the Transmission Facilities as an entitlement transaction with Hydro-Quebec pursuant to the terms of the Use Agreement or otherwise, provided, however, that a formal written contract with terms

and conditions, including compensation for services, satisfactory to New Hampshire Hydro is executed and delivered prior to performance of such services.

Section 12. Support Charge

Commencing in the month of the Date of Full Support Payment (as defined in Section 13) and in each month thereafter, each Participant shall pay in accordance with Section 13 its Participating Share of a monthly Support Charge in an amount determined in accordance with this Section 12, plus a credit enhancement charge calculated in accordance with Attachment F. The Support Charge shall be equal to New Hampshire Hydro's total cost of service related to the Transmission Facilities for such month.

The "total cost of service related to the Transmission Facilities" for any month commencing with the month in which the Date of Full Support Payment occurs shall be the sum of (a) New Hampshire Hydro's operating expenses for such month with respect to the Transmission Facilities, plus (b) an amount equal to one-twelfth of the composite percentage for such month times the average net rate base for the Transmission Facilities, less (c) investment earnings of the Debt Service Fund, as defined in Section 18, realized by New Hampshire Hydro, less (d) any other income received by New Hampshire Hydro resulting from costs or rate base supported by the Participants other than income received pursuant to (a), (b), or (c) above or Credit Enhancement Charges and other income allocated to Equity Sponsors elsewhere under this Agreement. If a Support Charge payment under Section 13 is to be calculated from a date other than the first day of a month, an appropriate proration of the amount determined in (b) above shall be made for such payment only.

“Uniform System” shall mean the appropriate Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC) for Public Utilities and Licensees, as from time to time in effect.

New Hampshire Hydro’s “operating expenses” shall include all amounts related to the Transmission Facilities and properly chargeable to expense accounts less any applicable credits thereto, in accordance with the Uniform System, including but not limited to operation and maintenance expense such as rent on leased property and administrative and general expenses, state and Federal income and franchise taxes, property taxes, payroll taxes, any other taxes not based on income, and depreciation and/or amortization expense; it being understood that unless the FERC, upon application by New Hampshire Hydro, authorizes a shorter depreciation and/or amortization period, for purposes of this Agreement depreciation and/or amortization shall be at a rate sufficient to recover the investment in the Transmission Facilities (including estimated cost of removal less any salvage value which salvage value, for the purpose of calculating such depreciation and/or amortization, will not exceed the amount of cost of removal) over the greater of: (i) ten years from the Date of Full Support Payment or (ii) the term of New Hampshire Hydro’s permanent debt financings or other permanent financing arrangements related to the Transmission Facilities, adjusted for multiple maturities and repayment schedules; and it also being understood that rents on leased property shall include the rental of property or property rights related to the Transmission Facilities from any Participant with rent based on book value. “Operating expenses” shall also include all payments made by New Hampshire Hydro pursuant to Section 8 of the Phase II Maine Electric Power SVC Facilities Support Agreement between New Hampshire Hydro and Maine Electric Power Company, dated as of October 1, 1988, as amended from time to time (the “SVC Agreement”). In addition, each Participant will pay to

New Hampshire Hydro, and New Hampshire and Hydro will pay to New England Power and Public Service Company of New Hampshire, for the benefit of their respective customers, such Participant's Participating Share of a monthly charges of \$268,000 and \$41,300, respectively, to compensate New England Power and Public Service Company for the lost capacity on their respective New Hampshire rights-of-way, provided however, that no such charges shall be paid to New England Power or Public Service Company during such time as construction or operation is suspended on account of a defect in title for such rights-of-way. The allowance for state and Federal income taxes included in operating expenses shall reflect the normalization of timing differences and the flow through of permanent differences between book income and tax income. New Hampshire Hydro, as the tax owner of the Transmission Facilities, will be entitled to the benefits and subject to the burdens of such ownership for tax purposes. The allowance for state and Federal income taxes included in operating expenses shall include a provision for taxes on dividends received by stockholders, calculated at the then current statutory rate for corporate stockholders.

The "investment in the Transmission Facilities" shall be the aggregate amount incurred at any time either before or after commercial operation of the Transmission Facilities which relates to the Transmission Facilities and is properly chargeable to New Hampshire Hydro's utility plant accounts in accordance with the Uniform System. The investment in the Transmission Facilities shall also include operating expenses incurred prior to the month in which the Date of Full Support Payment occurs and an allowance for funds used during the period prior to the Date of Full Support Payment (AFDC) accrued on the investment in the Transmission Facilities. The AFDC rate shall be calculated pursuant to the last FERC approved AFDC formula including in

construction work in progress all investment in the Transmission Facilities prior to the Date of Full Support Payment and using 14 percent as the return on equity for such calculation.

“Composite percentage” shall be computed as of the last day of each month (the “computation date”). “Composite percentage” as of a computation date shall be the sum of (i) Return on Equity then in effect multiplied by the percentage which equity investment as of such date is of the total capital as of such date; plus (ii) the average monthly effective interest rate per annum of each principal amount of indebtedness outstanding on such date for money borrowed, whether long term or short term, multiplied by the percentage which each such principal amount is of total capital as of such date. The effective interest rate shall take into account premiums, discounts, fees, and other costs that are related to the indebtedness.

“Return on Equity” shall be the return on equity on file with the FERC and in effect under The Federal Power Act.

“Equity investment” as of any date shall consist of the sum of (i) all amounts theretofore paid to New Hampshire Hydro for all capital stock theretofore issued, plus all capital contributions, less the sum of any amounts paid by New Hampshire Hydro in the form of stock retirements, repurchases or redemptions or return of capital including liquidating dividends; plus (ii) any credit balance in the capital surplus account not included in (i) and any credit balance in the earned surplus (retained earnings) account on the books of New Hampshire Hydro as of such date.

“Total capital” as of any date shall be the equity investment plus the total of all indebtedness then outstanding for money borrowed.

From the Date of Full Support Payment until the first to occur of June 30 or December 31 thereafter, the “average net rate base” for the Transmission Facilities shall be the average of the

net rate base determined as of the Date of Full Support Payment and the first to occur of June 30 or December 31 thereafter.

Thereafter, for subsequent months of January through June, average net rate base shall be the average of the net rate base as of the preceding December 31 and the following June 30. For other months, average net rate base shall be the average of the net rate base as of the preceding June 30 and the following December 31. The “net rate base” shall consist of (i) the investment in the Transmission Facilities, less (ii) the amount of any accumulated provision for depreciation and amortization related to the investment in the Transmission Facilities, less (or plus) (iii) the amount of any reserve for deferred income taxes received (or paid) by New Hampshire Hydro, such deferred income taxes to include deferred income taxes due to accelerated depreciation, construction tax benefits, and any other book/tax timing differences related to the Transmission Facilities, less (iv) the amount of any unamortized investment tax credits (ITC), plus (v) such allowances related to the Transmission Facilities for materials and supplies, prepaid items and cash working capital as may from time to time be determined by New Hampshire Hydro, as reasonably necessary and in accordance with accepted utility accounting practice, plus (vi) the amounts held in the Debt Service Fund, as described in Section 18. New Hampshire Hydro shall normalize ITC over the depreciation and/or amortization period relating to the Transmission Facilities. Any allowance for cash working capital shall be limited to that not sufficiently recovered through the use of estimated billing for the current month.

Section 13. Payments

A. Commencing on or about the Date of Full Support Payment and for each month thereafter, New Hampshire Hydro will render to each Participant an invoice for its Participating Share of the Support Charge and the Credit Enhancement Charge, if any, for such month

calculated on an estimated basis for the current month and subject to corrective adjustment in subsequent months. Unless New Hampshire Hydro is prevented by circumstances beyond its reasonable control, New Hampshire Hydro shall use its best efforts to render final bills within two years after the end of the calendar year in which the estimated bill was rendered. New Hampshire Hydro will also render to each Participant an invoice or notice for its Participating Share of any amounts due under this Agreement (other than monthly Support Charge and the Credit Enhancement Charge) including but not limited to payments to be made under Sections 15, 16, 17, and 20D.

Each Participant shall promptly pay to New Hampshire Hydro the amount shown on any invoice submitted under this Section. New Hampshire Hydro will date and mail monthly invoices for the Support Charge and Credit Enhancement Charge, if any, on or about the 25<sup>th</sup> day of the month for the coming month and this invoice shall be due and payable by the 15<sup>th</sup> day of the coming month and if not paid within that time period shall bear interest compounded monthly from the first day of the month in which payment is due to the date when payment is made at an annual rate equal to two percent (2%) over the current interest rate on prime commercial loans from time to time in effect (the Base Rate) at the principal office of The First National Bank of Boston.

Any invoice or notice for payments due under this Agreement (other than a monthly Support Charge and Credit Enhancement Charge invoice), that is not paid when due under this Agreement shall bear interest compounded monthly from the mailing date of the invoice to the date when payment is made at an annual rate equal to two percent (2%) over the Base Rate at the principal office of The First National Bank of Boston.

B. The “Date of Full Support Payment” shall be the later of (i) the target date for commercial operation of the Transmission Facilities as determined by the Advisory Committee, or (ii) the date on which the Transmission Facilities are ready for commercial operation, but in no event later than one year after the date specified in subpart (i) above unless an extension is agreed to in writing by all Lenders. However, if all of Phase II commences commercial operation prior to the target date specified in subpart (i) above, the “Date of Full Support Payment” shall be the date on which Phase II is in commercial operation.

Section 14. Character of Payment Obligations

The obligations of each Participant to make payments hereunder, and to perform and observe all other agreements on its part contained herein, are absolute and unconditional and shall not be affected by any circumstance, including, without limitation, (i) any insolvency, composition, bankruptcy, reorganization, arrangement, liquidation or similar proceedings relating to New Hampshire Hydro, the Participant, any other Participant, any Equity Sponsor, or any affiliate thereof, (ii) any failure of the Transmission Facilities to operate for any reason, including but not limited to the failure of Hydro-Quebec to sell electric power to the Participants, (iii) any damage to or destruction of the Transmission Facilities, including but not limited to any defect in the title, quality, condition, design, operation, or fitness for use of, or any loss of use of, all or any part of the Transmission Facilities, (iv) any interruption or prohibition of the use or possession by New Hampshire Hydro of, or any ouster or dispossession by paramount title or otherwise of New Hampshire Hydro from, all or any part of the Transmission Facilities, or any interference with such use or possession by any governmental agency or authority or other person or otherwise, (v) any inability to use the Transmission Facilities because a necessary license or other necessary public authorization cannot be obtained or is revoked, or because the

utilization of such a license or authorization is made subject to specified conditions which are not met, (vi) any invalidity or unenforceability or disaffirmance by New Hampshire Hydro or any Participant of any provision of this Agreement or any failure, omission, delay, or inability of New Hampshire Hydro to perform any of its obligations contained herein, (vii) any amendment, extension, or other change of, or any assignment or encumbrance of any rights or obligations under, this Agreement, or any waiver or other action or inaction, or any exercise or nonexercise of any right or remedy, under or in respect to this Agreement, (viii) any inability of the Participant or any other Participant to obtain regulatory approvals for financing its Participating Share of any obligations under this Agreement or for meeting any other obligations under this Agreement, or (ix) any inability to start, complete, or use the Transmission Facilities due to any other circumstance, happening, or event whatsoever, whether foreseeable or unforeseeable and whether similar or dissimilar to the foregoing, it being the intention of the parties hereto that all amounts payable by each Participant in respect of this Agreement shall begin to be payable and shall continue to be payable in all events in the manner and at the time herein provided; provided, however, that nothing in this Section 14 shall (a) prevent a Participant from transferring its interests and obligations hereunder to another Participant prior to the Effective Date, or (b) impose any continuing liabilities or obligations on said transferring Participant with respect to this Agreement incurred or relating to the period of time after said transferring Participant's Participating Share has been reduced to zero. In that connection, each Participant hereby waives, to the extent permitted by applicable law, any and all rights which it may now have or which may at any time hereafter be conferred upon it (other than those expressly conferred in this Agreement), by statute or otherwise, to terminate, cancel, or surrender any of its obligations under this Agreement, and agrees that if, for any reason whatsoever, this Agreement

shall be terminated in whole or in part by operation of law or otherwise, each Participant will nonetheless promptly pay to New Hampshire Hydro amounts as required by Section 16 of this Agreement.

Notwithstanding the character of the above payment obligations, when the net proceeds from a total taking of the Transmission Facilities in an eminent domain proceeding or from insurance in the event of complete destruction of the Transmission Facilities have been received by New Hampshire Hydro in an amount equal to or greater than the amounts then due hereunder from the Participants, then no payment shall be required.

Section 15. Default

A. If any of the following events (Events of Default) shall occur and be continuing:

- (i) a Participant shall fail to pay when due any amount which it has agreed to pay under any provision of this Agreement, and such failure shall continue for more than 10 days after written notice thereof has been given to such Participant by New Hampshire Hydro; or
- (ii) a Participant shall fail to supply in accordance with the terms hereof any documentation required by New Hampshire Hydro in connection with financing with Lenders by New Hampshire Hydro (for VELCO and MMWEC, this includes documentation for their respective contracting electric systems), and such failure shall continue for more than 30 days after written notice of such failure has been given to such Participant by New Hampshire Hydro; or
- (iii) a Participant shall admit in writing its inability to pay its debts, or shall make a general assignment for the benefit of its creditors; or any proceeding shall be instituted against a Participant (and is not dismissed within sixty days), or by a Participant, seeking to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, or composition of it or its debt under any law relating to bankruptcy, insolvency or reorganization or relief of debtors

or seeking appointment of a receiver, trustee, or other similar official for it or for any substantial part of its property; or if a Participant shall take any action to authorize any of the actions set forth in this subsection (iii); or

(iv) prior to the retirement of the last amount of New Hampshire Hydro's debt and prior to the reduction of New Hampshire Hydro's equity investment to an amount less than or equal to 10% of its highest previous amount, a Participant shall fail to make a payment of principal under any bank loan or other obligation for borrowed money (including financing leases or other similar arrangements) exceeding the lesser of \$1 million or 5% of such Participant's total capitalization, which failure is not excused or cured within the earlier of 30 days or the acceleration of the maturity thereof; or

(v) a Participant shall fail to perform any other obligation under this Agreement in accordance with the terms hereof, and such failure shall continue for more than 30 days after written notice thereof has been given to such Participant by New Hampshire Hydro; or

(vi) a Participant shall experience an event of default under any of the other Basic Agreements or under any of the basic agreements for Phase I listed in the first paragraph of Section 1; then, and in any such event, in addition to any other rights or remedies that it may have against such Participant by reason thereof, New Hampshire Hydro shall, by written notice to such Participant, terminate all rights of such Participant under this Agreement as of the date of such Event of Default. New Hampshire Hydro may with the approval of the Advisory Committee waive any Event of Default hereunder or grant extensions of time to cure any Event of Default.

B. Immediately upon termination of the rights of a Participant pursuant to A above:

- (i) if such terminated Participant was then a Credit Enhanced Participant, then New Hampshire Hydro shall allocate the Participating Share of the terminated Participant to the Equity Sponsors or their appointees in proportion to the Equity Sponsors' then respective equity percentages;
- (ii) if such terminated Participant was not then a Credit Enhanced Participant, then New Hampshire Hydro will offer the Participating Share of the terminated Participant as of the date of termination to the Equity Sponsors or their appointees and upon acceptance of the offer will allocate the Participating Share in accordance with the acceptance (if the offer is oversubscribed by Equity Sponsors, the allocation will be made in proportion to such Equity Sponsors' then respective equity percentages); provided that, if such Participating Share is not so completely allocated, then New Hampshire Hydro will offer such unallocated Participating Share to Participants whose most junior long-term debt securities are then rated at least one grade above investment grade or, if not so rated, who have obtained the consent of all New Hampshire Hydro's Equity Sponsors (if the offer is oversubscribed, the allocation will be made in proportion to respective participating shares); and provided further that such Equity Sponsors or their appointees or Participants receiving such an allocation accept an equal support or participating share under the Phase II New England Power AC Facilities Support Agreement, the Phase II Boston Edison AC Facilities Support Agreement, and the Phase II Massachusetts Transmission Facilities Support Agreement; and
- (iii) the Equity Sponsors have been allocated B (i) or (ii) above have been allocated B (ii) above or New allocation is made, or their appointees that Participating Shares under or any Participants that Participating Shares under Hampshire Hydro, if no such shall allocation is made, shall be entitled to receive in accordance with the Use Agreement from the escrow agent as liquidated

damages the allocated share of all Phase II amounts retained under the Use Agreement on or after the date of such termination for the account of such terminated Participant.

C. The terminated Participant shall immediately pay either (i) if an allocation is made under Section 15B, to the Equity Sponsors or their appointees or any Participants that have received such allocation or (ii) otherwise, to New Hampshire Hydro, in addition to any other amounts due under any provisions of this Agreement, an amount equal to its Participating Share of the investment in the Transmission Facilities (including any cost of removal and disposal) less any depreciation and amortization relating to the Transmission Facilities to the date of such payment. In addition, such Participant's payment required by the preceding sentence shall be increased by an amount equal to its Participating Share of the "amounts" determined in Section 11B of the SVC Agreement. New Hampshire Hydro will credit any such amounts it receives from the terminated Participant for the benefit of the Equity Sponsors.

D. New Hampshire Hydro or any Equity Sponsor or any Participant shall be free to invoke such remedies at law or in equity as may be deemed appropriate against any Participant that defaults under this Agreement.

Section 16. Delay, Suspension, Termination, Cancellation, or Shutdown

If at any time New Hampshire Hydro determines that continued planning, construction, or operation of the Transmission Facilities is not advisable for any reason New Hampshire Hydro deems appropriate, it may, after written notice to all Participants, delay, restrict, or suspend planning, construction, or operation, or shut the Transmission Facilities down for a period of less than six months. In accordance with Section 6, the Advisory Committee has responsibility for accepting or rejecting a proposal submitted by New Hampshire Hydro recommending a delay, restriction, suspension, termination, or cancellation of planning or construction, or shut down of

the Transmission Facilities for a period of six months or longer or permanently. In any case in which New Hampshire Hydro determines that safety considerations require an immediate shutdown, it shall proceed without consultation with the Advisory Committee or written notice to the Participants.

If the Advisory Committee has determined that (i) planning or construction of the Transmission Facilities is to be terminated or cancelled, or (ii) the Transmission Facilities are to be permanently shutdown, then New Hampshire Hydro shall give each Participant not less than ninety days advance written notice of any such event. Each Participant shall pay to New Hampshire Hydro within such notice period an amount, as specified in such notice and calculated as of the date of the event so notified, equal to its Participating Share of the “amounts” determined in the second paragraph of Section 12 of the SVC Agreement plus the greater of:

- (a) its Participating Share of the investment in the Transmission Facilities (less any depreciation and amortization to the date of payment) together with all costs relating to or resulting from such termination, cancellation or permanent shutdown, including any premiums and penalties incurred because of the early retirement of any indebtedness and further including without limitation any costs of total or partial demolition and disposal of the Transmission Facilities net of any actual salvage value received by New Hampshire Hydro including the proceeds from any sale and net of the actual proceeds received by New Hampshire Hydro from any condemnation proceeding or insurance for destruction; or
- (b) its Participating Share of the then total capital of New Hampshire Hydro plus any premiums and penalties incurred because of the early retirement of any financing plus without limitation any costs of total or partial demolition and disposal of the Transmission Facilities net of any actual salvage value received by New Hampshire Hydro including the proceeds from any sale and net

of the actual proceeds received by New Hampshire Hydro from any condemnation proceeding or insurance for destruction.

If New Hampshire Hydro and the Advisory Committee agree on the decision to terminate, cancel or permanently shutdown the Transmission Facilities under this Section 16, New Hampshire Hydro shall have and retain, upon termination of this

Agreement, the right to sell the Transmission Facilities (including New Hampshire Hydro's rights to Transmission Facilities in Vermont and the SVC Facilities in Maine) at fair market value to any NEES affiliate of New Hampshire Hydro. Any amounts received from such sale shall be considered salvage value under (a) or (b) above. If New Hampshire Hydro's recommendation to terminate, cancel or permanently shutdown is not adopted by the Advisory Committee, New Hampshire Hydro shall be paid an amount determined in accordance with this Section 16 and if directed by the Advisory Committee shall transfer its rights, assets, and obligations related to the Transmission Facilities to the Participants or any group or designee thereof. New Hampshire Hydro's lease of the right-of-way shall be assigned in connection with such transfer.

If New Hampshire Hydro is paid such amount and transfers its rights, assets, and obligations related to the Transmission Facilities to the Participants or any group or designee thereof, New Hampshire Hydro shall refund any costs of total or partial demolition and disposal of the Transmission Facilities to such Participants or group or designee thereof.

Section 17. Termination by New Hampshire Hydro

If at any time New Hampshire Hydro elects and so notifies in writing all Participants that, as a result of a default under Section 15, the Participating Share of a terminated Participant cannot be allocated to Equity Sponsors or their appointees or other Participants pursuant to

Section 15B and the aggregate of the Participating Shares of all nonterminated Participants is less than 100%, each such other Participant's participation hereunder shall terminate on a date (effective date of termination) not less than 90 days after the date of New Hampshire Hydro's written notice, and each such other Participant on or before the effective date of termination shall pay to New Hampshire Hydro an amount calculated in accordance with the second paragraph of Section 16.

Upon termination of this Agreement pursuant to this Section 17, New Hampshire Hydro shall offer each Participant which (i) was not a terminated Participant immediately prior to termination of the Agreement pursuant to this Section 17 and (ii) has paid all amounts due under the first paragraph of this Section 17, an opportunity to participate in a new support agreement, provided that all participants in such new support agreement agree to pay 100% of the costs of service of New Hampshire Hydro, including, without limitation, the "amounts" that New Hampshire Hydro must pay to Chester SVC Partnership pursuant to Section 8 of the SVC Agreement. The new support agreement will have a term equal to the remaining term of this Agreement. Other provisions of the new support agreement will be substantially similar to those in this Agreement. The investment in the Transmission Facilities under the new support agreement shall be reduced by any amount received as termination payments hereunder which would be properly applied to utility plant accounts in accordance with the Uniform System less any costs of termination or premiums or penalties incurred because of the early retirement of any financing of New Hampshire Hydro. Any participant in the new support agreement shall also be a supporter of the AC facilities of New England Power and Boston Edison Company and the transmission facilities of New England Hydro.

No termination of this Agreement shall relieve any party of any obligation arising prior to making the payment to New Hampshire Hydro required by the first paragraph of this Section 17. In addition, notwithstanding the termination of this Agreement for other purposes, this Agreement shall continue in effect to the extent necessary to provide for paying all “windup costs” and final billings, billing adjustments and payments.

Section 18. Debt Service Fund

New Hampshire Hydro may establish and maintain at its option a Debt Service Fund with funds which may be borrowed from unaffiliated third parties. The Debt Service Fund may be assigned in connection with a financing by New Hampshire Hydro with the Lenders in order to provide assurance to such Lenders that New Hampshire Hydro will pay its debt service obligations in a timely manner.

The Debt Service Fund shall not exceed the lesser of (i) the amount required to pay six months of interest on indebtedness plus five percent of the largest principal amount of debt outstanding at any time plus any accrued earnings from investment of the amounts in the Debt Service Fund not yet credited to Support Charges as provided in Section 12 or (ii) the total amount of debt service remaining to be paid.

Section 19. Cash Deficiency Commitment

A. “Cash Deficiency” attributed to a Participant means with respect to any Due Date, the amount by which that Participant’s Participating Share of the aggregation of the principal of, premium, if any, and interest on any of the funds borrowed by New Hampshire Hydro from Lenders to finance the Transmission Facilities or the construction thereof and payable on such Due Date (whether at maturity, pursuant to mandatory prepayment, by acceleration or otherwise) exceeds the amount of cash from such Participant’s payments made under any other section of

this Agreement and available to New Hampshire Hydro for repayment to Lenders of such borrowed funds.

B. If New Hampshire Hydro has a Cash Deficiency attributed to a Participant on any Due Date, that Participant agrees that it shall absolutely and unconditionally guarantee to pay its Cash Deficiency on demand of Lenders, to be paid directly on demand to Lenders, in cash, provided, however, that no Cash Deficiency attributed to a Participant shall include any unpaid obligations hereunder of other Participants.

For purposes of this Section 19, "Due Date" shall mean the date any payments are due and payable under the terms of any indebtedness of New Hampshire Hydro with Lenders.

C. Payments by Participants under this section shall be considered by New Hampshire Hydro to be prepayments of amounts due or to become due to New Hampshire Hydro pursuant to any other section hereof.

Section 20. Miscellaneous

A. Insurance. New Hampshire Hydro will at all times during the term of this Agreement keep the Transmission Facilities insured against such risks as electric utility companies, similarly situated, constructing and operating like properties, usually insure against. Any uninsured loss, damage, or liability related to the Transmission Facilities or arising out of New Hampshire Hydro's performance hereunder and any expenses in connection with any such loss, damage, or liability shall be deemed to be an expense reimbursable by the Participants in accordance with Section 12. New Hampshire Hydro will assist any Participant, at the Participant's expense, in obtaining any other insurance coverage related to the Transmission Facilities that such Participant requires. Upon request, New Hampshire Hydro will supply certificates of insurance coverage.

B. Limitation of Liability. For and in consideration of the fact that New Hampshire Hydro is undertaking to design, engineer, procure, install, construct, operate, and maintain the Transmission Facilities for and on behalf of Participants without any compensation or charge other than the payments provided under this Agreement, no Participant shall be entitled to recover from New Hampshire Hydro or any affiliate or any shareholder, director, officer, employee, or agent of New Hampshire Hydro or any affiliate, any damages resulting from error or delay, whether or not due to negligence, in the design, engineering, procurement, installation or construction of the Transmission Facilities, or for any damage to the Transmission Facilities, any curtailment of power, or any other damages of any kind, including but not limited to consequential damages, arising out of or in connection with the performance of this Agreement by New Hampshire Hydro. Notwithstanding the above limitation, if New Hampshire Hydro is found by a court of competent jurisdiction to have intentionally violated this Agreement in a material manner or to have acted hereunder in a grossly negligent manner and if such court finding is final and no longer subject to appeal, then the Participants shall be entitled to recover from New Hampshire Hydro direct damages (but not consequential or any other damages) resulting from such material intentional violation or gross negligence, unless New Hampshire Hydro's actions or omissions have been expressly approved in advance by the Advisory Committee. New Hampshire Hydro will use its best efforts to enforce all contracts related to the construction and operation of the Transmission Facilities for the benefit of New Hampshire Hydro and the Participants.

C. Audit. New Hampshire Hydro will arrange for an annual audit to be performed by an independent public accounting firm of recognized standing selected by New Hampshire Hydro. The costs of the annual audit will be included in the operating expenses under Section

12. The books and records of New Hampshire Hydro (including metering records) shall be open to reasonable inspection and audit by any Participant. The costs of any such additional audit, including the costs of New Hampshire Hydro in connection with such audit, shall be borne by the Participant or Participants requesting such audit. New Hampshire Hydro will promptly make any reasonable corrections necessitated as a result of the annual audit or an additional audit.

D. Cost Reimbursement. In the event New Hampshire Hydro reasonably incurs any costs not provided for elsewhere herein in connection with or as a result of planning, organizing, documenting, construction, suspensions, rescheduling, cancellation, operation, maintenance, shutdown, demolition, disposition, or termination of the Transmission Facilities, or otherwise arising in connection with this Agreement, each Participant shall promptly reimburse to New Hampshire Hydro, within 15 days of the mailing date of the invoice, its Participating Share of such costs. Each Participant's obligation to reimburse New Hampshire Hydro under this Section shall also include its Participating Share of the amounts that New Hampshire Hydro must pay to Chester SVC Partnership under Section 11B or Section 12 of the SVC Agreement. However, New Hampshire Hydro will endeavor to finance any additional costs, to the extent such additional costs are properly capitalizable, over the shorter of the then remaining useful life of the Transmission Facilities, the remaining term of the Agreement, or the remaining term of its permanent financing. For the purpose of this subsection, the Transmission Facilities shall include the SVC Facilities as defined in the SVC Agreement.

E. Uncontrollable Force. No delay or failure in the performance of any obligation by New Hampshire Hydro shall be deemed to exist if it is the result of an "uncontrollable force". The term "uncontrollable force" shall be deemed to mean any cause beyond the reasonable control of New Hampshire Hydro, which New Hampshire Hydro could not reasonably have been

expected to avoid by exercise of due diligence and foresight, including, without limiting the generality of the foregoing, storm, flood, lightning, earthquake, fire, explosion, failure of facilities not due to lack of proper care or maintenance, civil disturbance, labor disturbance, sabotage, war, national emergency, or restraint by court or public authority. In such event, New Hampshire Hydro shall use reasonable diligence to notify the Participants of such event.

F. Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of, and may be performed by, the successors and assigns of the parties and shall also be binding, insofar as permitted by law, on any receiver or trustee in bankruptcy, receivership, or reorganization of any party. Except (i) for a reallocation resulting from a default as provided in Section 15, (ii) for a sale, merger, or consolidation which is approved by New Hampshire Hydro and results in the transfer of substantially all of a Participant's assets to, and the assumption of all of the Participant's obligations hereunder by, an electric utility which is a member of NEPOOL, and (iii) for an assignment by New Hampshire Hydro to a NEES affiliate of New Hampshire Hydro which expressly assumes New Hampshire Hydro's rights and obligations hereunder and acquires the Transmission Facilities, and (iv) for a transfer of any or all of a Participant's Participating Share prior to the Effective Date as provided in Section 4A hereof, no assignment of this Agreement shall operate to relieve the assignor of its obligations under this Agreement without the written consent of the parties hereto. In addition to New Hampshire Hydro's right to assign to an affiliate, New Hampshire Hydro may assign, without the consent of the Participants, its right, title, and interest in this Agreement, in whole or in part, and any security interests contained herein or granted hereunder, to one or more banks, investment banking firms, insurance companies, other financial institutions, or others as collateral security for New

Hampshire Hydro's obligations in connection with financing the Transmission Facilities. Written notice to all parties will be given prior to any assignment hereunder.

G. Right of Setoff. No Participant shall be entitled to set off against the payments required to be made by it hereunder (1) any amounts owed to it by New Hampshire Hydro, any affiliate of New England Hydro, any Equity Sponsor, or any other Participant or (2) the amount of any claim by it against New Hampshire Hydro, any affiliate of New Hampshire Hydro, any Equity Sponsor, or any other Participant. However, the foregoing shall not affect in any other way any Participant's rights and remedies with respect to any such amounts owed to it by New Hampshire Hydro, any affiliate of New Hampshire Hydro, any Equity Sponsor, or any other Participant or any such claim by it against New Hampshire Hydro or any other Participant.

H. Amendments. New Hampshire Hydro shall have the right to amend the provisions of Section 12 hereof from time to time by serving an appropriate statement of such amendment upon the Participants and filing the same with the Federal Energy Regulatory Commission (or such other regulatory agency as may have jurisdiction) in accordance with the provisions of applicable laws and any rules and regulations thereunder, and the amendment shall thereupon become effective on the date specified therein, subject to any suspension order duly issued by such agency. The Participants have the right to intervene in any regulatory proceeding brought by New Hampshire Hydro to consider such amendment of the provisions of Section 12.

Any amendments changing the Participating Shares of the Participants, the rights of the Participants or a Participant as specified in Section 11, or the several nature of the obligations and rights of the Participants hereunder as specified in Section 5, shall require consent by all parties. All other amendments to this Agreement shall be by mutual agreement of New Hampshire Hydro and Participants owning Participating Shares aggregating at least 66 2/3%,

evidenced by a written amendment signed by New Hampshire Hydro and such Participants; and New Hampshire Hydro and all Participants shall be bound by any such amendment.

I. Notices. Except as the parties may otherwise agree, any notice, request, bill, or other communication, relating to this Agreement, or the rights, obligations or performance of the parties hereunder, shall be in writing and shall be effective upon delivery. Any such communication shall be considered as duly delivered when delivered in person or mailed by registered or certified mail, postage prepaid, to the respective post office address of the other parties shown following the signatures of such other parties hereto, or such other address as may be designated by written notice given as provided in this paragraph I.

J. Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of The Commonwealth of Massachusetts.

K. Other.

(1) No action, regardless of form, arising out of this Agreement may be brought by any party hereto more than three years after the cause of action has arisen.

(2) In the event that any clause or provision of this Agreement, or any part thereof, shall be declared invalid or unenforceable by any court having jurisdiction, such invalidity or unenforceability shall not affect the validity or enforceability of the remaining portions of this Agreement.

(3) All provisions of this Agreement providing for limitation of, or protection against, liability shall apply to the full extent permitted by law, and regardless of fault, and shall survive either termination pursuant to this Agreement or cancellation.

(4) Each party shall, upon request of another party, execute and deliver any document reasonably required to implement any provision hereof.

(5) Any number of counterparts of this Agreement may be executed and each shall have the same force and effect as the original.

(6) This Agreement, with the other Basic Agreements, Preliminary Quebec Interconnection Support Agreement - Phase II, the agreements with Hydro-Quebec regarding Phase II, and the basic agreements covering Phase I shall constitute the entire understanding among the parties and shall supersede any and all previous understandings pertaining to the subject matter of this Agreement.

(7) This Agreement is the act and obligation of the parties hereto in their corporate or governmental capacity, and any claim hereunder against any shareholder, director, officer, employee, or agent of any party, as such, is expressly waived.

Section 21. Refund of Gain on Sale or Other Disposition of Transmission Facilities

In the event that any of the Transmission Facilities are sold or otherwise disposed of during the term of this Agreement, if the Net Proceeds (defined as the amount received from such sale or disposition less all costs relating to or resulting from such sale or disposition, including without limitation any income taxes relating to or resulting from such sale or disposition, any premiums and penalties incurred because of the early retirement of any indebtedness associated with the sold or disposed of Transmission Facilities, and any costs of total or partial demolition of the sold or otherwise disposed of Transmission Facilities) from such sale or disposition exceed the greater of (i) the investment in the entire Transmission Facilities (less any depreciation and amortization to the date of sale or disposition) or (ii) the then total capital of New Hampshire Hydro (as defined in Section 12), New Hampshire Hydro shall (a) refund to the then current Participants, in proportion to their then current Participating Shares, any such excess, and (b) credit to the accumulated provision for depreciation and amortization

related to the investment in the Transmission Facilities the investment in the entire Transmission Facilities (less any depreciation and amortization to the date of sale or disposition). The total capital of New Hampshire Hydro, for the purposes of this section, may exceed the investment in the entire Transmission Facilities (less any depreciation and amortization to the date of sale or disposition) due to (1) any reserve for deferred income taxes paid by New Hampshire Hydro or (2) for other reasons related to the investment in the Transmission Facilities. If the Net Proceeds do not exceed the greater of (i) or (ii) above, the Net Proceeds will be credited to the accumulated provision for depreciation and amortization related to the investment in the Transmission Facilities in lieu of payment to the Participants. The Participants agree to flow through any such refunds to their customers and shall seek any necessary regulatory approvals to reflect in their rates any such refunds and the effect of any such credits to the accumulated provision for depreciation and amortization related to the investment in the Transmission Facilities; except that to the extent that a Participant's customers' rates have not reflected all or a portion of that Participant's share of the costs of the Transmission Facilities, then that Participant agrees that a complete flow-through of such refunds may not be appropriate and that particular Participant shall seek any necessary regulatory approvals for the appropriate disposition of an appropriate portion of such refunded amounts or credits.

IN WITNESS WHEREOF, the signatories have caused this Agreement to be executed by their duly authorized officers or agents.

COMPANY

By: \_\_\_\_\_  
It's President

Address XXXXX  
XXXXX

VELCO SCHEDULE 1

Vermont Phase II Participant	1980 Kilowatthour Load	Percentage Interest
Central Vermont Public Service Corporation	1,895,922,200	58.1197
Citizens Utilities Company	184,496,600	5.6558

Franklin Electric Light Company, Inc.	7,159,900	0.2195
Green Mountain Power Corporation	1,174,519,500	36.0050

Schedule I

Vermont Electric Power Company, Inc.  
Contracting Electric Systems

Central Vermont Public Service Corporation  
Citizens Utilities Company  
Franklin Electric Light Company, Inc.  
Green Mountain Power Corporation

Schedule II

Massachusetts Municipal Wholesale Electric Company  
Contracting Electric Systems

Massachusetts Systems

Town of Ashburnham Municipal Light Plant  
Town of Georgetown Municipal Light Department  
Town of Hull Municipal Lighting Plant  
Town of Littleton Electric Light Department  
Town of Mansfield Municipal Electric Department  
Town of Marblehead Municipal Light Department  
Town of Middleton Municipal Electric Department  
Town of Paxton Municipal Light Department  
Town of Templeton Municipal Lighting Plant

Rhode Island System

Pascoag Fire District

ATTACHMENT A

Except as provided below, if any participant does not receive required consents, waivers, regulatory approvals, or other actions of governmental authorities within the time period required by this Agreement, the listing of Participants and 1980 kilowatthour load will be appropriately modified.

Participant	1980 Kilowatthour Load
The Connecticut Light and Power Company	16,002,437,000
Western Massachusetts Electric Company	3,252,432,000
Holyoke Water Power Company	106,905,000
Holyoke Power and Electric Company	0

New England Power Company	15,444,975,840	(a), (b)
Boston Edison Company (Edison)	9,531,773,000	(b), (c)
Central Maine Power Company	6,053,571,000	
Public Service Company of New Hampshire	5,043,242,871	(d)
The United Illuminating Company	4,715,078,120	
Vermont Electric Power Company	3,262,098,200	
Canal Electric Company	3,227,553,000	
Montaup Electric Company	3,096,872,000	(e)
Bangor Hydro-Electric Company	1,305,625,118	
Connecticut Municipal Electric Energy Cooperative	718,177,538	
UNITIL Power Corp.	609,873,261	(f)
Massachusetts Municipal Wholesale Electric Company	470,025,000	
Town of Reading Municipal Light Department	401,795,000	
Newport Electric Corporation	382,745,000	
Fitchburg Gas and Electric Light Co.	369,055,118	
Taunton Municipal Lighting Plant	307,460,361	
City of Chicopee Municipal Lighting Plant	279,273,169	
Town of Braintree Electric Light Department	267,289,000	
City of Peabody Municipal Light Plant	245,010,000	
City of Westfield Gas & Electric Light Department	219,026,000	
City of Holyoke Gas & Electric Light Department	214,448,000	
Town of Danvers Electric Department	206,806,000	
Town of Shrewsbury Electric Light Department	146,303,000	
Hudson Light and Power Department	127,808,000	
Town of Wakefield Municipal Lighting Department	107,609,000	
Town of Hingham Municipal Lighting	103,929,000	
Town of South Hadley Electric Light Department	99,981,000	
Town of North Attleborough Electric Department	93,816,000	
Town of Middleborough Gas and Electric Department	92,081,000	
Town of Holden Municipal Light Department	63,676,000	
Town of West Boylston Municipal Lighting Department	43,974,000	
Town of Sterling Municipal Electric Department	24,510,000	
Town of Groton Electric Light Department	22,908,000	
Town of Boylston Municipal Light Department	17,324,000	
Town of Rowley Municipal Light Department	13,551,000	
Princeton Municipal Light Department	7,130,000	
Town of Concord Municipal Light Plant	0	(c)
	<hr/>	
	76,698,146,596	

- (a) Includes New Hampshire retail 1980 kilowatthour load of 434,290,243.
- (b) The 1980 Kilowatthour loads shown for Boston Edison Company and New England Power Company have been adjusted to reflect the current status of Norwood as a full requirements customer of New England Power Company.
- (c) As of June 1, 1985, Concord continues to be a full requirements customer of Edison. At such time as Concord ceases to be a full requirements customer of Edison, for purposes of this Agreement, Concord shall have an additional Participating Share equal to 1.087% of Edison's initial Participating Share (based on a 1980 Kwh load of 103,629,000 Kwh for Concord) and Edison's Participating Share shall be reduced by such amount.
- (d) Includes New Hampshire retail 1980 kilowatthour load of 4,939,218,744.

- (e) The amount shown for Montaup Electric Company includes the load of the other members of the Eastern Utilities Associates system.
- (f) The amount shown for UNITIL Power Corp. represents the 1980 kilowatthour load of its affiliates, Concord Electric Company and Exeter & Hampton Electric Company.

ATTACHMENT B

Description of the Transmission Facilities

The Transmission Facilities will include the following:

- (1) the continuation of a single circuit  $\pm$  450 kV DC line on an existing right-of-way from the Comerford Substation to the New Hampshire state line at Hudson, a distance of 121 miles;
- (2) communication equipment located in New Hampshire; and
- (3) such other facilities in New Hampshire and Vermont as approved by the Advisory Committee.

ATTACHMENT C

Forms of the following documentation:

- 1. Opinion of Counsel
- 2. Certificate
- 3. Incumbency and Signature Certificate
- 4. Directors' Vote

[Please note - governmental entities may make appropriate modifications to these documents to reflect that they are not corporations.]

[Form of Opinion of Counsel for Each Utility Participant]

New England Hydro-Transmission  
Electric Company, Inc.;;  
New England Hydro Transmission  
Corporation; or  
New England Power Company

Gentlemen:

This opinion is furnished in connection with the execution and delivery by \_\_\_\_ (the Company) of the following Agreements:

\_\_\_\_\_.

We have acted as counsel to the Company, one of the Utility Participants, in connection with the execution and delivery of the Basic Agreements. We participated in reviewing and/or drafting the Agreements.

As general [special] counsel to the Company, we are generally familiar with its affairs. [If special counsel is giving the opinion, describe relationship to the Company.] We have reviewed the proceedings taken by the Company in connection with its authorization, execution, and delivery of the Agreements and any documentation supplied by the Company thereunder. We have also examined executed counterparts of the Agreements, have made such other investigation, and have examined such other records and documents, and have made such examination of law and satisfied ourselves as to such other matters as we have deemed relevant and necessary in order to enable us to express the opinions set forth below.

Based upon and subject to the foregoing and to the further qualifications in this opinion, we are of the opinion that:

1. The Company is a corporation duly organized, validly existing and in good standing under the laws of [the jurisdiction of its incorporation], has the corporate power to own its assets and to transact the business in which it is engaged, and is duly qualified as a foreign corporation in, and is in good standing under the laws of, each jurisdiction in which the conduct of its business or the ownership of its assets requires such qualification.

2. The Company has (and in the case of the Agreements at the time of execution and delivery thereof, had) full corporate power, and legal right to execute, deliver and perform the Agreements, and the Company has taken all necessary corporate action to authorize the execution, delivery, and performance by it of the Agreements.

3. The execution, delivery, and performance by the Company of the Agreements do not (a) contravene the Company's [charter documents] or by-laws, (b) violate any applicable law, rule, regulation, order, writ, judgment, injunction, decree, or award known to us by which the Company is bound, (c) violate any indenture, instrument, or agreement known to us by which the Company is bound, or (d) result in or require the creation or the imposition of any lien pursuant to the provisions of any indenture, instrument, or agreement known to us by which the Company is bound.

4. No authorization, approval, consent, or other action by, and no notice to or filing with, any federal, state, or other governmental authority or regulatory body which has not been obtained or given and is not in full force and effect is required for the valid and lawful execution, delivery, and performance by the Company of the Agreements. [In this connection, to the extent it may be required by law, the approval of the Massachusetts Department of Public Utilities [Connecticut PUC, or other] has been given for the Agreements and the Company's performance thereunder by order(s) dated \_\_\_\_\_, which remains in full force and effect.]

5. The Agreements have each been duly executed and delivered by the Company and constitute the legal, valid, and binding obligations of the Company enforceable against it in accordance with their respective terms.

6. No action, suit, proceeding, or investigation at law or in equity or by or before any governmental instrumentality or other agency now pending or threatened against or affecting the Company or its property or rights which, if adversely determined, would materially impair the ability of the Company to perform its obligations under the Agreements is known to us.

Our opinion that the Agreements are enforceable, each in accordance with the terms thereof, is qualified to the extent that the enforcement of the rights and remedies created thereby is subject to bankruptcy, insolvency, reorganization, and similar laws of general application affecting the rights and remedies of creditors and secured parties, and to the further extent that the availability of the remedies of specific enforcement, injunctive relief, or any other equitable remedy is subject to the discretion of the court before which any proceeding therefor may be brought.

Very truly yours,

#### CERTIFICATE

I, (insert name), the Clerk (or Secretary or other principal recording officer) of (insert name of Utility Participant), a (insert state of organization) (the "Company") do hereby certify that:

(1) Attached hereto as Exhibit A is a true and correct copy of a vote duly adopted at a meeting of the Board of Directors of the Company, duly called and held on \_\_\_\_\_, \_\_\_\_\_, and that such vote and the authority vested thereby have not been amended or revoked and are still in full force and effect.

(2) Attached hereto as Exhibit B is a true and correct copy of the Articles of Organization (or other charter documents) of the Company, as amended and in effect as of the date of this Certificate.

(3) Attached hereto as Exhibit C is a true and correct copy of the By-Laws of the Company, as amended and in effect as of the date of this Certificate.

(4) The persons (or person) listed on Exhibit D have been duly elected to the offices set forth adjacent to their respective names since the first day of June, 1985, and the signatures adjacent to their respective names are the genuine signatures of said officers.

IN WITNESS WHEREOF, I have placed my hand and the seal of the Company this \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_.

By: \_\_\_\_\_

Name:

Title:

CONFIRMATION OF INCUMBENCY AND SIGNATURE OF  
CLERK, SECRETARY, OR OTHER PRINCIPAL RECORDING OFFICER

I, (name), (title) of the Company, do hereby certify that (name of officer executing certificate) is and at all times subsequent to \_\_\_\_\_, \_\_\_\_\_, has been the duly elected (title) of the Company and that the signature adjacent to his (or her) name is the genuine signature of said officer.

By: \_\_\_\_\_

Name:

Title:

FORM OF DIRECTORS' VOTE APPROVING AGREEMENTS

VOTED:

That in connection with this Company's participation in the Phase II expansion of the proposed interconnection between the New England Power Pool companies and Hydro-Quebec, the execution and delivery on behalf of this Company by \_\_\_\_\_, President, of the following agreements: (being collectively referred to in this vote as "Agreements") copies of which Agreements have been presented at this meeting, are hereby authorized, approved, ratified, and confirmed, and that the officers of this Company are further authorized severally to take any and all such further actions including the execution and delivery of such further documents, as such officers or any of them may deem necessary or appropriate in connection with the actions and documents authorized by this vote.

ATTACHMENT E

Subscription Process for Determining  
Initial Participating Shares

After allocation of up to 10% of the Participating Shares pursuant to Section 4(B)(1) and (2), the remaining shares shall be allocated to Participants as follows:

- a. Each Participant shall be entitled to a pro rata share of the remainder based on its 1980 Kwh load as a percentage of all Participants' 1980 Kwh loads.
- b. Upon execution of this Agreement, each Participant may subscribe for more or less than its share under (a) above.

- c. If there are no undersubscriptions or oversubscriptions under (b) above or if the sum of the shares under (a) or (b) above for all Participants equals 100% of such remaining shares, then each Participant shall have a share as determined under (a) or (b) above. For the purposes of this section, oversubscription shall mean, with respect to any Participant, a subscription under (b) above of more than its share under (a) above. For the same purposes, undersubscription shall mean, with respect to any Participant, a subscription under (b) above of less than its share under (a) above. The amount of such oversubscription shall be equal to (b) minus (a) and the amount of such undersubscription shall be equal to (a) minus (b.)
- d. If there are undersubscriptions but no oversubscriptions or if there are oversubscriptions but no undersubscriptions, then each Participant shall have a share as determined under (a) above.
- e. If the net result of subtracting the aggregate amount of all undersubscriptions from the aggregate amount of all oversubscriptions is greater than zero, the aggregate amount of all oversubscriptions must be reduced to the aggregate amount of all undersubscriptions. This amount shall be referred to as the total permitted amount of oversubscriptions. Each oversubscriber shall initially be allocated a share of the total permitted amount of oversubscriptions (pro rata by the 1980 kwh loads of the oversubscribers); provided that no oversubscriber shall be allocated more than its requested amount under (b) above. Any remaining unallocated portion of the total permitted amount of oversubscriptions shall be allocated to all oversubscribers that have not yet reached their requested amount under (b) above pro rata by the differences between their requested amounts under (b) above and their amounts allocated thus far under this section (d).
- f. If the net result of subtracting the aggregate amount of all oversubscriptions from the aggregate amount of all undersubscriptions is greater than zero, the aggregate amount of all undersubscriptions must be reduced to the aggregate amount of all oversubscriptions. This amount shall be referred to as the total permitted amount of undersubscriptions. The total permitted amount of undersubscriptions shall be allocated to the undersubscribers pro rata by the amounts of their undersubscriptions.

#### ATTACHMENT F

As a result of the support arrangements for building, owning, and financing the Transmission Facilities, Equity Sponsors have provided credit support for the project in excess of their Participating Shares. This enhances New Hampshire Hydro's ability to finance the project. The status of a Participant as a Credit Enhanced Participant that receives credit enhancement or not will be determined in connection with, and as of the date of commitment for, each debt financing, including any construction financing, in accordance with Section 1 hereof, and the Credit Enhancement Charge will be determined with respect to each such financing and will continue to be paid as long as the financing is outstanding and as long as any accrued unamortized Credit Enhancement Charges for said Participant remain outstanding.

An "investment grade" Participant is defined in this Agreement as a Participant which has outstanding junior long-term debt securities which have qualified debt ratings by two of the three major rating agencies. An "investment grade" Participant is also defined as a Participant which has a Participating Share of four-tenths of one percent (0.4%) or less and which has outstanding junior long-term debt securities having a rating from only one of the three major rating agencies with that rating being a qualified debt rating. (For these purposes, the outstanding junior long-term debt securities of a Participant shall mean (i) its outstanding long-term debentures, or (ii) if no long-term debentures are outstanding, its most junior outstanding long-term mortgage or revenue bonds, or (iii) if no long-term debentures, mortgage bonds or revenue bonds are outstanding, its most junior outstanding long-term debt.) "Qualified debt ratings" are defined as a minimum rating of Baa3 by Moody's Investors Service, BBB- by Standard & Poor's Corporation and D&P 10 by Duff & Phelps, Inc.

Any "substitute credit enhancement" shall mean, with respect to any New Hampshire Hydro debt financing, including any construction financing (i) a letter of credit from a commercial bank having capital, surplus, and undivided profits of at least \$250 million and a credit rating of "AA" or better in form and substance satisfactory to New Hampshire Hydro or (ii) a credit support that is equivalent to (i) above which is satisfactory in form and substance to New Hampshire Hydro, or (iii) a guarantee from an Equity Sponsor which at that time the guarantee is made satisfies the requirements to be an Equity Sponsor as set forth in section 4 of the Equity Funding Agreements; provided that such enhancement is irrevocable until the final maturity of such debt financing, including any optional extensions thereof. The first time that a Participant supplies substitute credit enhancement under this Agreement or under the Phase II Massachusetts Facilities Support Agreement, the substitute credit enhancement shall also cover such Participant's share of the debt obligations of New England Power Company and Boston Edison Company relating to their respective AC Facilities and the term of such credit enhancement shall extend for the full term of the then remaining depreciation period for the AC facilities supported

under such AC Facilities Support Agreements.

The principal amount of such substitute credit enhancement shall equal that Participant's Participating Share of the maximum amount of obligations under such New Hampshire Hydro debt financing plus, if not already provided in connection with any other debt financing of New Hampshire Hydro or New England Hydro, that Participant's Participating Share of the maximum amount of debt obligations of New England Power Company and Boston Edison Company relating to the AC Facilities as determined by New England Power and Boston Edison, respectively.

For any substitute credit enhancement that covers that Participant's Participating Share of the debt obligations of Boston Edison Company and New England Power Company relating to the AC Facilities, such substitute credit enhancement shall provide for direct payment to New England Power and Boston Edison, respectively, of the amounts included therein for covering such debt obligations.

As compensation to Equity Sponsors for providing this additional credit support, a Credit Enhancement Charge, as calculated in connection with each debt financing is required to be paid by the Participants. If a Participant is a Credit Enhanced Participant by reason of below-investment grade, withdrawn or suspended debt ratings, the Credit Enhancement Charge attributed to that Credit Enhanced Participant will be paid by all Participants with each Participant paying its Participating Share thereof; provided, however, that if a Participant is a Credit Enhanced Participant due to lack of debt ratings, the Credit Enhancement Charge attributed to that Credit Enhanced Participant shall be paid by such Participant.

The Credit Enhancement Charge (E) attributed to a Credit Enhanced Participant is a dollar value determined monthly for each Credit Enhanced Participant by the following formula:

$$E = \sum_{i=1}^n F_i$$

$$\text{where } F_i = \left( \frac{G}{100} \times H_i \times \frac{I_i}{100} \times 0.8 \times \frac{1}{12} \right) + J_i$$

- F = the Credit Enhancement Charge for each New Hampshire Hydro debt financing that is credit enhanced for the Participant.
- i = a number from 1 to n representing each of New Hampshire Hydro debt financings.
- n = total number of such financings.
- G = the Participant's Participating Share (in percent)
- H = the maximum outstanding amount of New Hampshire Hydro debt during the month which was credit enhanced for such Participant
- I = debt premium (in percent) for the Credit Enhanced Participant as shown in the following table:

Participant's  
Debt Rating\*

I(%)

Below B3 or not rated	7.57
B3	5.32
B2	4.82
B1	4.32
Ba3	3.82
6a2	3.32
Ba1	2.82

\* Debt rating shall be the lower of the two highest ratings assigned to the Participant's outstanding junior long-term debt securities by Moody's, Standard and Poor's, and Duff & Phelps, converted to a Moody's equivalent as measured at the commitment date of such New Hampshire Hydro debt financing. If the Participant has a Participating Share of four tenths of one percent (0.4%) or less and has only one debt rating, then the debt rating for such Participant shall be that rating converted to a Moody's equivalent as measured at the commitment date of such New Hampshire Hydro debt financing.

J = an amount calculated as follows:

During the period from the Effective Date to the Date of Full Support Payment, J shall equal 0 and the Credit Enhancement Charge calculated during such period pursuant to the above formula shall be accrued for each Participant during such period with interest calculated at New Hampshire Hydro's AFDC rate. After the Date of Full Support Payment, such previously accrued amount for such Participant shall be treated as if it represented additional investment in the Transmission Facilities relating only to such Participant. As a result J shall include monthly amounts attributable to such Participant (whether or not it continues to be a Credit Enhanced Participant after the Date of Full Support Payment and whether or not the debt being enhanced continues to be outstanding) representing amortization of such previously accrued amount (with amortization over the period that the investment in the Transmission Facilities is being amortized) plus one-twelfth of the composite percentage (as defined in Section 12 hereof) times the unamortized accrued amount plus a provision for income taxes

#### ATTACHMENT G

#### FORM OF EQUITY FUNDING AGREEMENT

FOR

NEW ENGLAND HYDRO-TRANSMISSION CORPORATION

This AGREEMENT dated as of June 1, 1985, is between New England Hydro-Transmission Corporation (New Hampshire Hydro) and the New England entities listed in Attachment A hereto. Those New England entities that have executed this Agreement and that meet the further conditions for participation and qualification hereunder are hereinafter referred to as Equity Sponsors or individually as an Equity Sponsor. The Equity Sponsors are sometimes referred to collectively herein, but their rights and obligations

hereunder are several and not joint as described in Section 6 hereof.

In consideration of the premises, the concurrent execution of the other Basic Agreements hereinafter referred to, the mutual covenants hereinafter and therein set forth, and other good and valuable consideration, receipt whereof is hereby acknowledged, it is hereby agreed as follows:

Section 1. Basic Understandings and Purpose

New England utilities are currently participating in the arrangements for the Phase I interconnection planned by the New England Power Pool (NEPOOL) with Hydro-Quebec, which is to consist of a  $\pm$  450 kV HVDC transmission line from a terminal at the DES Cantons Substation on the Hydro-Quebec system near Sherbrooke, Quebec to a terminal having an approximate rating of 690 MW at a substation at the Comerford Generating Station on the Connecticut River (hereinafter referred to as Phase I). The basic arrangements covering the portion of Phase I in the United States are set forth in the New England Power Pool Agreement, as amended (the NEPOOL Agreement) and three contracts among the participants in Phase I as follows:

(1) Vermont Transmission Line Support Agreement, dated as of December 1, 1981, as amended, with Vermont Electric Transmission Company, Inc.

(2) Phase I Terminal Facilities Support Agreement, dated as of December 1, 1981, as amended, with New England Electric Transmission Corporation, and

(3) Agreement With Respect To Use Of Quebec Interconnection, dated as of December 1, 1981, as amended, including the restatement thereof in connection with Phase II (this Agreement as restated to cover Phase II is hereinafter referred to as the Use Agreement).

These Phase I interconnection facilities are currently under construction with completion scheduled during 1986.

With the completion of arrangements for Phase I and the related contracts with Hydro-Quebec, the members of NEPOOL have conducted studies of the benefits of an expanded interconnection for NEPOOL with Hydro-Quebec (Phase II) and have negotiated with Hydro-Quebec a firm energy arrangement to utilize the expanded interconnection facilities.

The portion of Phase II in the United States will consist of an extension of the Phase I DC transmission line from the proposed terminus of Phase I at the Comerford Station through New Hampshire to a site in Massachusetts with additional terminal facilities installed at that site to increase the total transfer capacity between Hydro Quebec and NEPOOL from the 690 MW of Phase I to approximately 2000 MW. Reinforcements to the existing AC transmission system of New England Power and to certain AC facilities of Boston Edison Company will also be required. The United States portion of the Phase II facilities will be designated as pool-planned facilities in the same manner as the United States portion of the Phase I facilities was so designated.

Each Equity Sponsor acknowledges that it has been represented on the Executive and Planning Committees of NEPOOL that had responsibility for evaluating the feasibility of Phase II and, through this representation, actively participated in the decision of

NEPOOL to go forward with Phase II. Furthermore, each Equity Sponsor represents that it made its own independent investigations and inquiries as it deemed appropriate and did not rely upon representations (other than those contained in this Agreement) of New England Hydro or its affiliates in deciding to enter into this Agreement.

The share of benefits among the New England utilities associated with Phase II is set forth in the Use Agreement. The Use Agreement also permits each New England utility to make its own entitlement transactions with Hydro Quebec and to use the interconnection for such transactions.

The provisions of the Phase II Massachusetts Transmission Facilities Support Agreement (Massachusetts HVDC Support Agreement) cover the Phase II Massachusetts HVDC transmission line and terminal facilities in Massachusetts. New England Hydro-Transmission Electric Company, Inc. (New England Hydro) will build, own, operate, and maintain those Massachusetts HVDC transmission facilities.

The portion of the Phase II HVDC transmission line to be constructed in New Hampshire is covered under the Phase II New Hampshire Transmission Facilities Support Agreement (New Hampshire HVDC Support Agreement). New Hampshire Hydro will build, own, operate, and maintain those New Hampshire HVDC transmission facilities.

All improvements and reinforcements to the AC transmission system in Massachusetts necessitated by Phase II are covered under the Phase II New England Power AC Facilities Support Agreement (New England Power AC Support Agreement) and the Phase II Boston Edison AC Facilities Support Agreement (Boston Edison AC Support Agreement).

The provisions of this Agreement cover the commitments of the Equity Sponsors of New Hampshire Hydro to contribute equity funds to New Hampshire Hydro, to provide certain limited credit support in connection with debt financing of New Hampshire Hydro and to accept an allocation of a share of Phase II in the event of a default by certain participating New England utilities under certain other Basic Agreements.

In view of the need to formalize the agreements among the parties at an early date so that (i) binding commitments with Hydro Quebec for Phase II may be made, (ii) binding commitments for ultimate construction and the financing of the United States portion of Phase II may be undertaken consistent with the time schedule anticipated by NEPOOL and with the assurance that commitments among the New England utilities are in place, and (iii) licensing activities may proceed on a schedule that enables completion of such construction consistent with the time schedule anticipated by NEPOOL, the following agreements are concurrently being entered into (the "Basic Agreements") which collectively set forth rights and obligations with respect to the foregoing undertaking: (1) this Agreement, (2) the Massachusetts HVDC Support Agreement; (3) the New Hampshire HVDC Support Agreement; (4) the Equity Funding Agreement for New England Hydro; (5) the New England Power AC Support Agreement; (6) the Use Agreement; (7) various amendments to the NEPOOL Agreement relating to the sharing of savings, capability responsibilities, and Pool transmission arrangements; and (8) the Boston Edison AC Support Agreement.

In order to coordinate each participating utility's interest in Phase II to the fullest extent possible, each of the following Basic Agreements have been drafted with the intent that the participating interest of each participating utility will be the same under each agreement: the Massachusetts HVDC Support Agreement, the New Hampshire HVDC Support Agreement, the New England Power AC Support Agreement, the Boston Edison AC Support Agreement, and the Use Agreement. These Basic Agreements also provide that, notwithstanding any provision thereof that may be interpreted to the contrary, the proper interpretation of each of these Basic Agreements is to be consistent with such overriding intent. Each Equity Sponsor acknowledges this overriding intent and agrees that any action by it or its appointee affecting such participating interests shall be the same under this Agreement and the Equity Funding Agreement with New England Hydro in order to also be consistent with such overriding intent.

## Section 2. Conditions Precedent to Effectiveness

The effectiveness of this Agreement, and all rights, obligations, and performance of the signatories hereunder, is subject to (i) New England Electric System (NEES) and other signatories having executed this Agreement committing in the aggregate to Equity Shares (as hereinafter defined) equal to at least 100%, and each such signatory having demonstrated by December 30, 1985, to the satisfaction of New Hampshire Hydro that is qualified to be an Equity Sponsor pursuant to Section 4, (ii) New England Hydro or New Hampshire Hydro or New England Power or Boston Edison and members of NEPOOL (including Boston Edison and New England Power) serving at least 66-2/3% of the aggregate kilowatt-hour load served by NEPOOL members in 1980 having executed the other Basic Agreements (except for the Equity Funding Agreement for New England Hydro and the amendments to the NEPOOL Agreement), (iii) each signatory having also executed the Equity Funding Agreement for New England Hydro and having the same percentage of New England Hydro's equity as its Equity Share hereunder, (iv) members of NEPOOL having executed the amendments to the NEPOOL Agreement for Phase II in order that such amendments may become effective in accordance with the NEPOOL Agreement, and (v) each signatory having satisfied the conditions precedent set forth below.

By June 1, 1986, each signatory to this Agreement shall provide certificates and legal opinions from counsel satisfactory to New Hampshire Hydro, together with certified copies of related resolutions, consents, approvals, authorizations, and other documents (Documentation) necessary to establish to the satisfaction of New Hampshire Hydro that all corporate and regulatory consents, waivers, approvals, authorizations and other actions necessary in connection with performance by such signatory of its obligations under the Agreement have been obtained and are in full force and effect, that the Agreement has been duly authorized, executed, and delivered by such signatory, and that it constitutes a binding commitment by the signatory enforceable in accordance with its terms. Forms of Documentation acceptable to New Hampshire Hydro are included in Attachment B hereto. Prior to signing this Agreement, each signatory has provided to New Hampshire Hydro a listing of all consents, waivers, approvals, authorizations, and other actions required for that signatory to deliver its Documentation.

Vermont Electric Power Company, Inc. (VELCO) and Massachusetts Municipal Wholesale Electric Company (MMWEC)

represent a number of electric systems. If they desire and are qualified to be Equity Sponsors, they shall be deemed to have signed on behalf of those respective systems listed in Schedules I or II, respectively. By March 1, 1986, VELCO and MMWEC will provide New Hampshire Hydro with copies of contracts with their respective systems which impose absolute and unconditional obligations on such systems to pay their proportionate shares of all costs or obligation incurred under this Agreement by VELCO or MMWEC, respectively. By that date, VELCO and MMWEC will also provide to New Hampshire Hydro as part of their Documentation certificates, legal opinions (from counsel satisfactory to New Hampshire Hydro), and other documents in form and substance satisfactory to New Hampshire Hydro representing unconditionally that all consents, approvals, and authorizations have been obtained by their contracting systems in connection with each such system's performance of its obligations under its respective contract with VELCO or MMWEC and that each such contract imposes absolute and unconditional obligations on such systems to pay their proportionate shares of all costs incurred under this Agreement by VELCO or MMWEC, respectively, and has been duly authorized, executed, and delivered and is a binding commitment of such system enforceable in accordance with its terms. If regulatory approvals have not been obtained by March 1, 1986, such representations shall be conditioned upon receipt of regulatory approvals. VELCO and MMWEC will have until June 1, 1986, to receive such approvals and make such representations unconditionally. In order that percentages of participation be consistent among the Basic Agreements, VELCO and MMWEC shall have their contracts with their contracting systems cover the necessary commitments for each Basic Agreement.

All expenses in connection with obtaining and delivering any Documentation under this Agreement, including legal opinions, are to be borne by the signatory incurring such expense. New Hampshire Hydro will have no responsibility for any expenses incurred by VELCO and MMWEC in providing Documentation for their respective contracting systems.

Any signatory that fails to meet the requirements of Section 2 by the deadlines contained herein will not be an Equity Sponsor under this Agreement and will not have any rights and obligations hereunder.

New Hampshire Hydro by written notice to all signatories may extend any deadline date specified in this Section to a later date, provided that any extension for longer than six months requires the consent of the Advisory Committee under the New Hampshire HVDC Support Agreement.

### Section 3. Effective Date and Term

This Agreement shall become effective (the Effective Date) upon the last to occur of the following dates:

- (i) the date that the Equity sponsors, committing in the aggregate to Equity Shares (as hereinafter defined) equal to at least 100%, have met the requirements of Section 2; and
- (ii) the date that the last of the other Basic Agreements (excluding the Use Agreement) becomes effective or would become effective but for a condition that its effectiveness is subject to this Agreement becoming effective.

Upon execution and delivery of the Agreement by New Hampshire Hydro and NEES and other signatories committing in the aggregate to Equity Shares (as hereinafter defined) equal to no less than 100%, and notwithstanding any provision herein to the contrary, no signatory may terminate its obligations hereunder except in accordance with provisions of this Agreement.

The term of this Agreement shall expire on termination date of the New Hampshire HVDC Support Agreement.

#### Section 4. Equity Sponsor Qualification

A. In order to enhance New Hampshire Hydro's ability to finance its portion of Phase II as required under the Massachusetts HVDC Support Agreement and to enhance the credit support of certain Supporters under the AC Support Agreement, some or all of the New England utilities participating in Phase II whose credit ratings are at least one grade above the lowest investment grade have agreed to provide, or to cause their designees to provide, credit support for those New England utilities participating in Phase II whose credit ratings are below investment grade. NEES and those New England utilities or their designees which have agreed to provide this credit support are the Equity Sponsors of New Hampshire Hydro under this Agreement.

B. A Participant under the New Hampshire HVDC Support Agreement or its authorized designee qualifies to be an Equity Sponsor by having its outstanding long-term debentures rated at least one grade above the lowest investment grade rating as of September 1, 1985. If no long-term debentures are outstanding, the ratings used shall be those of such company's most junior long-term mortgage or revenue bonds. If no mortgage bonds, revenue bonds, or debentures are outstanding, the ratings used shall be those of the most junior long-term debt. VELCO shall qualify to be an Equity Sponsor if 80% or more of its common stock is owned by utilities whose debt securities qualify pursuant to this subsection 4(B).

For purposes of this Agreement, "one grade above the lowest investment grade rating" means a rating equal to the following ratings from two of these rating agencies: Standard and Poor's Corporation - Rating BBB; Moodys Investor Service - Rating Baal; and Duff & Phelps - Rating D&P 9 (or the equivalent municipal ratings).

C. A "designee" shall be authorized to be an Equity Sponsor if it is a parent company of such Participant and (i) its debt securities meet the appropriate test specified in B above, or (ii) at least 80% of its consolidated utility revenues are derived from subsidiaries whose debt securities meet the appropriate test specified in B above. (For VELCO, each stockholder of VELCO shall be a parent company of VELCO.) On or before the date of execution of this Agreement, each Participant shall identify its designee, if any.

D. In order that the necessary credit enhancement is provided as specified in A above, the qualification of each Equity Sponsor shall be reviewed by New Hampshire Hydro as of the date that the first equity contributions are to be made by such Equity Sponsor. If an Equity Sponsor fails to qualify on such date, appropriate actions and allocations shall be instituted as provided elsewhere in this Agreement.

#### Section 5. Equity Shares

A. Each Equity Sponsor shall have and be charged with a percentage interest in all rights and obligations hereunder

determined in accordance with this Section 5 (which interest is hereinafter referred to as its "Equity Share"). All of the equity of New Hampshire Hydro will be owned by the Equity Sponsors in proportion to their Equity Shares.

The Equity Share of each Equity Sponsor shall be computed both initially and as changed from time to time in accordance with the terms hereof, by New Hampshire Hydro as hereinafter provided. Such computations shall be made as of the first day of any month in which there is a change in the number of Equity Sponsors or any change in the interest of any Equity Sponsor as herein provided. The initial computation is to be made as of September 15, 1985, and subsequent computations are to be made in any month thereafter in which an interest is modified or terminated due (i) to the failure of a signatory to provide proof that it is qualified to be an Equity Sponsor by December 30, 1985, or (ii) to the failure to provide Documentation by June 1, 1986, or (iii) to the failure to be so qualified on the date the first equity contributions are to be made by such Equity Sponsor, or (iv) to the operation of any provision of this Agreement. All computations shall be final unless there is a manifest error. Such computations of Equity Sponsors' Equity Shares as initially calculated and as changed under (i) and (ii) shall be made pursuant to Attachment C. Changes under (iii) shall be made pursuant to section 5(C) below, and changes under (iv) shall be made pursuant to the appropriate section requiring the change.

B. The Equity Shares on and as of the initial computation date, and as of the date of subsequent computations under subparts (i) and (ii) of the second paragraph of A above, will be calculated as follows:

1. 51% to NEES; and
2. 49% apportioned among the other Equity Sponsors on the basis of the subscription process as described in Attachment C.

(Attachment C provides that each Equity Sponsor may specify a maximum percentage of equity and that such maximum shall remain in effect until June 1, 1986 or such later deadline if extended pursuant to Section 2 hereof.)

C. On the basis of New Hampshire Hydro's review of the qualifications of each Equity Sponsor other than NEES as of the date that the first equity contributions are to be made by such Equity Sponsor, if one or more Equity Sponsors are no longer qualified under Section 4, (i) the aggregate Equity Shares of such unqualified Equity Sponsors shall first be offered in writing by New Hampshire Hydro to all then qualified Equity Sponsors other than NEES for voluntary subscription, (ii) second, any remaining shortfall shall be allocated pro rata among such qualified Equity Sponsors not including NEES in proportion to their Equity Shares determined as of June 1, 1986, provided that the aggregate of all involuntary allocations under this Section 4(C) to such qualified Equity Sponsors shall not exceed an aggregate Equity Share of 10%, and further provided that the aggregate of all such involuntary allocations to any such Equity Sponsor shall not increase such Equity Sponsor's Equity Share determined as of June 1, 1986, by more than 25% thereof, and (iii) finally, any remaining shortfalls shall be retained pro rata by such no longer qualified Equity Sponsors in proportion to their Equity Shares determined as of June 1, 1986; provided, however, that NEES and all qualified Equity Sponsors may

agree to other allocation arrangements; and further provided that NEES shall not have an Equity Share of less than 51% unless it so consents. (The above deadlines of June 1, 1986 may be extended to a later deadline pursuant to Section 2 hereof.)

All offerings above shall be made in accordance with a voluntary subscription process as specified in New Hampshire Hydro's offering letter, and any oversubscriptions will be treated as provided therein.

#### Section 6. Relationship Among Equity Sponsors

The rights and obligations of the Equity Sponsors hereunder are several, in accordance with their respective Equity Shares, and not joint. The rights and obligations of New Hampshire Hydro hereunder are also several and not joint with those of the Equity Sponsors or any one thereof. There is no intention to create by this Agreement, or by any grant, lease, license, or activity related hereto, an association, joint venture, trust, or partnership or to impose on New Hampshire Hydro or any Equity Sponsor trust or partnership rights or obligations; and any such implied intention is expressly negated. Except as expressly provided in this Agreement, no Equity Sponsor shall have by virtue of this Agreement or of any such grant, lease, license, or activity the right or power to bind any other Equity Sponsor without its express written consent.

#### Section 7. Equity Contribution

A. Under the Massachusetts HVDC Support Agreement, New England Hydro has agreed to limit its equity investment to a maximum of 40% of its total capital as of the effective date of that agreement and has agreed to use its best efforts to continue to limit its equity investment to 40% of its total capital during the time that New Hampshire Hydro has outstanding debt in its capital structure.

New Hampshire Hydro may call from time to time by written notification upon the Equity Sponsors to contribute equity in any of the forms set forth in this Section up to a maximum aggregate amount of \$90 million, provided that Equity Sponsors having 66-2/3% of Equity Shares may agree to increase this maximum aggregate amount; and then all Equity Sponsors shall contribute such requested amount with each Equity Sponsor contributing up to its Equity Share of the new maximum. Any contribution made in response to New Hampshire Hydro's call in excess of the maximum aggregate amount, as adjusted from time to time, may be made on a voluntary basis by any contributing Equity Sponsor, and New Hampshire Hydro will make an appropriate adjustment in Equity Shares.

B. During the term of this Agreement, New Hampshire Hydro has the option from time to time to call for contribution of equity in any of the following forms:

(1) New Hampshire Hydro may offer shares of its common stock to its Equity Sponsors and each Equity Sponsor shall subscribe for and purchase, for cash at a price set by New Hampshire Hydro, its Equity Share of the common stock so offered.

(2) After each Equity Sponsor owns common stock of New Hampshire Hydro, New Hampshire Hydro may request that capital contributions be made, and each Equity Sponsor shall contribute to New Hampshire Hydro its Equity Share of the total capital contribution so requested.

C. In order that New Hampshire Hydro may limit its equity investment to a maximum of 40% of its total capital, New Hampshire Hydro may, at its option, from time to time, take any of the following actions:

(1) New Hampshire Hydro may repurchase for cash its common stock from Equity Sponsors in amounts that will not change the relative Equity Shares among Equity Sponsors and at a price per share equal to book value per share at the time of repurchase. Each Equity Sponsor shall sell such common stock to New Hampshire Hydro in the full amount so requested.

(2) New Hampshire Hydro may return any capital contribution previously received from Equity Sponsors in amounts that will not change the relative Equity Shares among Equity Sponsors. Each Equity Sponsor shall accept such return of capital contribution in the full amount so returned.

(3) New Hampshire Hydro may pay dividends out of earnings or make liquidating dividends to the Equity Sponsors.

D. New Hampshire Hydro shall give written notice of any call for contributions of equity under B above to each Equity Sponsor. Such notice shall specify the amount to be contributed, the form of the contribution, and a date, at least thirty days after the date of the notice, that the equity is to be contributed. New Hampshire Hydro will provide annually estimates of its equity requirements and estimated dates when any equity contributions hereunder will be due. New Hampshire Hydro shall give written notice of any action to reduce its equity under C above to each Equity Sponsor. Such notice shall specify the amount and form of the reduction and a date, at least fifteen days after the date of the notice, that the reduction in equity is to occur.

E. New Hampshire Hydro shall use the proceeds of any equity contribution under this Agreement for the sole purpose of meeting its capital requirements under the New Hampshire HVDC Support Agreement.

F. All transactions under B, up to a maximum aggregate amount of \$90 million, and under C above shall be subject to receipt of all necessary regulatory approvals, and New Hampshire Hydro and the Equity Sponsors shall use their best efforts to obtain, or to assist in obtaining, these approvals in advance of the Effective Date.

G. New Hampshire Hydro shall have two classes of common stock, both of which will have the same preferences, qualifications, special or relative rights or privileges, except that only one class shall have voting powers. Equity Shares allocated to NEES shall be evidenced by voting common stock. The Equity Shares allocated to each other Equity Sponsor shall, at the option of such Equity Sponsor, be evidenced by shares of voting common stock or non-voting common stock. Any reallocation of Equity Shares pursuant to Section 5 hereof shall be effected in such manner as to involve the issuance of additional common stock to each Equity Sponsor of the class then held by such Sponsor. Such election to take voting or non-voting stock shall be made in writing to New Hampshire Hydro by December 31, 1985.

H. Notwithstanding any provision of this Agreement to the contrary, prior to the date that New Hampshire Hydro first calls for equity contributions from all Equity Sponsors, all equity of New Hampshire Hydro will be owned and contributed by NEES.

Section 8. Cash Deficiency Guarantee

A. The New Hampshire HVDC Support Agreement provides that, if New Hampshire Hydro has, on any Due Date, a Cash Deficiency attributed to a Participant, the Participant absolutely and unconditionally guarantees to pay its Cash Deficiency on demand of Lenders. (The commitment is made in section 19 of that Agreement.) To provide further credit support to New Hampshire Hydro, each Equity Sponsor absolutely and unconditionally guarantees to pay its then Equity share of the Cash Deficiency attributed to any Credit Enhanced Participant (as defined in the New Hampshire HVDC Support Agreement) with respect to any third party debt financing of New Hampshire Hydro that was credit enhanced for such Participant, with such amounts to be paid directly on demand to Lenders, in cash, if for any reason a Credit Enhanced Participant fails to pay when due its Cash Deficiency on demand of Lenders. Each Equity Sponsor agrees that its obligations under this Section shall be continuing, absolute, and unconditional and without the benefit of any defense, claim, set-off, recoupment, abatement, or other right, existing or future, which an Equity Sponsor may have against the Lenders, New Hampshire Hydro, or any other person, and shall remain in full force and effect until all of the obligations of New Hampshire Hydro to the Lenders have been discharged.

Each Equity Sponsor hereby waives diligence, presentment, demand of payment, filing of claims with a court in the event of merger or bankruptcy of any Lender or New Hampshire Hydro or any other Equity Sponsor, protest or notice with respect to this guarantee, and covenants that the obligations contained in this guarantee will not be discharged except by complete performance of the obligations of New Hampshire Hydro to the Lenders.

B. Notwithstanding any other provision contained herein, each Equity Sponsor's obligations under this Section 8 shall be limited to its Equity Share of the Cash Deficiency attributed to any Credit Enhanced Participant with respect to any financing of any New Hampshire Hydro that was credit enhanced for such Participant.

C. In no event shall the several guarantees of the Equity Sponsors attributable to Credit Enhanced Participants for each debt financing of New Hampshire Hydro exceed in the aggregate 35% of the aggregate amount of the obligations relating to such financing, provided that Equity Sponsors having an aggregate of at least 80% of the Equity Shares may agree to exceed such 35% maximum and subject to receipt of any necessary regulatory approvals, such agreement shall be binding on all Equity Sponsors.

D. In no event shall Equity Sponsors be required to provide guarantees for a Participant with respect to a particular third party debt financing of New Hampshire Hydro if that would result in Credit Enhanced Participants with respect to that and all other outstanding financings of New England Hydro and New Hampshire Hydro having Participating Shares exceeding 35% under the New Hampshire HVDC Support Agreement, provided that Equity Sponsors having an aggregate of at least 80% of the Equity Shares may agree to exceed such 35% maximum and subject to receipt of any necessary regulatory approvals, such agreement shall be binding on all Equity Sponsors.

E. Each Equity Sponsor shall use its best efforts to obtain and assist others in obtaining all necessary regulatory approvals

required for the several guarantees made in this Section.

Section 9. Acceptance of Participating Shares

A. In accordance with section 15 of the New Hampshire HVDC Support Agreement, if a Participant that is a Credit Enhanced Participant is terminated by New Hampshire Hydro as a Participant, each Equity Sponsor or its appointee shall be allocated by New Hampshire Hydro its then Equity Share of the Participating Share of such terminated Participant; such allocation to be made as of the date of such termination. Each Equity Sponsor or its appointee shall accept such allocation from New Hampshire Hydro and shall unconditionally and absolutely assume the rights and obligations associated therewith from the date of such allocation. If a Participant that was not also a Credit Enhanced Participant is terminated, then acceptance of any allocation shall be voluntary by any Equity Sponsor or its appointee and shall be in accordance with New Hampshire Hydro's offer thereof. If required by New Hampshire Hydro, any Equity Sponsor or its appointee assuming rights and obligations under the Massachusetts HVDC Support Agreement shall execute and deliver any documents necessary to effectuate such assumption. If any Equity Sponsor that is the designee of a Participant is unable to deliver these documents to effectuate the assumption, such Equity Sponsor shall take all actions necessary for the Participant that so designated it as an Equity Sponsor to assume such rights and obligations as its appointee.

The appointee of NEES shall be New England Power Company. The appointee(s) of any other Equity Sponsor shall be the Participant(s) for which such Equity Sponsor was acting as a designee. Each Equity Sponsor agrees that if its appointee is allocated a Participating Share under the New Hampshire HVDC Support Agreement, such Equity sponsor shall also allocate to it an equal participating share and support share under the Massachusetts HVDC Support Agreement and New England Power and Boston Edison AC Support Agreements, respectively.

B. Each Equity Sponsor shall use its best efforts to obtain and assist others in obtaining all necessary regulatory approvals required for performance of its or its appointee's commitments made in this Section.

Section 10. Character of Payment Obligations

The obligations of each Equity Sponsor to make payments hereunder, and to perform and observe all other agreements on its part contained herein, are absolute and unconditional and shall not be affected by any circumstances, including, without limitation, (i) any insolvency, composition, bankruptcy, reorganization, arrangement, liquidation or similar proceedings relating to New Hampshire Hydro, New England Power Company, Boston Edison Company, the Equity Sponsor, any other Equity Sponsor, or any affiliate thereof, (ii) any invalidity or unenforceability or disaffirmance by New Hampshire Hydro or any Equity Sponsor of any provision of this Agreement or any failure, omission, delay, or inability of New Hampshire Hydro to perform any of its obligations contained herein, (iii) any amendment, extension, or other change of, or any assignment or encumbrance of any rights or obligations under, this Agreement, or any waiver or other action or inaction, or any exercise or nonexercise of any right or remedy, under or in respect to this Agreement, or (iv) any inability of the Equity Sponsor or any other Equity Sponsor to obtain regulatory approvals for financing its

Equity Share of any obligations under this Agreement or for meeting any other obligations under this Agreement, it being the intention of the parties hereto that all amounts payable by each Equity Sponsor in respect of this Agreement shall begin to be payable and shall continue to be payable in all events in the manner and at the time herein provided. In that connection, each Equity Sponsor hereby waives, to the extent permitted by applicable law, any and all rights which it may now have or which may at any time hereafter be conferred upon it, by statute or otherwise, to terminate, cancel, or surrender any of its obligations under this Agreement.

#### Section 11. Default

A. Any of the following events (Events of Default) that occur and are continuing are Events of Default:

(i) An Equity Sponsors shall fail to pay to New Hampshire Hydro when due any amount which it has agreed to pay under any provision of this Agreement, and such failure shall continue for more than 15 days after written notice thereof has been given to such Equity Sponsor by New Hampshire Hydro; or

(ii) Any Equity Sponsor shall fail to supply in accordance with the terms hereof any documentation required by New Hampshire Hydro in connection with financing with Lenders by New Hampshire Hydro (for VELCO and MMWEC, this includes documentation for their respective contracting electric systems), and such failure shall continue for more than 30 days after written notice of such failure has been given to such Equity Sponsor by New Hampshire Hydro; or

(iii) An Equity Sponsor shall fail to perform any other obligation under this Agreement in accordance with the terms hereof, and such failure shall continue for more than 30 days after written notice thereof has been given to such Equity Sponsor or any of its affiliates by New Hampshire Hydro.

(iv) Any Equity Sponsor shall experience an event of default under the Equity Funding Agreement for New Hampshire Hydro.

B. If an Event of Default under Section 12A(i) above shall have occurred, New Hampshire Hydro may, by written notice to each Equity Sponsor, request that the nondefaulting Equity Sponsors on a voluntary basis make the overdue payment to New England Hydro, provided that similar voluntary payments are made under the Equity Funding Agreement for New Hampshire Hydro.

C. New Hampshire Hydro or any Equity Sponsor shall be free to invoke such remedies at law or in equity as may be deemed appropriate against any Equity Sponsor that defaults under this Agreement.

#### Section 12. Restrictions on Transfer of Common Stock

Each Equity Sponsor agrees that it will not transfer any or all of its common stock of New Hampshire Hydro to any other person unless such person is an Equity Sponsor or meets the requirements for being an Equity Sponsor under sections 4B or 4C hereof as of the date of such transfer and a similar transfer is made under the Equity Funding Agreement for New Hampshire Hydro.

#### Section 13. Dividends on Common Stock

Any Equity Sponsor may direct New England Hydro to withhold the payment of a dividend to such Equity Sponsor and apply

such dividend to reduce the current or the next Support Charge payment required to be made under the New Hampshire HVDC Support Agreement by such Equity Sponsor or its appointee.

Section 14. Restrictions on Dividends, Return of Capital and Repurchase of Common Stock

Any Equity Sponsor which is in default hereunder pursuant to Section 11 is not entitled to receive any amounts from New Hampshire Hydro representing such Equity Sponsor's then Equity Share of dividends, return of capital, or proceeds from any repurchase of common stock until all amounts (including interest thereon at an annual rate equal to two percent over the current interest rate on prime commercial loans from time to time in effect at the principal office of the First National Bank of Boston) owed by such Equity Sponsor to New Hampshire Hydro have been paid.

Section 15. Certain Actions of New Hampshire Hydro

A. New Hampshire Hydro shall not take any of the following actions without prior written approval of Equity Sponsors having at that time at least 80% of the Equity Shares:

- (i) Amend New Hampshire Hydro's articles of organization or by-laws to adversely affect the rights of the Equity Sponsors as stockholders in a material manner under the Basic Agreements, unless such amendment is required by regulation or law; and
- (ii) Merge, consolidate, or sell all or substantially all of the assets of New Hampshire Hydro not otherwise permitted by the New Hampshire HVDC Support Agreement.

B. New Hampshire Hydro shall distribute in a timely manner to each Equity Sponsor copies of (a) its annual audited financial statements, (b) notices of all of its directors' and stockholders' meetings (including any committees thereof), and (c) minutes of all of its directors' and stockholders' meetings.

Section 16. Miscellaneous

A. Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of, and may be performed by, the successors and assigns of the parties and shall also be binding, insofar as permitted by law, on any receiver or trustee in bankruptcy, receivership, or reorganization of any party. No assignment of this Agreement shall operate to relieve the assignor of its obligations under this Agreement without the written consent of the parties hereto. Written notice to all parties will be given prior to any assignment hereunder.

Notwithstanding the above, New Hampshire Hydro may collaterally assign this Agreement without the consent of the Equity Sponsors in connection with a third party financing by New Hampshire Hydro.

B. Right of Setoff. No Equity Sponsor shall be entitled to set off against the payments required to be made by it hereunder (1) any amounts owed to it by New Hampshire Hydro, any affiliate of New Hampshire Hydro, or any other Equity Sponsor, or (2) the amount of any claim by it against New Hampshire Hydro, any affiliate of New Hampshire Hydro, or any other Equity Sponsor. However, the foregoing shall not affect in any other way any Equity Sponsor's rights and remedies with respect to any such amounts

owed to it by New Hampshire Hydro, any affiliate of New Hampshire Hydro, or any other Equity Sponsor or any such claim by it against New England Hydro or any other Equity Sponsor.

C. Amendments. Any amendments changing the Equity Shares of the Equity Sponsors or the several nature of the obligations and rights of the Equity Sponsors hereunder as specified in Section 6, shall require consent by all parties. In the event that an Equity Sponsor is obligated to acquire Equity Shares hereunder and does not pay for such Shares, then such Shares will not be issued to him and such Equity Sponsor's Equity Share will be reduced accordingly. All other amendments to this Agreement shall be by mutual agreement of New Hampshire Hydro and Equity Sponsors owning Equity Shares aggregating at least 80%, evidenced by a written amendment signed by New Hampshire Hydro and such Equity Sponsors; and New Hampshire Hydro and all Equity Sponsors shall be bound by any such amendment.

D. Notices. Except as the parties may otherwise agree, any notice, request, bill, or other communication relating to this Agreement, or the rights, obligations or performance of the parties hereunder, shall be in writing and shall be considered as duly delivered when delivered in person or mailed by registered or certified mail, postage prepaid, to the respective post office address of the other parties shown following the signatures of such other parties hereto, or such other address as may be designated by written notice given as provided in this paragraph D.

E. Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of The Commonwealth of Massachusetts.

F. Other.

(1) No action, regardless of form, arising out of this Agreement may be brought by any party hereto more than three years after the cause of action has arisen.

(2) In the event that any clause or provision of this Agreement, or any part thereof, shall be declared invalid or unenforceable by any court having jurisdiction, such invalidity or unenforceability shall not affect the validity or enforceability of the remaining portions of this Agreement.

(3) All provisions of this Agreement providing for limitation of, or protection against, liability shall apply to the full extent permitted by law, and regardless of fault, and shall survive either termination pursuant to this Agreement or cancellation.

(4) Each party shall, upon request of another party, execute and deliver any document reasonably required to implement any provision hereof.

(5) Any number of counterparts of this Agreement may be executed and each shall have the same force and effect as the original.

(6) This Agreement, with the other Basic Agreements, Preliminary Quebec Interconnection Support Agreement - Phase II, the

agreements with Hydro-Quebec regarding Phase II, and the basic agreements covering Phase I shall constitute the entire understanding among the parties and shall supersede any and all previous understandings pertaining to the subject matter of this Agreement.

(7) Terms defined in the Massachusetts HVDC Support Agreement and the New England Power and Boston Edison AC Support Agreements used in this Equity Funding Agreement shall be incorporated herein as defined in such Agreements unless the context indicates otherwise.

(8) This Agreement is the act and obligation of the parties hereto in their corporate or governmental capacity, and any claim hereunder against any shareholder, director, officer, employee, or agent of any party, as such, is expressly waived.

IN WITNESS WHEREOF, the signatories have caused this Agreement to be executed by their duly authorized officers or agents.

COMPANY

By: \_\_\_\_\_  
Its

Address: XXXXXX  
XXXXXX

With respect to the Equity Sponsors' commitments under Section 10 hereof, New England Power Company hereby acknowledges these commitments.

COMPANY

By: \_\_\_\_\_

ATTACHMENT A

List of Equity Sponsors

New Hampshire Hydro will supply a list of Equity Sponsors as of the date of initial computation and as of each date thereafter that the list changes.

## ATTACHMENT B

Forms of the following documentation:

1. Opinion of Counsel
2. Certificate
3. Incumbency and Signature Certificate
4. Directors' Vote

[Please note - governmental entities may make appropriate modifications to these documents to reflect that they are not corporations.]

[Form of Opinion of Counsel for Each Utility Participant]

New England Hydro-Transmission  
Electric Company, Inc.;  
New England Hydro-Transmission  
Corporation; or  
New England Power Company

Gentlemen:

This opinion is furnished in connection with the execution and delivery by \_\_\_\_\_ (the Company) of the following Agreements: \_\_\_\_\_.

We have acted as counsel to the Company, one of the Utility Participants, in connection with the execution and delivery of the Basic Agreements. We participated in reviewing and/or drafting the Agreements.

As general [special] counsel to the Company, we are generally familiar with its affairs. [If special counsel is giving the opinion, describe relationship to the Company.] We have reviewed the proceedings taken by the Company in connection with its authorization, execution, and delivery of the Agreements and any documentation supplied by the Company thereunder. We have also examined executed counterparts of the Agreements, have made such other investigation, and have examined such other records and documents, and have made such examination of law and satisfied ourselves as to such other matters as we have deemed relevant and necessary in order to enable us to express the opinions set forth below.

Based upon and subject to the foregoing and to the further qualifications in this opinion, we are of the opinion that:

1. The Company is a corporation duly organized, validly existing and in good standing under the laws of [the jurisdiction of its incorporation], has the corporate power to own its assets and to transact the business in which it is engaged, and is duly qualified as a foreign corporation in, and is in good standing under the laws of, each jurisdiction in which the conduct of its business or the ownership of its assets requires such qualification.

2. The Company has (and in the case of the Agreements at the time of execution and delivery thereof, had) full corporate power, and legal right to execute, deliver and perform the Agreements, and the Company has taken all necessary corporate action to authorize the execution, delivery, and performance by it of the Agreements.

3. The execution, delivery, and performance by the Company of the Agreements do not (a) contravene the Company's [charter documents] or by-laws, (b) violate any applicable law, rule, regulation, order, writ, judgment, injunction, decree, or award known to us by which the Company is bound, (c) violate any indenture, instrument, or agreement known to us by which the Company is bound, or (d) result in or require the creation or the imposition of any lien pursuant to the provisions of any indenture, instrument, or agreement known to us by which the Company is bound.

4. No authorization, approval, consent, or other action by, and no notice to or filing with, any federal, state, or other governmental authority or regulatory body which has not been obtained or given and is not in full force and effect is required for the valid and lawful execution, delivery, and performance by the Company of the Agreements. [In this connection, to the extent it may be required by law, the approval of the Massachusetts Department of Public Utilities [Connecticut PUC, or other] has been given for the Agreements and the Company's performance thereunder by order(s) dated \_\_\_\_\_, which remains in full force and effect.]

5. The Agreements have each been duly executed and delivered by the Company and constitute the legal, valid, and binding obligations of the Company enforceable against it in accordance with their respective terms.

6. No action, suit, proceeding, or investigation at law or in equity or by or before any governmental instrumentality or other agency now pending or threatened against or affecting the Company or its property or rights which, if adversely determined, would materially impair the ability of the Company to perform its obligations under the Agreements is known to us.

Our opinion that the Agreements are enforceable, each in accordance with the terms thereof, is qualified to the extent that the enforcement of the rights and remedies created thereby is subject to bankruptcy, insolvency, reorganization, and similar laws of general application affecting the rights and remedies of creditors and secured parties, and to the further extent that the availability of the remedies of specific enforcement, injunctive relief, or any other equitable remedy is subject to the discretion of the court before which any proceeding therefor may be brought.

Very truly yours,

CERTIFICATE

I, (insert name), the Clerk (or Secretary or other principal recording officer) of (insert name of Utility Participant), a (insert state of organization) (the "Company") do hereby certify that:

(1) Attached hereto as Exhibit A is a true and correct copy of a vote duly adopted at a meeting of the Board of

Directors of the Company, duly called and held on \_\_\_\_\_, \_\_\_\_\_, and that such vote and the authority vested thereby have not been amended or revoked and are still in full force and effect.

(2) Attached hereto as Exhibit B is a true and correct copy of the Articles of Organization (or other charter documents) of the Company, as amended and in effect as of the date of this Certificate.

(3) Attached hereto as Exhibit C is a true and correct copy of the By-Laws of the Company, as amended and in effect as of the date of this Certificate.

(4) The persons (or person) listed on Exhibit D have been duly elected to the offices set forth adjacent to their respective names since the first day of June, 1985, and the signatures adjacent to their respective names are the genuine signatures of said officers.

IN WITNESS WHEREOF, I have placed my hand and the seal of the Company this \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

By \_\_\_\_\_

Name:

Title:

CONFIRMATION OF INCUMBENCY AND SIGNATURE OF  
CLERK, SECRETARY, OR OTHER PRINCIPAL RECORDING OFFICER

I, (name), (title) of the Company, do hereby certify that (name of officer executing certificate) is and at all times subsequent to

\_\_\_\_\_, \_\_\_\_\_, has been the duly elected (title) of the Company and that the signature adjacent to his (or her) name is the genuine signature of said officer.

By \_\_\_\_\_

Name:

Title:

### FORM OF DIRECTORS' VOTE APPROVING AGREEMENTS

VOTED:

That in connection with this Company's participation in the Phase II expansion of the proposed interconnection between the New England Power Pool companies and Hydro-Quebec, the execution and delivery on behalf of this Company by \_\_\_\_\_, President, of the following agreements: (being collectively referred to in this vote as "Agreements") copies of which Agreements have been presented at this meeting, are hereby authorized, approved, ratified, and confirmed, and that the officers of this Company are further authorized severally to take any and all such further actions including the execution and delivery of such further documents, as such officers or any of them may deem necessary or appropriate in connection with the actions and documents authorized by this vote.

### ATTACHMENT C

#### Subscription Process for Determining Equity Shares under Section 5(B)

After allocation of 51% of the Equity Shares to NEES pursuant to Section 5(B)(1), the Equity Shares shall be allocated to Equity sponsors other than NEES as follows:

- (a) Each other Equity Sponsor shall be entitled to a pro rata share of the remainder based on the Participating Share of such Equity Sponsor or the Participant(s) that has designated it as an Equity Sponsor as a percentage of Participating Shares of all other Equity Sponsors or such Participants as shown in the Massachusetts HVDC Support Agreement. For the purpose of this calculation, the Participating Share of each Equity Sponsor designated by VELCO shall be deemed to be a pro rata share of VELCO's Participating Share based on the ratio of such Equity Sponsor's 1980 kwh load to the aggregate 1980 kwh load of all Equity Sponsors designated by VELCO.
- (b) Upon execution of this Agreement, each other Equity Sponsor may subscribe for more or less than its share under (a) above.
- (c) Upon execution of this Agreement, each other Equity Sponsor may specify a maximum limit on its share of such remainder that would apply to any allocations made on or before June 1, 1986 or such later deadline date as is fixed pursuant to Section 2 hereof.
- (d) If there are no undersubscriptions or oversubscriptions under (b) above or if the sum of the shares under (a) or (b) above for all Equity Sponsors equals 100% of such remaining shares, then each Equity Sponsor shall have a share as determined under (a) or (b) above. (For the purposes of this attachment, oversubscription shall mean, with respect to any Equity Sponsor, a subscription under (b) above of more than its share under (a) above. For the same purposes, undersubscription shall mean, with respect to any Equity Sponsor, a subscription under (b) above of less than its share under (a) above. The amount of such oversubscription shall be equal to (b) minus (a) and the amount of such undersubscription shall be equal to (a) minus (b).)
- (e) If there are undersubscriptions but not oversubscriptions or if there are oversubscriptions but no undersubscriptions, then each Equity Sponsor shall have a share as determined under (a) above; provided, however, that no Equity Sponsor shall be allocated more than its specified limit under (c) above. If the sum of all shares heretofore allocated is less than 100%, any remaining share shall be allocated to all Equity Sponsors that have received shares less than their limits under (c) above, pro rata by the difference between their limits under (c) above and their shares as heretofore allocated.

- (f) If the net result of subtracting the aggregate amount of all undersubscriptions from the aggregate amount of all oversubscriptions is greater than zero, the aggregate amount of all oversubscriptions must be reduced to the aggregate amount of all undersubscriptions. This amount shall be referred to as the total permitted amount of oversubscriptions. Each oversubscriber shall initially be allocated a share of the total permitted amount of oversubscriptions (pro rata by the Participating Shares of the oversubscribers or their designators as shown in the Massachusetts HVDC Support Agreement); provided that no oversubscriber shall be allocated more than its requested amount under (b) above. Any remaining unallocated portion of the total permitted amount of oversubscriptions shall be allocated to all oversubscribers that have not yet reached their requested amount under (b) above pro rata by the differences between their requested shares under (b) above and their shares as heretofore allocated.
- (g) If the net result of subtracting the aggregate amount of all oversubscriptions from the aggregate amount of all undersubscriptions is greater than zero, the aggregate amount of all undersubscriptions must be reduced to the aggregate amount of all oversubscriptions. This amount shall be referred to as the total permitted amount of undersubscriptions. The total permitted amount of undersubscriptions shall be allocated to the undersubscribers pro rata by the amounts of their undersubscriptions; provided, however, that no Equity Sponsor shall be allocated more than its specified limit under (c) above. If the sum of all shares heretofore allocated is less than 100%, any remaining share shall be allocated to all Equity Sponsors that have received shares less than their limits under (c) above, pro rata by the difference between their limits under (c) above and their shares as heretofore allocated.
- (h) If Equity Shares are required to be changed pursuant to subpart (i) or (ii) of Section 5(a), this reallocation shall be accomplished in accordance with this Attachment G on the basis of the subscriptions initially made under (b) and the maximum limits specified under (c) by each continuing Equity Sponsor, and giving effect to the termination of any Equity Sponsor pursuant to said subpart (i) or (ii).

CONFORMED

AMENDMENT NO. 1  
TO  
PHASE II MASSACHUSETTS TRANSMISSION  
FACILITIES SUPPORT AGREEMENT

This Amendment, dated as of May 1, 1986, is between New England Hydro-Transmission Electric Company, Inc. (New England Hydro), and the New England utilities listed in Attachment A to the Phase II Massachusetts Transmission Facilities Support Agreement, dated as of June 1, 1985 (the "Massachusetts DC Support Agreement"), and amends the Massachusetts DC Support Agreement as hereinafter provided.

In consideration of the premises and other good and valuable consideration, receipt of which is hereby acknowledged, and pursuant to the provision of Section 20H of the Massachusetts DC Support Agreement, it is hereby agreed as follows:

1. Certain terms defined in the Massachusetts DC Support Agreement are used herein with the meanings there provided.
2. Attachments A and F of the Massachusetts DC Support Agreement are hereby deleted and replaced with the Attachments A and F attached hereto.
3. This Amendment shall become binding upon New England Hydro and the Participants-when it has been executed by New England Hydro and Participants owning Participating Shares aggregating at least 66-2/3%.
4. Any number of counterparts of this Amendment may be executed, and each shall have the same force and effect as an

original instrument and as if all the parties to all of the counterparts had signed the same instrument.

IN WITNESS WHEREOF, the signatories have caused this Amendment to be executed by their duly authorized officers or agents.

COMPANY

By: \_\_\_\_\_  
Its

Address: XXXXXX  
XXXXXX

MA-5/29/86

ATTACHMENT A

If any participant does not receive required consents, waivers, regulatory approvals, or other actions of governmental authorities within the time period required by this Agreement, the listing of Participants and 1980 kilowatthour load will be appropriately modified.

<u>Participant</u>	<u>1980 Kilowatthour Load</u>
Fitchburg Gas and Electric Light Co.	369,055,118
The United Illuminating Company	4,715,078,120
New England Power Company (NEP)	15,444,975,840 (a), (d)
Bangor Hydro-Electric Company	1,305,625,118
Canal Electric Company	3,227,553,000
Public Service Company of New Hampshire	5,043,242,871
Central Maine Power Company	6,053,571,000
Vermont Electric Power Company	3,262,098,200
Boston Edison Company (Edison)	9,531,773,000 (c), (d)
City of Chicopee Municipal Lighting Plant	279,273,169
The Connecticut Light and Power Company	16,002,437,000
Western Massachusetts Electric Company	3,252,432,000
Holyoke Water Power Company	106,905,000
Holyoke Power and Electric Company	0
Newport Electric Corporation	382,745,000
Montaup Electric Company	3,096,872,000 (b)
Connecticut Municipal Electric Energy Cooperative	718,177,538
Massachusetts Municipal Wholesale Electric Company (MMWEC)	483,576,000 (c), (f)
Taunton Municipal Lighting Plant	307,460,361
UNITIL Power Corp.	609,873,261 (e)
Town of Peabody Municipal Light Plant	245,010,000 (f)

Town of Holden Municipal Light Department	63,676,000 (f)
Hudson Light and Power Department	127,808,000 (f)
Town of Middleborough Gas and Electric Department	92,081,000 (f)
Town of Braintree Electric Light Department	267,289,000 (f)
Town of Hingham Municipal Lighting Plant	103,929,000 (f)
Town of Boylston Municipal Light Department	17,324,000 (f)
Town of North Attleborough Electric Department	93,816,000 (f)
Town of Wakefield Municipal Lighting Department	107,609,000 (f)
City of Westfield Gas & Electric Light Department	219,026,000 (f)
Town of Danvers Electric Department	206,806,000 (f)
Town of West Boylston Municipal Lighting Plant	43,974,000 (f)
City of Holyoke Gas & Electric Light Department	214,448,000 (f)
Town of Reading Municipal Light Department	401,795,000 (f)
Town of Concord Municipal Light Plant	0 (c), (f)
Town of Groton Electric Light Department	22,908,000 (f)
Princeton Municipal Light Department	7,130,000 (f)
Town of Shrewsbury Electric Light Department	146,303,000 (f)
Town of Sterling Municipal Electric Department	24,510,000 (f)
Town of South Hadley	99,981,000 (f)

(a) Includes New Hampshire retail 1980 kilowatthour load of 434,290,243.

(b) The amount shown for Montaup Electric Company includes the load of the other members of the Eastern Utilities Associates system.

(c) (1) Concord Municipal Light Plant has elected to be a direct signatory to this Agreement. However, if it does not receive required consents, waivers, regulatory approvals, or other actions of governmental authorities within the time period required, Concord will be grouped with MMWEC. (2) As of June 1, 1985, Concord continues to be a full requirements customer of Edison. At such time as Concord ceases to be a full requirements customer of Edison, for purposes of this Agreement, either Concord or MMWEC, whichever is appropriate, shall have an additional Participating Share equal to 1.087% of Edison's initial Participating Share (based on a 1980 Kwh load of 103,629,000 Kwh for Concord) and Edison's Participating Share shall be reduced by such amount.

(d) The 1980 Kilowatthour loads shown for Boston Edison Company and New England Power Company have been adjusted to reflect the current status of Norwood as a full requirements customer of New England Power Company.

(e) The amount shown for UNITIL Power Corp. represents the 1980 kilowatthour load of its affiliates, Concord Electric Company and Exeter & Hampton Electric Company.

(f) The amount shown for any of these municipal utilities will be added to MMWEC's amount if such municipal (i) does not receive the required consents, waivers, regulatory approvals, or other actions of governmental authorities within the time period required by this Agreement, and (ii) elects at that time to be grouped with MMWEC.

5/29/86

#### ATTACHMENT F

As a result of the support arrangements for building, owning, and financing the Transmission Facilities, Equity Sponsors have provided credit support for the project in excess of their Participating Shares. This enhances New England Hydro's ability to finance the project. As compensation to Equity Sponsors for providing this additional credit support, a Credit Enhancement Charge, as calculated in connection with each debt financing is required to be paid by each Credit Enhanced Participant which has its credit enhanced for such debt financing. The status of a Participant as a Credit Enhanced Participant that receives credit enhancement or not

will be determined in connection with, and as of the date of commitment for, each debt financing, including any construction financing, in accordance with Section 1 hereof, and the Credit Enhancement Charge will be determined with respect to each such financing and will continue to be paid as long as the financing is outstanding and as long as any accrued unamortized Credit Enhancement Charges for said Participant remain outstanding.

An “investment grade” Participant is defined in this Agreement as a Participant which has outstanding junior long-term debt securities which have qualified debt ratings by two of the three major rating agencies. An “investment grade” Participant is also defined as a Participant which has a Participating Share of four-tenths of one percent (0.4%) or less and which has outstanding junior long-term debt securities having a rating from only one of the three major rating agencies with that rating being a qualified debt rating. (For these purposes, the outstanding junior long-term debt securities of a Participant shall mean (i) its outstanding long-term debentures, or (ii) if no long-term debentures are outstanding, its most junior outstanding long-term mortgage or revenue bonds, or (iii) if no long-term debentures, mortgage bonds or revenue bonds are outstanding, its most junior outstanding long-term debt.) - “Qualified debt ratings” are defined as a minimum rating-of Baa3 by Moody’s Investors Service, BBB- by Standard & Poor’s Corporation and D&P 10 by Duff & Phelps, Inc.

Any “substitute credit enhancement” shall mean, with respect to any New England Hydro debt financing, including any construction financing (i) a letter of credit from a commercial bank having capital, surplus, and undivided profits of at least \$250 million and a credit rating of “AA” or better in form and substance Satisfactory to New England Hydro or (ii) a credit support that is equivalent to (i) above which is satisfactory in form and substance to New England Hydro, or (iii) a guarantee from an Equity Sponsor which at that time the guarantee is made satisfies the requirements to be an Equity Sponsor as set forth in section 4 of the Equity Funding Agreements; provided that such enhancement is irrevocable until the final maturity of such debt financing, including any optional extensions thereof. The first time that a Participant supplies substitute credit enhancement under this Agreement or under the Phase II New Hampshire Facilities Support Agreement, the substitute credit enhancement shall also cover such Participant’s share of the debt obligations of New England Power Company and Boston Edison Company relating to their respective AC Facilities and the term of such credit enhancement shall extend for the full term of the then remaining depreciation period for the AC facilities supported under such AC Facilities Support Agreements.

The principal amount of such substitute credit enhancement shall equal that Participant’s Participating Share of the maximum amount of obligations under such New England Hydro debt financing plus, if not already provided in connection with any other debt financing of New England Hydro or New Hampshire Hydro, that Participant’s Participating Share of the maximum amount of debt obligations of New England Power Company and Boston Edison Company relating to the AC Facilities as determined by New England Power and Boston Edison, respectively.

For any substitute credit enhancement that covers that Participant’s Participating Share of the debt obligations of Boston Edison Company and New England Power Company relating to the AC Facilities, such substitute credit enhancement shall provide for direct payment to New England Power and Boston Edison, respectively, of the amounts included therein for covering such debt obligations.

The Credit Enhancement Charge (E) for each Participant that has its credit enhanced is a dollar value determined monthly for each Credit Enhanced Participant by the following formula:

$$E = \sum_{i=1}^n F_i$$

$$\text{where } F_i = \left( \frac{G}{100} \times H_i \times \frac{I_i}{100} \times 0.8 \times \frac{1}{12} \right) + J_i$$

F = the Credit Enhancement Charge for each New England Hydro debt financing that is credit enhanced for the Participant.

- i = a number from 1 to n representing each of New England Hydro debt financings.
- n = total number of such financings.
- G = the Participant's Participating Share (in percent)
- H = the maximum outstanding amount of New England Hydro debt during the month which was credit enhanced for such Participant
- I = debt premium (in percent) for the Credit Enhanced Participant as shown in the following table:

<u>Participant's Debt Rating*</u>	<u>I(%)</u>
Below B3 or not rated	7.57
B3	5.32
B2	4.82
B1	4.32
Ba3	3.82
6a2	3.32
Ba1	2.82

\* Debt rating shall be the lower of the two highest ratings assigned to the Participant's outstanding junior long-term debt securities by Moody's, Standard and Poor's, and Duff & Phelps, converted to a Moody's equivalent as measured at the commitment date of such New England Hydro debt financing. If the Participant has a Participating Share of four tenths of one percent (0.4%) or less and has only one debt rating, then the debt rating for such Participant shall be that rating converted to a Moody's equivalent as measured at the commitment date of such New England Hydro debt financing.

J = an amount calculated as follows:

During the period from the Effective Date to the Date of Full Support Payment, J shall equal O and the Credit Enhancement Charge calculated during such period pursuant to the above formula shall be accrued for each Participant during such period with interest calculated at New England Hydro's AFDC rate. After the Date of Full Support Payment, such previously accrued amount for such Participant shall be treated as if it represented additional investment in the Transmission Facilities relating only to such Participant. As a result J shall include monthly amounts attributable to such Participant (whether or not it continues to be a Credit Enhanced Participant after the Date of Full Support Payment and whether or not the debt being enhanced continues to be outstanding) representing amortization of such previously accrued amount (with amortization over the period that the investment in the Transmission Facilities is being amortized) plus one-twelfth of the composite percentage (as defined in Section 12 hereof) times the unamortized accrued amount plus a provision for income taxes.

CONFORMED

AMENDMENT NO.2  
TO  
PHASE II NEW HAMPSHIRE TRANSMISSION  
FACILITIES SUPPORT AGREEMENT

This Amendment, dated as of February 1, 1987, is between New England Hydro-Transmission Electric Company, Inc. (New England Hydro), and the New England utilities listed in Attachment A to the Phase II New Hampshire Transmission Facilities Support Agreement, dated as of June 1, 1985, as amended by Amendment No. 1 dated as of May 1, 1986 (the "New Hampshire DC Support

Agreement”), and amends the New Hampshire DC Support Agreement as hereinafter provided.

In consideration of the premises and other good and valuable consideration, receipt of which is hereby acknowledged, and pursuant to the provision of Section 20H of the Massachusetts DC Support Agreement, it is hereby agreed as follows:

1. Certain terms defined in the New Hampshire DC Support Agreement are used herein with the meanings there provided.
2. Attachment D of the New Hampshire DC Support Agreement is hereby deleted and replaced with the following

Attachment D:

“ATTACHMENT D

1. “Return on Equity” shall be the return on equity on file with the FERC and in effect under the Federal Power Act. Any filing of a return on equity by New Hampshire Hydro shall be subject to Section 2 of this Attachment D or, if Section 2 is not accepted by the FERC, then any such filing shall be subject to Section 3 of this Attachment D.

2. New Hampshire Hydro shall request from the FERC a rate of return on equity determined by the applicable formula in Section 4 of this Attachment D. In February of each year following the initial filing of this Agreement with the FERC, New Hampshire Hydro shall file with the FERC a revised Exhibit 1 to this Attachment D, reflecting a new “Y” for the initial formula in Section 4, below. The value of “Y” shall be added to the fixed 1.9% value of “P”, which represents a levelized premium over the life of the project to reflect the unique risks of the project in addition to the risks encountered by a typical utility. New Hampshire Hydro shall request that the revised Exhibit 1 be made effective on February 1, of the calendar year in which the filing is made, without suspension. Each Participant agrees not to intervene in opposition to a change in “Y” filed by New Hampshire Hydro in accordance with this Section 2.

3. If Section 2 of this Attachment D is not accepted by the FERC, New Hampshire Hydro shall from time to time request from the FERC a specific rate of return on equity. Each Participant agrees not to intervene in opposition to a request for a rate of return on equity filed by New Hampshire Hydro on or before the tenth anniversary of the Date of Full Support Payment if such rate is equal to or lower than the rate that would have been determined under the applicable provision of such Section 4. Nothing in this Section 3 shall affect (i) the right of New Hampshire Hydro to request a rate of return on equity greater than that determined in accordance with such Section 4, or (ii) the right of any Participant to intervene in opposition to any such request.

4. The formula for the rate of return on equity referred to in Section 2 or Section 3 of this Attachment D, whichever is accepted by the FERC, shall be as follows:

$$R = Y + P$$

where:

R = the requested return on equity;

Y = the FERC generic return on equity in effect for filings made as of the date of the filing as set out in Exhibit 1 to this Attachment D;

P = 1.9, which represents a levelized premium to adjust the FERC generic return-for the unique risks of the project in addition to the risks encountered by a typical utility.

The following is a sample calculation of the Return on Equity as of February through April 1987:

$$R = 11.2 + 1.9 = 13.1\%$$

Application of this formula at this time thus yields an initial Return on Equity of 13.1%.

In the event that the FERC generic return on equity is no longer published for rate making purposes, then the following formula shall be used to determine "Y" in the above formula:

$$Y = A + B + C + D$$

where:

(i) A = Weighted average return on the average of three money market indicators

$$A = \frac{.25(E + F + G) + .75(H + I + J)}{3}$$

where:

E = The most recently available yield to maturity for Moody's "A" rated Public Utility Bonds.

F = The most recently available yield for 10 year Constant Maturity Treasury Bonds.

G = The most recently released figure for the annualized increase in the United States GNP price deflator.

H = The average yield to maturity for the most recently available 36 month period for Moody's "A" rated Public Utility Bonds<sup>4</sup>,

I = The average yield for 10 year Constant Maturity Treasury Bonds for the most recently available 36 month period.

J = The average of the annualized percentage increases in the United States GNP price deflator for the most recent 36 month period.

(ii) B = The average equity premium required for utility stocks over the past 20 years.

$$B = K - \frac{L + M + N}{3}$$

where:

- K = the average for the most recent 20 years of the sum of (i) the average annual yield for Moody's Electric Utility Common Stock, plus (ii) the ten year growth in dividends per share for such group of electric utilities.
- L = the average for the most recent 20 years of yields to maturity for Moody's "A" rated Utility Bonds.
- M = The average for the most recent 20 years of the yield on en year constant maturity treasury bonds.
- N = The average for the most recent 20 years of the average annual percentage change in the United States GNP price deflator.

(iii) C = issuance \_\_\_\_\_ common equity

C .05(A + B)

(iv) D = a dilution allowance to compensate the Equity Sponsors of New Hampshire Hydro for sale of common shares at a market price below book value

D = a percentage from 0 to 1 determined on a straight tine basis where 1 represents the weighted average of the common shares of the Equity Sponsors of New Hampshire Hydro selling at 30% below book and 0 represents those shares selling at book value. Such weighted average shall be calculated by weighting the market to book ratio of each Equity Sponsor by its respective equity ownership share in New Hampshire Hydro. This percentage shall be calculated semiannually as of January 1 and July 1 of each year until the Transmission Facilities goes into commercial operation. Each calculation shall cover the period beginning as of January 1 in the year this Agreement is dated as of and ending as of the date of the calculation. Book value is the average month end book value during a calculation period, and market price is the average of each quarters high and low market price during calculation period. The calculation made as of January or July next preceding the date of commercial operation of the Transmission Facilities will be the percentage used thereafter until the end of the term of this Agreement.

Should any of the indices used in calculating the values of A and B be discontinued, or should the underlying basis for the calculations in any of these indices be modified, New Hampshire Hydro may substitute a substantially similar index for such discontinued or modified index.

Recognizing that this is a long-term contract and that money market conditions can drastically change over time, New England Hydro retains the option, if the above formulae produce for two consecutive months a number lower than the arithmetic average of the return on common equity approved within the last twelve months by regulatory COMMISSIONS having jurisdiction over rates for each of the investor owned public electric utilities as reported in the publication "Argus Utility Scope Regulatory Service - Returns Authorized" to use such average return as the Return on Equity. In the event this publication is no longer currently available, New Hampshire Hydro will use a substantially similar publication which is available.

EXHIBIT 1 TO ATTACHMENT D

In determining the Return on Equity in accordance with the formula set out in Section 4 of Attachment D, the value of “Y” shall be \_\_\_\_\_%. Applying this value of “Y” in the formula and adding it to the fixed 1.9% value of “P”, which represents a levelized premium over the life of the project, yields a Return on Equity of \_\_\_\_\_%.”

3. Section 6 is hereby amended by inserting in item (ix) of the second paragraph thereof after the words “debt financing” the following:

“or any other financial arrangements”

4. Section 12 of the Hampshire DC Support Agreement is hereby amended by deleting the seventh paragraph thereof and substituting the following:

“Return on Equity’ shall be determined in accordance with Attachment D.”

5. Section 12 of the Hampshire DC Support Agreement is hereby amended by adding the following sentence to the end of the fourth paragraph thereof:

“The allowance for state and federal income taxes included in operating expenses shall include a provision for taxes on dividends received by stockholders, calculated at the then current statutory rate for corporate stockholders.”

6. This Amendment shall become binding upon New Hampshire Hydro and the Participants when it has been executed by New Hampshire Hydro and Participants owning Participating Shares aggregating at least 66-2/3%.

7. Any number of counterparts of this Amendment may be executed, and each shall have the same force and effect as an original instrument and as if all the parties to all of the counterparts had signed the same instrument.

IN WITNESS WHEREOF, the signatories have caused this Amendment to be executed by their duly authorized officers or agents.

COMPANY

By: \_\_\_\_\_  
Its President

Address: XXXXXXXXXXXX  
XXXXXXXXXX

AMENDMENT NO. 3  
TO  
PHASE II NEW HAMPSHIRE TRANSMISSION  
FACILITIES SUPPORT AGREEMENT

This Amendment, dated as of June 1, 1987, is between New England Hydro-Transmission Corporation (New Hampshire Hydro), and the New England utilities listed in Attachment A to the Phase II New Hampshire Transmission Facilities Support Agreement, dated as of June 1, 1985, as amended by Amendment No. 1 dated as of May 1, 1986, and Amendment No. 2, dated as of February 1, 1987, (the "New Hampshire DC Support Agreement"), and amends the Massachusetts DC Support Agreement as hereinafter provided.

In consideration of the premises and other good and valuable consideration, receipt of which is hereby acknowledged, and pursuant to the provision of Section 20H of the New Hampshire DC Support Agreement, it is hereby agreed as follows:

1. Certain terms defined in the New Hampshire DC Support Agreement are used herein with the meanings there provided.
2. Attachment D of the New Hampshire DC Support Agreement is hereby revised by deleting the last sentence of paragraph 2 thereof and by deleting the second and third sentences of paragraph 3 thereof.
3. This Amendment shall become binding upon New Hampshire Hydro and the Participants when it has been executed by New Hampshire Hydro and Participants owning Participating Shares aggregating at least 66-2/3%.
4. Any number of counterparts of this. Amendment may be executed, and each shall have the same force and effect as an original instrument and as if all the parties to all of the counterparts had signed the same instrument.

IN WITNESS WHEREOF. the signatories have caused this Amendment to be executed by their duly authorized officers or agents.

COMPANY

By: \_\_\_\_\_  
Its President

Address: XXXXXXXXXXXX  
XXXXXXXXXX

AMENDMENT NO. 4  
TO  
PHASE II NEW HAMPSHIRE TRANSMISSION  
FACILITIES SUPPORT AGREEMENT

This Amendment, dated as of September 1, 1987, is between New England Hydro-Transmission Electric Corporation (New Hampshire Hydro), and the New England utilities listed in Attachment A to the Phase II New Hampshire Transmission Facilities Support Agreement, dated as of June 1, 1985, as amended by Amendment No. 1 dated as of May 1, 1966, Amendment No. 2, dated as of February 1, 1987, and Amendment No. 3, dated as of June 1, 1987, (the “New Hampshire DC Support Agreement”), and amends the New Hampshire DC Support Agreement as hereinafter provided.

In consideration of the premises and other good and valuable consideration, receipt of which is hereby acknowledged, and pursuant to the provision of Section 20H of the Massachusetts DC Support Agreement, it is hereby agreed as follows:

1. Certain terms defined in the New Hampshire DC Support Agreement are used herein with the meanings there provided.
2. Section 1 is hereby amended by adding the following clause to the end of the last sentence of the thirteenth paragraph thereof:

“; provided, however, that New Hampshire Hydro shall be under no obligation to so limit its equity investment in the event that, after the Date of Full Support Payment (as defined in Section 13) the term of its debt financing or other financing arrangements is less than ten years”.

3. Section 12 is hereby deleted and replaced with the following Section 12.

Section 12. Support Charge

Commencing in the month of the Date of Full Support Payment (as defined in Section 13) and in each month thereafter, each Participant shall pay in accordance with Section 13 its Participating Share of a monthly Support Charge in an amount determined in accordance with this Section 12, plus a credit enhancement charge calculated in accordance with Attachment F. The Support Charge shall be equal to New Hampshire Hydro’s total cost of service related to the Transmission Facilities for such month.

The “total cost of service related to the Transmission Facilities” for any month commencing with the month in which the Date of Full Support Payment occurs shall be the sum of (a) New Hampshire Hydro’s operating expenses for such month with respect to the Transmission Facilities, plus (b) an amount equal to one-twelfth of the composite percentage for such month times the average net rate base for the Transmission Facilities, less (c) investment earnings of the Debt Service Fund, as defined in Section 18, realized by New Hampshire Hydro, less (d) any other income received by New Hampshire Hydro resulting from costs or rate base supported by the Participants other than income received pursuant to (a), (b), or (c) above or Credit Enhancement Charges and other income allocated to Equity Sponsors elsewhere under this Agreement. If a Support Charge payment under Section 13 is to be calculated from a date other

than the first day of a month, an appropriate proration of the amount determined in (b) above shall be made for such payment only.

“Uniform System” shall mean the appropriate Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC) for Public Utilities and Licensees, as from time to time in effect.

New Hampshire Hydro’s “operating expenses” shall include all amounts related to the Transmission Facilities and properly chargeable to expense accounts less any applicable credits thereto. in accordance with the Uniform System, including but not limited to operation and maintenance expense such as rent on leased property and administrative and general expenses, state and Federal income and franchise taxes, property taxes, payroll taxes, any other taxes not based on income, and depreciation and/or amortization expense; it being understood that for purposes of this Agreement depreciation and/or amortization shall be at a rate sufficient to recover the investment in the Transmission Facilities (including estimated cost of removal less any salvage value which salvage value, for the purpose of calculating such depreciation or amortization, will not exceed the amount of cost of removal) over the shorter of: (i) the estimated remaining useful life of the Transmission Facilities as determined by New Hampshire Hydro or (ii) the term of New Hampshire Hydro’s debt financings or other financing arrangements related to the Transmission Facilities, adjusted for multiple maturities and repayment schedules, unless the term of such financing or other financing arrangements is less\* than ten years in which case such term shall, for purposes of this subpart (ii), be deemed to be ten years from the Date of Full Support Payment; and it also being understood that rents on leased property shall include the rental of property or property rights related to the Transmission Facilities from any Participant with rent based on book value. In addition, each Participant will pay to New England Power Company and Public Service Company of New Hampshire, for the benefit of their respective customers, such Participant’s Participating Share of a monthly charges of \$268,000 and \$41,300, respectively, to compensate New England Power and Public Service Company for the lost capacity on their respective New Hampshire rights-of-way, provided however that no such charges shall be paid to New England Power or Public Service Company during such time as construction or operation is suspended on account of a defect in title for such rights-of-way. The allowance for state and Federal income taxes included in operating expenses shall reflect the normalization of timing differences and the flow through of permanent differences between book income and tax income. New Hampshire Hydro as the tax owner of the Transmission Facilities, will be entitled to the benefits and subject to the burdens of such ownership for tax purposes. The allowance for state and Federal income taxes included in operating expenses shall include a provision for taxes on dividends received by stockholders, calculated at the then current statutory rate for corporate stockholders.

The “investment in the Transmission Facilities” shall be the aggregate amount incurred at any time either before

or after commercial operation of the Transmission Facilities which relates to the Transmission Facilities and is properly chargeable to New Hampshire Hydro's utility plant accounts in accordance with the Uniform System. The investment in the Transmission Facilities shall also include operating expenses incurred prior to the month in which the Date of Full Support Payment occurs and an allowance for funds used during the period prior to the Date of Full Support Payment (AFDC) accrued on the investment in the Transmission Facilities. The AFDC rate shall be calculated pursuant to the last FERC approved AFDC formula including in construction work in progress all investment in the Transmission Facilities prior to the Date of Full Support Payment and using 14 percent as the return on equity for such calculation.

"Composite percentage" shall be computed as of the last day of each month (the "computation date").

"Composite percentage" as of a computation date shall be the sum of (i) Return on Equity then in effect multiplied by the percentage which equity investment as of such date is of the total capital as of such date; plus (ii) the average monthly effective interest rate per annum of each principal amount of indebtedness outstanding on such date for money borrowed, whether long term or short term, multiplied by the percentage which each such principal amount is of total capital as of such date. The effective interest rate shall take into account premiums, discounts, fees, and other costs that are related to the indebtedness.

"Return on Equity" shall be the return on equity on file with the FERC and in effect under The Federal Power Act.

"Equity investment" as of any date shall consist of the sum of (i) all amounts theretofore paid to New Hampshire Hydro for all capital stock theretofore issued, plus all capital contributions, less the sum of any amounts paid by New Hampshire Hydro in the form of stock retirements, repurchases or redemptions or return of capital including liquidating dividends; plus (ii) any credit balance in the capital surplus account not included in (1) and any credit balance in the earned surplus (retained earnings) account on the books of New England Hydro as of such date.

"Total capital" as of any date shall be the equity investment plus the total of all indebtedness then outstanding for money borrowed.

From the Date of Full Support Payment until the first to occur of June 30 or December 31 thereafter, the "average net rate base" for the Transmission Facilities shall be the average of the net rate base determined as of the Date of Full Support Payment and the first to occur of June 30 or December 31 thereafter. Thereafter, for subsequent months of January through June, average net rate base shall be the average of the net rate base as of the preceding December 31 and the following June 30. For other months, average net rate base shall be the average of the net rate base as of the preceding June 30 and the following December 31. The "net rate base" shall consist of (i) the investment in the Transmission Facilities, less (ii) the amount of any accumulated provision for depreciation and amortization related to

the investment in the Transmission Facilities, less (or plus) (iii) the amount of any reserve for deferred income taxes received (or paid) by New Hampshire Hydro, such deferred income taxes to include deferred income taxes due to accelerated depreciation, construction tax benefits, and any other book/tax timing differences related to the Transmission Facilities, less (iv) the amount of any unamortized investment tax credits (ITC), plus (v) such allowances related to the Transmission Facilities for materials and supplies, prepaid items and cash working capital as may from time to time be determined by New Hampshire Hydro, as reasonably necessary and in accordance with accepted utility accounting practice, plus (vi) the amounts held in the Debt Service Fund, as described in Section 18. New Hampshire Hydro shall normalize ITC over the depreciation and/or amortization period relating to the Transmission Facilities. Any allowance for cash working capital shall be limited to that not sufficiently recovered through the use of estimated billing for the current month.

[End of Section 12]

4. The New Hampshire DC Support Agreement is hereby amended by adding the following Section 21:

Section 21. Refund of Gain on Sale or Other Disposition of Transmission Facilities

In the event that any of the Transmission Facilities are sold or otherwise disposed of during the term of this Agreement, if the Net Proceeds (defined as the amount received from such sale or disposition less all costs relating to or resulting from such sale or disposition, including without limitation any income taxes relating to or resulting from such sale or disposition, any premiums and penalties incurred because of the early retirement of any indebtedness associated with the sold or disposed of Transmission Facilities, and any costs of total or partial demolition of the sold or otherwise disposed of Transmission Facilities) from such sale or disposition exceed the greater of (i) the investment in the entire Transmission Facilities (less any depreciation and amortization to the date of sale or disposition) or (ii) the then total capital of New Hampshire Hydro (as defined in Section 12), New Hampshire Hydro shall (a) refund to the then current Participants, in proportion to their then current Participating Shares, any such excess, and (b) credit to the accumulated provision for depreciation and amortization related to the investment in the Transmission Facilities the investment in the entire Transmission Facilities (less any depreciation and amortization to the date of sale or disposition). The total capital of New Hampshire Hydro, for the purposes of this section, may exceed the investment in the entire Transmission Facilities (less any depreciation and amortization to the date of sale or disposition) due to (1) any reserve for deferred income taxes paid by New England Hydro or (2) for other reasons related to the investment in the Transmission Facilities. If the Net Proceeds do not exceed the greater of (i) or (ii) above, the Net Proceeds will be credited to the accumulated provision for depreciation and amortization related to the investment in the Transmission Facilities in lieu

of payment to the Participants. The Participants agree to flow through any such refunds to their customers and shall seek any necessary regulatory approvals to reflect in their rates any such refunds and the effect of any such credits to the accumulated provision for depreciation and amortization related to the investment in the Transmission Facilities; except that to the extent that a Participant's customers' rates have not reflected all or a portion of that Participant's share of the costs of the Transmission Facilities, then that Participant agrees that a complete flow-through of such refunds may not be appropriate and that particular Participant shall seek any necessary regulatory approvals for the appropriate disposition of an appropriate portion of such refunded amounts or credits.

[End of Section 21]

5. Attachment D of the New Hampshire DC Support Agreement is hereby deleted.
6. Attachment F of the New Hampshire DC Support Agreement is hereby deleted and replaced with the following Attachment F:

#### ATTACHMENT F

As a result of the support arrangements for building, owning, and financing the Transmission Facilities, Equity Sponsors have provided credit support for the project in excess of their Participating Shares. This enhances New Hampshire Hydro's ability to finance the project. The status of a Participant as a Credit Enhanced Participant that receives credit enhancement or not will be determined in connection with, and as of the date of commitment for, each debt financing, including any construction financing, in accordance with Section 1 hereof, and the Credit Enhancement Charge will be determined with respect to each such financing and will continue to be paid as long as the financing is outstanding and as long as any accrued unamortized Credit Enhancement Charges for said Participant remain outstanding.

An "investment grade" Participant is defined in this Agreement as a Participant which has outstanding junior long-term debt securities which have qualified debt ratings by two of the three major rating agencies. An "investment grade" Participant is also defined as a Participant which has a Participating Share of four-tenths of one percent (0.4%) or less and which has outstanding junior long-term debt securities having a rating from only one of the three major rating agencies with that rating being a qualified debt rating. (For these purposes, the outstanding junior long-term debt securities- of a Participant shall mean (i) its outstanding long-term debentures, or (ii) if no long-term debentures are outstanding, its most junior outstanding long-term mortgage or revenue bonds, or (iii) if no long-term debentures, mortgage bonds or revenue bonds are outstanding, its most junior outstanding long-term debt.) "Qualified debt ratings" are defined as a minimum rating of Baa3 by Moody's Investors Service, BBB- by Standard & Poor's Corporation and D&P 10 by Duff & Phelps, Inc.

Any “substitute credit enhancement” shall mean, with respect to any New Hampshire Hydro debt financing, including any construction financing (i) a letter of credit from a commercial bank having capital, surplus, and undivided profits of at least \$250 million and a credit rating of “AA” or better in form and substance satisfactory to New Hampshire or (ii) a credit support that is equivalent to (i) above which is satisfactory in form and substance to New Hampshire Hydro, or (iii) a guarantee from an Equity Sponsor which at that time the guarantee is made satisfies the requirements to be an Equity Sponsor as set forth in section 4 of the Equity Funding Agreements; provided that such enhancement is irrevocable until the final maturity of such debt financing, including any optional extensions thereof. The first time that a Participant supplies substitute credit enhancement under this Agreement or under the Phase II Massachusetts Facilities Support Agreement, the substitute credit enhancement shall also cover such Participant’s share of the debt obligations of New England Power Company and Boston Edison Company relating to their respective AC Facilities and the term of such credit enhancement shall extend for the full term of the then remaining depreciation period for the AC facilities supported under such AC Facilities Support Agreements.

The principal amount of such substitute credit enhancement shall equal that Participant’s Participating Share of the maximum amount of obligations under such New Hampshire Hydro debt financing plus, if not already provided in connection with any other debt financing of New Hampshire Hydro or New England Hydro, that Participant’s Participating Share of the maximum amount of debt obligations of New England Power Company and Boston Edison Company relating to the AC Facilities as determined by New England Power and Boston Edison, respectively.

For any substitute credit enhancement that covers that Participant’s Participating Share of the debt obligations of Boston Edison Company and New England Power. Company relating to the AC Facilities, such substitute credit enhancement shall provide for direct payment to New England Power and Boston Edison, respectively. of the amounts included therein for covering such debt obligations.

As compensation to Equity Sponsors for providing this additional credit support, a Credit Enhancement Charge, as calculated in connection with each debt financing is required to be paid by the Participants. If a Participant is a Credit Enhanced Participant by reason of below-investment grade, withdrawn or suspended debt ratings, the Credit Enhancement Charge attributed to that Credit Enhanced Participant will be paid by all Participants with each Participant paying its Participating Share thereof; provided, however, that if a Participant is a Credit Enhanced Participant due to lack of debt ratings, the Credit Enhancement Charge attributed to that Credit Enhanced Participant shall be paid by such Participant.

$$E = \sum_{i=1}^n F_i$$

$$\text{where } F_i = \left( \frac{G}{100} \times H_i \times \frac{I_i}{100} \times 0.8 \times \frac{1}{12} \right) + J_i$$

The Credit Enhancement Charge (E)

attributed to a Credit Enhanced Participant is a dollar value determined monthly for each Credit Enhanced Participant by the following formula:

F = the Credit Enhancement Change for each New England Hydro debt financing that is credit enhanced for the Participant.

I = a number from 1 to n representing each of New England Hydro debt financings.

n = total number of such financings.

G = the Participant's Participating Share (in percent)

H = the maximum outstanding amount of New Hampshire Hydro debt during the month which was credit enhanced for such Participant

I = debt premium (in percent) for the Credit Enhanced Participant as shown in the following table:

<u>Participant's Debt Rating*</u>	<u>I(%)</u>
Below B3 or not rated	7.57
B3	5.32
B2	4.82
B1	4.32
Ba3	3.82
6a2	3.32
Ba1	2.82

\* Debt rating shall be the lower of the two highest ratings assigned to the Participant's outstanding junior long-term debt securities by Moody's, Standard and Poor's, and Duff & Phelps, converted to a Moody's equivalent as measured at the commitment date of such New Hampshire Hydro debt financing. If the Participant has a Participating Share of four tenths of one percent (0.4%) or less and has only one debt rating, then the debt rating for such Participant shall be that rating converted to a Moody's equivalent as measured at the commitment date of such New Hampshire Hydro debt financing.

J + an amount calculated as follows:

During the period from the Effective Date to the Date of Full Support Payment, J shall equal 0 and the Credit Enhancement

Charge calculated during such period pursuant to the above formula shall be accrued for each Participant during such period with interest calculated at New Hampshire Hydro's AFDC rate. After the Date of Full Support Payment, such previously accrued amount for such Participant shall be treated as if it represented additional investment in the Transmission Facilities relating only to such Participant. As a result J shall include monthly amounts attributable to such Participant (whether or not it continues to be a Credit Enhanced Participant after the Date of Full Support Payment and whether or not the debt being enhanced continues to be outstanding) representing amortization of such previously accrued amount (with amortization over the period that the investment in the Transmission Facilities is being amortized) plus one-twelfth of the composite percentage (as defined in Section 12 hereof) times the unamortized accrued amount plus a provision for income taxes.

[End of Attachment F]

7. This Amendment shall become binding upon New Hampshire Hydro and the Participants when it has been executed by New Hampshire Hydro and Participants owning Participating Shares aggregating at least 66-2/3%.
8. Any number of counterparts of this Amendment may be executed, and each shall have the same force and effect as an original instrument and as if all the parties to all of the counterparts had signed the same instrument.

IN WITNESS WHEREOF, the signatories have caused this Amendment to be executed by their duly authorized officers or agents.

COMPANY

By: \_\_\_\_\_  
Its President

Address: XXXXXXXXXXXX  
XXXXXXXXXX

CONFORMED'

AMENDMENT NO. 5  
TO  
PHASE II NEW HAMPSHIRE TRANSMISSION  
FACILITIES SUPPORT AGREEMENT

This Amendment, dated as of October 1, 1987, is between New England Hydro-Transmission Corporation (New Hampshire Hydro), and the New England utilities listed in Attachment A to the Phase II New Hampshire Transmission Facilities Support

Agreement, dated as of June 1, 1985, as amended by Amendment No. 1, dated as of May 1, 1986, Amendment No. 2, dated as of February 1, 1987, Amendment No. 3, dated as of June 1, 1987, and Amendment No. 4, dated as of September 1, 1987, (the "New Hampshire DC Support Agreement"), and amends the New Hampshire DC Support Agreement as hereinafter provided.

In consideration of the premises and other good and valuable consideration, receipt of which is hereby acknowledged, and pursuant to the provision of Section 20H of the New Hampshire DC Support Agreement, it is hereby agreed as follows:

1. Certain terms defined in the New Hampshire DC Support Agreement are used herein with the meanings there provided.
2. Section 12 is hereby amended by deleting the first sentence of the fourth paragraph thereof and replacing it with the following sentence:

New Hampshire Hydro's "operating expenses" shall include all amounts related to the Transmission Facilities and properly chargeable to expense accounts less any applicable credits thereto, in accordance with the Uniform System, including but not limited to operation and maintenance expense such as rent on leased property and administrative and general expenses, state and Federal income and franchise taxes, property taxes, payroll taxes, any other taxes not based on income, and depreciation and/or amortization expense; it being understood that unless the FERC, upon application by New Hampshire Hydro, authorizes a shorter depreciation and/or amortization period, for purposes of this Agreement depreciation and/or amortization shall be at a rate sufficient to recover the investment in the Transmission Facilities (including estimated cost of removal less any salvage value which salvage value, for the purpose of calculating such depreciation and/or amortization, will not exceed the amount of cost of removal) over the greater of: (i) ten years from the Date of Full Support Payment or (ii) the term of New Hampshire Hydro's permanent debt financings or other permanent financing arrangements related to the Transmission Facilities, adjusted for multiple maturities and repayment schedules; and it also being understood that rents on leased property shall include the rental of property or property rights related to the Transmission Facilities from any Participant with rent based on book value.

3. This Amendment shall become binding upon New Hampshire Hydro and the Participants when it has been executed by New Hampshire Hydro and Participants owning Participating Shares aggregating at least 66-2/3%.
4. Any number of counterparts of this Amendment may be executed, and each shall have the same force and effect as an original instrument and as if all the parties to all of the counterparts had signed the same instrument.

IN WITNESS WHEREOF, the signatories have caused this Amendment to be executed by their duly authorized officers or

agents.

COMPANY

By: \_\_\_\_\_  
Its President

Address: XXXXXXXXXXXX  
XXXXXXXXXX

CONFORMED

AMENDMENT NO. 6  
TO  
PHASE II NEW HAMPSHIRE TRANSMISSION  
FACILITIES SUPPORT AGREEMENT

This Amendment, dated as of August 1, 1988, is between New England Hydro—Transmission Corporation (New Hampshire Hydro), and the New Hampshire utilities listed in Attachment A to the Phase II New Hampshire Transmission Facilities Support Agreement, dated as of June 1, 1985, as amended (the “New Hampshire DC Support Agreement”), and amends the New Hampshire DC Support Agreement as hereinafter provided.

In consideration of the premises and other good and valuable consideration, receipt of which is hereby acknowledged, and pursuant to the provision of Section 20H of the New Hampshire DC Support Agreement, it is hereby agreed as follows:

1. Certain terms defined in the New Hampshire DC Support Agreement are used herein with the meanings therein provided.
2. Section 1 is hereby amended by deleting the first sentence of the fifteenth paragraph thereof.
3. Section 2 is hereby amended by (i) changing each reference to a “June 1, 1986” deadline to “September 15, 1988” and (ii) changing each reference to a “March 1, 1986” deadline to “September 1, 1988.”
4. Section 2 is hereby amended further by deleting, in the last paragraph thereof, the words “Section 2” and inserting in lieu thereof “Agreement.”
5. Section 4A is hereby amended by deleting the third sentence of the second paragraph thereof and inserting in lieu thereof the following:

“The initial computation of Participating Shares shall be made on the basis that each signatory to this Agreement as shown in Attachment A is a Participant. After such initial computation and before the

Effective Date, each Participant shall be entitled to transfer any or all of its Participating Share to one or more other Participants. On or before September 1, 1988, any Participant listed in Attachment A who has transferred, or intends to transfer, any or all of its Participating Share to one or more other Participants listed in Attachment A must provide documentation to New Hampshire Hydro covering the transfer. The initial computation is to be recomputed on and as of the Effective Date on the basis that each signatory to this Agreement which has provided timely documentation of its participation or transfer is a Participant. Any such transfers of Participating Shares will be taken into account after such recomputation. Any such transfer of Participating Shares hereunder shall have no effect on the interests, rights, or obligations of participants in Phase I. Subsequent computations are to be made thereafter as of the first day of each month in which an interest is modified or terminated pursuant to any provision hereof.”

6. Section 4B is hereby amended by deleting, in the first sentence thereof, the word “date”.
7. Section 12 is hereby amended by inserting into the second sentence of the fourth paragraph thereof following the words “In addition, each Participant will pay to” the following:

“New Hampshire Hydro, and New Hampshire Hydro will pay to”
8. Section 14 is hereby amended by adding the following clause to the end of the first sentence thereof:

“; provided, however, that nothing in this Section 14 shall (a) prevent a Participant from transferring its interests and obligations hereunder to another Participant prior to the Effective Date, or (b) impose any continuing liabilities or obligations on said transferring Participant with respect to this Agreement incurred or relating to the period of time after said transferring Participant’s Participating Share has been reduced to zero.”
9. Section 20F is hereby amended by inserting into the second sentence thereof following the words “the Transmission Facilities,” the following:

and (iv) for a transfer of any or all of a Participant’s Participating Share prior to the Effective Date as provided in Section 4A hereof;”
10. The first attached Schedule I is hereby deleted and replaced with the second attached Schedule I.
11. Schedule II to the Agreement is hereby deleted and replaced with the attached Schedule II.
12. Attachment A to the Agreement is hereby deleted and replaced with the attached Attachment A.
- 13 Any number of counterparts of this Amendment may be executed, and each shall have the same force and effect as an original instrument and as if all the parties to all of the counterparts had signed the same instrument.

IN WITNESS WHEREOF, the signatories have caused this Amendment to be executed by their duly authorized officers or

agents.

COMPANY

By: \_\_\_\_\_  
Its President

Address: XXXXXXXXXXXX  
XXXXXXXXXXXX

Schedule I

Vermont Electric Power Company, Inc.  
Contracting Electric Systems

City of Burlington Electric Department  
Central Vermont Public Service Corporation  
Citizens Utilities Company  
Village of Enosburg Falls Water & Light Department  
Franklin Electric Light Company  
Green Mountain Power Corporation  
Village of Hardwick Electric Department  
Village of Ludlow Electric Light Department  
Village of Lyndonville Electric Department  
Village of Morrisville Water & Light Department  
Village of Northfield Electric Department  
Village of Stowe Water and Light Department  
Village of Swanton  
Electric Generation & Transmission .Coop., Inc.  
Vermont Marble Company  
Washington Electric Cooperative, Inc.

[DELETED]

Schedule I

Vermont Electric Power Company, Inc.  
Contracting Electric Systems

Central Vermont Public Service Corporation  
Citizens Utilities Company  
Franklin Electric Light Company, Inc.  
Green Mountain Power Corporation

[INSERTED]

Schedule II

Massachusetts Municipal Wholesale Electric Company  
Contracting Electric Systems

Massachusetts Systems

Town of Ashburnham Municipal Light Plant  
Town of Georgetown Municipal Light Department  
Town of Hull Municipal Lighting Plant  
Town of Littleton Electric Light Department  
Town of Mansfield. Municipal Electric Department  
Town of Marblehead Municipal Light Department  
Town of Middleton Municipal Electric Department  
Town of Paxton Municipal Light Department  
Town of Templeton Municipal Lighting Plant

Rhode Island System

Pascoag Fire District

ATTACHMENT A

Except as provided below, if any participant does not receive required consents, waivers, regulatory approvals, or other actions of governmental authorities within the time period required by this Agreement, the listing of participants and 1980 kilowatthour load will be appropriately modified.

Participant	1980 Kilowatthour Load
The Connecticut. Light and Power Company	16,002,437,000
western Massachusetts Electric Company	3,252,432,000
Holyoke Water Power Company	106,905,000
Holyoke Power and Electric Company	0
New. England Power Company	15,444,975,840 (a), (b)
Boston Edison Company (Edison)	9,531,773,000 (b), (c)
Central Maine Power Company	6,053,571,000
Public Service Company of New Hampshire	5,043,242,871 (d)
The United Illuminating Company	4,715,078,120
Vermont Electric Power Company	3,262,098,200
Canal Electric Company	3,227,553,000
Montaup Electric Company	3,096,872,000 (e)
Bangor Hydro-Electric Company	1,305,625,118
Connecticut Municipal Electric Energy Cooperative	718,177,538
UNITIL Power Corp.	609,873,261 (f)
Massachusetts Municipal Wholesale Electric Company	470,025,000
Town of Reading Municipal Light Department	401,795,000
Newport Electric Corporation	382,745,000
Fitchburg Gas and Electric Light Co.	369,055,118
Taunton Municipal Lighting Plant	307,460,361
City of Chicopee Municipal Lighting Plant	279,273,169

Town of Braintree Electric Light Department	267,289,000
City of Peabody Municipal Light Plant	245,010,000
City of Westfield Gas & Electric Light Department	219,026,000
City of Holyoke Gas & Electric Light Department	214,448,000
Town of Danvers Electric Department	206,806,000
Town of Shrewsbury Electric Light Department	146,303,000
Hudson Light and Power Department	127,808,000
Town of Wakefield Municipal Lighting Department	107,609,000
Town of Hingham Municipal Lighting	103,929,000
Town of South Hadley Electric Light Department	99,981,000
Town of North Attleborough Electric Department	93,816,000
Town of Middleborough Gas and Electric Department	92,081,000
Town of Holden Municipal Light Department	63,676,000
Town of West Boylston Municipal Lighting Department	43,974,000
Town of Sterling Municipal Electric Department	24,510,000
Town of Groton Electric Light Department	22,908,000
Town of Boylston Municipal Light Department	17,324,000
Town of Rowley Municipal Light Department	13,551,000
Princeton Municipal Light Department	7,130,000
Town of Concord Municipal Light Plant	0 (c)
	76,698,146,596

- (a) Includes New Hampshire retail 1980 kilowatthour load of 434,290,243.
- (b) The 1980 Kilowatthour loads shown for Boston Edison Company and New England Power Company have been adjusted to reflect the current status of Norwood as a full requirements customer of New England Power Company.
- (c) As of June 1, 1985, Concord continues to be a full requirements customer of Edison. At such time as Concord ceases to be a full requirements customer of Edison, for purposes of this Agreement, Concord shall have an additional Participating Share equal to 1.087% of Edison's initial Participating Share (based on a 1980 Kwh load of 103,629,000 Kwh for Concord) and Edison's Participating Share shall be reduced by such amount.
- (d) Includes New. Hampshire retail 1980 kilowatthour load of 4,939,218,744.
- (e) The amount shown for Montaup Electric Company includes the load of the other members of the Eastern Utilities Associates system.
- (s) The amount shown for UNITIL Power Corp. represents the 1980 kilowatthour load of its affiliates, Concord Electric Company and Exeter & Hampton Electric Company.

AMENDMENT NO. 7  
TO  
PHASE II NEW HAMPSHIRE TRANSMISSION  
FACILITIES SUPPORT AGREEMENT

This Amendment, dated as of January 1, 1989, is between New England Hydro-Transmission Corporation (New Hampshire

Hydro), and the New England utilities listed in Attachment A to the Phase II New Hampshire Transmission Facilities Support Agreement, dated as of June 1, 1985, as amended (the “New Hampshire DC Support Agreement”), and amends the New Hampshire DC Support Agreement as hereinafter provided.

In consideration of the premises and other good and valuable consideration, receipt of which is hereby acknowledged, and pursuant to the provisions of Section 20H of the New Hampshire DC Support Agreement, it is hereby agreed as follows:

1. Certain terms defined in the New Hampshire DC Support Agreement are used herein with the meanings therein provided.
2. Section 2 is hereby amended by inserting the following at the end of the second sentence of paragraph seven thereof:

“, or except with the approval of New England Hydro and New Hampshire Hydro, as required in connection with any financing by MMWEC, the proceeds of which are to be applied exclusively by MMWEC to meet its obligations under Phase II, provided that such grant by MMWEC to its third party lenders shall be on a pari passu basis with the Lenders, New England Hydro, New Hampshire Hydro, New England Power Company and Boston Edison Company, and provided further that MMWEC shall have its third party lenders execute and deliver intercreditor agreements acceptable to the Lenders, New England Hydro, New Hampshire Hydro, New England Power Company and Boston Edison Company providing an appropriate allocation between MMWEC’s third party lenders and the Lenders, New England Hydro, New Hampshire Hydro, New England Power Company and Boston Edison Company of payments made under MMWEC’s contract with its systems and including appropriate notice provisions.”

Section 12 is hereby amended by inserting in the fourth paragraph thereof after the first sentence the following:

“‘Operating expenses’ shall also include all support -charges incurred by New Hampshire Hydro pursuant to Section 8 of the Phase II Maine Electric Power SVC Facilities Support Agreement between New Hampshire Hydro and Maine Electric Power Company, dated as of October 1, 1988 (SVC Agreement).”

Section 15C is hereby amended by inserting after the first sentence thereof the following:

“In addition, such Participant’s payment required by the preceding sentence shall be increased by an amount equal to its Participating Share of the ‘amounts’ determined in the first and second sentences of Section 11B of the SVC Agreement.”

Section 16 is hereby amended by inserting in the second sentence of the second paragraph thereof, after the words “notified, equal to”, the following:

“its Participating Share of the ‘amounts’ determined in the second and third sentences of the second paragraph of Section 12 of the SVC Agreement plus”

Section 16 is hereby further amended by inserting in the first sentence of the third paragraph thereof, after the words “sell the Transmission Facilities”; the following:

“(including New Hampshire Hydro’s rights to Transmission Facilities in Vermont and the SVC Facilities in Maine)”

Section 20D is hereby amended by inserting the following at the end of such section:

“For the purpose of this subsection, the Transmission Facilities shall include the SVC Facilities as defined in the SVC Agreement.”

3. This amendment shall become effective on the last to occur of (i) the acceptance of this amendment by the Federal Energy Regulatory Commission, and (ii) the effective date of the SVC Agreement.
4. Any number of counterparts of this Amendment may be executed, and each shall have the same force and effect as an original instrument and as if all the parties to all of the counterparts had signed the same instrument.

IN WITNESS WHEREOF, the signatories have caused this Amendment to be executed by their duly authorized officers or agents.

COMPANY

By: \_\_\_\_\_  
Its President

Address: XXXXXXXXXXXX  
XXXXXXXXXXXX

**PURCHASE AND SALE AGREEMENT**

**between**

**PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE**  
**as Seller**

**and**

**GRANITE SHORE POWER LLC**  
**as Buyer**

**Dated as of October 11, 2017**

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## PURCHASE AND SALE AGREEMENT

This PURCHASE AND SALE AGREEMENT (this “**Agreement**”), dated and effective as of October 11, 2017 (the “**Effective Date**”), is entered into by and between Granite Shore Power LLC, a Delaware limited liability company (“**Buyer**”), and Public Service Company of New Hampshire, a New Hampshire corporation (“**Seller**”). Buyer and Seller are each referred to in this Agreement as a “**Party**” and collectively as the “**Parties**.”

## RECITALS:

WHEREAS, Seller owns the electric generating facilities described in Schedule 1 hereto (collectively, the “**Facilities**”);

WHEREAS, on the terms and subject to the conditions set forth in this Agreement, Seller desires to sell and assign to Buyer, and Buyer desires to purchase and assume from Seller certain assets and liabilities respecting the Facilities, all as set forth herein.

NOW, THEREFORE, in consideration of the foregoing and the representations, warranties, covenants and agreements hereinafter set forth, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties, intending to be legally bound, hereby agree as follows:

**ARTICLE I**  
**DEFINITIONS AND INTERPRETATION**

**Section 1.1 Definitions.** As used in this Agreement, the following capitalized terms have the meanings set forth below:

“**Accrued Pension Benefit**” has the meaning set forth in Section 5.8(e)(i)(C).

“**Acquired Assets**” has the meaning set forth in Section 2.1.

“**Actual Prorated Amount**” has the meaning set forth in Section 2.7(c).

“**Affiliate**” means, with respect to any Person, any other Person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, such Person. For purposes of this definition, the term “control” (including the terms “controlled by” and “under common control with”) means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through ownership of voting securities or other ownership interests, by Contract or otherwise.

“**Affected Employees**” means employees of Seller or Eversource Service whose primary employment duties include support of the Facilities and whose employment is terminated or significantly negatively affected as a direct result of the transactions contemplated hereby.

“**Agreement**” has the meaning set forth in the preamble.

“**Asset Demarcation Agreement**” has the meaning set forth in Section 2.10(e).

“**Assigned Contracts**” has the meaning set forth in Section 2.1(e).

“**Assigned Intellectual Property**” has the meaning set forth in Section 2.1(g).

“**Assigned Leases**” has the meaning set forth in Section 2.1(b).

“**Assignment and Assumption Agreement**” has the meaning set forth in Section 2.10(d).

“**Assignment and Assumption of Lease**” has the meaning set forth in Section 2.10(b).

“**Assumed Liabilities**” has the meaning set forth in Section 2.3.

“**Base Purchase Price**” has the meaning set forth in Section 2.5.

“**Bill of Sale**” has the meaning set forth in Section 2.10(c).

“**Business**” means the ownership, construction and operation of a portfolio of thermal electric generation assets and related facilities listed on Schedule 1 together with fuel inventories, and including the generation, sale, transmission and delivery of electric

energy, capacity, ancillary services and Environmental Attributes from the generation assets to the relevant interconnection point with the high voltage transmission system operated by ISO-NE or, in the case of Lost Nation, with the distribution system operated by Seller.

“**Business Day**” means any day other than a Saturday, Sunday or day on which banks are legally closed for business in Manchester, New Hampshire or New York, New York.

“**Buyer**” has the meaning set forth in the preamble.

“**Buyer Fundamental Warranties**” means the representations and warranties of Buyer set forth in Section 4.1 (Organization and Existence), Section 4.2 (Authority and Enforceability) and Section 4.6 (Brokers).

“**Buyer Indemnified Parties**” has the meaning set forth in Section 7.2.

“**Buyer Pension Benefit**” has the meaning set forth in Section 5.8(e)(i)(E).

“**Buyer Required Consents**” has the meaning set forth in Section 4.3(c).

“**Buyer Subsidiary**” has the meaning set forth in Section 9.6.

“**Buyer’s Observers**” has the meaning set forth in Section 5.4(b).

“**Buyer’s Contributory Plan**” has the meaning set forth in Section 5.8(e)(ii)(A).

“**Buyer’s Retirement Benefit**” has the meaning set forth in Section 5.8(e)(i)(E).

“**Buyer’s Retirement Plan**” has the meaning set forth in Section 5.8(e)(i)(A).

“**CAMS**” means ISO-NE’s Customer and Asset Management System.

“**Capacity Supply Obligation**” is an obligation to provide capacity from a resource, or a portion thereof, to satisfy a portion of the Installed Capacity Requirement that is acquired through a Forward Capacity Auction in accordance with Section III.13.2 of the ISO-NE Tariff, a reconfiguration auction in accordance with Section III.13.4 of the ISO-NE Tariff, or a Capacity Supply Obligation Bilateral in accordance with Section III.13.5.1 of Market Rule 1 of the ISO-NE Tariff. For avoidance of doubt, capitalized terms used in this definition but not defined in this Agreement have the meaning given them in the ISO-NE Tariff.

“**Cash**” means cash and cash equivalents (including marketable securities and short-term investments) calculated in accordance with GAAP.

“**Casualty Loss**” has the meaning set forth in Section 5.16.

“**CBA MOA**” means that certain Memorandum of Agreement Clarifying Certain Employee Protections Following a Divestiture by PSNH of its Generating Assets, dated September 7, 2017, between Seller and the Union.

“**CBA Term**” means June 1, 2017 through the later of May 31, 2020 or two years after the Closing Date.

“**Claim**” means any claim, demand, complaint, action, legal proceeding (whether at law or in equity), summons, citation, notice of violation, arbitration, investigation, audit or suit commenced, brought, received from, conducted or heard by or before any Governmental Authority, arbitrator, or Third Party.

“**Closing**” has the meaning set forth in Section 2.9.

“**Closing Date**” has the meaning set forth in Section 2.9.

“**Closing Purchase Price**” has the meaning set forth in Section 2.5.

“**Closing Statement**” has the meaning set forth in Section 2.6(c)(i).

“**Code**” means the Internal Revenue Code of 1986.

“**Combined Minimum Pension Benefit**” has the meaning set forth in Section 5.8(e)(i)(B).

“**Confidentiality Agreements**” means those certain Confidentiality Agreements between Seller and Atlas FRM LLC d/b/a

Atlas Holdings LLC, dated as of March 20, 2017 and Seller and Castleton Commodities International LLC, dated as of March 31, 2017.

“**Consent**” means any consent, authorization, approval, release, waiver, estoppel certificate or any similar agreement or approval of or by, or registration, notice, declaration or filing to or with, the applicable Governmental Authority or other Person, including any certificate, license, permit, Order or other action issued or taken by a Governmental Authority.

“**Contract**” means any legally binding contract, lease, mortgage, license, instrument, note or other evidence of indebtedness, purchase order, commitment, undertaking, indenture or other agreement.

“**Counterparty**” has the meaning set forth in [Section 5.3\(a\)](#).

“**Data Site**” means the “Project PurpleFinch” electronic data site established and maintained by Seller with IntraLinks, Inc. as it exists at 4 p.m. ET on October 6, 2017 and for which Buyer has been given access to the contents.

“**Deed**” has the meaning set forth in [Section 2.10\(a\)](#).

“**Dig Activities**” means (i) any investigation (including any drilling, sampling, testing or monitoring of any air, soil, soil gas, surface water, groundwater, sediments, building materials or other environmental media), monitoring, correction, removal or Remediation or other similar activity conducted by or on behalf of Buyer or any of its Affiliates (or any of their respective successors or assigns) on or after the Closing Date that is not required by applicable Environmental Law, Environmental Permits or pursuant to an express Order or directive of any Governmental Authority with jurisdiction (other than any such Order or directive that is issued at the request of or otherwise solicited by or on behalf of Buyer or any of its Affiliates (or any of their respective successors or assigns)); or (ii) any change by or on behalf of Buyer or any of its Affiliates (or any of their respective successors or assigns) to the operation and use of any of the Acquired Assets on or after the Closing Date not required by applicable Environmental Law, Environmental Permits or pursuant to an express Order or directive of any Governmental Authority with jurisdiction (other than any such Order or directive that is issued at the request of or otherwise solicited by or on behalf of Buyer or any of its Affiliates (or any of their respective successors or assigns)) compared to the operation and use of such Acquired Assets as operated and used by Seller in the twelve (12) months prior to the Closing Date (including the decommissioning, dismantling or removal of any Facility by or on behalf of Buyer or any of its Affiliates (or any of their respective successors or assigns)). Any of the foregoing activities engaged in as a result of a force majeure event shall not be “Dig Activities.”

“**Direct Claim**” has the meaning set forth in [Section 7.5\(c\)](#).

“**Easements**” means easements to be granted by Seller to Buyer to implement the Easement Plans.

“**Easement Plans**” means the plans to be agreed to by the Parties for purposes of implementing the transactions contemplated by this Agreement and the Related Agreements, including the Demarcation Agreement.

“**Effective Date**” has the meaning set forth in the preamble.

“**Employee Benefit Plan**” means any “employee benefit plan” (as such term is defined in Section 3(3) of ERISA), whether or not subject to ERISA, and any other employee benefit plan, program, policy or Contract, including any employment, pension, retirement, profit-sharing, thrift, savings, bonus plan, incentive, stock bonus, stock purchase, stock option or other equity or equity-based compensation, or retention, change in control, severance, deferred compensation, welfare benefit or fringe benefit plan, policy, program, agreement or arrangement.

“**Environment**” means soil, land surface or subsurface strata, real property, surface waters, groundwater, wetlands, sediments, plant or animal life, drinking water supply, ambient air (including indoor air) and any other environmental medium or natural resource.

“**Environmental Attributes**” means any emissions and renewable energy credits, energy conservation credits, benefits, offsets and allowances, emission reduction credits or items of similar import or regulatory effect (including emissions reduction credits or allowances under all applicable emission trading, compliance or budget programs, or any other federal, state or regional emission, renewable energy or energy conservation trading or budget program) that are attributable to the operation of the Facilities.

“**Environmental Claim**” means any Claim by any Person alleging Liability of whatever kind or nature (including with respect to loss of life, injury to persons, property or business, damage to natural resources or trespass to property, whether or not such loss, injury, damage or trespass arose or was made manifest before the Closing Date or arises or becomes manifest on or after the Closing Date) arising out of, resulting from or in connection with: (a) the presence, Release of, or exposure to, any Hazardous Substances or (b) any actual or alleged violation or non-compliance with any Environmental Law or term or condition of any Environmental Permit.

“**Environmental Laws**” means all applicable Laws, Orders and any binding administrative or judicial interpretations thereof

(including any binding agreement with any Governmental Authority) relating to: (a) pollution (or the cleanup thereof); (b) the regulation, protection and use of the Environment; (c) the protection, conservation, management, development, control and/or use of land, natural resources and wildlife (including endangered and threatened species); (d) the protection of human health or safety; (e) the management, manufacture, possession, presence, processing, use, generation, transportation, treatment, containment, storage, disposal, recycling, reclamation, Release, threatened Release, abatement, removal, remediation, or handling of, or exposure to, any Hazardous Substances; or (f) noise; and includes, without limitation, the following federal statutes (and their implementing regulations): the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986 (42 U.S.C. § 9601 et seq.); the Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act of 1976 and the Hazardous and Solid Waste Amendments Act of 1984 (42 U.S.C. § 6901 et seq.); the Federal Water Pollution Control Act of 1972, as amended by the Clean Water Act of 1977 (33 U.S.C. § 1251 et seq.); the Toxic Substances Control Act of 1976, as amended (15 U.S.C. § 2601 et seq.); the Emergency Planning and Community Right to Know Act of 1986 (42 U.S.C. § 11001 et seq.); the Clean Air Act of 1966, as amended by the Clean Air Act Amendments of 1990 (42 U.S.C. § 7401 et seq.); the Federal Insecticide, Fungicide, and Rodenticide Act, as amended (7 U.S.C. § 136 et seq.); the Coastal Zone Management Act of 1972, as amended (16 U.S.C. § 1451 et seq.); the Oil Pollution Act of 1990, as amended (33 U.S.C. § 2701 et seq.); the Rivers and Harbors Act of 1899, as amended (33 U.S.C. § 401 et seq.); the Hazardous Materials Transportation Act, as amended (49 U.S.C. §§ 5101 et seq.); the Endangered Species Act of 1973, as amended (16 U.S.C. § 1531 et seq.); the Occupational Safety and Health Act of 1970, as amended (29 U.S.C. § 651 et seq.); and the Safe Drinking Water Act of 1974, as amended (42 U.S.C. § 300f et seq.); and all analogous or comparable statutes and regulations of any Governmental Authority.

**“Environmental Liabilities”** means any Liabilities of whatever kind or nature (including without limitation any natural resources damages, property damages, personal injury damages, losses, Claims, judgments, amounts paid in settlement, fines, penalties, fees, expenses and costs, including Remediation costs, engineering costs, environmental consultant fees, laboratory fees, permitting fees, investigation costs, defense costs, costs of enforcement proceedings, costs of indemnification and contribution, costs of medical monitoring, and attorneys’ fees and expenses) arising out of, resulting from or in connection with (a) any violation or alleged violation of Environmental Laws or Environmental Permits, with respect to the ownership, operation or use of the Acquired Assets; (b) any Environmental Claims caused or allegedly caused by the presence, Release of, or exposure to Hazardous Substances at, on, in, under, adjacent to or migrating from the Acquired Assets; (c) the investigation and/or Remediation (whether or not such investigation or Remediation commenced before the Closing Date or commences on or after the Closing Date) of Hazardous Substances that are present or have been Released at, on, in, under, adjacent to or migrating from the Acquired Assets; (d) compliance with Environmental Laws or Environmental Permits with respect to the ownership, operation or use of the Acquired Assets; (e) any Environmental Claim arising from or relating to the off-site disposal, treatment, storage, transportation, discharge, Release or recycling, or the arrangement for such activities, of Hazardous Substances in connection with the ownership or operation of the Acquired Assets; and (f) the investigation and/or Remediation of Hazardous Substances that are generated, disposed, treated, stored, transported, discharged, Released, recycled, or the arrangement of such activities in connection with the ownership or operation of the Acquired Assets, at any Offsite Disposal Facility.

**“Environmental Permits”** means those Permits required for the ownership or operation of any Acquired Asset or the Business under Environmental Laws.

**“ERISA”** means the Employee Retirement Income Security Act of 1974.

**“Escrow Agreement”** has the meaning set forth in [Section 2.6\(a\)\(iii\)\(B\)](#).

**“Estimated Closing Statement”** has the meaning set forth in [Section 2.6\(b\)](#).

**“Estimated Prorated Amount”** has the meaning set forth in [Section 2.7\(b\)](#).

**“Estimated Proration Adjustment Amount”** has the meaning set forth in [Section 2.7\(b\)](#).

**“Estimated Purchase Price Adjustment”** has the meaning set forth in [Section 2.6\(b\)](#).

**“Eversource”** means Eversource Energy, a Massachusetts voluntary association and the parent company of Seller, formerly known as Northeast Utilities.

**“Eversource Service”** means Eversource Energy Service Company, a Connecticut corporation and an Affiliate of Seller, formerly known as Northeast Utilities Service Company.

**“Excluded Assets”** has the meaning set forth in [Section 2.2](#).

**“Excluded Environmental Liabilities”** has the meaning set forth in [Section 2.4\(i\)](#).

“**Excluded Environmental Liability Termination Date**” means, (i) with respect to those Excluded Environmental Liabilities described in Section 2.4(i)(A) and Section 2.4(i)(B)(I), the seventh (7th) anniversary of the Closing Date, and (ii) with respect to those Excluded Environmental Liabilities described in Section 2.4(i)(B)(II), the seventh (7th) anniversary of the Schiller Boiler Removal Completion Date.

“**Excluded Liabilities**” has the meaning set forth in Section 2.4.

“**Facilities**” has the meaning set forth in the recitals. For avoidance of doubt, any individual Facility referred to herein by the name set forth in Schedule 1 shall mean such Facility, as described in Schedule 1.

“**FERC**” means the Federal Energy Regulatory Commission.

“**Final Purchase Price Adjustment**” has the meaning set forth in Section 2.6(c)(iii).

“**GAAP**” means United States generally accepted accounting principles in effect from time to time, as applied by Seller.

“**GADS**” means the Generating Availability Data System operated by NERC.

“**GADS Event**” means an outage or derating reportable to GADS affecting any unit at any Facility, the effect of which is that such Facility’s applicable Capacity Supply Obligation as listed in Schedule 3.21(a) exceeds the amount of capacity reported as available in GADS by the lesser of 5 megawatts or 10 percent of the Facility’s Capacity Supply Obligation as listed in Schedule 3.21(a).

“**Generation CBA**” means the Generation Group Contract, IBEW Local 1837, between Seller and the Union, made and entered into as of June 1, 2013, as amended by (i) that Addendum, dated June 1, 2017 and ratified on June 9, 2017, that modified wages and certain benefits including the Disability Plan, Vacation and Holiday Schedules, (ii) that Memorandum of Agreement Extending Current CBA Upon Divestiture by PSNH of any Generating Asset dated May 20, 2015 (including the Memorandum of Understanding attached as Exhibit A thereto and the Enhanced Bidding Rights Agreement attached as Exhibit B thereto), (iii) that Amendment to Memorandum of Agreement Extending Current CBA Upon Divestiture by PSNH of any Generating Asset dated November 14, 2016, (iv) the CBA MOA; and (v) as further amended by that Memorandum of Understanding regarding “Policies” between IBEW Locals 455, 457, 420 & 1837 and Northeast Utilities, that January 20, 1994 Agreement regarding Schiller 12 hour shifts signed April 18, 1995, that September 8, 2015 Memorandum of Understanding Regarding Day Worker Path to Operator Maintenance as amended by an Agreement dated January 21, 2016, that Memorandum of Understanding regarding Global Positioning System signed October 26, 2015, that August 5, 2016 Agreement regarding Holiday in lieu of practice, that April 26, 2016 Agreement regarding Generation positions retention, that July 29, 1998 Agreement regarding the 12 Hour Shift Policy at Newington; the August 25, 1999 Schiller Stations Operations Agreement, and that April 21, 1997 Settlement Agreement as amended by the June 15, 2009 Amendment to that Settlement Agreement regarding working foremen at Schiller Station.

“**Good Utility Practice**” means any of the practices, methods and acts engaged in or approved by a significant portion of the electric power generation industry during the relevant time period, or any of the practices, methods or acts which, in the exercise of reasonable judgment in light of the facts known at the time the decision was made, could have been expected to accomplish the desired result at a reasonable cost consistent with good business practices, reliability, safety and expedition. Good Utility Practice is not intended to be limited to the optimum practice, method or act to the exclusion of all others, but rather is intended to include acceptable practices, methods or acts generally accepted in the region, or required by the NHPUC, including but not limited to compliance with the standards established by the National Electrical Safety Code and ISO-NE.

“**Governmental Authority**” means any federal, state, local, municipal or foreign government or political subdivision thereof, or any agency or instrumentality of such government or political subdivision, or any self-regulated organization or other non-governmental regulatory authority or quasi-governmental authority (to the extent that the rules, regulations or orders of such organization or authority have the force of Law), or any arbitrator, court or tribunal of competent jurisdiction, including, without limitation, FERC, NERC, ISO-NE and Northeast Power Coordinating Council, Inc., but excluding Buyer and any subsequent owner of any of the Acquired Assets (if otherwise a Governmental Authority under this definition).

“**Guaranties**” means each Guaranty delivered to Seller on the Effective Date by Atlas Capital Resources II LP and Castleton Commodities International LLC.

“**Handling**” means any manner of manufacturing, using, generating, accumulating, storing, treating, disposing of, recycling, processing, distributing, handling, labeling, producing, releasing, or transporting, as any such terms may be defined in any Environmental Law, of Hazardous Substances.

“**Hazardous Substance**” means (a) any petrochemical or petroleum product, oil, waste oil, coal ash, radioactive materials,

radon, asbestos in any form, urea formaldehyde foam insulation, lead-containing materials and polychlorinated biphenyls; (b) any products, mixtures, compounds, materials or wastes, air emissions, toxic substances, wastewater discharges and any chemical, material or substance that may give rise to Liability pursuant to, or is listed or regulated under, or the human exposure to which or the Release of which is controlled or limited by applicable Environmental Laws; and (c) any materials or substances defined in Environmental Laws as “hazardous”, “toxic”, “pollutant” or “contaminant”, or words of similar meaning or regulatory effect.

“**HSR Act**” means the Hart-Scott-Rodino Antitrust Improvements Act of 1976.

“**Hydro Business**” means the ownership, construction and operation of the portfolio of hydroelectric generation assets and related facilities owned by Seller on the Effective Date, together with storage reservoirs, including generating, selling, transmitting and delivering electric energy, capacity, ancillary services and Environmental Attributes from the generation assets to the relevant interconnection point with the high voltage transmission system operated by ISO-NE.

“**Improvements**” means all buildings, structures (including all fuel handling and storage facilities), machinery and equipment, fixtures, construction in progress, including all piping, cables and similar equipment forming part of the mechanical, electrical, plumbing or HVAC infrastructure of any building, structure or equipment, and including all generating units, located on and affixed to the Sites other than the Seller Marks.

“**Indemnified Party**” has the meaning set forth in Section 7.4.

“**Indemnifying Party**” has the meaning set forth in Section 7.4.

“**Independent Accountant**” means a nationally recognized independent accounting firm mutually agreed upon by the Parties.

“**Intellectual Property**” means any and all of the following in any jurisdiction throughout the world: (a) trademarks and service marks, including all applications and registrations and the goodwill connected with the use of and symbolized by the foregoing, but not including the Seller Marks; (b) copyrights, including all applications and registrations, and works of authorship, whether or not copyrightable; (c) trade secrets and confidential knowhow; (d) patents and patent applications; (e) websites and internet domain name registrations; and (f) all other intellectual property and industrial property rights and assets, and all rights, interests and protections that are associated with, similar to, or required for the exercise of, any of the foregoing.

“**Intercompany Arrangements**” has the meaning set forth in Section 2.2(j).

“**Interconnection Agreements**” has the meaning set forth in Section 2.10(f).

“**Interim Period**” means the period of time commencing on the Effective Date and ending on the Closing.

“**Inventory**” or “**Inventories**” means natural gas, coal, biomass and oil inventories, and raw materials, spare parts and consumable supplies located at or held or acquired for use in connection with the Business, whether on or off any Site, or in transit to any of the Sites or identified in any Schedule hereto.

“**ISO-NE**” means ISO New England, Inc. or its successor.

“**ISO-NE Tariff**” means the ISO New England Inc. Transmission, Markets and Services Tariff as in effect from time to time.

“**ISO-Recognized Capacity**” means, for a Facility, the most recent FCA Qualified Capacity as of the Effective Date as listed in Schedule 3.21(a) and as reported by ISO-NE in its most recent “CCP Forward Capacity Auction Obligations” report.

“**Law**” means any statute, law, ordinance, regulation, rule, code, Order, constitution, treaty, common law, judgment, tariff, approval, directive, writ, decree or other requirement, rule or other pronouncement having the effect of law of any Governmental Authority.

“**Leased Real Property**” has the meaning set forth in Section 2.1(b).

“**Liability**” means any liability or obligation, or contingent liability or obligation of any type whatsoever (whether known or unknown, whether asserted or unasserted, whether absolute or contingent, whether accrued or unaccrued, whether liquidated or unliquidated, whether incurred or consequential and whether due or to become due), including any liability for Taxes.

“**Lien**” means any lien, pledge, mortgage, deed of trust, security interest, charge, claim, easement, encroachment, conditional sale or other title retention device or arrangement, option, restriction on transfer, third party purchase right, right of first offer or refusal, or other encumbrance of any kind, or restriction on the creation of any of the foregoing.

“**Losses**” means any and all judgments, losses, Liabilities, amounts paid in settlement, damages, fines, penalties, deficiencies, costs, Taxes, obligations and expenses (including interest, court costs and reasonable fees of attorneys, accountants and other experts and the cost of enforcing any right to indemnification hereunder). For all purposes in this Agreement, the term “Losses” does not include any Non-Reimbursable Damages.

“**Made Available**” means, with respect to documents and materials, that such documents or materials have been posted to the Data Site or otherwise provided to Buyer by Seller or its Representatives.

“**Material Adverse Effect**” means any change or event, whether singly or in the aggregate, that is materially adverse to the assets, liabilities, operations or financial condition of any of the Business or the ownership, use, operation repair, maintenance or replacement of any of the Acquired Assets, taken as a whole; *provided, however*, that any changes or events resulting from or arising out of the following shall not be considered when determining whether a Material Adverse Effect has occurred: (a) any change generally affecting the international, national or New England regional electric generating, transmission or distribution industry; (b) any change generally affecting the international, national or New England regional wholesale or retail markets for electric power; (c) any change generally affecting the international, national or New England regional wholesale or retail markets for the coal, natural gas or oil industries or the transportation or storage of coal, natural gas or oil; (d) any change in markets for commodities or supplies, including electric power, natural gas, oil, coal or other fuel and water, as applicable, used in connection with the Facilities; (e) any change in market (including the market for electrical power, coal, natural gas or oil) design, pricing or rules (including rules, systems, procedures, guidelines or requirements promulgated or modified by ISO-NE, any other regional transmission organization, NERC or any similar organization); (f) any change in general regulatory or political conditions, including any engagements of hostilities, acts of war or terrorist activities or changes imposed by a Governmental Authority associated with additional security; (g) any change in the international, national or New England regional electric transmission or distribution systems or operations thereof; (h) any change in any Laws (including Environmental Laws), GAAP, regulatory accounting principles or industry standards; (i) any change in the financial condition or results of operation of Buyer or its Affiliates, including its ability to access capital and equity markets and changes due to a change in the credit rating of Buyer or its Affiliates; (j) any change in the financial, banking, securities or currency markets (including the inability to finance the transactions contemplated hereby or any increased costs for financing or suspension of trading in, or limitation on prices for, securities on any domestic or international securities exchange); (k) any change in general national or New England regional economic or financial conditions or any failure or bankruptcy (or any similar event) of any financial services or banking institution or insurance company or counterparty to any Contract; (l) any actions to be taken pursuant to or in accordance with this Agreement, or taken by or at the written request of Buyer; (m) the announcement, pendency or consummation of the transactions contemplated hereby, or the fact that the prospective owner of the Acquired Assets is Buyer; (n) any labor strike, request for representation, organizing campaign, work stoppage, slowdown, or lockout or other labor dispute; (o) any new or announced power provider entrants, including their effect on pricing or transmission; (p) any Casualty Loss or event of condemnation; (q) seasonality of the operations of the Facilities; or (r) any failure of the Acquired Assets to meet projections or forecasts or revenue or earnings predictions for any period; *provided*, that any Loss, Claim, occurrence, change or effect that is cured prior to the Closing Date shall not be considered a Material Adverse Effect; *provided, further*, that, for the avoidance of doubt, a Material Adverse Effect shall be measured only against past performance of the Acquired Assets, taken as a whole, and not against any forward-looking statements, financial projections or forecasts of the Acquired Assets.

“**Material Contracts**” has the meaning set forth in Section 2.1(e).

“**Merrimack Landfill Trust**” has the meaning set forth in Section 5.3(c).

“**Mortgage Indenture**” means that certain First Mortgage Indenture, dated as of August 15, 1978, as amended and restated effective as of June 1, 2011, and supplemented, between Seller and U.S. Bank National Association, successor to Wachovia Bank, National Association, successor to First Union National Bank, formerly known as First Fidelity Bank, National Association, New Jersey, as trustee.

“**NEPOOL**” means the New England Power Pool, or its successor.

“**NERC**” means the North American Electric Reliability Corporation or its successors and assigns.

“**NHDES**” means the New Hampshire Department of Environmental Services.

“**NHPUC**” means the New Hampshire Public Utilities Commission.

“**NHPUC Approval**” means the Consent of the NHPUC to the transactions contemplated by this Agreement and the Related Agreements as required under New Hampshire Law.

“**Non-Assigned Contracts**” has the meaning set forth in Section 5.3(a)(v).

“**Non-Reimbursable Damages**” has the meaning set forth in Section 7.8(e).

“**Non-Represented Scheduled Employees**” has the meaning set forth in Section 3.12(a).

“**Non-Represented Transferred Employees**” has the meaning set forth in Section 5.8(c)(i).

“**Objection Notice**” has the meaning set forth in Section 2.6(c)(i).

“**Offsite Disposal Facility**” means a location, other than a Facility or a Site, that receives or received Hazardous Substances for disposal by Seller prior to the Closing Date or by Seller as a result of Remediation at a Facility or a Site (including, but not limited to, the removal of Hazardous Substances pursuant to the Removal Contract) on or after the Closing Date, or by Buyer on or after the Closing Date; *provided, however*, Offsite Disposal Facility does not include any location to which Hazardous Substances disposed of or Released at any of the Sites have migrated.

“**Order**” means any award, decision, injunction, judgment, order, writ, decree, stipulation, rule, ruling, subpoena, arbitration award or verdict entered, issued, made or rendered by any Governmental Authority or arbitrator that possesses competent jurisdiction.

“**Organizational Documents**” means, with respect to any Person, the certificate or articles of incorporation, organization or formation and by-laws, the limited partnership agreement, the partnership agreement or the operating or limited liability company agreement, equity holder agreements and/or other organizational and governance documents of such Person.

“**Other Assigned Contracts**” has the meaning set forth in Section 2.1(e).

“**Outside Date**” has the meaning set forth in Section 8.1(a).

“**Party**” and “**Parties**” each has the meaning set forth in the preamble.

“**Permits**” means all certificates, licenses, permits, approvals, authorizations, registrations, Consents, Orders, decisions and other authorizing actions of a Governmental Authority pertaining to a particular Acquired Asset, or the ownership, operation or use thereof.

“**Permitted Lien**” means (a) any Lien for Taxes not yet due or payable; (b) any Lien arising in the ordinary course of business by operation of Law (including mechanics’, materialmen’s, warehousemen’s, carriers’, workmen’s, repairmen’s, landlords’, suppliers’ and other similar Liens) with respect to a Liability that is not yet due or payable; (c) any purchase money Lien (including Liens under purchase price conditional sales contracts and equipment leases) arising in the ordinary course of business and listed on Schedule 1.1-PL; (d) any deposit or pledge made in connection with, or to secure payment of, workers’ compensation, unemployment insurance, old age pension programs mandated under applicable Laws or other social security regulations; (e) any exception or other matter set forth in Schedule BII of each of the Title Commitments; (f) any zoning or planning restriction, building and land use Law or similar restriction or condition imposed by any Governmental Authority that does not materially and adversely affect the Business or the ownership, use, operation, maintenance, repair or replacement of any of the Acquired Assets; (g) the terms and conditions of the Assigned Contracts, Assigned Leases and Transferable Permits; (h) any Lien that will no longer be binding on the Acquired Assets after Closing; (i) any Lien created by or resulting from any act or omission of Buyer; (j) any Lien granted or created by the execution and delivery of this Agreement or any of the Related Agreements or pursuant to the terms and conditions hereof or thereof (including without limitation the Reserved Easements); and (k) the matters and Liens set forth on Schedule 1.1-PL.

“**Person**” means an individual, corporation, partnership (general or limited), limited liability company, joint venture, trust, association, unincorporated organization, other business organization or Governmental Authority.

“**Potential Qualified Capacity Increase**” has the meaning set forth in Section 2.6(a)(iii).

“**Potential Qualified Capacity Reduction**” has the meaning set forth in Section 2.6(a)(iii)(B).

“**Prepayments**” means all advance payments, prepaid expenses (including rent), prepaid Taxes, progress payments and deposits of Seller, and rights to receive prepaid expenses, deposits or progress payments relating to the ownership and operation of the Acquired Assets, but not including any prepaid expenses or deposits attributable to Excluded Assets.

“**Property Tax Stabilization Payments**” mean those property tax stabilization payments with respect to the Facilities payable by Seller under the Settlement Agreement.

“**Prorated Amount**” means (a) with respect to any Prorated Item that is a Prepayment, the amount allocable to the period on or after the Closing Date that was paid by Seller prior to the Closing Date, and (b) with respect to any other Prorated Item, the amount (expressed as a negative number) allocable to the period prior to the Closing Date, whether or not then due and payable, which was not

paid by Seller prior to the Closing Date and which represents an Assumed Liability (excluding, for the avoidance of doubt, any amount paid by Seller after the Closing Date directly to the applicable Third Party), in each case, prorated in accordance with the methodology specified in Section 2.7.

“**Prorated Items**” has the meaning set forth in Section 2.7(a).

“**Purchase Price**” has the meaning set forth in Section 2.5.

“**Purchase Price Adjustment**” has the meaning set forth in Section 2.6(c)(i).

“**Qualified Capacity**” means the amount of capacity a resource may provide in the summer or winter in a Capacity Commitment Period (as defined in the ISO-NE Tariff), as determined in the Forward Capacity Market (as defined in the ISO-NE Tariff) qualification processes.

“**Qualified Capacity Increase**” has the meaning given to it in Section 2.6(a)(iii)(C).

“**Qualified Capacity Reduction**” has the meaning given to it in Section 2.6(a)(iii).

“**Real Property**” has the meaning set forth in Section 2.1(a).

“**Real Property Agreements**” has the meaning set forth in Section 3.17(d).

“**Related Agreements**” means the Deeds, each Assignment and Assumption of Lease, the Bill of Sale, the Assignment and Assumption Agreement, the Asset Demarcation Agreement, the Easements, the Interconnection Agreements, the Transition Services Agreement, the Release of Mortgage Indenture, the Guaranties, the Escrow Agreement and the other agreements, certificates and documents to be delivered pursuant to this Agreement.

“**Release**” means any release, spill, emission, escape, migration, leaking, leaching, pumping, injection, dispersal, migration, dumping, deposit, disposal or discharge at, into, onto, or through the Environment, whether sudden or non-sudden and whether accidental or non-accidental, or any release, emission or discharge as those terms are defined in any applicable Environmental Law.

“**Release of Mortgage Indenture**” has the meaning set forth in Section 2.10(h).

“**Remediation**” means any or all of the following activities to the extent required to address the presence or Release of, or exposure to, Hazardous Substances: (a) monitoring, investigation, assessment, treatment, cleanup, containment, removal, mitigation, response or restoration work; (b) obtaining any Permits or Consents of any Governmental Authority necessary to conduct any such activity; (c) preparing and implementing any plans or studies for any such activity; (d) obtaining a written notice (or an oral notice which is appropriately documented or memorialized) from a Governmental Authority with competent jurisdiction under Environmental Laws or a written opinion of a Licensed Professional Geologist (as defined in New Hampshire RSA 310-A:118, IV), as contemplated by the relevant Environmental Laws and in lieu of a written notice from a Governmental Authority, that no material additional work is required; and (e) any other activities reasonably determined by a Party to be necessary or appropriate or required under Environmental Laws.

“**Removal Contract**” means that certain Cover Agreement for Abatement, Demolition and Disposal of the Mercury Vapor Power Units at Schiller Station between Eversource Service, as agent for Seller, and Manafort Brothers, Inc., as contractor, dated as of April 12, 2016, as amended by the First Amendment to the Cover Agreement for Abatement, Demolition and Disposal of the Mercury Vapor Power Units at Schiller Station, dated October 24, 2016.

“**Removal Contractor**” means Manafort Brothers, Inc., the contractor under the Removal Contract.

“**Representative**” means, with respect to any Person, such Person’s Affiliates, and such Person and its Affiliates’ respective officers, directors, managers, employees, agents, consultants and advisors (including financial advisors, accountants and counsel).

“**Represented Scheduled Employees**” has the meaning set forth in Section 3.12(a).

“**Represented Transferred Employees**” has the meaning set forth in Section 5.8(b)(ii).

“**Reserved Easements**” means easements to be reserved by Seller with respect to certain T&D Assets and associated telecommunications facilities located on the site of the Acquired Assets, to be reserved in the Deeds pursuant to Section 5.2(f).

“**Restoration Cost**” has the meaning set forth in Section 5.16.

“**Scheduled Employees**” has the meaning set forth in Section 3.12(a).

“**Schedule Update**” has the meaning set forth in Section 5.15(b).

“**Schiller Boiler Removal Completion Date**” means the date that Seller notifies Buyer that it has satisfied in full its obligations under Section 5.20.

“**Selected Represented Employees**” has the meaning set forth in Section 5.8(b)(i).

“**Selected Non-Represented Employees**” has the meaning set forth in Section 5.8(c)(i).

“**Seller**” has the meaning set forth in the preamble.

“**Seller Fundamental Warranties**” means the representations and warranties of Seller set forth in Section 3.1 (Organization and Existence), Section 3.2 (Authority and Enforceability), Section 3.6 (Title to Acquired Assets) and Section 3.19 (Brokers).

“**Seller Indemnified Parties**” has the meaning set forth in Section 7.3.

“**Seller Marks**” means any and all names, marks, trade names, trademarks and corporate symbols and logos incorporating “PSNH,” “Public Service Company of New Hampshire,” “Public Service of New Hampshire,” “Eversource,” “Eversource Energy” or “Northeast Utilities,” or any word or expression similar thereto or constituting an abbreviation or extension thereof, together with all other names, marks, trade names, trademarks and corporate symbols and logos of Seller or any of its Affiliates.

“**Seller Required Consents**” has the meaning set forth in Section 3.3.

“**Seller’s Knowledge**” means the actual knowledge (and not imputed or constructive knowledge) of the individuals listed on Schedule 1.1-K, after due inquiry.

“**Seller’s Pension Plan**” has the meaning set forth in Section 5.8(e)(i)(B).

“**Settlement Agreement**” means that certain 2015 Public Service Company of New Hampshire Restructuring and Rate Stabilization Agreement, dated as of June 10, 2015, by and among Seller, Eversource, the Office of Energy and Planning, Designated Advocate Staff of the NHPUC, the Office of Consumer Advocate, New Hampshire District 3 Senator Jeb Bradley, New Hampshire District 15 Senator Dan Feltes, the City of Berlin, New Hampshire, the Union, the Conservation Law Foundation, Inc., TransCanada Power Marketing Ltd., TransCanada Hydro Northeast Inc., and the New Hampshire Sustainable Energy Association d/b/a NH CleanTech Council, as amended by that certain Amendment to the 2015 Public Service Company of New Hampshire Restructuring and Rate Stabilization Agreement, dated January 26, 2016, and the Partial Litigation Settlement Between Settling Parties and Non-Advocate Staff, dated January 26, 2016, all as approved by NHPUC Order No. 25,920, dated July 1, 2016.

“**Site**” means the Real Property or Leased Real Property (as applicable) and Improvements forming a part of, or used or usable in connection with, a Facility. Any reference to a Site shall include, by definition, the surface and subsurface elements, including the soils and groundwater present at such Site, and any reference to items “at the Site” shall include all items “at, on, in, upon, over, across, under and within” the Site.

“**T&D Assets**” means the transmission, distribution, communication, substation and other assets necessary to current or future T&D Operations of Seller.

“**T&D Operations**” means the process of conducting and supporting the transmission, distribution and sale of electricity.

“**Taking**” has the meaning set forth in Section 5.17.

“**Tax**” or “**Taxes**” means any federal, state, local, or foreign income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental (including taxes under Code Section 59A), customs duties, capital stock, franchise, profits, withholding, social security (or similar, including FICA), unemployment, disability, real property, personal property, *ad valorem*, sales, use, transfer, border adjustment, registration, value added, alternative or add-on minimum, estimated, or other tax, governmental charge or assessment of any kind whatsoever, including any interest, penalty, or addition thereto, whether disputed or not.

“**Tax and HR Warranties**” means the representations and warranties set forth in Section 3.10 (Taxes), Section 3.12 (Employment and Labor Matters) and Section 3.13 (Employee Benefit Plans).

“**Taxing Authority**” means, with respect to any Tax, the Governmental Authority (including the Internal Revenue Service)

that imposes such Tax, and the agency (if any) charged with the collection or administration of such Tax for such Governmental Authority.

“**Tax Return**” means any return, declaration, report, claim for refund, or information return or statement relating to Taxes filed with or submitted to, or required to be filed with or submitted to, any Governmental Authority in connection with the determination, assessment, collection, or payment of any Tax or in connection with the administration, implementation, or enforcement of or compliance with any Law relating to any Tax, including any schedule or attachment thereto, and including any amendment thereof.

“**Terminated Contracts**” has the meaning set forth in Section 5.6(a).

“**Third Party**” means a Person that is not a Party.

“**Third Party Claim**” has the meaning set forth in Section 7.5(a).

“**Threshold Amount**” has the meaning set forth in Section 7.4(a).

“**Title Commitments**” has the meaning set forth in Section 3.6.

“**Title Policies**” means the title insurance policies which may be purchased by Buyer pursuant to Section 6.1(b).

“**Transfer Taxes**” means all transfer, sales, ad valorem, use, goods and services, value added, documentary, stamp duty, gross receipts, excise, transfer and conveyance Taxes and other similar Taxes, duties, fees or charges, together with any interest, penalties or additions in respect thereof, including, but not limited to, the New Hampshire real estate transfer tax due pursuant to NH RSA 78-B:1, *et seq.*

“**Transferable Permits**” has the meaning set forth in Section 2.1(d).

“**Transferred Books and Records**” means all books, operating records, engineering designs, blueprints, as-built plans, specifications, procedures, studies, reports (including PI software historical data), manuals, equipment repair records, safety records, maintenance records, service records, supplier, contractor and subcontractor lists, pending purchase orders, property and sales Tax Returns and related Tax records, and all Transferred Employee Records (in each case, in the format (including electronic format) in which such items are reasonably and practically available), in each case, in the possession or control of Seller or any of its Affiliates to the extent relating specifically to the ownership or operation of the Facilities, the Sites and the Acquired Assets; *provided*, that “Transferred Books and Records” shall not include: (a) any files or records relating to any employees who are not Transferred Employees, (b) files or records relating to any Transferred Employee afforded confidential treatment under any applicable Laws, except to the extent the affected employee consents in writing to such disclosure to Buyer, (c) all records prepared in connection with the sale of the Acquired Assets (and Seller’s other generation assets), including bids received from Third Parties and analyses relating to the Acquired Assets, (d) financial records, books of account or projections relating to the Acquired Assets, (e) books, records or other documents of Seller or its Affiliates related to corporate compliance matters not primarily developed for the Acquired Assets, (f) organizational documents (including minute books) of Seller, (g) materials, the disclosure of which would constitute a waiver of attorney-client or attorney work product privilege, or (h) any other books and records which Seller is prohibited from transferring to Buyer under applicable Law and is required by applicable Law to retain.

“**Transferred Employees**” means the Non-Represented Transferred Employees and the Represented Transferred Employees, collectively.

“**Transferred Employee Records**” means all personnel records maintained by Seller relating to the Transferred Employees, to the extent such files contain (a) names, addresses, dates of birth, job titles and descriptions; (b) dates of employment; (c) compensation and benefits information; (d) resumes and job applications; and (e) any other documents that Seller is not prohibited by Law from delivering to Buyer. To the extent the consent of a Transferred Employee is required under applicable Law in order for Seller to deliver a document that is part of the Transferred Employee Records to Buyer, Seller agrees to use commercially reasonable efforts to secure such consent.

“**Transition Service Cost Percentage**” means 100% during the period of the first thirty (30) days after the Closing Date, 110% for the next sixty (60) days, 125% for the next ninety (90) days, and 150% thereafter.

“**Transition Services Agreement**” has the meaning set forth in Section 5.6(b).

“**Union**” means International Brotherhood of Electrical Workers, Local 1837.

“**WARN Act**” means the Worker Adjustment and Retraining Notification Act, 29 U.S.C. § 2101, et seq.

**Section 1.2 Rules of Interpretation.** The following rules of interpretation apply to this Agreement:

(a) Unless otherwise specified, all Article, Section, Schedule and Exhibit references in this Agreement are to the Articles and Sections of, and the Schedules and Exhibits attached to, this Agreement. The Schedules and Exhibits attached to this Agreement constitute a part of this Agreement and are incorporated in this Agreement for all purposes.

(b) Article, Section and subsection headings in this Agreement are inserted for convenience only and shall not affect in any way the meaning or interpretation of this Agreement.

(c) If a term is defined as one part of speech (such as a noun), it shall have a corresponding meaning when used as another part of speech (such as a verb). Unless the context of this Agreement clearly requires otherwise, (i) words importing the masculine gender shall include the feminine and neutral genders and vice versa and (ii) words in the singular shall include the plural and vice versa. The words “include,” “includes,” and “including” are not limiting and shall mean “including without limitation.” The word “or” shall not be exclusive. The words “herein,” “hereunder,” “hereof,” “hereto” and similar terms used in this Agreement are references to this Agreement as a whole and not to any particular Article or Section or other portion of this Agreement in which such words appear. For purposes of computation of periods of time, the word “from” means “from and including” and the words “to” and “until” each mean “to but excluding.”

(d) Whenever this Agreement refers to a number of days, such number shall refer to calendar days unless Business Days are specified. Whenever any action must be taken hereunder on or by a day that is not a Business Day, then such action may validly be taken on or by the next day that is a Business Day.

(e) Unless the context of this Agreement clearly requires otherwise, any reference to any Contract means such Contract as amended and in effect from time to time in accordance with its terms and, if applicable, the terms of this Agreement.

(f) Unless the context of this Agreement clearly requires otherwise, reference to any Law means such Law as amended, modified, codified, replaced or re-enacted, in whole or in part, and in effect from time to time, including any successor legislation thereto and all rules and regulations promulgated thereunder.

(g) Currency amounts referenced in this Agreement are in U.S. Dollars.

(h) All accounting terms used but not expressly defined herein have the meanings given to them under GAAP.

(i) Each Party acknowledges that it and its attorneys have been given equal opportunity to negotiate the terms and conditions of this Agreement and that any rule of construction to the effect that ambiguities are to be resolved against the drafting Party, or any similar rule operating against the drafter of an agreement, shall not be applicable to the construction or interpretation of this Agreement.

## ARTICLE II PURCHASE AND SALE; CLOSING

**Section 2.1 Purchase and Sale of Acquired Assets.** On the terms and subject to the conditions set forth in this Agreement, at the Closing, Seller shall sell, assign, convey and transfer to Buyer, and Buyer shall purchase, assume and acquire from Seller, free and clear of Liens other than Permitted Liens, all of Seller’s right, title and interest in and to the following properties, rights and assets owned by Seller constituting, or used in and necessary for the operation of, the Business (collectively, the “**Acquired Assets**”):

(a) The real property, Improvements thereon, easements, licenses and other rights in real property described in Schedule 2.1(a), but subject to the Permitted Liens (the “**Real Property**”);

(b) The leasehold interests and rights thereunder relating to real property with respect to which Seller is lessee set forth in Schedule 2.1(b), but subject to the Permitted Liens (the “**Leased Real Property**”), and all leases set forth in Schedule 2.1(b) with respect to the Leased Real Property (the “**Assigned Leases**”);

(c) The machinery, equipment, tools, furniture, vehicles, Inventories and other tangible and intangible personal property owned by Seller and located at or in transit to the Facilities (if related primarily to any of the Acquired Assets) (including without limitation the items of personal property described on Schedule 2.1(c)), or, in the case of intangible personal property (other than Intellectual Property), otherwise used primarily in the operation of any of the Facilities or the other Acquired Assets, including any Prepayments and all applicable warranties of manufacturers or vendors to the extent that such warranties are transferable, in each case as in existence on the Effective Date, but excluding such items disposed of by Seller in the ordinary course of business during the

Interim Period and including such additional items as may be acquired by Seller for use in connection with the Acquired Assets in the ordinary course of business during the Interim Period, in each case in accordance with Section 5.5;

(d) All Permits (including all pending applications for Permits or renewals thereof) relating to the ownership and operation of the Facilities or the Acquired Assets that, as of the Closing Date, are transferable by Seller to Buyer by assignment or otherwise under applicable Law and that are identified as “Transferable Permits” on Schedule 3.5(b) or Schedule 3.11(a) (the “**Transferable Permits**”);

(e) Excluding the Assigned Leases addressed in Section 2.1(b), but including personal property leases (whether Seller is lessor or lessee thereunder), real property leases with respect to which Seller is lessor thereunder and railroad crossing licenses and side-track agreements for the benefit of Seller, (i) those Contracts that are material to the ownership or operation of the Acquired Assets and that are set forth in Schedule 2.1(e) (the “**Material Contracts**”) and (ii) all other Contracts that relate primarily to the ownership or operation of any of the Acquired Assets or otherwise in connection with the Business, a copy of each Seller will provide to Buyer during the Interim Period and each of which will be subject to Buyer’s agreement to assume in accordance with Section 5.6(a) (the “**Other Assigned Contracts**” and, together with the Material Contracts, the “**Assigned Contracts**”); *provided* that subject to and to the extent it does not interfere with Buyer’s rights under any Assigned Contract, including Buyer’s right to exculpation and indemnification, Seller shall retain the rights and interests under any Assigned Contract to the extent such rights and interests provide for indemnity and exculpation rights for pre-Closing occurrences for which Seller remains liable under this Agreement; and *provided further*, that Seller shall, during the Interim Period, amend such Schedule to set forth any amendments to any Material Contract, or any additional Contracts entered into during the Interim Period that are material to the ownership or operation of the Acquired Assets, subject to the applicable covenants in Section 5.5;

(f) All Transferred Books and Records, subject to the right of Seller to retain copies for its use to the extent and subject to the conditions set forth herein;

(g) All Intellectual Property that is owned by Seller and primarily used in connection with the operation of the Facilities, as set forth in Schedule 2.1(g) (the “**Assigned Intellectual Property**”);

(h) Subject to Section 2.2(f), the rights of Seller to the use of the names of the Facilities set forth in Schedule 1;

(i) Those Environmental Attributes set forth in Schedule 2.1(i), excluding such Environmental Attributes or portions thereof disposed of by Seller in the ordinary course of business during the Interim Period and including such additional Environmental Attributes as may be acquired by Seller for use in the operation of the Facilities in the ordinary course of business during the Interim Period, in each case in accordance with Section 5.5; and

(j) All rights of Seller in and to any claims, causes of action, rights of recovery, rights of set-off, rights of refund and similar rights against a Third Party relating to any Assumed Liability, but excluding any such rights of Seller in, to or under any insurance policies of Seller or any insurance proceeds therefrom; *provided however*, if any such insurance proceeds relate to equipment or other tangible property to be transferred to Buyer and such equipment or tangible property is not repaired or otherwise restored to its condition as of the Effective Date on or prior to Closing, Seller will transfer such proceeds to Buyer at the Closing.

**Section 2.2 Excluded Assets.** Notwithstanding anything to the contrary in this Agreement, Buyer expressly understands and agrees that it is not purchasing or acquiring, and Seller is not selling, assigning or transferring, any properties, rights or assets of Seller other than the Acquired Assets, and all such other properties, rights and assets shall be excluded from the Acquired Assets (collectively, the “**Excluded Assets**”). The Excluded Assets to be retained by Seller include all of Seller’s right, title and interest in and to the following properties, rights and assets:

(a) As identified on Schedule 2.2(a) or in the Asset Demarcation Agreement, the real and personal property comprising or constituting any or all of the T&D Assets (whether or not regarded as a “transmission,” “distribution” or “generation” asset for regulatory or accounting purposes), including all electric power, communications and telecommunications underground and aboveground lines, switchyard facilities, substation facilities, support equipment and other Improvements, the Reserved Easements, and all Permits and Contracts, to the extent they relate to the T&D Assets, and those certain assets and facilities identified for use or used by Seller or others pursuant to an agreement or agreements with Seller for telecommunications purposes;

(b) The real property and Improvements thereon described in Schedule 2.2(b);

(c) Except for Prepayments, (i) all Cash, accounts receivable, notes receivable, checkbooks and canceled checks, bank accounts and deposits, commercial paper, certificates of deposit, securities, and property or income Tax receivables, other than the Merrimack Landfill Trust assets, and (ii) any other Tax refunds, credits, prepayments or other rights to payment related to the Acquired Assets to the extent allocable to a period ending prior to the Closing Date;

(d) All Contracts of Seller (other than the Assigned Contracts and Assigned Leases), *provided* that any excluded Contract of Seller used in connection with the Business that is not an Assigned Contract or an Assigned Lease is identified on Schedule 3.7(a);

(e) All Permits of Seller (other than the Transferable Permits), *provided* that any excluded Permit of Seller used in connection with the Business that is not a Transferable Permit is identified on Schedule 3.7(a);

(f) All Intellectual Property including all Seller Marks (other than the Assigned Intellectual Property), *provided* that any excluded Intellectual Property of Seller used in connection with the Business that is not included in the Assigned Intellectual Property is identified on Schedule 3.7(a);

(g) Duplicate copies of all Transferred Books and Records (to the extent and subject to the conditions set forth herein), and all other records of Seller other than the Transferred Books and Records, including corporate seals, organizational documents, minute books, stock books, Tax Returns, financial records, books of account and other corporate records of Seller, and all employee-related or employee benefit-related files or records other than the Transferred Employee Records;

(h) All insurance policies of Seller and insurance proceeds therefrom, subject to Section 2.1(j);

(i) All rights of Seller in and to any claims, causes of action, rights of recovery, rights of set-off, rights of refund and similar rights against a Third Party relating to any period through the Closing or otherwise relating to any Excluded Liability, but excluding any such rights of Seller to the extent relating to an Assumed Liability;

(j) All of Seller's rights arising from or associated with any Contract or arrangement representing an intercompany transaction, agreement or arrangement between Seller and an Affiliate of Seller, whether or not such transaction, agreement or arrangement relates to the provisions of goods or services, payment arrangements, intercompany charges or balances or the like, including, but not limited to, the Terminated Contracts ("**Intercompany Arrangements**"), other than those Assigned Contracts set forth on Schedule 2.2(j), *provided* that any excluded Intercompany Arrangement used in connection with the Business is identified on Schedule 3.7(a);

(k) All Employee Benefit Plans and trusts or other assets attributable thereto;

(l) Seller's Hydro Business; and

(m) The rights that accrue or will accrue to Seller under this Agreement and the Related Agreements.

**Section 2.3 Assumption of Assumed Liabilities.** On the terms and subject to the conditions set forth in this Agreement, from and after the Closing, Buyer shall assume and shall satisfy, perform or discharge when due all of the Liabilities of Seller in respect of, or otherwise arising from the ownership, operation or use of the Acquired Assets, other than the Excluded Liabilities (the "**Assumed Liabilities**"), including the following Liabilities:

(a) All Environmental Liabilities, other than the Excluded Environmental Liabilities until such Excluded Environmental Liabilities become Assumed Liabilities as provided in Section 2.4(i) and, for avoidance of doubt, it is the intention of the Parties that (i) Environmental Liabilities described in Section 2.4(i)(B)(II), Section 2.4(i)(C) and Section 2.4(i)(D) are not and would never become Assumed Liabilities and (ii) Environmental Liabilities resulting from Dig Activities are Assumed Liabilities;

(b) Except as set forth in Section 2.4(c), all Liabilities related to the performance or non-performance of contractual obligations or commitments to be performed or addressed, in each case first arising from and after the Closing Date under (i) the Assigned Contracts, the Assigned Leases, the Transferable Permits and the Assigned Intellectual Property, in each case in accordance with the terms thereof, except with respect to Taxes, which shall be assumed in accordance with Section 2.7, and (ii) the Contracts, commitments and Transferable Permits entered into by Seller with respect to the Acquired Assets during the Interim Period in accordance with Section 5.5;

(c) Except as set forth in Section 2.4(c), all Liabilities related to the performance or non-performance of contractual obligations or commitments to be performed or addressed, in each case first arising from and after the Closing Date under the Permitted Liens, other than under or with respect to the exercise of the Reserved Easements;

(d) All Liabilities first arising from and after the Closing Date (i) for any compensation, benefits, employment Taxes, workers compensation benefits and other similar Liabilities in respect of the Transferred Employees (including under the Generation CBA, any Employee Benefit Plan of Buyer, or any other agreement, plan, practice, policy, instrument or document relating to any of the Transferred Employees) created or owing as a consequence of employment by Buyer on or after the Closing Date, but not including any Liabilities arising out of the CBA MOA, (ii) relating to the Transferred Employees which Buyer has assumed or for which Buyer is otherwise responsible under Section 5.8, and (iii) in respect of any discrimination, wrongful discharge, unfair labor practice or similar Claim under applicable employment Laws by any Transferred Employee arising out of or relating to acts or omissions occurring on or after the Closing Date;

(e) All Liabilities for (i) Taxes (including, with respect to property Taxes, payments in addition to or in lieu of Taxes, but not including the Property Tax Stabilization Payments) relating to the ownership, operation, sale or use of the Facilities and the Acquired Assets, in each case first arising from and after the Closing Date, or the Assumed Liabilities and (ii) Taxes for which Buyer is liable pursuant to Section 2.7, Section 5.12 and Section 5.13; and

(f) All other Liabilities expressly allocated to Buyer in this Agreement or in any of the Related Agreements.

**Section 2.4 Excluded Liabilities.** Buyer shall not assume or be responsible for the performance of any of the following Liabilities (collectively, the “**Excluded Liabilities**”):

(a) Any Liability of Seller exclusively in respect of or otherwise arising from the operation or use of (x) the Excluded Assets or (y) except as expressly set forth in this Agreement, for the period prior to the Closing, the Acquired Assets;

(b) Any Liability of Seller arising from the making or performance of this Agreement or a Related Agreement or the transactions contemplated hereby or thereby;

(c) Any Liability of Seller under the Assigned Contracts or Assigned Leases (i) in respect of payment obligations for goods delivered or services rendered prior to the Closing Date, (ii) relating to a breach or default by Seller of any of its obligations thereunder occurring prior to the Closing Date whenever such breach is declared by the Counterparty thereto or (iii) relating to the CBA MOA;

(d) Except for those Assumed Liabilities set forth in Section 2.3(d), any Liability of Seller (i) for any compensation, benefits, employment Taxes, workers compensation benefits and other similar Liabilities (including under the Generation CBA, any Employee Benefit Plan of Seller, or any other agreement, plan, practice, policy, instrument or document relating to any of the Transferred Employees) created, arising or accruing before the Closing Date, whether or not subject to any continued service agreement, including pro rata payments earned before the Closing Date, in respect of the Transferred Employees, any temporary employees, and the Scheduled Employees who are not offered, or who do not accept, employment with the Buyer, (ii) relating to the Transferred Employees or temporary employees for which Seller is responsible under Section 5.8, (iii) relating to former employees, temporary employees or Scheduled Employees who are not offered, or who do not accept, employment with Buyer, or (iv) in respect of any workers’ compensation, tort, Hazardous Substance exposure, discrimination, wrongful discharge, unfair labor practice or other employee Claim under applicable Laws or under Seller’s Employee Benefits Plans by any Transferred Employee arising out of or relating to acts or omissions occurring prior to the Closing Date, by any former employee, by any temporary employee or by any Scheduled Employee who is not offered, or who does not accept, employment with Buyer;

(e) Any Liability of Seller arising from or associated with any Intercompany Arrangement, other than Liabilities under those Assigned Contracts set forth on Schedule 2.2(j);

(f) Any Liability of Seller for any fines or penalties imposed by a Governmental Authority resulting from (i) any investigation or proceeding pending prior to the Closing Date or (ii) illegal acts or willful misconduct of Seller prior to the Closing Date;

(g) Any Liability for Taxes (including, with respect to property Taxes, payments in addition to or in lieu of Taxes and the Property Tax Stabilization Payments) relating to the ownership, operation, sale or use of the Acquired Assets prior to the Closing, except those Taxes for which Buyer is liable pursuant to Section 2.7, Section 5.12 and Section 5.13.

(h) Any Liability of Seller pursuant to Section 5.20; and

(i) Subject to the provisions of Section 5.11, (A) any Environmental Liability caused, created or otherwise in existence due to the activities of or otherwise attributable to Seller prior to the Closing, except those Environmental Liabilities described in Section 2.4(i)(B)(II), Section 2.4(i)(C) and Section 2.4(i)(D) below, (B) any Environmental Liability arising out of or resulting from any Release of mercury at Schiller Station that occurred (I) prior to or on the Closing or (II) during the performance of the work

pursuant to the Removal Contract, which Release occurred after Closing but prior to the Schiller Boiler Removal Completion Date, (C) any Environmental Liability relating to the treatment, disposal, storage, discharge, Release, recycling or the arrangement for such activities at, or the transportation to, any Offsite Disposal Facility by Seller, prior to or on the Closing Date, of Hazardous Substances that were generated at the Sites, and (D) any Environmental Liability of Seller for any fines or penalties imposed by a Governmental Authority resulting from (I) any investigation or proceeding pending prior to the Closing Date or (II) illegal acts or willful misconduct of Seller prior to the Closing Date; *provided, however*, that the Liability of Seller pursuant to Section 2.4(i)(A) and, from and after the occurrence of the Schiller Boiler Removal Completion Date, Section 2.4(i)(B)(I) (and, together with such clauses, any associated indemnification obligations of Seller hereunder) shall terminate (x) on the applicable Excluded Environmental Liability Termination Date, after which any Liabilities described in Section 2.4(i)(A) and Section 2.4(i)(B)(I) shall be Assumed Liabilities for which Buyer is liable pursuant to Section 2.3(a), and Seller shall have no further Liability with respect thereto, or (y) upon exceeding the indemnification cap set forth in Section 7.4(a)(ii), if earlier than the applicable Excluded Environmental Liability Termination Date, any Liabilities described in Section 2.4(i)(A) and Section 2.4(i)(B)(I) shall be Assumed Liabilities for which Buyer is liable pursuant to Section 2.3(a), and Seller shall have no further Liability with respect thereto.

The Excluded Liabilities described in Section 2.4(d) (solely as it relates to employee exposure to Hazardous Substances), Section 2.4(h) and Section 2.4(i), as limited by the terms thereof, are referred to herein as the “**Excluded Environmental Liabilities**.” For avoidance of doubt, it is the intention of the Parties that Section 2.4(d) (solely as it relates to employee exposure to Hazardous Substances), Section 2.4(h) and Section 2.4(i) shall exclusively define those Environmental Liabilities constituting Excluded Liabilities hereunder, and that no other provision of this Section 2.4 shall be construed to include any Environmental Liabilities.

**Section 2.5 Purchase Price.** In consideration for Seller’s sale, assignment and transfer of the Acquired Assets to Buyer, at the Closing, Buyer shall (i) pay to Seller an aggregate amount equal to One Hundred Seventy-Five Million Dollars (\$175,000,000) (the “**Base Purchase Price**”) plus or minus amounts to account for (a) the Estimated Purchase Price Adjustment to be made as of the Closing under Section 2.6(a) and Section 2.6(b), and (b) the prorations to be made as of the Closing under Section 2.7 (the Base Purchase Price, as so adjusted, shall be referred to herein as the “**Closing Purchase Price**”), and (ii) assume the Assumed Liabilities. The Closing Purchase Price shall be payable in cash by wire transfer to Seller in accordance with written instructions of Seller given to Buyer at least three (3) Business Days prior to the Closing. Following the Closing, the Closing Purchase Price shall be subject to adjustment pursuant to Section 2.6(c) and Section 2.7(b), and the Closing Purchase Price, as so adjusted pursuant to such Sections, shall be herein referred to as the “**Purchase Price**.”

**Section 2.6 Certain Adjustments to Base Purchase Price.** At the Closing, the Base Purchase Price shall be adjusted as set forth in Section 2.6(a) and Section 2.6(b), and the Closing Purchase Price shall be subject to adjustment following the Closing as set forth in Section 2.6(c).

(a) Determination of Adjustment. The Base Purchase Price shall be increased or decreased to account for the following items:

(i) Increased or decreased, as the case may be, by an amount equal to the working capital adjustment, which adjustment will be calculated in accordance with Schedule 2.6(a)(i);

(ii) Increased by any non-ordinary course operations and maintenance expenses incurred and paid for by Seller during the Interim Period that Seller is not otherwise obligated to perform and incur under this Agreement and that Seller would not have actually incurred and paid for but for Buyer’s written request;

(iii) If prior to Closing, any event occurs which has or may have the effect of increasing or decreasing the Qualified Capacity of any Facility during the Interim Period or following Closing, then the following provisions shall apply:

(A) (1) If Seller receives notice from ISO-NE that has or may have the effect of reducing the Qualified Capacity of any Facility individually or any number of Facilities such that in the aggregate the Qualified Capacity of all Facilities is less than the ISO-Recognized Capacity of all of the Facilities (a “**Qualified Capacity Reduction**”) and such Qualified Capacity Reduction (i) results in an aggregate decrease in Qualified Capacity that is equal to or greater than 20 megawatts but is less than 100 megawatts with respect to all Facilities, or (ii) is greater than zero with respect to Lost Nation, then in each case the Base Purchase Price shall be reduced by an amount equal to the product of the aggregate Qualified Capacity Reduction (in megawatts) and (x) Three Hundred Twenty-Five Thousand Dollars (\$325,000) per megawatt for Qualified Capacity Reduction relating to Newington Station as identified on Schedule 1 or (y) Two Hundred Fifty Thousand Dollars (\$250,000) per megawatt for Qualified Capacity Reduction relating to each other Facility. (2) To the extent Seller receives notice of a Qualified Capacity Reduction and such Qualified Capacity Reduction, together with any other Qualified Capacity Reduction with respect to any Facility, results in an aggregate decrease in Qualified Capacity that is equal to or greater than 100 megawatts, then Buyer in its sole discretion may elect to terminate this Agreement pursuant to Section 8.1(f) of this Agreement.

(B) If Seller receives notice from ISO-NE prior to the Closing Date that has or may have the effect of a Qualified Capacity Reduction for any Facility and (i) Seller pursues a formal dispute or correction of the event that would result in such Qualified Capacity Reduction and resolution is not achieved prior to Closing or (ii) Seller does not pursue a resolution of the event which gave rise to such notice (in which case, as soon as practicable, the Buyer shall pursue in good faith and with commercially reasonable efforts and in cooperation with Seller a remediation plan or other similar efforts to avoid such Qualified Capacity Reduction) and resolution is not achieved prior to Closing (a “**Potential Qualified Capacity Reduction**”), then the amount by which the Base Purchase Price would be reduced using the formula in Section 2.6(a)(iii)(A)(1) shall be paid by Buyer into an escrow account subject to an escrow agreement mutually acceptable to the Parties (the “**Escrow Agreement**”) and the amount placed in the escrow account under the Escrow Agreement shall be released to (x) Seller, to the extent there is no Qualified Capacity Reduction and (y) Buyer, to the extent there is a Qualified Capacity Reduction.

(C) To the extent Seller receives notice from ISO-NE that has or may have the effect of increasing the Qualified Capacity of any Facility such that it is greater than the ISO-Recognized Capacity (a “**Qualified Capacity Increase**”) and such Qualified Capacity Increase, together with any other Qualified Capacity Increases with respect to any Facility, results in an aggregate increase of Qualified Capacity equal to or greater than 20 megawatts but is less than 100 megawatts, then the Base Purchase Price shall be increased by an amount equal to the product of the aggregate Qualified Capacity Increase (in megawatts) and (i) Three Hundred Twenty-Five Thousand Dollars (\$325,000) per megawatt for Qualified Capacity Increase relating to Newington Station as identified on Schedule 1 or (ii) Two Hundred Fifty Thousand Dollars (\$250,000) per megawatt for Qualified Capacity Increase relating to each other Facility.

(iv) Decreased by the delayed closing adjustment, calculated in accordance with Schedule 2.6(a)(iv), if any.

(b) Estimated Purchase Price Adjustment. At least five (5) Business Days prior to the Closing Date, Seller shall prepare and deliver to Buyer a statement (the “**Estimated Closing Statement**”) setting forth in reasonable detail Seller’s good faith estimate of the net amount of all adjustments to the Base Purchase Price required by Section 2.6(a) (the “**Estimated Purchase Price Adjustment**”), together with reasonable supporting material regarding the computation thereof. In calculating the Closing Purchase Price pursuant to Section 2.5, the Base Purchase Price will be increased to reflect the Estimated Proration Adjustment Amount.

(c) Post-Closing Adjustment.

(i) Within sixty (60) days following the Closing Date, Seller shall prepare and deliver to Buyer a statement (the “**Closing Statement**”) that shall set forth in reasonable detail Seller’s calculation of the net amount of all adjustments to the Base Purchase Price required by Section 2.6(a) taking into account actual data (the “**Purchase Price Adjustment**”), together with reasonable supporting material regarding the computation thereof. Buyer shall have thirty (30) days to review the Closing Statement following receipt thereof. On or before the end of such 30-day review period, Buyer may object to the Closing Statement by written notice to Seller (the “**Objection Notice**”), setting forth Buyer’s specific objections to the calculation of the Purchase Price Adjustment. Such Objection Notice shall specify those items or amounts with which Buyer disagrees, together with a detailed written explanation of the reasons for disagreement with each such item or amount (and reasonable supporting material therefor), and shall set forth Buyer’s calculation of the Purchase Price Adjustment based on such objections. To the extent not set forth in a timely-delivered Objection Notice, Buyer shall be deemed to have agreed with Seller’s calculation of all other items and amounts contained in the Closing Statement and neither party may thereafter dispute any item or amount not set forth in such Objection Notice. If Buyer does not timely deliver any Objection Notice, Buyer shall be deemed to have agreed with and accepted Seller’s calculation of the Purchase Price Adjustment, and the Closing Statement shall be final and binding on the Parties as of the end of Buyer’s 30-day review period.

(ii) If Buyer timely delivers an Objection Notice to Seller, Buyer and Seller shall, during the thirty (30) day period following such delivery (or any mutually agreed extension thereof), use their commercially reasonable efforts to negotiate and reach agreement on the disputed items and amounts in order to determine the amount of the Purchase Price Adjustment. If, at the end of such period (or any mutually agreed extension thereof), the Parties are unable to resolve their disagreements, they shall jointly retain and refer their disagreements to the Independent Accountant. The Parties shall instruct the Independent Accountant to promptly review this Section 2.6 and to determine solely with respect to the disputed items and amounts so submitted whether and to what extent, if any, the Purchase Price Adjustment set forth in the Closing Statement requires adjustment. The Independent Accountant shall base its determination solely on written submissions by the Parties. As promptly as practicable, but in no event later than thirty (30) days after its retention, the Independent Accountant shall deliver to Buyer and Seller a report which sets forth its resolution of the disputed items and amounts and its calculation of the Purchase Price Adjustment; *provided* that the Independent Accountant may not assign a value to any item greater than the greatest value for such item claimed by either Party or less than the smallest value for such item claimed by either Party. The decision of the Independent Accountant shall be final and binding on the Parties. The costs and expenses of the Independent Accountant shall

be allocated between the Parties based upon the percentage which the portion of the contested amount not awarded to each party bears to the amount actually contested by such party, as determined by the Independent Accountant. The Parties agree to execute, if requested by the Independent Accountant, a reasonable engagement letter, including customary indemnities in favor of the Independent Accountant. The Parties shall cooperate and shall furnish each other and, if applicable, the Independent Accountant, with such documents and other records that may be reasonably requested in connection with the preparation, review and final determination of the Closing Statement and Purchase Price Adjustment and the other matters addressed in this Section 2.6.

(iii) For purposes of this Section 2.6(c), “**Final Purchase Price Adjustment**” means the Purchase Price Adjustment:

(A) As shown in the Closing Statement delivered by Seller to Buyer pursuant to Section 2.6(c)(i), if no Objection Notice with respect thereto is timely delivered by Buyer to Seller pursuant to Section 2.6(c)(i); or

(B) If an Objection Notice is so delivered, (x) as agreed by the Parties pursuant to Section 2.6(c)(ii) or (y) in the absence of such agreement, as shown in the Independent Accountant’s report delivered pursuant to Section 2.6(c)(ii).

(iv) Within three (3) Business Days after the Final Purchase Price Adjustment has been finally determined pursuant to this Section 2.6(c):

(A) If the Final Purchase Price Adjustment is less than the Estimated Purchase Price Adjustment, Seller shall pay to Buyer an amount equal to (x) the Estimated Purchase Price Adjustment minus (y) the Final Purchase Price Adjustment; and

(B) If the Final Purchase Price Adjustment is greater than the Estimated Purchase Price Adjustment, Buyer shall pay to Seller an amount equal to (x) the Final Purchase Price Adjustment minus (y) the Estimated Purchase Price Adjustment.

Any payment required to be made by a Party pursuant to this Section 2.6(c)(iv) shall be made to the other Party by wire transfer of immediately available funds to the account designated in writing by such other Party.

## **Section 2.7 Proration.**

(a) Buyer and Seller agree that all of the items (including any Prepayments with respect to such items) normally prorated in a sale of assets of the type contemplated by this Agreement, including those listed below, relating to the ownership and operation of the Acquired Assets (collectively, the “**Prorated Items**”), shall be prorated on a daily basis as of the Closing Date in accordance with this Section 2.7, with Seller liable to the extent such items relate to any period prior to the Closing Date, and Buyer liable to the extent such items relate to periods on and after the Closing Date:

(i) Personal property, real property, occupancy and water Taxes, assessments and other charges, if any, on or associated with the Acquired Assets;

(ii) Rent, Taxes and other items payable by or to Seller under any of the Assigned Contracts or Assigned Leases;

(iii) Any Permit, license, registration or other fees with respect to any Transferable Permit associated with the Acquired Assets;

(iv) Sewer rents and charges for water, telephone, electricity and other utilities; and

(v) Revenues associated with the Environmental Attributes set forth in Schedule 2.1(i).

(b) At least five (5) Business Days prior to the Closing Date, Seller will deliver to Buyer a worksheet setting forth in reasonable detail (i) Seller’s good faith reasonable estimate of the Prorated Amount for each Prorated Item (with respect to each Prorated Item, the “**Estimated Prorated Amount**”), together with reasonable supporting material regarding such estimate, and (ii) the calculation of the net amount of the Estimated Prorated Amounts (the “**Estimated Proration Adjustment Amount**”). In the event that, with respect to any Prorated Item, actual figures are not available as of the time of the calculation of the Estimated Prorated Amount, the Estimated Prorated Amount for such Prorated Item shall be a good faith reasonable estimate based upon the actual fee, cost or amount of the Prorated Item for the most recent preceding year (or appropriate period) for which an actual fee, cost or amount paid is available. In calculating the Closing Purchase Price pursuant to Section 2.5, the Base Purchase Price will be adjusted

appropriately to reflect the Estimated Proration Adjustment Amount.

(c) When the actual Prorated Amount with respect to any Prorated Item (the “**Actual Prorated Amount**”) becomes available to either Party, it shall promptly (and in any event within ninety (90) days following Closing) notify the other Party of such Prorated Item and Actual Prorated Amount, together with reasonable detail and supporting material regarding the computation thereof. For any Prorated Item with respect to which the Estimated Prorated Amount is not equal to the Actual Prorated Amount, upon the request of either Seller or Buyer, made within thirty (30) days of the date when such Actual Prorated Amount became available to such Party (or such Party received notice of such Actual Prorated Amount from the other Party, as applicable), the Parties shall agree on an adjustment to account for the difference between the Estimated Prorated Amount and the Actual Prorated Amount for such Prorated Item. All disputes between Seller and Buyer respecting any such requested adjustments that are not resolved by mutual agreement within sixty (60) days following the end of the foregoing ninety (90) day notice period shall be referred by the Parties to the Independent Accountant, who shall resolve such disputes and determine such final adjustment substantially in accordance with the procedures set forth in Section 2.6(c)(ii), applied *mutatis mutandis*. Any adjustment payment to be made by Buyer or Seller, as applicable, to the other Party pursuant to this Section 2.7(c) shall be paid within ten (10) days following the Parties’ agreement (or the Independent Accountant’s determination) with respect thereto by wire transfer of immediately available funds to the account designated in writing by such other Party. The Parties agree to cooperate and furnish each other with such documents and other records that may be reasonably requested in order to confirm all adjustment and proration calculations made pursuant to this Section 2.7.

### **Section 2.8 Allocation of Purchase Price.**

(a) Buyer and Seller shall use their good faith commercially reasonable efforts to agree upon an allocation among the Acquired Assets of the sum of the Purchase Price and the Assumed Liabilities consistent with Section 1060 of the Code and the Treasury Regulations thereunder prior to or within a reasonable time after the Closing Date (or any mutually agreed extension thereof). Each of Buyer and Seller agrees to file Internal Revenue Service Form 8594 and all federal, state, local and foreign Tax Returns, and to report the transactions contemplated by this Agreement and the Related Agreements for federal income Tax and all other Tax purposes, in a manner consistent with the allocation determined pursuant to this Section 2.8 (as revised to take into account subsequent adjustments to the Purchase Price, including adjustments to the Purchase Price pursuant to Section 2.6 and Section 2.7 and any indemnification payment treated as an adjustment to the Purchase Price pursuant to Section 7.6, as mutually agreed upon by the Parties and in accordance with the provisions of the Code and the Treasury Regulations thereunder). Notwithstanding the foregoing, in the event Buyer and Seller cannot agree as to the allocation, each party shall be entitled to take its own position in any Tax Return, Tax proceeding or audit, provided that such position is reasonable and consistent with the general principles of Section 1060 of the Code and the Treasury Regulations thereunder. Each of Buyer and Seller agrees to provide the other promptly with any other information required to complete Form 8594. Each of Buyer and Seller shall notify and provide the other with reasonable assistance in the event of an examination, audit or other proceeding regarding the agreed upon allocation of the Purchase Price.

(b) In compliance with the Settlement Agreement’s requirement to fairly allocate among individual assets the sale price of any assets that are sold as a group, the Parties acknowledge and agree that the portion of the Purchase Price allocable to each Facility is as set forth on Schedule 2.8(b).

**Section 2.9 Closing.** Subject to the terms and conditions of this Agreement, the closing of the transactions contemplated by this Agreement (the “**Closing**”) shall take place at the offices of Seller, 780 N. Commercial Street, Manchester, New Hampshire 03105-0330, beginning at 10:00 a.m. local time, on the third (3<sup>rd</sup>) Business Day following the date on which all of the conditions set forth in Article VI have either been satisfied or expressly waived by the Party for whose benefit such condition exists (other than conditions which, by their nature, are to be satisfied at Closing, but subject to the satisfaction or waiver of those conditions), or at such other time, date or place as the Parties may mutually agree. The date of Closing is hereinafter called the “**Closing Date**.” The Closing shall be effective for all purposes herein as of 12:01 a.m. Eastern time on the Closing Date.

**Section 2.10 Deliveries by Seller at Closing.** At Closing, Seller shall deliver the following to Buyer, duly executed and properly acknowledged, if appropriate:

(a) With respect to each parcel of Real Property, a deed conveying such parcel to Buyer, substantially in the form agreed to by Seller and Buyer in accordance with Section 5.2(f) and otherwise in a form suitable for recording (each, a “**Deed**”);

(b) With respect to each Assigned Lease, an assignment and assumption of lease, substantially in the form agreed to by Seller and Buyer in accordance with Section 5.2(f) and otherwise in a form suitable for recording, if necessary (each, an “**Assignment and Assumption of Lease**”);

(c) A bill of sale transferring the tangible personal property included in the Acquired Assets to Buyer, substantially in the form agreed to by Seller and Buyer in accordance with Section 5.2(f) (the “**Bill of Sale**”);

(d) An assignment and assumption agreement pursuant to which Seller shall assign certain rights, liabilities and obligations to Buyer and Buyer shall assume the Assumed Liabilities, substantially in the form agreed to by Seller and Buyer in accordance with Section 5.2(f) (the “**Assignment and Assumption Agreement**”);

(e) An agreement between the Parties evidencing their agreement as to the demarcation of ownership with respect to certain assets not situated wholly on real property owned, or to be owned, by either Seller or Buyer, as applicable, substantially in the form agreed to by Seller and Buyer in accordance with Section 5.2(f) (the “**Asset Demarcation Agreement**”);

(f) With respect to each Facility, an agreement between the Parties respecting the interconnection of such Facility with Seller’s transmission system, substantially in the applicable forms agreed to by Seller and Buyer in accordance with Section 5.2(f) (together, the “**Interconnection Agreements**”);

(g) The Escrow Agreement, if applicable;

(h) All documents necessary to release or discharge all Liens affecting the Acquired Assets, except for Permitted Liens, in form and substance reasonably satisfactory to Buyer, including the document or documents necessary to discharge the Lien imposed by the Mortgage Indenture, which discharge will be substantially in the form agreed to by Seller and Buyer in accordance with Section 5.2(f) (the “**Release of Mortgage Indenture**”);

(i) The Easements;

(j) If requested by Buyer, the Transition Services Agreement;

(k) Certificates of title for the vehicles and boats which are part of the Acquired Assets;

(l) Copies of all Seller Required Consents;

(m) Seller’s Transfer Tax Declarations of Consideration required under New Hampshire RSA 78-B:10 and New Hampshire Department of Revenue Administration rules (Forms CD-57-S), together with Seller’s share of applicable real estate transfer taxes;

(n) Affidavits and indemnities typically delivered in commercial real estate transactions sufficient for purposes of issuing the Title Policies without the standard title insurance policy exceptions regarding mechanic’s liens, if available, parties in possession, real estate taxes not yet due and payable and broker liens for brokers engaged by or on behalf of Seller;

(o) A certification of non-foreign status, pursuant to Treasury Regulations Section 1.1445-2(b)(2), with respect to Seller;

(p) The officer’s certificate of Seller required by Section 6.1(d);

(q) A certificate of existence and good standing with respect to Seller, as of a recent date, issued by the secretary of state or other appropriate Governmental Authority of the jurisdiction of Seller’s organization, and certificates of good standing and qualification or authorization to do business (or the equivalent certificates) with respect to Seller, each as of a recent date, issued by the secretary of state or similar Governmental Authority in each other jurisdiction where the actions to be performed hereunder make such qualification or authorization necessary;

(r) A copy, certified by the Secretary or an Assistant Secretary of Seller, of corporate resolutions authorizing the execution and delivery of this Agreement and the Related Agreements and the consummation of the transactions contemplated hereby and thereby;

(s) A certificate of the Secretary or an Assistant Secretary of Seller which shall identify by name and title and bear the signature of the officers of Seller authorized to execute and deliver this Agreement and the Related Agreements; and

(t) All such other instruments or documents as Buyer and its counsel may reasonably request in order to give effect to the transfer of the Acquired Assets as contemplated hereby or to otherwise facilitate the transactions contemplated by this Agreement and the Related Agreements; *provided, however*, that this Section 2.10(t) shall not require Seller to prepare or obtain any surveys relating to the Real Property or Leased Real Property other than those previously provided to Buyer.

**Section 2.11 Deliveries by Buyer at Closing.** At Closing, Buyer shall deliver to Seller, duly executed and properly acknowledged, if appropriate:

- (a) The Closing Purchase Price in accordance with Section 2.5;
- (b) The Assignment and Assumption of Lease respecting each Assigned Lease;
- (c) The Bill of Sale;
- (d) The Assignment and Assumption Agreement;
- (e) The Asset Demarcation Agreement;
- (f) The Interconnection Agreements;
- (g) The Escrow Agreement, if applicable;
- (h) The Easements;
- (i) If requested by Buyer, the Transition Services Agreement;
- (j) Copies of all Buyer Required Consents;
- (k) Evidence of Buyer's membership in NEPOOL or other evidence that Buyer has sufficient authority to sell the Facilities' electrical output into the wholesale market;
- (l) Buyer's Transfer Tax Declarations of Consideration required under New Hampshire RSA 78-B:10 and New Hampshire Department of Revenue Administration rules (Forms CD-57-P) and Inventory of Property Transfer Forms (Forms PA-34), together with Buyer's share of any taxes and other fees due thereunder;
- (m) All applicable exemption certificates with respect to Taxes that would otherwise be imposed with respect to the transactions contemplated by this Agreement;
- (n) The officer's certificate of Buyer required by Section 6.2(c);
- (o) A certificate of existence and good standing with respect to Buyer, as of a recent date, issued by the secretary of state or other appropriate Governmental Authority of the jurisdiction of Buyer's organization, and certificates of good standing and qualification or authorization to do business (or the equivalent certificates) with respect to Buyer, each as of a recent date, issued by the secretary of state or similar Governmental Authority in each other jurisdiction where the actions to be performed hereunder make such qualification or authorization necessary;
- (p) A copy, certified by the Secretary or an Assistant Secretary of Buyer, of limited liability company resolutions authorizing the execution and delivery of this Agreement and the Related Agreements and the consummation of the transactions contemplated hereby and thereby;
- (q) A certificate of the Secretary or an Assistant Secretary of Buyer which shall identify by name and title and bear the signature of the officers of Seller authorized to execute and deliver this Agreement and the Related Agreements; and
- (r) All such other instruments or documents as Seller and its counsel may reasonably request in order to give effect to the transfer of the Acquired Assets or the assumption of the Assumed Liabilities as contemplated hereby or to otherwise facilitate the transactions contemplated by this Agreement and the Related Agreements.

**Section 2.12 Guaranties.** The executed Guaranties will be delivered to Seller simultaneously with the execution of this Agreement.

### **ARTICLE III REPRESENTATIONS AND WARRANTIES OF SELLER**

Seller represents and warrants to Buyer that the statements contained in this Article III are true and correct as of the Effective Date, except as set forth in the Schedules.

**Section 3.1 Organization and Existence.** Seller is a corporation duly organized, validly existing and in good standing under the Laws of the State of New Hampshire. Seller is duly qualified or authorized to do business in each other jurisdiction in which the ownership or operation of the Acquired Assets make such qualification or authorization necessary, except in those jurisdictions where

the failure to be so duly qualified or authorized would not have a Material Adverse Effect. Schedule 3.1 lists each jurisdiction in which Seller is qualified to do business in connection with the Business.

**Section 3.2 Authority and Enforceability.** Seller has the corporate power and authority to execute and deliver this Agreement and the Related Agreements to which it is a party and, subject to receipt of the Seller Required Consents, to perform its obligations hereunder and thereunder and to consummate the transactions contemplated hereby and thereby. All corporate actions or proceedings to be taken by or on the part of Seller to authorize and permit the due execution and valid delivery by Seller of this Agreement and the Related Agreements to which it is a party, the performance by Seller of its obligations hereunder and thereunder, and the consummation by Seller of the transactions contemplated hereby and thereby have been duly and properly taken. This Agreement has been duly executed and delivered by Seller and, assuming the due authorization, execution and delivery by Buyer and receipt of the Seller Required Consents, constitutes the valid and legally binding obligation of Seller, enforceable against Seller in accordance with its terms and conditions, subject to applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or other similar Laws relating to creditors' rights generally and general principles of equity, whether such enforceability is considered in a proceeding in equity or at law. When each Related Agreement to which Seller is a party has been duly executed and delivered by Seller, assuming the due authorization, execution and delivery by each other party thereto and receipt of the Seller Required Consents, such Related Agreement will constitute the valid and legally binding obligation of Seller, enforceable against Seller in accordance with its terms and conditions, subject to applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or other similar Laws relating to creditors' rights generally and general principles of equity, whether such enforceability is considered in a proceeding in equity or at law.

**Section 3.3 No Conflicts; Consents and Approvals.** Assuming all of the Consents of the Governmental Authorities and other Persons set forth on Schedule 3.3 (the "**Seller Required Consents**") have been obtained, and assuming the truth and accuracy of Buyer's representations and warranties set forth herein, the execution and delivery by Seller of this Agreement and the Related Agreements to which it is or will be a party do not and will not, the performance by Seller of its obligations hereunder and thereunder will not, and the consummation of the transactions contemplated hereby and thereby will not:

(a) conflict with or result in a violation or breach of any of the terms, conditions or provisions of the Organizational Documents of Seller;

(b) (i) conflict with, result in a breach of, constitute a default under, result in the acceleration of, or create in any Person the right to accelerate, terminate, modify, revoke, suspend or cancel (with or without giving of notice, the lapse of time or both), any Material Contract to which Seller is bound or to which any of the Acquired Assets is subject, (ii) conflict with or result in a violation or breach of any Law or material Permit to which Seller or any of the Acquired Assets is subject, or (iii) require the Consent of any Governmental Authority under any applicable Law; or

(c) result in the imposition or creation of any Lien on any Acquired Asset, other than any Permitted Lien.

**Section 3.4 Legal Proceedings.** Except as set forth on Schedule 3.4, there is no Claim pending or, to Seller's Knowledge, threatened against Seller (a) that, if adversely determined against Seller would, individually or in the aggregate, reasonably be expected to materially and adversely affect Seller, the Business or the Acquired Assets, or (b) that, as of the Closing Date, seeks an Order restraining, enjoining or otherwise prohibiting or making illegal any of the transactions contemplated hereby. Except as set forth on Schedule 3.4, neither Seller nor any of the Acquired Assets are bound by any Order (other than any Order of general applicability) that would, individually or in the aggregate, reasonably be expected to materially and adversely affect Seller, the Business or the Acquired Assets. As of the Closing Date, Seller is not subject to any Order that prohibits the consummation of the transactions contemplated by this Agreement. Seller has not received from any Person a Claim in writing that Seller or any of its Affiliates' use of the Assigned Intellectual Property infringes on the Intellectual Property of such Person nor, to Seller's Knowledge, has any such Claim been threatened. None of the representations and warranties set forth in this Section 3.4 shall be deemed to relate to (i) Tax matters, which are addressed in Section 3.10, (ii) environmental matters, which are addressed in Section 3.11, (iii) employment and labor matters, which are addressed in Section 3.12, or (iv) employee benefits matters, which are addressed in Section 3.13.

**Section 3.5 Compliance with Laws; Permits.**

(a) Except as set forth on Schedule 3.5(a), Seller is (and has been for the last two years with respect to FERC and NERC Laws only), and the Business and the Acquired Assets are owned, operated and maintained, in compliance in all material respects with all Laws applicable to it, the Business and the Acquired Assets and in the last two years, Seller has not received written notice or, to Seller's Knowledge, any threat from ISO-NE, NERC or any Governmental Authority alleging any material non-compliance with Laws or orders applicable to it.

(b) Schedule 3.5(b) lists all Permits (other than Environmental Permits) that are material to the ownership and operation of the Acquired Assets, and identifies those material Permits that are Transferable Permits. The Permits listed in Schedule

3.5(b) are in full force and effect, except to the extent that the failure of such Permits to be in full force and effect would not, individually or in the aggregate, reasonably be expected to have a material and adverse effect on the operation or ownership of each Facility individually or in the aggregate. Seller is in compliance in all material respects with the terms and conditions of all Permits listed in Schedule 3.5(b).

(c) None of the representations and warranties set forth in this Section 3.5 shall be deemed to relate to (i) Tax matters, which are addressed in Section 3.10, (ii) environmental matters, which are addressed in Section 3.11, (iii) employment and labor matters, which are addressed in Section 3.12, or (iv) employee benefits matters, which are addressed in Section 3.13.

**Section 3.6 Title to Acquired Assets.** Except for the Mortgage Indenture (which will which will be discharged at or prior to Closing), the Assigned Leases and the Permitted Liens, Seller has (x) title to each Site, to the extent, and only to the extent, specified in the title policy commitments referred to on Schedule 3.6 (the “**Title Commitments**”); (y) good and marketable title to, and valid leases, licenses or other rights to use, as applicable, all tangible personal property free and clear of any Liens and (z) the necessary ownership rights, valid leases and licenses or other rights, as applicable, to all other Acquired Assets (excluding tangible personal property) free and clear of any Liens, in each case that are material to the conduct of the Business and the ownership, use, operation, maintenance, repair and replacement of any of the Acquired Assets.

### **Section 3.7 Assets Used in Operation of the Facilities.**

(a) Except as set forth in Schedule 3.7(a), (i) the Acquired Assets constitute all of the material assets necessary for use in connection with the operation of the Business as (x) currently operated by Seller, (y) otherwise required for Seller to comply with all Transferrable Permits and Material Contracts, and (z) required by applicable Law; and (ii) all Acquired Assets that constitute tangible personal property are currently located at (or are in transit to) the Facilities and no such Acquired Assets intended for the Facilities are being held by Third Parties.

(b) Except as set forth on Schedule 3.7(b-1), (i) the Interconnection Agreements and the Acquired Assets constitute all of the assets necessary for Buyer to connect each Facility to the grid operated by ISO-NE through the T&D Assets; (ii) the portion of the Acquired Assets that is necessary or desirable for use in connection with each Interconnection Agreement meets and satisfies Seller’s specifications and requirements for T&D Operations and no transmission upgrades are required; and (iii) upon execution, the Interconnection Agreements will be sufficient to ensure each Facility has access to a Pool Transmission Facility (as defined in the ISO-NE Tariff) administered by ISO-NE without the need for any modifications to the transmission system and without incurring any local network service charges for transmission. Notwithstanding anything to the contrary in the existing interconnection agreements for Merrimack and Schiller or the proposed interconnection agreements for Newington, White Lake and Lost Nation, to Seller’s Knowledge, no further studies or analyses are required under or pursuant to such interconnection agreements. Schedule 3.7(b-2) sets forth Seller’s expectations with respect to certain equipment and services used in the operation of the Facilities.

(c) To Seller’s Knowledge, the only Acquired Assets requiring or containing any material credit support obligations by Seller or its Affiliates in connection with the Business for the benefit of any Third Party, including ISO-NE, are the Merrimack Landfill Trust, NHDES Groundwater Management Permits GWP-100112013-004, GWP-198400065-B-006, GWP-198404088-P-002, GWP-199112013-N-003, Standard Large Generator Interconnection Agreement, dated May 31, 2010, by and between ISO-NE and Seller, Master Delivered Petroleum Products Sales Agreement, dated August 4, 2015, between Sprague Operating Resources LLC and Seller, Base Contract for Sale and Purchase of Natural Gas, dated November 1, 2011, between Emera Energy Services, Inc. and Seller, Distillate Fuel Oil Agreement, dated February 7, 2017, between C.N. Brown Company and Seller, REC Purchase Agreement, dated as of January 30 2014, between Seller and United Illuminating Co., and REC Purchase Agreement, dated as of January 20, 2014, between Seller and Connecticut Light and Power Co.

### **Section 3.8 Material Contracts.**

(a) The Material Contracts set forth on Schedule 2.1(e) include the Contracts meeting the following criteria to which Seller is a party and used in connection with the operation of the Business or by which any of the Acquired Assets may be bound:

- (i) Contracts for the future purchase, exchange or sale of fuel oil or other fuel for a Facility;
- (ii) Contracts for the future purchase, exchange or sale of electric power or ancillary services;
- (iii) Contracts for the future transportation of fuel oil or other fuel for a Facility;
- (iv) Contracts for the future transmission of electric power;
- (v) interconnection Contracts, including the Interconnection Agreements;

(vi) Contracts for the future purchase, exchange, transmission or sale of electric power in any form, including energy, capacity, Environmental Attributes or any ancillary services;

(vii) other than Contracts of the nature addressed by Section 3.8(a)(i) to Section 3.8(a)(ii), Contracts (A) for the purchase or sale of any Acquired Asset (by merger or otherwise) or that grant a right or option to purchase or sell any Acquired Asset (including by merger or otherwise), other than in each case Contracts relating to the Acquired Assets or services with a nominal value of less than Two Hundred Fifty Thousand Dollars (\$250,000) individually or One Million Dollars (\$1,000,000) in the aggregate and (B) for the provision or receipt of any services or that grant a right or option to provide or receive any services, other than in each case Contracts relating to services with a nominal value of less than Two Hundred Fifty Thousand Dollars (\$250,000) individually or One Million Dollars (\$1,000,000) in the aggregate;

(viii) Contracts under which (A) Seller has imposed a security interest on any of the Acquired Assets, tangible or intangible (excluding the Mortgage Indenture) and (B) any credit support has been issued in favor Seller relating to any of the Acquired Assets or the operation of the Business, including, without limitation, letters of credit or any guaranties;

(ix) Contracts of guaranty, indemnity, surety or similar obligation, direct or indirect, by Seller that affect, are related to, or otherwise encumber or may be reasonably expected to encumber any of the Acquired Assets, other than Contracts entered into in the ordinary course of business that include standard indemnity provisions;

(x) collective bargaining Contracts and employment Contracts;

(xi) outstanding futures, swap, collar, put, call, floor, cap, option or other Contracts that are intended to benefit from or reduce or eliminate the risk of fluctuations in interest rates or the price of commodities, including electric power, in any form, including energy, capacity or any ancillary services, natural gas, oil or securities;

(xii) partnership, joint venture, licensing arrangement (other than in respect of Intellectual Property) or limited liability company agreements or Contracts for sharing profits;

(xiii) real property leases and any ground leases relating to, or affecting, any of the Acquired Assets and property tax agreements;

(xiv) Contracts that purport to limit Seller's freedom to compete in any line of business or in any geographic area;

(xv) any Contract between Seller, on the one hand, and any Affiliate of Seller, or any current officer, director or manager of Seller or any Affiliate, on the other hand, in each case related to the Business or any of the Acquired Assets, all of which shall be terminated or modified to exclude the Acquired Assets as of the Closing Date (but excluding the Assigned Intercompany Agreements); and

(xvi) any Contract entered into with a Governmental Authority.

(b) Except as described on Schedule 3.8(b), Seller has provided Buyer with accurate and complete copies of all Material Contracts, including all amendments, modifications and waivers related thereto.

(c) Except as described in Schedule 3.8(c), and assuming all Seller Required Consents required in connection with each Material Contract are obtained prior to Closing, (i) each Material Contract (except to the extent such Material Contract terminates or expires after the Effective Date in accordance with its terms) is in full force and effect and is a valid and binding obligation of Seller and, to Seller's Knowledge, of the other parties thereto, subject to applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or other similar Laws relating to creditors' rights generally and general principles of equity, whether considered in a proceeding in equity or at law, (ii) neither Seller nor, to Seller's Knowledge, any other party thereto, is in violation of or default under any Material Contract, (iii) each Material Contract may be assigned to Buyer pursuant to this Agreement without breaching the terms thereof or resulting in the forfeiture or impairment of any material rights thereunder, and (iv) Seller has not received written notice from nor, to Seller's Knowledge, any threat that, any other party to a Material Contract intends to terminate a Material Contract.

**Section 3.9 Insurance.** The Acquired Assets are insured to the extent specified under the material insurance policies listed on Schedule 3.9. No written notice of cancellation or termination has been received by Seller with respect to any such policy that has not been replaced on substantially similar terms prior to the date of such cancellation or termination. Schedule 3.9 sets forth a list of all pending claims that have been made under any such policy with respect to the Acquired Assets. Except as described in Schedule 3.9, Seller has not been refused any material insurance with respect to the Acquired Assets, nor has coverage with respect to the Acquired Assets been limited in any material respect by any insurance carrier to which Seller has applied for any such insurance or with which it has carried insurance, in each case, during the preceding twelve (12) month period.

**Section 3.10 Taxes.** Seller has filed all material Tax Returns that it was required to file with respect to the Acquired Assets or its operation thereof and has paid all Taxes that have become due as indicated thereon and all Taxes due in the absence of a Return (except where Seller is contesting such Taxes in good faith by appropriate proceedings). There is no unpaid Tax due and payable that would reasonably be expected to result in a lien on all or any part of the Acquired Assets or for which Buyer could become liable. Except as set forth on Schedule 3.10, there is no audit or other Claim now pending with respect to any material Tax respecting the Acquired Assets, including without limitation any claim regarding or based on the valuation of all or any part of the Acquired Assets. Except as set forth in the Settlement Agreement or on Schedule 3.10, there is no agreement, treaty or settlement regarding the valuation of all or any part of the Acquired Assets or any Taxes payable in respect thereof. No part of the Acquired Assets is located within any so-called “tax increment financing” district or special assessment district or is otherwise subject to assessment other than in accordance with generally applicable provisions of New Hampshire Law. Notwithstanding any other provision of this Agreement to the contrary, this Section 3.10 contains the sole and exclusive representations and warranties of Seller relating to Tax matters.

**Section 3.11 Environmental Matters.**

(a) Schedule 3.11(a) lists all Environmental Permits that are material to the ownership and operation of the Acquired Assets, and identifies those material Environmental Permits that are Transferable Permits; all Environmental Permits necessary for the operation of the Acquired Assets are transferrable. Except as set forth on Schedule 3.11(a), the Environmental Permits listed in Schedule 3.11(a) are in full force and effect.

(b) Except as disclosed on Schedule 3.11(b), during the previous six (6)-year period, with respect to the Acquired Assets: (i) Seller has not received any written notice from any Governmental Authority that it is not in material compliance with Environmental Laws, that it failed to obtain or timely apply for the renewal of any material Environmental Permits, or that it is not in material compliance with any Environmental Permit; (ii) there is no proceeding pending or, to Seller’s Knowledge, threatened, to revoke, prevent the renewal of, rescind, modify, refuse to renew or limit any material Environmental Permit, nor has Seller received any written notice from any Governmental Authority with respect to same; (iii) Seller has not received any written notice from any Governmental Authority that any Acquired Asset is listed under the Comprehensive Environmental Response, Compensation Liability Information Systems or any similar state list; (iv) Seller has not received written notice from any Person alleging Liability for any Environmental Claims and no Environmental Claims are pending or, to Seller’s Knowledge, threatened, against Seller by any Governmental Authority under any Environmental Laws; (v) Seller was not required by any applicable Environmental Laws to place any use or activities restrictions or any institutional controls on any Acquired Assets; and (vi) except as authorized by applicable Environmental Permits, to Seller’s Knowledge there has been no Release or threatened Release of any Hazardous Substances from any Real Property. Except as described in Schedule 3.11(b), Seller has no Knowledge of any matters which could give rise to material Environmental Liabilities.

(c) Seller has provided to Buyer copies of all material reports and investigations within its possession or control regarding the environmental condition of the Acquired Assets that are required to be maintained by the operator of the Facilities pursuant to applicable Law or relate to the un-permitted Release of Hazardous Substances.

(d) During the previous six (6)-year period, to Seller’s Knowledge Seller has not sent or disposed of Hazardous Substances to or at a site which, pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act or any similar state law, has been listed or proposed for listing on the National Priorities List or its state equivalent.

(e) Seller has provided Buyer with a true and complete copy of the Removal Contract. Except as set forth in Schedule 3.11(e), the Removal Contract is in full force and effect, the work thereunder is being timely performed in accordance with its terms, and neither Eversource Services, Seller, or to Seller’s Knowledge, the Removal Contractor are in default of their respective obligations thereunder.

(f) Notwithstanding any other provision of this Agreement to the contrary, this Section 3.11 contains the sole and exclusive representations and warranties of Seller relating to Environmental Laws, Environmental Permits, Hazardous Substances or other environmental matters.

**Section 3.12 Employment and Labor Matters.**

(a) Schedule 3.12(a) sets forth (i) a list, organized by job classification at each Facility, of all employees of Seller who are represented by the Union and employed under the terms of the Generation CBA, and who are primarily employed in the operation or support of the Facilities, including all such employees who are on inactive status due to any short-term disability, long-term disability or other approved leave or on layoff status as of the Effective Date (the “**Represented Scheduled Employees**”), and (ii) a list of all other employees of Seller or Eversource Service who are primarily employed in the operation or support of the Facilities as of the Effective Date, but are not represented by the Union (the “**Non-Represented Scheduled Employees**” and, together with the

Represented Scheduled Employees, the “**Scheduled Employees**”), which list shall be amended during the Interim Period to reflect any changes thereto, to the extent such changes are not in violation of any applicable covenants in this Agreement. For each Scheduled Employee, Seller has provided Buyer the following information: employer; name; job title; job classification; facility or operating unit; date of commencement of employment; details of leave of absence or layoff; exempt or non-exempt status; full-time or part-time status; status as temporary if applicable; rate of compensation; bonus, commission or incentive compensation arrangement; a description of the medical/dental/vision/life insurance, pension, retirement and other benefits provided to the employee; accrued vacation, personal and sick time; years of service; and service credited for purposes of vesting and eligibility to participate under any Benefit Plan. Each Scheduled Employee classified as exempt under the Fair Labor Standards Act and state and local wage and hour laws is properly classified.

(b) The Generation CBA is the only collective bargaining agreement to which Seller is a party and which governs terms and conditions of employment of any Scheduled Employees listed in part (i) of Schedule 3.12(a), and Seller is not a party to or bound by any other collective bargaining agreement that is applicable to any Scheduled Employee. Seller has provided Buyer with a true and complete copy of the Generation CBA in effect as of the Effective Date. Except as described in Schedule 3.12(b): (i) there has not been in the preceding two (2) year period, there is not presently pending or existing, and to Seller’s Knowledge there is not threatened any strike, work slowdown, informational picketing activity, lockout, work stoppage, employee grievance process or labor dispute at any of the Facilities; (ii) Seller is, and for the preceding three (3) year period has been, in material compliance with all applicable Laws respecting employment and employment practices, equal employment opportunity, nondiscrimination, harassment, retaliation, family and medical leave obligations, workers compensation, unemployment compensation, immigration, benefits, COBRA and similar state laws, labor relations, worker classification, collective bargaining, the WARN Act and similar state and local laws, workforce reductions, plant closings, uniformed services employment and reemployment rights, occupational health and safety, affirmative action, terms and conditions of employment and wages and hours with respect to the Scheduled Employees; (iii) Seller is not currently subject to any pending, or to Seller’s Knowledge, threatened, unfair labor practice charge or complaint against Seller before the National Labor Relations Board with respect to the Scheduled Employees; (iv) Seller is not the subject of any pending or to Seller’s Knowledge threatened Claim or grievance pertaining to labor relations or employment matters including any charge or complaint filed with any Governmental Body with respect to the Scheduled Employees; (v) there are no pending, or to Seller’s Knowledge, threatened, claims against Seller under any workers compensation plan or policy or for long term disability with respect to the Scheduled Employees; (vi) there are no grievance or arbitration proceeding arising out of or under the Generation CBA pending, or to Seller’s Knowledge threatened, against Seller with respect to the Scheduled Employees; and (vii) Seller is in compliance in all material respects with the Generation CBA and all other contracts with respect to the Scheduled Employees. Seller is not liable for any arrears of wages or unpaid wages or the payment of any Taxes, fines, penalties, damages or other amounts, however designated, for failure to comply with any of the foregoing Laws or legal requirements with respect to the Scheduled Employees.

(c) Schedule 3.12(c) sets forth: (i) a list with the name, responsibilities, and inclusive dates of engagement of every independent contractor of Seller or Eversource Service who, as of the Effective Date, provides individual services related to the operation or support of the Facilities (and Seller has provided Buyer with copies of each agreement with such independent contractors to which Seller or Eversource Service is a party); and (ii) a list with the name of each staffing or employee leasing agency/company with whom Seller or Eversource Service has an agreement or arrangement, as of the Effective Date, for temporary or leased employees to provide services related to the operation or support of the Facilities (and Seller Parties have provided Buyer with copies of each such agreement), the number of temporary employees at each Facility performing services for Seller through each such agency/company, and the type of services provided or position(s) filled. Seller is not liable for any arrears of payments to such independent contractors or temporary employees or the payment of any Taxes, fines, penalties, damages or other amounts for failure to comply with any Laws pertaining to independent contractors or temporary employees.

(d) Notwithstanding any other provision of this Agreement to the contrary, this Section 3.12 contains the sole and exclusive representations and warranties of Seller relating to employment and labor matters.

**Section 3.13 Employee Benefit Plans.** Schedule 3.13 lists, as of the Effective Date, all Employee Benefit Plans established, sponsored, maintained or contributed to (or required to be contributed to) by Seller in respect of the Scheduled Employees. True and complete copies of all such Employee Benefit Plans have been Made Available to Buyer. Seller does not contribute to, and has no obligation to contribute to, a “multiemployer plan” within the meaning of Section 3(37) of ERISA. No liability under Title IV or Section 302 of ERISA or Section 412 of the Code has been incurred by Seller with respect to the Scheduled Employees that has not been satisfied in full, and to Seller’s Knowledge no condition exists that presents a material risk to Seller of incurring any such liability, other than liability for premiums due the Pension Benefit Guaranty Corporation, which premiums have been paid. Notwithstanding any other provision of this Agreement to the contrary, this Section 3.13 contains the sole and exclusive representations and warranties of Seller relating to employee benefits matters.

**Section 3.14 Condemnation.** Seller has received no written notice from any Governmental Authority of any pending or threatened proceeding to condemn or take by power of eminent domain or otherwise, by any Governmental Authority, all or any part of the Acquired Assets having a Condemnation Value exceeding the Condemnation Threshold.

**Section 3.15 Financial Information.** Set forth on Schedule 3.15 are true and complete copies of segregated historical financial information relating to the Acquired Assets dated as of June 30, 2017, prepared by or on behalf of senior management of Seller. The Parties acknowledge that the limited balance sheet financial information provided on Schedule 3.15 is a good faith estimate not maintained in the ordinary course and is not prepared in accordance with GAAP, provided that the fuel, limestone and allowances inventory quantities set forth on Schedule 3.15 are, as of June 30, 2017, true, accurate, and complete in all material respects, and represent all Inventory of a quality and quantity that is usable in the operation of the Business as currently conducted by Seller. The Parties acknowledge that the limited operating expenses and capital expenditure information provided on Schedule 3.15 is a good faith estimate not maintained in the ordinary course of the Business and is not prepared in accordance with GAAP, provided that such information for the four-year period from January 1, 2013 through December 31, 2016 is, in all material respects, true, accurate and complete representations of amounts related to the Acquired Assets as captured in the Seller's accounting system, and this information is a portion of the books and records from which Seller's complete and consolidated audited financial statements are prepared.

**Section 3.16 Absence of Certain Changes.** Except as set forth on Schedule 3.16, from December 31, 2016, Seller has operated the Business, including the Acquired Assets, in all material respects in the ordinary course of business consistent with past practices. Since December 31, 2016, there has not occurred any set of circumstances individually or in the aggregate that has or could be reasonably expected to result in a Material Adverse Effect.

**Section 3.17 Real Property.**

(a) Schedule 2.1(a) lists all of the Sites used by Seller in connection with Seller's operation of the Business.

(b) Seller has exclusive possession of all Sites and Facilities necessary or desirable for the operation of each Facility and the Business except for (A) the rights of others in accordance with Permitted Liens; (B) such possession which would not materially deny, diminish, restrict or interfere with the Seller's or, after Closing, Buyer's right to use, operate, and maintain the Sites and Facilities as currently operated; and (C) as otherwise noted on Schedule 2.1(a).

(c) Except for Permitted Liens or as set forth on Schedule 2.1(a) or Schedule 2.1(e), (i) with respect to each Site and Facility, Seller has not leased or otherwise granted any Person the right to use or occupy such Property or any material portion thereof that is still in effect and (ii) Seller has not granted any outstanding options, rights of first refusal, rights of first offer, rights of reverter or other third party rights to purchase any of the Property. To Seller's Knowledge, except for Permitted Liens, there are no unrecorded Liens, easements, restrictions, covenants, licenses or other matters affecting the Property.

(d) Schedule 2.1(a), Schedule 2.1(b), Schedule 2.1(e) and the Easement Plans set forth a complete list of all leases, easements and access agreements used by Seller in the conduct of the Business (the "**Real Property Agreements**"). Except as set forth in such schedules and Easement Plans, each Real Property Agreement is in full force and effect in all material respects and constitutes a valid and binding obligation of Seller and, to Seller's Knowledge, of the other parties thereto.

(e) Except as set forth on Schedule 3.17(e), Seller is not in breach or default in any material respect under any Real Property Agreement, and to Seller's Knowledge, no other party to any of the Real Property Agreement is in breach or default in any material respect thereunder.

(f) Except for Permitted Liens or as otherwise set forth on Schedule 3.17(f), Seller has not subleased or otherwise granted to any Person the right to use or occupy any property leased under any Real Property Agreements.

(g) Seller has good and valid rights in the Real Property Agreements to which it is a party, free and clear of Liens, except Permitted Liens.

(h) All Sites and Facilities have access to and use of such public utilities as are necessary for the operation of the Business as currently conducted by Seller and no public utility has, to Seller's Knowledge, threatened to discontinue or curtail such services.

**Section 3.18 Regulatory Status.** Seller is a "public utility" under New Hampshire RSA 362:2 and is subject to regulation as such by the NHPUC. Seller is an "electric utility company" that is a "subsidiary company" of a "holding company" which is registered under (and as those terms are defined in) the Public Utility Holding Company Act of 2005, is a "public utility" under (and as that term is defined in) the Federal Power Act, and is subject to regulation as such by FERC. Except as set forth on Schedule 3.18, each Facility is registered with NERC.

**Section 3.19 Brokers.** Except for the fees and expenses of J.P. Morgan Securities LLC, for which Seller is solely responsible, Seller does not have any Liability to pay fees or commissions to any broker, finder or agent with respect to the transactions

contemplated by this Agreement or the Related Agreements for which Buyer could become liable or obligated.

**Section 3.20 Complete Copies.** True and complete copies of the Material Contracts, the Assigned Leases, the Transferable Permits and the Generation CBA have been Made Available to Buyer.

**Section 3.21 Capacity Markets; Winter Reliability Program.**

(a) Schedule 3.21(a) sets forth for each Facility its (i) Capacity Supply Obligations and Qualified Capacity with respect to the Facility as established by ISO-NE for each Capacity Commitment Period associated with any of Forward Capacity Auctions #8, #9, #10, and #11, in each case after accounting for any reconfiguration auctions, bilateral transactions, or other adjustments; (ii) all information with respect to any de-list bids submitted to ISO-NE with respect to the Facility in connection with any Forward Capacity Auctions for which Capacity Supply Obligations have not yet been awarded; and (iii) for each Capacity Commitment Period associated with any of Forward Capacity Auctions #7, #8, #9, #10, and #11 the summer and winter Seasonal Claimed Capabilities and Capacity Network Resource Capabilities of the Facility as formally recognized or determined by ISO-NE and the instrument used to identify Capacity Network Resource Capability. For purposes of this Section 3.21(a), capitalized terms used in this subsection but not defined in this Agreement have the meaning given them in the ISO-NE Tariff.

(b) Except as set forth on Schedule 3.21(b), the capacity allocated to any Capacity Supply Obligations and any revenues expected from ISO-NE therefrom have not been pledged, encumbered or committed by Seller, except for any pledge, encumbrance or commitment that will be released at or prior to Closing.

(c) Except as set forth on Schedule 3.21(c), Seller has not received written notice or, to Seller's Knowledge, other notice, from ISO-NE of a Qualified Capacity Reduction.

(d) Schedule 3.21(d) sets forth for each Facility the obligations undertaken with respect to ISO-NE's 2017-18 Winter Reliability Program and the anticipated revenue from such undertaking, as reflected by any notifications, awards or orders from ISO-NE or FERC regarding the nature of such obligations or any anticipated revenue therefrom. Seller has received no written notice or, to Seller's Knowledge, other notice, from ISO-NE determining that any revenue set forth on Schedule 3.21(d) will be reduced, except as according to the rules of Appendix K of Section III of the ISO New England Transmission, Markets and Services Tariff, including its Performance Adjustment.

**Section 3.22 Exclusive Representations and Warranties.** It is the explicit intent of each Party hereto that Seller is not making any representation or warranty whatsoever, express or implied, respecting the Business, the Acquired Assets, the Assumed Liabilities or the transactions contemplated by this Agreement and the Related Agreements, except those representations and warranties expressly set forth in this Article III, the Related Agreements or under any certificates delivered by Seller in connection with the Closing.

**ARTICLE IV  
REPRESENTATIONS AND WARRANTIES OF BUYER**

Buyer represents and warrants to Seller that the statements contained in this Article IV are true and correct as of the Effective Date.

**Section 4.1 Organization and Existence.** Buyer is a limited liability company duly organized, validly existing and in good standing under the Laws of the State of Delaware. Buyer is duly qualified or authorized to do business in each other jurisdiction where the actions to be performed hereunder make such qualification or authorization necessary.

**Section 4.2 Authority and Enforceability.** Buyer has the limited liability company power and authority to execute and deliver this Agreement and the Related Agreements to which it is a party, to perform its obligations hereunder and thereunder and to consummate the transactions contemplated hereby and thereby. All limited liability company actions or proceedings to be taken by or on the part of Buyer to authorize and permit the due execution and valid delivery by Buyer of this Agreement and the Related Agreements to which it is a party, the performance by Buyer of its obligations hereunder and thereunder, and the consummation by Buyer of the transactions contemplated hereby and thereby have been duly and properly taken. This Agreement has been duly executed and delivered by Buyer and, assuming the due authorization, execution and delivery by Seller, constitutes the valid and legally binding obligation of Buyer, enforceable against Buyer in accordance with its terms and conditions, subject to applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or other similar Laws relating to creditors' rights generally and general principles of equity, whether such enforceability is considered in a proceeding in equity or at law. When each Related Agreement to which Buyer is a party has been duly executed and delivered by Buyer, assuming the due authorization, execution and delivery by each other party thereto, such Related Agreement will constitute the valid and legally binding obligation of Buyer, enforceable against Buyer in accordance with its terms and conditions, subject to applicable bankruptcy, insolvency, reorganization,

moratorium, fraudulent conveyance or other similar Laws relating to creditors' rights generally and general principles of equity, whether such enforceability is considered in a proceeding in equity or at law.

**Section 4.3 Noncontravention.** The execution and delivery by Buyer of this Agreement and the Related Agreements to which it is or will be a party do not and will not, the performance by Buyer of its obligations hereunder and thereunder will not, and the consummation of the transactions contemplated hereby and thereby will not:

(a) Conflict with or result in a violation or breach of any of the terms, conditions or provisions of the Organizational Documents of Buyer;

(b) Conflict with, result in a breach of, constitute a default under, result in the acceleration of, or create in any Person the right to accelerate, terminate, modify, revoke, suspend or cancel (with or without giving of notice, the lapse of time or both), any Contract to which Buyer is bound or to which any of its assets is subject, except as would not reasonably be expected to have, individually or in the aggregate, a material adverse effect on Buyer's ability to perform its obligations hereunder; or

(c) Assuming all of the Consents of the Governmental Authorities set forth on Schedule 4.3(c) (the "**Buyer Required Consents**") have been obtained in form and substance reasonably satisfactory to Buyer, (i) conflict with or result in a violation or breach of any Law, Order or Permit to which Buyer or any of its assets is subject, or (ii) require the Consent of any Governmental Authority under any applicable Law; except, in the case of each of clauses (i) and (ii), as would not reasonably be expected to have, individually or in the aggregate, a material adverse effect on Buyer's ability to perform its obligations hereunder.

**Section 4.4 Legal Proceedings.** Buyer has not been served with notice of any Claim and no Claim is pending or, to Buyer's knowledge, threatened, against Buyer (a) that seeks an Order restraining, enjoining or otherwise prohibiting or making illegal any of the transactions contemplated hereby or (b) that would, individually or in the aggregate, reasonably be expected to have a material adverse effect on Buyer's ability to perform its obligations hereunder. Buyer is not bound by any Order that prohibits the consummation of the transactions contemplated by this Agreement or that would, individually or in the aggregate, reasonably be expected to have a material adverse effect on Buyer's ability to perform its obligations hereunder.

**Section 4.5 Compliance with Laws.** Buyer is not in violation of any Law applicable to Buyer or its assets the effect of which, individually or in the aggregate, would reasonably be expected to have a material adverse effect on Buyer's ability to perform its obligations hereunder.

**Section 4.6 Brokers.** Except for the fees and expenses of Guggenheim Securities, LLC, for which Buyer is solely responsible, neither Buyer nor any of its Affiliates has any Liability to pay fees or commissions to any broker, finder or agent with respect to the transactions contemplated by this Agreement for which Seller or its Affiliates could become liable or obligated.

**Section 4.7 Availability of Funds.** Buyer has, and at the Closing will have, (a) cash on hand or other sources of immediately available funds in amounts sufficient to pay the full amount of the Purchase Price as well as any related fees, costs and expenses incurred by Buyer in connection with the transactions contemplated hereby, and (b) the resources and capabilities (financial or otherwise) to perform its obligations (including the Assumed Liabilities) under this Agreement and any Related Agreements. Buyer acknowledges and agrees that, notwithstanding anything to the contrary contained herein, its obligation to consummate the transactions contemplated hereby is not subject to Buyer or any of its Affiliates obtaining any financing, or to any other contingency or condition respecting financing or availability of funds.

**Section 4.8 Qualified Buyer.** Buyer is qualified to obtain any Permits necessary for Buyer to own and operate the Acquired Assets as of the Closing, to the extent such operation is either required by any Related Agreement or this Agreement, or is contemplated by Buyer.

**Section 4.9 Governmental Approvals.** As of the Effective Date, neither Buyer nor any of its Affiliates is a party to any Contract respecting the construction, development, acquisition, ownership or operation of any power facility or related asset that would reasonably be expected to cause a delay in any Governmental Authority's granting of a Buyer Required Consent or Seller Required Consent, and neither Buyer nor any of its Affiliates has any plans or has engaged in any discussions to enter into any such Contract prior to the Closing Date.

**Section 4.10 WARN Act.** Buyer does not intend, with respect to the Acquired Assets or Transferred Employees, to engage in a "plant closing" or "mass layoff," as such terms are defined in the WARN Act, within sixty (60) days after the Closing Date.

**Section 4.11 Independent Investigation.** Buyer is a sophisticated Person, knowledgeable about the industry in which Seller operates, experienced in investments in such businesses, and able to bear the economic risks associated with the transactions contemplated by this Agreement and the Related Agreements. Buyer has such knowledge and experience as to be aware of the risks

and uncertainties inherent in the acquisition of the Acquired Assets, the assumption of the Assumed Liabilities, and the rights and obligations of the type contemplated in this Agreement. Buyer has conducted to its satisfaction, independently and without reliance on Seller or its Representatives (except to the extent that Buyer has relied on the representations and warranties of Seller set forth in Article III hereof), its own investigation, review and analysis of the Facilities, the Acquired Assets and the Assumed Liabilities, and based on such investigation, review and analysis, has formed an independent judgment concerning the assets, Liabilities, condition, operations and prospects of the Acquired Assets and the ownership and operation thereof. In making its decision to execute this Agreement and the Related Agreements and to enter into the transactions contemplated hereby and thereby, Buyer has relied and will rely solely upon the results of such independent investigation, review and analysis and the terms and conditions of this Agreement and the Related Agreements. Buyer acknowledges that it has had reasonable and sufficient access to the Facilities, the Acquired Assets and documents and other information and materials in connection therewith, that all documents and other information and materials requested by Buyer have been provided to Buyer to its satisfaction, and that it and its Representatives have had the opportunity to meet with the personnel and Representatives of Seller to discuss and ask questions concerning the foregoing.

**Section 4.12 Disclaimer Regarding Projections.** Buyer may be in possession of certain plans, projections and other forecasts regarding the Acquired Assets and the Assumed Liabilities, including estimates, budgets of future revenues, expenses or expenditures, projections of future results of operations (or any component thereof), future cash flows (or any component thereof) or future financial condition (or any component thereof). Buyer acknowledges that there are substantial uncertainties inherent in attempting to make such plans, projections and other forecasts, that Buyer is familiar with such uncertainties, that Buyer is taking full responsibility for making its own independent evaluation of the adequacy and accuracy of all plans, projections and other forecasts so furnished to it, and that Buyer shall have no claim against Seller, its Affiliates or their respective Representatives with respect thereto. Accordingly, Buyer acknowledges that without limiting the generality of this Section 4.12, neither Seller nor any of its Affiliates has made any representation or warranty with respect to such plans, projections or other forecasts.

## ARTICLE V COVENANTS

**Section 5.1 Closing Conditions.** From the Effective Date until the Closing (the “**Interim Period**”), subject to the terms and conditions of this Agreement, each Party shall use its commercially reasonable efforts to take such actions as are necessary, proper or advisable in order to expeditiously consummate and make effective the transactions contemplated by this Agreement and the Related Agreements (including satisfaction, but not waiver, of those closing conditions set forth in Article VI).

**Section 5.2 Notices, Consents; Approvals and Related Agreements.** During the Interim Period:

(a) Subject to Section 5.2(c), during the Interim Period, each Party will and will cause its respective applicable Affiliates to, in order to consummate the transactions contemplated by this Agreement and the Related Agreements, provide reasonable cooperation to the other Party, and proceed diligently and in good faith and use all commercially reasonable efforts, as promptly as practicable, to (i) obtain the Buyer Required Consents and the Seller Required Consents, (ii) make all required filings with, and give all required notices to, the applicable Governmental Authorities or other Persons required to consummate the transactions contemplated by this Agreement and the Related Agreements, and (iii) cooperate in good faith with the applicable Governmental Authorities or other Persons and promptly provide such other information and communications to such Governmental Authorities or other Persons as such Governmental Authorities or other Persons may reasonably request in connection with the foregoing. The Parties will provide prompt notification to each other when any such Consent referred to in this Section 5.2(a) is obtained, taken, made, given or denied, as applicable, and will, subject to Section 5.2(b), promptly advise each other of any material communications (in oral or written form) with any Governmental Authority or other Person regarding any of the transactions contemplated under this Agreement or the Related Agreements. Each Party will pay any fees and expenses associated with obtaining any Consent from a Governmental Authority as may be imposed by applicable Law, provided that if applicable Law does not impose the fees or expenses on a Party, the Parties shall equally share the cost of such fees or expenses.

(b) In furtherance of the covenants set forth in Section 5.2(a):

(i) As soon as practicable following the Effective Date, Buyer and Seller shall prepare all necessary filings in connection with the transactions contemplated by this Agreement and the Related Agreements that may be required to be filed by such Party with applicable Governmental Authorities or under any applicable Laws. Such filings shall be submitted as soon as practicable following the Effective Date, but in no event later than thirty (30) days thereafter (subject to extension by mutual written agreement). The Parties shall (A) request expedited treatment of any such filings (where applicable), (B) subject to applicable Law and the instructions of any Governmental Authority, keep each other apprised of the status of matters relating to such filings, including by promptly furnishing each other with copies of any notices, correspondence or other written communication from the relevant Governmental Authority, (C) promptly make any appropriate or necessary subsequent or supplemental filings, submissions or responses to any Governmental Authority, and (D) cooperate in the preparation of such filings, submissions or responses as is reasonably necessary and appropriate, including by making available to the other Party

such information as the other Party may reasonably request in order to complete such filings or respond to information requests by any Governmental Authority. Prior to making any material filing, submission, response or other communication to any Governmental Authority (or members of their respective staffs) in oral or written form, each Party will permit the other Party (or its counsel) a reasonable opportunity to review and provide comments on such proposed filing, submission, response or other communication, and will consult with and consider in good faith the views of the other Party in connection therewith. Each Party will consult with the other Party in advance of any material meeting or conference (in person or by telephone) with any such Governmental Authority, and to the extent not prohibited by Law or such Governmental Authority, give the other Party the opportunity to attend and to participate in such meetings and conferences. Notwithstanding the foregoing, neither Buyer nor Seller shall be obligated to share any information, filing, submission or response with the other Party if a Governmental Authority objects to the sharing of such information, filing, submission or response or if prohibited by applicable Law.

(ii) The Parties shall not, and shall cause their respective Affiliates not to, take any action that would reasonably be expected to materially adversely affect or delay the Consent of any Governmental Authority with respect to any of the filings referred to in Section 5.2(a) or with respect to the divestiture of the Hydro Business.

(iii) Except as set forth in Section 9.1 or as otherwise set forth in this Section 5.2, each Party shall bear its own fees, costs and all other expenses (including filing fees, transfer fees, legal fees and other filing preparation costs) associated with any Consents or other actions contemplated by this Section 5.2 in connection with or otherwise related to the transactions contemplated by this Agreement and the Related Agreements.

(c) In addition to the covenants set forth in Section 5.2(a) and Section 5.2(b), Buyer shall undertake promptly any and all actions required to complete lawfully the transactions contemplated by this Agreement and the Related Agreements prior to the Outside Date, including by (i) responding to and complying with, as promptly as reasonably practicable, any request for information or documentary material regarding such transactions from any relevant Governmental Authority (including responding to any “second request” for additional information or documentary material under the HSR Act as promptly as reasonably practicable), (ii) causing the prompt expiration or termination (including requesting early termination and/or approvals thereof) of any applicable waiting period and clearance or approval by any relevant Governmental Authority, including defense against, and the resolution of, any objections or challenges, in court or otherwise, by any relevant Governmental Authority or other Person preventing consummation of such transactions, and (iii) making any necessary post-Closing filing or proffering and consenting to an Order providing for the sale or other disposition, or the holding separate, of particular assets, categories of assets or lines of business, including the Acquired Assets or any other assets or lines of business of Buyer or any of its Affiliates, in order to mitigate or otherwise remedy any requirements of, or concerns of, any Governmental Authority, or proffering and consenting to any other restriction, prohibition or limitation on any of the Acquired Assets, or on Buyer or any of Buyer’s Affiliates or any of their respective assets, in order to mitigate or remedy such requirements or concerns. The entry by any Governmental Authority in any legal proceeding of an Order permitting the consummation of the transactions contemplated by this Agreement and/or any of the Related Agreements but which is subject to certain conditions or requires Buyer or any of its Affiliates to take any action, including any restructuring of the Acquired Assets or lines of business of Buyer or any of its Affiliates or any changes to the existing business of Buyer or any of its Affiliates, shall not be deemed a failure to satisfy the conditions specified in Article VI. For the avoidance of doubt, Buyer shall not take any action with respect to its obligations under this Section 5.2(c) which would bind Seller or any of its Affiliates irrespective of whether the transactions contemplated hereby occur. Notwithstanding anything to the contrary in this Agreement, neither Buyer nor any of its Affiliates will have any obligation to (x) accept any material condition or requirement of any Consent that is not already imposed on Seller, (y) divest itself of any assets, whether tangible or intangible, or any portion of any of its or its Affiliates businesses in order to obtain any Consent required in connection with the transactions contemplated by this Agreement or any Related Agreement, or (z) take or refrain from taking any action that could result in a Material Adverse Effect.

(d) Buyer further agrees that neither it nor any of its Affiliates shall, prior to Closing, enter into any other Contract to acquire or market or control the output of, nor acquire or market or control the output of, electric generating facilities or uncommitted generation capacity in the ISO-NE market if the proposed acquisition or ability to market or control output of such additional electric generating facilities or uncommitted generation capacity in such market could reasonably be expected to increase the market power attributable to Buyer and its Affiliates in such market in a manner materially adverse to approval of the transactions contemplated by this Agreement and the Related Agreements or that would reasonably be expected to prevent or otherwise materially interfere with, or materially delay the consummation of the transactions contemplated hereby and thereby.

(e) During the Interim Period, Buyer and Seller shall cooperate and use their commercially reasonable efforts to secure the transfer or reissuance of the Transferable Permits to Buyer (including obtaining any necessary Consents thereto), or the substitution of Buyer for Seller where appropriate on pending applications for such Transferable Permits or renewals thereof, effective as of the Closing Date. If the Parties are unable to secure the transfer, reissuance or substitution respecting one or more Transferable Permits effective as of the Closing Date, Seller shall continue to reasonably cooperate with Buyer’s efforts to secure such transfer, reissuance or substitution following the Closing Date. Each Party agrees that it will accept the terms of all Transferable Permits as existing on the Effective Date relating to the operation of the Acquired Assets, and that it will not seek to amend any of such terms in connection with

filings with Governmental Authorities relating to the transactions contemplated by this Agreement and the Related Agreements, other than as necessary to effect the transfer or reissuance thereof to Buyer. In addition, with respect to any Transferable Permits for which the date for renewal will have passed by the Closing Date, Seller and Buyer shall cooperate to file by the Closing Date all applications with Governmental Authorities necessary to renew such Transferable Permits in a timely fashion without any material modifications to the terms thereof, except by agreement of the Parties, as may be required by applicable Law or to effect the renewal of such Permit in the name of Buyer. Nothing in this Section 5.2(e), however, shall prohibit Buyer or Seller from appealing the terms of any Permit that is issued or renewed following the Effective Date, with respect to which the Parties shall cooperate in good faith.

(f) Promptly after the Effective Date and during the Interim Period, Buyer and Seller will in good faith negotiate the terms and conditions of the Related Agreements to implement the transactions contemplated by this Agreement with the intention that the forms are each in final form on or before the sixtieth (60<sup>th</sup>) day after the Effective Date; *provided, however*, that the final Easement and Easement Plan for the White Lake Site shall be finalized as soon as reasonably practicable in light of the subdivision of the White Lake Site currently in progress, but in all events prior to the Closing Date; and *provided further*, the Interconnection Agreements and related arrangements will satisfy all reasonable requirements of Buyer for purposes of supplying energy, capacity and ancillary services to the ISO-NE market without incurring any local network service charges for transmission, except as set forth in Schedule 3.7(b-1), and without the need for modifications to the transmission system unless, in each case, expressly approved in writing by Buyer.

### **Section 5.3 Assigned Contracts; Other Interim Covenants.**

(a) During the Interim Period, Buyer and Seller shall use commercially reasonable efforts to obtain all required Consents to the assignment to Buyer of the Assigned Contracts from the applicable counterparties thereto (each, a “**Counterparty**”), effective as of the Closing Date, in accordance with the following:

(i) Seller shall have primary responsibility for obtaining all necessary Consents to the assignment of Material Contracts, *provided* that Buyer shall cooperate with Seller’s efforts in this regard and shall use commercially reasonable efforts to assist Seller when so requested by Seller. Seller shall have primary responsibility for obtaining all necessary Consents to the assignment of Other Assigned Contracts, and in furtherance thereof, to the maximum extent permitted by Law and each applicable Other Assigned Contract, Seller appoints Buyer as Seller’s agent to obtain all required Consents of any Counterparty to each of the Other Assigned Contracts for the assignment thereof to Buyer effective as of the Closing Date, which Seller shall pursue, using commercially reasonable efforts, in accordance with a mutually agreed protocol and form letters to be sent to such Counterparties.

(ii) To the extent that any Assigned Contract relates to assets or services that are both used in the operations of one or more Facilities and used by Seller in its other operations, the Parties shall cooperate and use commercially reasonable efforts to obtain the required Consent for any partial assignment, apportionment or other arrangement as may be necessary or practicable to permit Buyer to obtain such portion of assets or services necessary for the continued operation of such Facilities on and after the Closing Date, and to permit Seller to retain such other rights or portion of the assets or services to continue its operations on and after the Closing Date, it being understood that the portion of each such Assigned Contract relating to Buyer’s continued operation of such Facilities on and after the Closing Date must be assigned to Buyer as of the Closing.

(iii) Seller shall reasonably cooperate with Buyer in providing any notices to Counterparties as may be required by the terms of any Assigned Contract or as Buyer (acting reasonably) may deem necessary or advisable, including notices providing Counterparties with updated notice information and updated bank account information to which any applicable payments should be made by such Counterparties. Buyer shall, where necessary, enter into a master agreement or similar enabling agreement with any Counterparty, on substantially the same terms as those in place on the Effective Date in a master or enabling agreement between Seller and such Counterparty, in connection with the assignment to Buyer of one or more purchase orders or similar Contracts subject to such master agreement or enabling agreement with Seller.

(iv) For the avoidance of doubt, it is specifically acknowledged and agreed by the Parties that neither Party shall be obligated to incur, pay, reimburse or provide or cause any of their respective Affiliates to incur, pay, reimburse or provide, any liability, compensation, consideration or charge to obtain the Consent of any Counterparty to the assignment of any Assigned Contract, unless any such liability, compensation, consideration or charge is expressly contemplated by any such Assigned Contract, in which case Seller shall incur the liability or make any such payment or charge.

(v) To the extent that Seller’s rights under any Contract included as an Acquired Asset may not be assigned without the Consent of another Person, and such Consent has not been obtained by the Closing, this Agreement shall not constitute an agreement to assign the same if an attempted assignment would constitute a breach thereof or be unlawful or ineffective (or would otherwise impair Buyer’s rights and obligations thereunder), and such Contract shall not be so assigned at the Closing (such non-assigned Contracts, the “**Non-Assigned Contracts**”). Seller and Buyer shall continue to comply with their obligations under this Section 5.3(a) to the extent and for so long as the applicable Non-Assigned Contract shall not have

been assigned to Buyer (and Seller, to the maximum extent permitted by Law and such Non-Assigned Contract, shall appoint Buyer to be Seller's agent with respect to such Non-Assigned Contract for the purpose of obtaining an assignment thereof to Buyer); *provided* that neither Seller nor Buyer shall have any obligation to offer or pay any consideration in order to obtain any such Consent to assignment; *provided, further*, that Buyer and Seller shall use their commercially reasonable efforts, to the maximum extent permitted by Law and such Non-Assigned Contract, to enter into one or more back-to-back Contracts, or such other reasonable arrangements, that would place Buyer in the same or a substantially similar position and provide Buyer the same or substantially similar rights, privileges, liabilities, benefits and obligations, in each case, as if such Non-Assigned Contract had been assigned to Buyer as of the Closing.

(b) During the Interim Period, Buyer and Seller shall use commercially reasonable efforts to obtain all required Consents to the assignment to Buyer of any warranty described in Section 2.1(c), effective as of the Closing Date. To the extent that Seller's rights under any such warranty may not be assigned without the Consent of another Person, and such Consent has not been obtained by the Closing, this Agreement shall not constitute an agreement to assign the same if an attempted assignment would constitute a breach thereof or be unlawful or ineffective (or would otherwise impair Buyer's rights and obligations thereunder), and such warranty shall not be so assigned at the Closing. Seller and Buyer shall continue to comply with their obligations under this Section 5.3(b) to the extent and for so long as the applicable warranty shall not have been assigned to Buyer, and Seller, to the maximum extent permitted by Law and such warranty, shall from and after the Closing, appoint Buyer to be Seller's agent for the purpose of enforcing such warranty so as to the maximum extent possible to provide Buyer with the rights and obligations of such warranty. Notwithstanding the foregoing, Seller shall not be obligated to bring or file suit against any Third Party; *provided* that if Seller shall determine not to bring or file suit after being requested by Buyer to do so, Seller shall, to the maximum extent permitted by Law or any applicable Contract, enter into such reasonable arrangements with Buyer so that Buyer may bring or file such suit with respect to the rights of Seller.

(c) In connection with Seller's assignment to Buyer of the Trust Agreement, dated as of April 7, 2017, between Seller and The Bank of New York Mellon, as trustee, respecting the coal ash landfill located at Merrimack Station (the "**Merrimack Landfill Trust**"), Buyer shall, in conjunction with Seller's written notice of assignment to be provided to such trustee in accordance therewith, promptly satisfy the information and documentation requirements set forth in Section 15 of the letter agreement between Seller and such trustee, also dated April 7, 2017, executed in connection with such Trust Agreement.

(d) The Parties will cooperate in good faith from and after the Closing if any Acquired Asset requires Buyer to provide credit support in any form for the benefit of a Third Party, and to further release Seller from any credit support provided in connection with any Acquired Asset.

(e) To the extent that Seller's rights under any Contract included as an Acquired Asset may not be assigned without the Consent of another Person, and such Consent has not been obtained by the Closing, this Agreement shall not constitute an agreement to assign the same if an attempted assignment would constitute a breach thereof or be unlawful or ineffective (or would otherwise impair Buyer's rights and obligations thereunder), and such Contract shall not be so assigned at the Closing. To the extent Buyer elects to proceed to Closing without obtaining Consent regarding any Non-Assigned Contracts, Buyer will not be deemed to have waived any such requirement for Consent and Seller will take all commercially reasonable actions requested by Buyer to obtain such Consent after the Closing or to otherwise transfer to Buyer the benefit of such Non-Assigned Contract. If any such Consent shall not be obtained or if any attempted assignment would be ineffective or would impair Buyer's rights under the Non-Assigned Contract in question so that Buyer would not in effect acquire the benefit of all such rights, Seller, to the maximum extent permitted by Law and the Non-Assigned Contract, shall act after the Closing as Buyer's agent in order to obtain for it the benefits thereunder and shall cooperate, to the maximum extent permitted by Law and the Non-Assigned Contract, with Buyer in any other reasonable arrangement designed to provide such benefits to Buyer. In addition to the foregoing, to the extent any Material Contract that is currently used in both the Hydro Business and the Business is not assigned to Buyer at the Closing and is assigned to any purchaser of all or any portion of the Hydro Business, Seller will obtain such benefits with the same counterparty for Buyer at the same costs as set forth in any such Contract.

#### **Section 5.4 Access of Buyer and Seller.**

(a) During the Interim Period, Seller will provide Buyer and its Representatives with reasonable access, upon reasonable prior notice and during normal business hours, to the Facilities, the Scheduled Employees and all information related to the Acquired Assets, the Scheduled Employees and the Assumed Liabilities in possession of Seller and its Affiliates (including, subject to the receipt of any required Consents and in accordance with applicable Law, such information and records respecting the Scheduled Employees as Buyer reasonably deems necessary to comply with its obligations under this Agreement), and to the Representatives of Seller who have significant responsibility with respect thereto, in each case, as reasonably requested by Buyer in connection with the consummation of the transactions contemplated by this Agreement, but only to the extent that such access does not unreasonably interfere with the operation of the Facilities or the other business or operations of Seller or its Affiliates, and subject to compliance with applicable Laws and Permits; *provided*, that Seller shall have the right to have its Representatives present for any communication with

the Scheduled Employees, or any other employees or officers of Seller or its Affiliates, and to impose reasonable restrictions and requirements for safety purposes. In connection with and subject to the limitations set forth in the foregoing, during the Interim Period, (i) Seller shall permit Buyer and its Representatives to make such reasonable inspections of the Sites as Buyer may reasonably request (and Buyer shall be entitled, at its expense, to have the Sites surveyed and to conduct non-invasive physical inspections thereof), and (ii) Buyer shall be entitled to perform Phase I environmental studies or environmental site assessments of the Acquired Assets at Buyer's cost and upon notice to and in cooperation with Seller, utilizing an environmental firm reasonably acceptable to Buyer and Seller to update any or all of the existing Phase I environmental assessments posted to the Data Site, with Buyer and Seller as the identified users of the updated Phase I environmental assessments, and Buyer shall promptly furnish Seller with a copy of any such updates; *provided, however*, that during the Interim Period Buyer shall not be entitled to perform any Phase II environmental site assessments or invasive environmental studies. Seller shall furnish Buyer with a copy of each material report, schedule or other document filed or received by Seller or its Affiliates with or from a Governmental Authority with respect to the Acquired Assets during the Interim Period. During the Interim Period and following Closing, with respect to Environmental Liabilities that constitute Excluded Environmental Liabilities, Seller agrees to provide to Buyer draft copies of all plans, studies and reports prepared after the Effective Date in connection with any site investigation or Remediation related to the Acquired Assets (including with regard to its obligations under Section 2.4(i)(A) and Section 2.4(i)(B)) and, during the Interim Period, Seller further agrees to provide to Buyer draft copies of any Environmental Permit renewal or modification applications related to the Acquired Assets, in each case prior to their submission to the Governmental Authority with jurisdiction under Environmental Laws. Further, Buyer shall have the right, without the obligation, to attend all meetings between Seller, its Representatives, and such Governmental Authorities with respect to matters that constitute Excluded Environmental Liabilities or are related to Environmental Permit renewals or modifications. Notwithstanding the foregoing, and without limiting the generality of the confidentiality provisions set forth in this Agreement, the Confidentiality Agreements or any Related Agreement, Seller shall not be required to provide any information or access to any Facilities (A) which Seller reasonably believes it is prohibited from providing to Buyer by reason of any applicable Law or Permit, (B) which, if provided to Buyer, could constitute a waiver by Seller of the attorney-client privilege in respect of such information, (C) which Seller is required to keep confidential or prevent access to by reason of a Contract with a Third Party, or (D) relating to any potential sale of the Acquired Assets, or any other generating facilities of Seller, to any other Person; *provided, however*, that the Parties will, to the extent legally permissible, reasonably necessary and practicable, use commercially reasonable efforts to make appropriate substitute disclosure arrangements, or seek appropriate waivers or consents, under circumstances in which the foregoing restrictions of this sentence apply.

(b) During the Interim Period, upon reasonable prior request of Buyer and at Buyer's sole cost and expense, Seller will permit designated employees or Representatives of Buyer ("**Buyer's Observers**") to observe all operations of Seller related to the Facilities, with such observation permitted on a cooperative basis in the presence of personnel of Seller during normal daytime business hours of Seller; *provided, however*, that Buyer's Observers shall not unreasonably interfere with the operation of the Facilities by Seller or the other business or operations of Seller or its Affiliates.

(c) Buyer shall not be permitted during the Interim Period to contact any of Seller's vendors, customers or suppliers, or any Governmental Authorities (except, in accordance with Section 5.2 or Section 5.3, in connection with Consents to be obtained in connection with this Agreement or any Related Agreement), regarding the operations or regulatory status of Seller or with respect to the transactions contemplated under this Agreement or the Related Agreements without receiving prior written authorization from Seller (not to be unreasonably withheld, conditioned or delayed); *provided*, that nothing in this Section 5.4(c) shall be construed to restrict Buyer or its Affiliates from contacting any Person to the extent the subject of such communications is not related to this Agreement or any Related Agreement, or the transactions contemplated hereby or thereby.

(d) Buyer agrees to indemnify and hold harmless Seller, its Affiliates and their Representatives for any and all Losses incurred by Seller, its Affiliates or their Representatives arising out of any exercise of the access rights under this Section 5.4, including any Claims by any of Buyer's Representatives for any injuries or property damage while present at the Facilities, except in cases of Seller's or its Representatives' willful misconduct.

(e) On or as soon as reasonably practicable after the Closing Date (but in no event more than twenty (20) days thereafter), Seller shall deliver to Buyer all the Transferred Books and Records (to the extent not already located at the Facilities or otherwise Made Available to Buyer on or prior to the Closing), except as prohibited by applicable Law.

(f) Following the Closing, Seller shall be entitled to retain copies (at Seller's sole cost and expense) of all books and records relating to its ownership or operation of the Acquired Assets and the Assumed Liabilities.

(g) After the Closing, Buyer will, and will cause its Representatives to, provide Seller and its Affiliates, including their respective Representatives, reasonable access to or copies of all books, records, files and documents to the extent they are related to the Acquired Assets or the Assumed Liabilities, and to periods ending prior to the Closing Date in order to permit Seller and its Affiliates and their respective Representatives to prepare and file their Tax Returns and to prepare for and participate in any investigation with respect thereto, to prepare for and participate in any other investigation and defend any Claims relating to or involving Seller or its Affiliates, to discharge its obligations under this Agreement, to comply with financial reporting requirements, and for other reasonable

purposes, and will afford Seller and its Affiliates reasonable assistance in connection therewith at no cost to Seller. Buyer will cause such records to be maintained for not less than seven (7) years from the Closing Date and will not dispose of such records without first offering in writing to deliver them to Seller; *provided, however*, that in the event that Buyer transfers all or a portion of the Acquired Assets or the Assumed Liabilities to any Third Person during such period, Buyer may transfer to such Third Person all or a portion of the books, records, files and documents related thereto, *provided* such transferee expressly assumes in writing the obligations of Buyer under this Section 5.4(g).

(h) On and after the Closing Date, (i) at the request of either Party, the other Party shall make available to such requesting Party, its Affiliates and their respective Representatives, those employees of the non-requesting Party or its Affiliates requested by such requesting Party in connection with any Claim, including to provide testimony, to be deposed, to act as witnesses and to assist counsel, and (ii) at the reasonable request of Seller, Seller shall have reasonable access to the Transferred Employees for a period of seven (7) years following the Closing Date, for purposes of consultation or otherwise, to the extent that such access may reasonably be required by Seller in connection with matters relating to or affected by the operations of Seller prior to the Closing; *provided, however*, that, in each case, (x) such access to such employees shall not unreasonably interfere with the normal conduct of the operations of the non-requesting Party, (y) the requesting Party shall pay and reimburse the non-requesting Party for the out-of-pocket costs reasonably incurred by the non-requesting Party in making such employees available, and (z) such assistance shall be provided insofar as the same may be provided without violating any Law or Permit, or waiving any attorney-client privilege, as determined in the reasonable opinion of counsel to the non-requesting Party.

**Section 5.5 Conduct of Business Pending the Closing.** During the Interim Period, Seller will operate and maintain the Acquired Assets in the ordinary course of business consistent with Good Utility Practice, unless otherwise expressly contemplated by this Agreement or with the prior written consent of Buyer (which consent shall not be unreasonably withheld or delayed). Good Utility Practice during the Interim Period shall include, but not be limited to, the following: to the extent Seller experiences a GADS Event, Seller will cure in accordance with Good Utility Practice the cause of such GADS Event for each Facility such that it reports in GADS as available an amount of capacity equal to or greater than each Facility's applicable Capacity Supply Obligation as of the Closing Date. Without limiting the generality of the foregoing, except as otherwise expressly contemplated by this Agreement or as set forth in Schedule 5.5, Seller shall not, without the prior written consent of the Buyer (which consent shall not be unreasonably withheld or delayed), during the Interim Period, with respect to the Acquired Assets or Assumed Liabilities:

(a) Except for Acquired Assets used at or consumed by the Facilities in the ordinary course of business consistent with Good Utility Practice, and except for sales or dispositions of obsolete or surplus assets in connection with the normal repair or replacement of assets or properties, (i) sell, lease (as lessor), license (as licensor), transfer or otherwise dispose of any of the Acquired Assets, or (ii) encumber, pledge, mortgage or suffer to be imposed on any of the Acquired Assets any Lien other than Permitted Liens;

(b) Make any material change in the levels of Inventories customarily maintained by the Seller with respect to the Acquired Assets, except for such changes that are consistent with Good Utility Practice, nor transfer, sell or otherwise acquire or dispose of any assets described in Section 2.1(c) except in the ordinary course of business consistent with past practices; *provided, however*, that Seller shall consult with Buyer with respect to the purchase of any fuel Inventory during the Interim Period, the terms of which purchase shall be subject to Buyer's prior written approval, not to be unreasonably withheld, conditioned or delayed; *provided, further*, that Seller shall consult with Buyer with respect to the purchase of any non-fuel Inventory during the Interim Period in excess of Five Hundred Thousand Dollars (\$500,000) in the aggregate, the terms of which purchase shall be subject to Buyer's prior written approval, not to be unreasonably withheld, conditioned or delayed;

(c) (i) Terminate, make any waiver under, extend, materially amend, or renew or replace any Material Contract, Assigned Lease or Transferable Permit, except in connection with transferring Seller's rights or obligations thereunder to the Buyer pursuant to this Agreement; or (ii) enter into or commit to enter into any Contract that would be a Material Contract, in each case without the prior written consent of Buyer (which consent shall not be unreasonably withheld or delayed). Except with the prior written consent of Buyer (which consent may be granted or withheld by Buyer in its sole discretion), Seller shall not enter into any Contract relating to the ownership or operation of the Acquired Assets or the operation of the Business, except for any Contract (w) entered into in the ordinary course of business that will be terminated or fully performed prior to the Closing (without assignment to, or any continuing Liability of, Buyer on or after the Closing), (x) that can be freely assigned to Buyer at the Closing and terminated by Buyer at its option at any time on or after the Closing without penalty or cancellation charge, (y) that can be freely assigned to Buyer at the Closing and that does not increase an Assumed Liability or which increases an Assumed Liability by an amount of Two Hundred Fifty Thousand Dollars (\$250,000) or less individually or One Million Dollars (\$1,000,000) or less in the aggregate with other such Contracts, or (z) as may be required or permitted pursuant to Section 5.3 or to implement another provision of this Section 5.5, so long as such Contract can be freely assigned to Buyer at the Closing; *provided* that, during the Interim Period, Schedule 2.1(e), be amended to account for any Contract permitted under this Section 5.5(c);

(d) Enter into, amend, or otherwise modify any real or personal property Tax agreement, treaty or settlement that would reasonably be expected to affect the Tax Liabilities of Buyer or any of its Affiliates in a material manner for any taxable year or

period ending after the Closing Date;

(e) Make, or enter into any commitment to make, any capital expenditures relating to the Acquired Assets, Facilities or Sites, except for those capital expenditures or commitments necessitated by Good Utility Practice and which will be paid in full prior to the Closing, *provided that* if not paid in full prior to the Closing, not more than Two Hundred Fifty Thousand Dollars (\$250,000), in the aggregate, will be payable at any time from and after the Closing;

(f) Increase the level of wages, compensation or other benefits of any Scheduled Employee, except as required pursuant to the Generation CBA or applicable Law or in accordance with Seller's ordinary course of business consistent with past practices; *provided, however*, that such increase shall not in the aggregate, together with any increases resulting from Seller's or its Affiliates' actions set forth in Section 5.5(g) below, exceed the greater of a three percent (3%) of the Scheduled Employees' wages or Two Hundred Fifty Thousand Dollars (\$250,000) annually;

(g) Terminate the employment of any Scheduled Employee except for cause, or hire any employee who would be a Scheduled Employee (other than to replace or fill vacancies), in each case, other than as consistent with past practices, without first consulting with Buyer; *provided, however*, that any such hiring shall not, in the aggregate and, together with any increases resulting from Seller's or its Affiliates' actions set forth in Section 5.5(f) above, exceed Two Hundred Fifty Thousand Dollars (\$250,000) annually; *provided further*, that, during the Interim Period, Schedule 3.12(a) shall be amended to reflect any changes in the Scheduled Employees listed thereon that are permitted under this Section 5.5(g); or

(h) Except as required by Law, agree to any amendment to or waiver of any term of the Generation CBA, or enter into any new collective bargaining agreement with respect to any Scheduled Employees.

Notwithstanding anything to the contrary herein, Seller may take commercially reasonable actions with respect to emergency situations or as required by Law as reasonably determined by Seller and without Buyer's prior written consent, so long as Seller shall promptly inform Buyer upon taking any such action.

#### **Section 5.6 Termination of Certain Services and Contracts; Transition Matters.**

(a) Notwithstanding anything in this Agreement to the contrary, at or prior to the Closing, Seller, subject to consultation with Buyer and Buyer's right to request modifications to the Schedules as set forth in Section 5.15(a), shall (i) terminate, effective upon the Closing, any services provided to any of the Facilities or with respect to the Acquired Assets by Seller, or by any Affiliate thereof under an Intercompany Arrangement, including the termination or severance of insurance policies with respect to coverage for any of the Facilities, Tax services, legal services and banking services (to include the severance of any centralized clearance accounts), other than any such services provided pursuant to the Transition Services Agreement and other than with respect to those Assigned Contracts set forth on Schedule 2.2(j) and (ii) terminate each Contract designated by Buyer on Schedule 5.6(a), which Schedule will be finalized by the Parties acting in good faith within sixty (60) days and which does not result in a termination fee to Seller (such services or Contracts collectively, the "**Terminated Contracts**"). Within thirty (30) days of the Effective Date, Seller will provide Buyer a full and complete copy of each Contract used in connection with the operation of the Business that is not a Material Contract and is available for assumption at Closing by Buyer. Buyer will, acting reasonably and in good faith, determine which of such Contracts Buyer will assume at Closing. For avoidance of doubt, Buyer acknowledges and agrees that all insurance coverage with respect to the Acquired Assets, including those policies referred to in Section 3.9, shall be terminated as of the Closing, and that Buyer shall be solely responsible for providing insurance in respect of the Acquired Assets and for any claims made in connection with such insurance policies after the Closing but only for those claims relating to events or occurrences first occurring on and after the Closing Date.

(b) At the request of Buyer, at the Closing, Seller shall, and shall cause Eversource Services to, enter into an agreement with Buyer to provide, following Closing, those transition services respecting the Acquired Assets as, and for such periods of time, set forth on Schedule 5.6(b) (which schedule may be amended by mutual agreement of Buyer and Seller prior to Closing) at a price equal to the applicable Transition Service Cost Percentage of cost (as allocated in accordance with the same methodologies used for such allocations by Seller and its Affiliates in accordance with past practice); *provided, however*, the escalation provisions in the Transition Service Cost Percentage will be subject to negotiation and potential expansion of time periods during the Interim Period with respect to information technology services in accordance with the other terms and conditions set forth therein (the "**Transition Services Agreement**"). The Parties will agree upon any remaining terms and conditions of the Transition Services Agreement in a commercially reasonable manner as soon as practicable after the date hereof and in any event within sixty (60) days of the date hereof.

(c) Within thirty (30) days after the date hereof, Buyer shall deliver to Seller a list of its proposed representatives to a joint transition team. Seller will add its representatives to such team within ten (10) Business Days after receipt of Buyer's list. Such team will be responsible for preparing as soon as reasonably practicable after the date hereof, and using commercially reasonable efforts to timely implement, a transition plan which will identify and describe substantially all of the various transition activities that the

Parties will cause to occur before and after the Closing and any other transfer of control matters that any Party reasonably believes should be addressed in such transition plan. Buyer and Seller shall use commercially reasonable efforts to cause their representatives on such transition team to cooperate in good faith and take reasonable steps necessary to develop a mutually acceptable transition plan no later than sixty (60) days after the date of this Agreement.

**Section 5.7 Seller Marks.** Buyer acknowledges and agrees that as a result of the consummation of the transactions contemplated by this Agreement, it will not obtain any right, title, interest, license or other right hereunder to use any of the Seller Marks. Prior to the Closing, Seller may remove any of the Seller Marks as it determines in its sole discretion. As soon as reasonably practicable but in no event more than one hundred eighty (180) days after the Closing Date, Buyer shall remove, cover or conceal from the Facilities or the Acquired Assets all of the Seller Marks, including signage at the Facilities, and shall dispose of any unused products, signage, materials, stationery and literature bearing the Seller Marks remaining at the Facilities following the Closing; *provided* that Buyer shall, within ten (10) Business Days after the Closing Date, remove, cover or conceal the Seller Marks appearing on signage at the primary entrances of the Facilities. Thereafter, Buyer shall not use any Seller Mark or any name or term confusingly similar to any Seller Mark in connection with the sale of any products or services, in the corporate or doing business name of any of its Affiliates or otherwise in the conduct of its or any of its Affiliates' businesses or operations. In the event that Buyer breaches this Section 5.7, Seller shall be entitled to specific performance of this Section 5.7 and to injunctive relief against further violations, as well as any other remedies at law or in equity available to Seller.

### **Section 5.8 Employee Matters.**

(a) Settlement Agreement. The Parties acknowledge and agree that under New Hampshire Law (New Hampshire RSA 369-B:3-b) and the Settlement Agreement, Affected Employees are entitled to certain employee protections that apply in connection with the transactions contemplated hereby, including provisions requiring that Buyer undertake certain employee-related obligations as a condition to the consummation of the transactions contemplated hereby. The Parties acknowledge and agree that the covenants and agreements set forth in this Section 5.8 are intended to implement the applicable employee protection provisions and requirements set forth under New Hampshire Law and in the Settlement Agreement and shall be interpreted consistently therewith.

#### (b) Represented Transferred Employees.

(i) Schedule 5.8(b)(i) sets forth the total number of Represented Scheduled Employees (including all such Represented Scheduled Employees who are on inactive status due to any short-term disability, long-term disability or other approved leave) employed in each job classification at each Facility as of the Effective Date. Within twenty (20) days following the Effective Date, Buyer shall provide notice to Seller of the number of Represented Scheduled Employees by classification and Facility whom Buyer desires to hire. The Parties shall cooperate in good faith with the Union to identify, within fifteen (15) days after receipt of Buyer's notice pursuant to Section 5.8(k), in accordance with the applicable provisions of the Generation CBA and the Settlement Agreement, the particular Represented Scheduled Employees to whom Buyer shall offer employment pursuant to the terms of this Section 5.8 (the "**Selected Represented Employees**"). Within sixty (60) days following the date the Selected Represented Employees are identified, Buyer shall offer employment, commencing as of 12:01 a.m. Eastern time on the Closing Date, to all such Selected Represented Employees. Effective immediately before the commencement of employment by Buyer, Seller will terminate the employment of all such Selected Represented Employees who have accepted employment with the Buyer.

(ii) All such offers of employment shall be (A) contingent upon the employee's satisfactory completion of background and drug tests to the extent permitted under the Generation CBA and applicable Law, (B) made in accordance with applicable Laws, the Generation CBA and the Settlement Agreement, and (C) otherwise on terms consistent with the provisions of this Section 5.8. Those employees who accept such offer of employment are referred to herein as the "**Represented Transferred Employees**." Buyer shall, as soon as reasonably practicable and in no event more than twenty (20) days following the Effective Date, provide notice to the Union (x) that Buyer intends to recognize the Union, as of the Closing, as the collective bargaining representative for all Represented Transferred Employees, (y) that, subject to Section 5.8(e), Buyer agrees to become party to and bound by the terms of the Generation CBA as of the Closing with respect to the Represented Transferred Employees, and (z) that describes Buyer's plans regarding staffing by classification and operations of the Facilities.

(iii) On and after the Closing, Buyer shall, subject to Section 5.8(e), comply with all applicable obligations under the Generation CBA with respect to the Represented Transferred Employees covered thereby.

#### (c) Non-Represented Transferred Employees.

(i) Buyer may interview some or all Non-Represented Scheduled Employees listed in Schedule 3.12(a) to determine whether to make offers of employment. As of the Effective Date, Seller will provide Buyer reasonable access to the Facilities and shall make Non-Represented Scheduled Employees available to Buyer for purposes of conducting employment

interviews. Within sixty (60) days following the Effective Date, Buyer shall offer employment to those Non-Represented Scheduled Employees listed in Schedule 3.12(a) whom Buyer desires to employ commencing as of 12:01 a.m. Eastern time on the Closing Date (the “**Selected Non-Represented Employees**”). All such offers of employment shall be contingent upon the employee’s satisfactory completion of background and drug tests to the extent permitted under applicable Law, made in accordance with applicable Laws and otherwise on terms consistent with the provisions of this Section 5.8. Those Selected Non-Represented Employees who accept such offer of employment are referred to herein as the “**Non-Represented Transferred Employees**.” Buyer will provide Seller a list of the Non-Represented Transferred Employees prior to the Closing. Effective immediately before Closing, Seller will terminate the employment of all Non-Represented Transferred Employees.

(ii) The Parties acknowledge and agree that, pursuant to the Settlement Agreement and New Hampshire RSA 369-B:3-b, the Non-Represented Transferred Employees are entitled to employee protections no less than those set forth in the Generation CBA with respect to the Represented Transferred Employees. As required by the Settlement Agreement, Buyer shall, from and after Closing, assume and comply with those employee protection obligations with respect to the Non-Represented Transferred Employees as required by New Hampshire RSA 369-B:3-b as set forth in Section 5.8(c)(iii), Section 5.8(d), Section 5.8(e) and Section 5.8(g) herein.

(iii) Continuing from Closing through no sooner than the end of the CBA Term, Buyer shall maintain an overall benefit package for the Non-Represented Transferred Employees that has an aggregate value at least as favorable as the overall benefit package provided to each such Non-Represented Transferred Employee immediately prior to the Closing and shall provide to each Non-Represented Transferred Employee vacation, holiday and sick leave benefits that are as favorable as such benefits provided to them immediately prior to Closing. Seller shall cooperate and consult in good faith with Buyer in structuring its proposed benefits during the Interim Period.

(d) Service Credit. With respect to benefits accruing during the CBA Term, Buyer shall recognize and apply each Transferred Employee’s prior service with Seller toward any eligibility and vesting under the Employee Benefits Plans and other compensation arrangements of Buyer and, in the case of Represented Transferred Employees, any other plans established to provide benefits described in the Generation CBA and in the case of Non-Represented Transferred Employees in Seller’s policies or plans, if any, that may become applicable to Non-Represented Transferred Employees. Buyer shall vest each Transferred Employee under the Employee Benefits Plans of Buyer to the extent such employee is vested under the Employee Benefits Plans of Seller (or its applicable Affiliates) immediately prior to the Closing, provided that all vacation, personal and sick days accrued by each Transferred Employee under the plans, policies, programs and arrangements of Seller (or its applicable Affiliates) immediately prior to the Closing shall not be a cost to Buyer, but shall be paid as provided in Section 5.8(f). Buyer shall waive all limitations with respect to preexisting conditions, exclusions based on health status and waiting periods with respect to participation and coverage requirements under Buyer’s health and welfare plans. Except as provided in this Section 5.8(d), Seller shall be solely responsible for all Liabilities including any applicable termination pay, severance pay, accrued wages or salary, accrued bonus and/or incentive pay (whether or not such bonus or incentive compensation is subject to any continued service requirement), accrued vacation and sick time, as well as any other benefits, created or owing as a consequence of the employment on or before the Closing Date of any Transferred Employee, or the cessation of any Scheduled Employee’s employment on or before the Closing Date, including (i) all Liabilities under any Employee Benefit Plan maintained by Seller and any Liabilities resulting from any deficiency in the administration or funding of any such plan, (ii) all claims for health care and other welfare benefits, including any workers’ compensation claims, (iii) COBRA continuation coverage requirements, (iv) any and all Liabilities with respect to any employees who are not Transferred Employees, and (v) any and all Liabilities accruing from the CBA MOA.

(e) Pension and Retirement Benefits.

(i) Employees Participating in Seller’s Defined Benefit Pension Plan.

(A) As soon as practicable after the Effective Date, Buyer shall take all necessary and appropriate action to establish and maintain a tax qualified retirement plan (“**Buyer’s Retirement Plan**”) for Transferred Employees who currently participate in Seller’s defined benefit pension plan in accordance with this Section 5.8(e). Seller shall cooperate and consult in good faith with Buyer in structuring Buyer’s Retirement Plan during the Interim Period, and Seller shall further take commercially reasonable actions as are reasonably requested by Buyer to ensure compliance of the Buyer’s Retirement Plan with the Settlement Agreement and the Generation CBA.

(B) For purposes of this Section 5.8(e)(i), the term “**Combined Minimum Pension Benefit**” means, for any such Transferred Employee, the Transferred Employee’s total pension benefit as calculated as of the earlier of (i) such Transferred Employee’s retirement date and (ii) the end of the CBA Term, using (A) the pension benefit formula under the Eversource Pension Plan (“**Seller’s Pension Plan**”) applicable to such Transferred Employee as of the Closing Date, as adjusted to incorporate the provisions of the CBA MOA, (B) such Transferred Employee’s final average earnings (as specified in Seller’s Pension Plan) as of the earlier of (i) such Transferred Employee’s retirement

date and (ii) the end of the CBA Term,, taking into account compensation earned from both Seller and Buyer, (C) such Transferred Employee's total years of service with both Seller (or its applicable Affiliates and predecessors) and Buyer as of the earlier of (i) such Transferred Employee's retirement date and (ii) the end of the CBA Term, and (D) covered compensation as of the earlier of (i) such Transferred Employee's retirement date and (ii) the end of the CBA Term.

(C) For purposes of this Section 5.8(e)(i), the term "**Accrued Pension Benefit**" means, for any such Transferred Employee, the pension benefit payable to such Transferred Employee under Seller's Pension Plan at such Transferred Employee's retirement, which shall be calculated based upon (A) the pension benefit formula under the Seller's Pension Plan applicable to such Transferred Employee as of the Closing Date, as adjusted to incorporate the provisions of the CBA MOA, (B) such Transferred Employee's years of credited service with Seller (or its applicable Affiliates) as of the Closing Date, (C) such Transferred Employee's final average earnings (as specified in the Seller's Pension Plan) as of the Closing Date, and (D) such Transferred Employee's covered compensation as of the Closing Date.

(D) Upon such Transferred Employee's retirement date, Seller (or its Affiliates) shall provide each such Transferred Employee with a vested and non-forfeitable right to a pension benefit equal to such Transferred Employee's Accrued Pension Benefit.

(E) On and after Closing, and continuing through no sooner than the end of the CBA Term, Buyer shall provide each such Transferred Employee with a retirement benefit (or contributions) under Buyer's Retirement Plan with a value that is at least equal to the actuarial equivalent of the difference between such Transferred Employee's Combined Minimum Pension Benefit and such Transferred Employee's Accrued Pension Benefit (the "**Buyer's Retirement Benefit**"). For the avoidance of any doubt, such retirement benefit may be provided through Buyer's Contributory Plan or another defined contribution plan. Such Buyer's Retirement Benefit must be guaranteed to each Transferred Employee and protected from forfeiture to no less extent than an ERISA plan benefit. If any such Transferred Employee's Buyer's Retirement Benefit should be subject to Social Security and Medicare Taxes that do not apply to ERISA pension benefits, Buyer shall "gross up" such Buyer's Retirement Benefit to offset such additional Tax liability to the applicable Transferred Employee.

(F) On and after Closing, and continuing through no sooner than the end of the CBA Term, in the event that any such Transferred Employee (A) is involuntarily separated from employment as a result of layoff from Buyer (or any of its Affiliates) and (B) at the time of Closing (x) is age 50-54 and (y) whose age plus credited service equal or exceed 65 years, then Buyer shall provide to such Transferred Employee those pension and other retirement benefits described in Schedule 5.8(e)(i)(F).

(ii) Employees Participating in Seller's Contributory Retirement Plan.

(A) As soon as practicable after the Effective Date, Buyer shall take all necessary and appropriate action to establish and maintain a tax qualified contributory retirement plan ("**Buyer's Contributory Plan**") for the Transferred Employees who participate in Seller's "K-Vantage" contributory retirement plan in accordance with the provisions of this Section 5.8(e)(ii).

(B) On and after Closing and through the end of the CBA Term, Buyer (or its Affiliates) shall provide each Transferred Employee with contributions to Buyer's Contributory Plan in an amount no less than the amount such Transferred Employee would have received under Seller's "K-Vantage" contributory retirement plan, as set forth in Schedule 5.8(e)(ii)(B).

(f) Transition Matters. Effective as of the Closing, the Transferred Employees shall cease active participation in all Employee Benefit Plans of Seller (or its applicable Affiliates). Seller (or its applicable Affiliates) shall pay, in accordance with Seller's customary practice, to all Transferred Employees all accrued salary or wages, including overtime, vacation pay, all bonus or incentive pay due in connection with the 2017 and other applicable performance year(s), or other benefits to which they are entitled under the Employee Benefit Plans of Seller (or its applicable Affiliates) as of immediately prior to the Closing. For the avoidance of any doubt, Seller shall pay to Transferred Employees all bonus or incentive compensation, if any, calculated in accordance with Seller's customary practice with respect to the period prior to the Closing Date, whether or not such incentive compensation is subject to any continued service requirement. Buyer and Seller intend that the transactions contemplated by this Agreement should not constitute a separation, termination or severance of employment of any Transferred Employee for purposes of any Employee Benefit Plan that provides for separation, termination or severance benefits, and that each such Transferred Employee will have continuous employment immediately before and immediately after the Closing. All Liability and Claims relating to the employment and compensation of any Transferred Employee on and after the Closing shall be the sole responsibility of Buyer, and Buyer agrees to indemnify and hold harmless Seller, its Affiliates and their Representatives for any and all Losses incurred by Seller, its Affiliates or their Representatives

arising out of or related to Buyer's (or its Affiliate's) employment of any Transferred Employee following the Closing.

(g) Severance Benefits. Any Transferred Employee who is terminated as a result of a reduction in force or change in operational practices prior to the end of the CBA Term will be entitled to the benefits set forth in Schedule 5.8(g).

(h) WARN Act; Restructuring Activities. Seller will notify Buyer of any separations or layoffs in the 90 day period prior to the Closing Date, and agrees to timely perform and discharge all requirements under the WARN Act and under applicable similar state and local Laws for the notification of its and its Affiliates' employees arising from any "plant closing," "mass layoff," relocation, employment losses, group termination or similar event, including those arising from Buyer's election not to offer employment to Scheduled Employees or the sale of the Acquired Assets to Buyer up to and including the Closing. Buyer shall be responsible for performing and discharging all requirements under the WARN Act and under applicable similar state and local Laws for the notification of its employees, whether Transferred Employees or otherwise, arising from any "plant closing," "mass layoff," relocation, employment losses, group termination or similar event undertaken by Buyer after the Closing Date. Seller undertakes to indemnify and shall keep indemnified the Buyer and its Affiliates against all liabilities and all related costs and expenses arising from or relating to any claim brought as a result of any action of Seller or its Affiliates, including the sale of the Acquired Assets, that would cause any termination of employment or employment loss of any employees of Seller or its Affiliates that occurs prior to or as of the Closing, to (i) constitute a "plant closing," "mass layoff," relocation, employment loss, or group termination or similar event under the WARN Act or any similar state or local Law, or (ii) result in any other liability or penalty to the Buyer or its Affiliates under applicable law. Buyer will indemnify Seller for any liability under the WARN Act or any similar federal, state or local Law for any actions of Buyer or its Affiliates that would cause any termination of employment of any Transferred Employees by Buyer or its Affiliates that occurs after the Closing to (i) constitute a "plant closing," "mass layoff" or group termination or similar event under the WARN Act or any similar state or local Law, or (ii) result in any other liability or penalty to the Seller or its Affiliates under applicable law after the Closing. All severance and other costs associated with workforce restructuring activities associated with the Acquired Assets and/or the Transferred Employees subsequent to the Closing Date shall be borne solely by Buyer.

(i) Successors and Assigns. Notwithstanding anything herein to the contrary, the agreements and obligations of Buyer set forth in this Section 5.8 shall be binding upon and enforceable against any successor or assign or any other entity acquirer of Buyer, whether by sale, transfer, merger, acquisition or otherwise. Buyer shall make it a condition of any such sale, transfer, merger, acquisition or other transaction or event that any such successor or assign or other entity acquirer shall be bound by the terms of this Section 5.8.

(j) Non-solicitation. For a period of twelve (12) months following the Closing, neither Seller nor any its Affiliates shall directly or indirectly hire or solicit for hire any person who is employed by Buyer or any of its Affiliates. The foregoing, however, shall not preclude Seller or its Affiliates from making good faith generalized solicitations of employment, so long as such solicitations are not targeted to or focused on the officers or employees of Buyer or any of its Affiliates or from hiring any former employee of Buyer or any of its Affiliates who has not been employed with Buyer or its Affiliate in preceding 6 months.

(k) Hiring Commitment. Buyer will make offers of employment to at least eighty percent (80%) of the Scheduled Employees.

### **Section 5.9 ISO-NE and NEPOOL Matters.**

(a) At the Closing, Buyer shall be a member in good standing in NEPOOL or otherwise have sufficient authority to sell the Facilities' electrical output into the wholesale market. Except as required to preserve system reliability and in compliance with the requirements of the ISO-NE or NEPOOL, and as may be otherwise provided in any Related Agreement, following Closing, Seller shall not interfere with Buyer's efforts to expand or modify generation capacity at any of the Sites.

(b) Not less than five (5) Business Days prior to the Closing Date, Buyer shall initiate, and Seller shall confirm, with ISO-NE Buyer's acquisition of the Facilities from Seller, to be effective as of the Closing Date, pursuant to the CAMS User Guide for Company and Affiliate Maintenance, Version 1.4, Section 2.3.15, Asset Ownership Share Transfers. In the event that ISO-NE (or NEPOOL) does not recognize until after the Closing Buyer's acquisition of the Facilities as of the Closing Date (or recognizes such acquisition effective as of any date other than the Closing Date), the Parties agree that (i) any proceeds received by Seller or its Affiliates from ISO-NE (or NEPOOL) after Closing relating to Buyer's ownership of the Facilities on and after the Closing Date shall be promptly paid over to Buyer, and (ii) any proceeds received by Buyer or its Affiliates from ISO-NE (or NEPOOL) after Closing relating to Seller's ownership of the Facilities prior to the Closing Date shall be promptly paid over to Seller. The Parties further agree that (x) any amounts received by Buyer or its Affiliates from ISO-NE after the Closing respecting the Facilities, to the extent attributable to any period prior to the Closing, including (A) ISO-NE Winter Reliability Program revenues attributable to any period prior to the Closing, and (B) ISO-NE Forward Capacity Market capacity payments attributable to any period prior to the Closing, shall be promptly paid over to Seller; and (y) any amounts received by Seller or its Affiliates from ISO-NE after Closing respecting the Facilities, to the extent attributable to any period on and after the Closing, including (A) ISO-NE Winter Reliability Program revenues

attributable to any period on and after the Closing and (B) ISO-NE Forward Capacity Market capacity payments attributable to any period on and after the Closing, shall be promptly paid over to Buyer. Any payment required to be made by a Party pursuant to this Section 5.9(b) shall be made to the other Party by wire transfer of immediately available funds to the account designated in writing by such other Party.

(c) The Parties shall cooperate and provide reasonable assistance in connection with any Potential Qualified Capacity Reduction or Potential Qualified Capacity Increase dispute or correction related thereto, whether prior to or following the Closing; *provided, however*, Buyer shall not be required to incur any cost or expense outside of the ordinary course in connection with such cooperation or assistance.

(d) Seller agrees that it shall promptly notify Buyer in writing of the receipt of notice from ISO-NE determining a Qualified Capacity Reduction for any Facility.

(e) If the Closing has not occurred prior to January 1, 2018, Seller and Buyer will cooperate to bid the Facilities into the ISO-NE forward capacity market to the extent such cooperation is allowed by FERC and ISO-NE.

**Section 5.10 Post-Closing Operations.** As required by the Settlement Agreement, Buyer hereby covenants and agrees that Buyer shall (and shall cause any successor or assign of Buyer to) cause the Facilities to remain in service for a minimum of eighteen (18) months following the Closing Date.

#### **Section 5.11 Post-Closing Environmental Matters.**

(a) On and after the Closing Date, with respect to Environmental Liabilities which constitute Excluded Environmental Liabilities, Buyer will (i) use commercially reasonable efforts not to prejudice or impair Seller's rights under the Environmental Laws or interfere with Seller's ability to contest in appropriate administrative, judicial or other proceedings its Liability, if any, for Environmental Claims or Remediation, and (ii) provide reasonable access to Seller to any Facility for purposes of (x) assisting in Seller's ability to contest its Liability, if any, for Environmental Claims or Remediation or (y) undertaking Remediation; *provided, however*, such access may not unreasonably interfere with ordinary business operations of any Facility. Until such time as Seller's obligations for Excluded Environmental Liabilities are extinguished and only to the extent relevant to those Environmental Liabilities which constitute Excluded Environmental Liabilities, (A) Buyer further agrees to provide to Seller draft copies of all plans and studies prepared in connection with any Site investigation or Remediation related to the Acquired Assets prior to their submission to the Governmental Authority with jurisdiction under Environmental Laws, (B) Seller shall have the right, without the obligation, to attend all meetings between Buyer, its Representatives, and such Governmental Authorities, and (C) Buyer shall promptly provide to Seller copies of all written information, plans, documents and material correspondence submitted to or received from such Governmental Authorities relating to Buyer's discharge of any Environmental Liabilities assumed pursuant to this Agreement.

(b) Buyer shall provide Seller with reasonable advance written notice before commencing any Dig Activities prior to the Excluded Environmental Liability Termination Date.

**Section 5.12 Transfer Taxes; Expenses.** Notwithstanding any other provision of this Agreement to the contrary, in accordance with New Hampshire Law and custom, Buyer and Seller shall in good faith determine the amount and at Closing each pay fifty percent (50%) of all Transfer Taxes that may be imposed upon, or payable, collectible or incurred in connection with the transfer of the Acquired Assets to Buyer or otherwise in connection with the transactions contemplated by this Agreement and the Related Agreements. Except as provided in Section 2.10(m), Buyer shall, at its own expense, prepare and timely file all Tax Returns relating to any such Transfer Tax (and Seller shall cooperate with respect thereto as reasonably necessary, including by preparing, executing and providing its Tax Return to Buyer, or by joining in the execution of any such Tax Returns if required by applicable Law), shall notify Seller when such filings have been made and shall provide Seller with copies of all Forms CD-57-S.

#### **Section 5.13 Tax Matters.** Except as provided in Section 5.12 relating to Transfer Taxes:

(a) With respect to Taxes to be prorated in accordance with Section 2.7 of this Agreement, Buyer shall prepare and timely file all Tax Returns required to be filed after the Closing with respect to the Acquired Assets, if any, and Buyer shall duly and timely pay all such Taxes shown to be due on such Tax Returns (or shall reimburse Seller for any such Taxes paid by Seller). Buyer's preparation of any such Tax Returns shall be subject to Seller's review and comment, and Buyer shall consider in good faith any comments received from Seller. No later than twenty (20) Business Days prior to the due date of any such Tax Return, Buyer shall make such Tax Return available for Seller's review and comment. Buyer shall respond no later than five (5) Business Days prior to the due date for filing such Tax Return. Without the prior written consent of Seller, Buyer will not (i) file or amend any Tax Return relating to any taxable period ending on or prior to the Closing Date, or to any taxable period beginning before the Closing Date and ending after the Closing Date, or any portion thereof or (ii) extend or waive, or cause to be extended or waived, any statute of limitations or other period for the assessment of any Tax or deficiency related to any such taxable period (or portion thereof), in each

case for Tax Returns related to the Acquired Assets.

(b) Whenever any Taxing Authority asserts a claim, makes an assessment, or otherwise disputes the amount of Taxes relating to any taxable period ending on or prior to the Closing Date, or to any taxable period beginning before the Closing Date and ending after the Closing Date, or any portion thereof, Buyer shall, upon receipt of such assertion, promptly, but no later than thirty (30) days thereafter, inform Seller in writing of such assertion. With respect to proceedings that relate solely to Taxes that represent Excluded Liabilities and to any proceedings described on Schedule 3.10, Seller shall have the sole right to control any such proceedings and to determine whether and when to settle any such claim, assessment or dispute; *provided, however*, that Seller shall not settle any Tax controversies in a manner that would reasonably be expected to affect the Tax Liabilities of Buyer or any of its Affiliates in a material manner for any taxable year or period ending after the Closing Date without the prior written consent of Buyer. With respect to proceedings that relate to Taxes that represent Assumed Liabilities, Buyer shall have the sole right to control any such proceedings and determine whether and when to settle any such claim, assessment or dispute; *provided, however*, that Buyer shall not settle any Tax controversies in a manner that would reasonably be expected to affect the Tax Liabilities of Seller or any of its Affiliates in a material manner for any taxable year or period without the prior written consent of Seller. Each of Buyer and Seller shall provide the other with such assistance and cooperation as may reasonably be requested by the other Party in connection with the preparation of any Tax Return, any audit or other examination by any Taxing Authority, or any judicial or administrative proceedings relating to Liability for Taxes. Such assistance and cooperation shall include the retention and (upon the other Party's request) the provision of records and information that are reasonably relevant to any such audit, litigation or other proceeding and making employees available on a mutually convenient basis to provide additional information and explanation of any material provided hereunder, and each will retain and provide the requesting Party with any records or information until the expiration of the statute of limitations (and, to the extent notified by the other Party, any extensions thereof) of the respective taxable periods which may be relevant to such Tax Return, audit or examination, proceedings or determination.

**Section 5.14 Further Assurances.** At any time and from time to time after the Closing, at the reasonable request of a Party and without further consideration, the other Party will or will cause its Affiliates to execute and deliver such instruments of sale, transfer, conveyance, assignment, assumption and confirmation and take such actions as the Parties may reasonably agree are necessary to transfer, convey and assign to Buyer, and to confirm Buyer's title to or interest in the Acquired Assets and assumption of and obligation with respect to the Assumed Liabilities, to put Buyer in actual possession and operating control of the Acquired Assets, and otherwise to consummate and give effect to the transactions contemplated by this Agreement. For avoidance of doubt, in the event that any asset that is an Acquired Asset shall not have been conveyed to Buyer at the Closing, Seller shall, subject to Section 5.3, use its commercially reasonable efforts to convey such asset to Buyer as promptly as is practicable after the Closing.

#### **Section 5.15 Schedule Modifications During the Interim Period and Updates.**

(a) Schedule Modifications. The Parties acknowledge and agree that Schedule 1.1-PL (solely with respect to matters that are or may be disclosed in any Title Commitment or any additional title insurance commitments obtained by Seller or Buyer pursuant to this Agreement, provided that any such disclosed matter will not be deemed to be a "Permitted Lien" under this Agreement without the Buyer's consent, not to be unreasonably withheld), Schedule 2.1(a), Schedule 2.1(c), Schedule 2.1(e), Schedule 2.1(g), Schedule 2.2(a), Schedule 2.2(b), Schedule 3.3, Schedule 3.6 (and upon such agreed upon modification based on updated title commitments, such updated title commitments shall become the "Title Commitments"), Schedule 3.7(b-1) and Schedule 3.7(b-2) are not final and in each case are subject to review and reasonable modifications requested in good faith by the Parties during the Interim Period. The Parties will cooperate in good faith during the Interim Period in connection with any requested modifications to such Schedules and to finalize Schedule 2.1(a) to effect the transactions contemplated by this Agreement, including the Related Agreements. For the avoidance of doubt, any modifications to the Schedules pursuant to this Section 5.15(a) are not intended to and shall not be made in order to cure any Party's breach as of the Effective Date or the Closing Date of a representation or warranty, but such modifications may be made to allow the Parties to finalize the Related Agreements and Schedule 2.1(a) in good faith and in accordance with the terms and conditions of this Agreement, and to confirm that the Acquired Assets constitute all of the assets intended to be transferred to Buyer in accordance with this Agreement.

(b) Schedule Updates. During the Interim Period, Seller shall supplement or amend the Schedules hereto with respect to any matter (regardless of whether such matter arose prior to, on or after the date hereof) if necessary to remedy any inaccuracy of any representation or warranty of Seller (each, a "**Schedule Update**"); *provided* that, except as specifically provided in this Section 5.15(b), no Schedule Update shall be deemed to be incorporated into or to supplement, amend or modify the Schedules. If Seller notifies Buyer that such event, development or occurrence which is the subject of the Schedule Update arose after the Effective Date and was not the result of a breach of this Agreement by Seller and constitutes a Material Adverse Effect, then Buyer shall have the right to terminate this Agreement without any penalty whatsoever. If Buyer has the right to, but does not elect to terminate this Agreement and the Closing occurs, then (i) Buyer shall be deemed to have irrevocably waived any right to terminate this Agreement with respect to the matters specifically set forth in such Schedule Update that constituted or otherwise had a Material Adverse Effect, (ii) such Schedule Update shall be deemed to be incorporated into and to supplement, amend and modify the Schedules, and (iii) Buyer shall have irrevocably waived its rights to indemnification under Section 7.2 solely with respect to the matters specifically set forth in

such Schedule Update. For purpose of clarity, Buyer and the Seller acknowledge and agree that any Schedule Update that reflects an event, development or occurrence that either (A) occurred prior to the Effective Date and should have been set forth on the Schedules as of the execution of this Agreement or (B) that does not give Buyer the right to terminate this Agreement for failure to satisfy the closing condition set forth in Section 6.1(a) or otherwise pursuant to this Agreement shall be deemed to have been provided for information purposes only, shall not be deemed to cure any breach of this Agreement or affect the conditions to Closing or Buyer's indemnification rights set forth in this Agreement. In the event Buyer determines in good faith that any such Schedule Update, or prior Schedule Updates in the aggregate, could reasonably be expected to result in the incurrence by Buyer of Losses in excess of one percent (1.00%) of the Base Purchase Price, Buyer shall notify Seller of such determination within twenty (20) days of receipt of such Schedule Update from Seller, and the Parties shall negotiate in good faith an equitable adjustment to the Base Purchase Price to account for such Losses. Buyer will have the right to terminate this Agreement without any liability whatsoever if the aggregate of all such Losses equal or exceeds ten percent (10%) of the Base Purchase Price. In the event Buyer fails to deliver such determination to Seller within such twenty (20) day period, the Parties agree that no such equitable adjustment shall be made in respect of such Schedule Update.

**Section 5.16 Casualty.** If any material Acquired Asset is damaged or destroyed by a casualty loss during the Interim Period (a "**Casualty Loss**"), Seller shall promptly give Buyer written notice thereof, including reasonable details regarding the Casualty Loss, the amounts recoverable from insurance, any deductible for which Seller or any of its Affiliates would be required to pay out-of-pocket and any other information related to the costs and sources of repayment to restore such Casualty Loss. Upon receipt of such notice, Buyer will have the right, in its sole discretion, to (a) require Seller to restore such damaged or destroyed Acquired Asset to a condition reasonably comparable to its condition prior to such Casualty Loss (such costs with respect to any Acquired Asset, the "**Restoration Cost**") prior to the Closing; (b) proceed to Closing without Seller restoring such damaged or destroyed Acquired Asset, in which case Buyer will be entitled to a reduction in the Purchase Price equal to the difference between the Restoration Cost less any proceeds delivered to Buyer by Seller at the Closing related to the Casualty Loss; or (c) terminate this Agreement with no penalty whatsoever if the cost to repair exceeds ten percent (10%) of the Base Purchase Price (as determined by a qualified firm mutually selected by Buyer and Seller as promptly as practicable after the date of the event of casualty). Buyer will give notice to Seller of its election within sixty (60) days after receipt from Seller of all information reasonably required by Buyer and in Seller's possession or control related to the Casualty Loss. If Buyer requires Seller to restore the Casualty Loss, Buyer and Seller will negotiate in good faith if Seller believes that an extension of the Outside Date is required.

**Section 5.17 Condemnation.** If from time to time any portion of any Acquired Asset is taken by condemnation during the Interim Period (a "**Taking**"), Seller shall promptly give Buyer written notice thereof, including reasonable details regarding the Taking and the Acquired Assets affected thereby, the amounts being paid to Seller in connection with such Taking and any other information related to the costs and sources of repayment related to the Acquired Assets affected by such Taking. If the value of the Acquired Assets affected by the Taking is less than or equal to ten percent (10%) of the Base Purchase Price and no material portion of any Facility is affected, the proceeds of the Taking will be credited against the Base Purchase Price. If the value of the Acquired Assets affected by the Taking is greater than ten percent (10%) or if a material portion of any Facility is affected (regardless of the amount at issue), Buyer will have the right, in its sole discretion, to (a) proceed to Closing, in which case Buyer will be entitled to a reduction in the Purchase Price equal to the proceeds of the Taking, or (b) terminate this Agreement with no penalty whatsoever if the cost to restore exceeds ten percent (10%) of the Base Purchase Price (as determined by a qualified firm mutually selected by Buyer and Seller as promptly as practicable after the date of the event of condemnation). Buyer will give notice to Seller of its election within sixty (60) days after receipt from Seller of all information reasonably required by Buyer and in Seller's possession or control related to the Taking.

**Section 5.18 Confidentiality.** Buyer acknowledges and agrees that the Confidentiality Agreements remain in full force and effect and, in addition, covenants and agrees to keep confidential, in accordance with the provisions of the Confidentiality Agreements, information provided to Buyer pursuant to this Agreement (including this Agreement and the Exhibits and Schedules hereto); *provided*, that from and after Closing, Buyer shall not have any obligation to maintain the confidentiality of information with respect to the Business or the Acquired Assets, but Buyer's confidentiality obligations under the Confidentiality Agreements (with respect to information concerning Seller and its Affiliates) shall otherwise continue. If this Agreement is, for any reason, terminated prior to the Closing, the Confidentiality Agreements and the provisions of this Section 5.18 shall nonetheless continue in full force and effect.

**Section 5.19 Public Announcements.** Except as otherwise expressly provided herein, each Party shall, and shall cause its Affiliates (as applicable) to, consult with the other Party regarding the timing and content of any public announcements regarding this Agreement, the Closing and the other transactions contemplated by this Agreement to the news media, financial community, any Governmental Authority, customers, suppliers or the general public. Except as otherwise provided herein, no Party or its Affiliates shall make any such public announcement without the prior written consent of the other Party, unless any such disclosure is otherwise required by Law or by the rules of a national securities exchange (in which case such Party will provide to the other Party reasonable advance notice of and an opportunity to review any such disclosure).

**Section 5.20 Mercury Removal Contract.** Seller shall be responsible for completing the scope of work set forth in the

“Scope of Work for the Abatement, Demolition and Disposal of the Mercury Vapor Power Units at Schiller Station – Rev 12.15.16” attached to and part of the Removal Contract as Exhibit E. If the Closing occurs before the Schiller Boiler Removal Completion Date, Buyer shall provide Seller, its Representatives, Removal Contractor and its subcontractors under the Removal Contract with reasonable access to Schiller Station to permit all such persons to complete such removal, but only to the extent that such access does not unreasonably interfere with the operation of Schiller Station, and subject to compliance with applicable Laws. Seller shall furnish Buyer with such information or other data related to the completion of such removal as Buyer may reasonably request, and Buyer shall cooperate with Seller and the Removal Contractor (at Seller’s expense) in connection with the completion of such removal.

## ARTICLE VI CONDITIONS TO CLOSING

**Section 6.1 Buyer’s Conditions to Closing.** The obligation of Buyer to consummate the transactions contemplated by this Agreement is subject to the fulfillment, at or prior to Closing, of each of the following conditions (except to the extent waived in writing by Buyer):

(a) Representations and Warranties. (i) The representations and warranties (other than the Seller Fundamental Warranties, which are addressed in clause (ii) below) made by Seller in Article III hereof (without giving effect to any materiality or Material Adverse Effect qualifiers contained therein) shall be true and correct on the Closing Date as though made on and as of the Closing Date, except (x) for changes expressly permitted or contemplated hereby, (y) representations and warranties that address matters only as of a specified date, which shall be true and correct as of such specified date, subject to the immediately following clause (z), or (z) where the failure to be so true and correct would not individually or in the aggregate have or would not reasonably be expected to have a Material Adverse Effect, or would not have a material adverse effect on Seller’s ability to consummate the transactions contemplated by this Agreement or the Related Agreements. (ii) The Seller Fundamental Warranties shall be true and correct in all material respects on the Closing Date as though made on and as of the Closing Date, except for changes expressly permitted Section 5.15(a) with respect to Section 3.6. (iii) Notwithstanding anything contained herein to the contrary, to the extent any inaccuracy in any representation or warranty of Seller that, individually or in the aggregate with any other such inaccuracy, results in or creates or could reasonably be expected to result in or create a Loss or Claim in excess of ten percent (10%) of the Base Purchase Price, the conditions of this Section 6.1(a) shall be deemed to be not fulfilled.

(b) Title Commitments. Receipt of title commitments for each Facility, each in form and substance reasonably satisfactory to Buyer, and such that the only condition to the issuance of Title Policies from such title commitments is the payment of the title insurance premiums.

(c) Performance. Seller shall have performed and complied, in all material respects, with all agreements, covenants and obligations required by this Agreement to be performed or complied with by Seller at or before the Closing.

(d) Officer’s Certificate. Seller shall have delivered to Buyer at the Closing a certificate of an authorized officer of Seller, dated as of the Closing Date, stating that the conditions set forth in Section 6.1(a) and Section 6.1(c) have been satisfied.

(e) Consents. The Seller Required Consents and the Buyer Required Consents marked with an asterisk on Schedule 3.3 and Schedule 4.3 shall have been duly obtained, made or given and shall be in full force and effect, all appeal, reconsideration, rehearing or other time periods relating to the finality of all such Consents have expired with no appeals, motions for reconsideration, or rehearing shall have been made or exist or, if any such matters shall exist, they have been finally determined to the reasonable satisfaction of Buyer, and all terminations or expirations of waiting periods imposed by any Governmental Authority with respect thereto (including under the HSR Act) shall have occurred.

(f) No Injunctions. On the Closing Date, there shall be no Laws in effect that operate to restrain, enjoin or otherwise prevent or make illegal the consummation of the transactions contemplated by this Agreement.

(g) Deliveries. Seller shall have delivered or shall stand ready to deliver all of the certificates, instruments, agreements, documents and other items specified to be delivered by it hereunder, including pursuant to Section 2.10.

**Section 6.2 Seller’s Conditions to Closing.** The obligation of Seller to consummate the transactions contemplated by this Agreement is subject to the fulfillment, at or prior to Closing, of each of the following conditions (except to the extent waived in writing by Seller):

(a) Representations and Warranties. (i) The representations and warranties (other than the Buyer Fundamental Warranties, which are addressed in clause (ii) below) of Buyer set forth in Article IV hereof (without giving effect to any materiality qualifiers contained therein) shall be true and correct in all respects on the Closing Date as though made on and as of the Closing Date except (x) for changes expressly permitted or contemplated hereby, (y) in the case of representations and warranties that address

matters only as of a specified date, on and as of such specified date, subject to the immediately following clause (z), or (z) where the failure to be so true and correct would not reasonably be expected to have a material adverse effect on the ability of Buyer to consummate the transactions contemplated by this Agreement and the Related Agreements. (ii) The Buyer Fundamental Warranties shall be true and correct in all material respects on the Closing Date as though made on and as of the Closing Date.

(b) Performance. Buyer shall have performed and complied, in all material respects, with all agreements, covenants and obligations required by this Agreement to be performed or complied with by Buyer at or before the Closing.

(c) Officer's Certificate. Buyer shall have delivered to Seller at the Closing a certificate of an authorized officer of Buyer, dated as of the Closing Date, stating that the conditions set forth in Section 6.2(a) and Section 6.2(b) have been satisfied.

(d) Consents. The Seller Required Consents and the Buyer Required Consents marked with an asterisk on Schedule 3.3 and Schedule 4.3 shall have been duly obtained, made or given and shall be in full force and effect, and all terminations or expirations of waiting periods imposed by any Governmental Authority with respect thereto (including under the HSR Act) shall have occurred.

(e) No Injunctions. On the Closing Date, there shall be no Laws in effect that operate to restrain, enjoin, prohibit or otherwise prevent or make illegal the consummation of the transactions contemplated by this Agreement.

(f) Deliveries. Buyer shall have delivered or shall stand ready to deliver all of the certificates, instruments, agreements, documents and other items specified to be delivered by it hereunder, including pursuant to Section 2.11.

(g) Closing Purchase Price. Buyer shall have delivered the Closing Purchase Price in accordance with Section 2.5.

## ARTICLE VII INDEMNIFICATION; LIMITATIONS OF LIABILITY AND WAIVERS

**Section 7.1 Survival.** Subject to the limitations and other provisions of this Agreement, including Section 7.4, (a) the Seller Fundamental Warranties and the Buyer Fundamental Warranties shall survive the Closing and remain in full force and effect indefinitely; (b) each of the Tax and HR Warranties shall survive until the expiration of all applicable statutes of limitation with respect to claims for breach of any such Tax and HR Warranty; (c) the representation and warranty in Section 3.7(a) shall survive the Closing and shall remain in full force and effect for a period of five (5) years following the Closing Date; and (d) all other representations and warranties of Seller set forth in Article III and all other representations and warranties of Buyer set forth in Article IV shall survive the Closing and shall remain in full force and effect for a period of twelve (12) months following the Closing Date. The covenants and agreements of the Parties contained in this Agreement to be performed on or prior to the Closing shall expire at the Closing and have no further force or effect, and the covenants and agreements of the Parties contained in this Agreement that by their terms survive the Closing or contemplate performance after the Closing shall survive for the period set forth therein or otherwise until fully performed. The indemnification obligations of any Party pursuant to this Article VII with respect to any breach of a representation or warranty hereunder shall terminate upon the expiration of such representation or warranty as set forth in this Section 7.1.

**Section 7.2 Indemnification by Seller.** Subject to the other provisions of this Article VII, from and after the Closing, Seller shall indemnify, defend and hold harmless Buyer, its Affiliates and their respective Representatives (collectively, the “**Buyer Indemnified Parties**”) from and against all Losses suffered or incurred by a Buyer Indemnified Party resulting or arising from:

(a) Any breach of any representation or warranty of Seller contained in this Agreement that survives the Closing as specified in Section 7.1;

(b) Any breach of any covenant or agreement of Seller contained in this Agreement that survives the Closing as specified in Section 7.1; or

(c) Any Excluded Liability, excluding from this indemnity obligation (i) any Excluded Environmental Liability that has become an Assumed Liability pursuant to Section 2.4(i) and (ii) any Environmental Liability resulting from Buyer's Dig Activities.

**Section 7.3 Indemnification by Buyer.** Subject to the other provisions of this Article VII, from and after the Closing, Buyer shall indemnify, defend and hold harmless Seller, its Affiliates and their respective Representatives (collectively, the “**Seller Indemnified Parties**”) from and against all Losses suffered or incurred by a Seller Indemnified Party resulting or arising from:

(a) Any breach of any representation or warranty of Buyer contained in this Agreement that survives the Closing as specified in Section 7.1;

(b) Any breach of any covenant or agreement of Buyer contained in this Agreement that survives the Closing as

specified in Section 7.1;

(c) Any Assumed Liability, including within this indemnity obligation (i) any Excluded Environmental Liability that has become an Assumed Liability pursuant to Section 2.4(i) and (ii) any Environmental Liability resulting from Buyer's Dig Activities.

**Section 7.4 Certain Limitations and Provisions.** The Buyer Indemnified Party or Seller Indemnified Party, as applicable, making a claim for indemnification under this Article VII is referred to herein as the "**Indemnified Party**" and the Party against whom such claims are asserted under this Article VII is referred to as the "**Indemnifying Party**." The indemnification provided for in this Article VII shall be subject to the following limitations and other provisions:

(a) Seller shall have no liability for indemnification of any Losses under Section 7.2(a) (other than arising out of any breach of the Seller Fundamental Warranties, the Tax and HR Warranties and instances of Seller's criminal conduct or common law or statutory fraud for which, in each case, the Threshold Amount shall be zero) until the aggregate amount of all such Losses equals or exceeds one-half percent (0.5%) of the Base Purchase Price (the "**Threshold Amount**"), in which event Seller shall only be liable for Losses in excess of the Threshold Amount. Notwithstanding anything herein to the contrary, the aggregate amount of all Losses for which Seller shall be liable shall be limited as follows:

(i) Indemnification for Losses pursuant to Section 7.2(a) (excluding such Losses set forth in Section 7.4(a)(ii) and Section 7.4(a)(iii) below) shall not exceed an amount equal to ten percent (10%) of the Base Purchase Price;

(ii) Indemnification for Losses pursuant to Section 2.4(i)(A), Section 2.4(i)(B)(I) and Section 7.2(a) (to the extent relating to Seller's breach of Section 3.11(b) or Section 3.11(d)) shall not exceed Twenty-Five Million Dollars (\$25,000,000); and

(iii) Indemnification for breach of any Seller Fundamental Warranty or Tax and HR Warranty shall not exceed an amount equal to the Base Purchase Price.

Notwithstanding anything herein to the contrary, Seller shall have no liability for indemnification under Section 7.2(a) or Section 7.2(b) for Losses with respect to any individual item or set of items arising out of substantially similar facts and circumstances unless the amount of Losses with respect to such item equals or exceeds Fifty Thousand Dollars (\$50,000), and if such amount is not equaled or exceeded, none of the Losses with respect to such items will be counted toward the Threshold Amount.

(b) Buyer shall have no liability for indemnification of any Losses under Section 7.3(a) (other than arising out of any breach of the Buyer Fundamental Warranties and instances of Buyer's criminal conduct or common law or statutory fraud for which, in each case, the Threshold Amount shall be zero) until the aggregate amount of all such Losses equals or exceeds the Threshold Amount, in which event Buyer shall only be liable for Losses in excess of the Threshold Amount. Notwithstanding anything herein to the contrary, the aggregate amount of all Losses for which Buyer shall be liable pursuant to Section 7.3(a) shall not exceed an amount equal to ten percent (10%) of the Base Purchase Price, except with respect to any breach of any Buyer Fundamental Warranty, in which case Buyer's liability shall not exceed an amount equal to the Base Purchase Price. Notwithstanding anything herein to the contrary, Buyer shall have no liability for indemnification under Section 7.3(a) or Section 7.3(b) for Losses with respect to any individual item or set of items arising out of substantially similar facts and circumstances unless the amount of Losses with respect to such item equals or exceeds Fifty Thousand Dollars (\$50,000), and if such amount is not equaled or exceeded, none of the Losses with respect to such items will be counted toward the Threshold Amount, *provided, further* that Buyer shall have no liability for indemnification of any Losses incurred by Seller related to court costs, fees of attorneys, accountants, consultants and other experts, and document production in defense of Claims arising under Section 7.3(c)(i); *provided, however*, if Buyer fails to assume (and had the obligation to assume) the obligation to indemnify Seller under Section 7.3(c) for an Excluded Environmental Liability that has become an Assumed Liability, then Buyer shall reimburse Seller for those enumerated Losses.

(c) Any Indemnified Party that becomes aware of a Loss for which it seeks indemnification under this Article VII shall be required to use commercially reasonable efforts to mitigate the Loss.

(d) Losses of any Indemnified Party hereunder shall be calculated after deducting the amount of any insurance proceeds and any indemnity, contribution or other similar Third Party recoveries actually received or reasonably expected to be received by such Indemnified Party in respect of such Loss at or prior to the time of such calculation (net of the reasonable out of pocket costs and expenses associated with such recoveries and any associated increases in insurance premiums). The Indemnified Party shall use its commercially reasonable efforts to recover under insurance policies or indemnity, contribution or similar agreements for any Losses prior to seeking indemnification under this Agreement.

(e) All Losses shall be determined without duplication of recovery under any other provisions of this Agreement or any Related Agreement. Without limiting the generality of the foregoing, (i) if any fact, circumstance, condition, agreement or event

forming a basis for a claim for indemnification under this Article VII shall overlap with any fact, circumstance, condition, agreement or event forming the basis of any other claim for indemnification under this Article VII, there shall be no duplication in the calculation of the amount of Losses, and (ii) neither Seller nor Buyer shall have any liability under this Article VII for Losses relating to matters to the extent included in the calculation of the Purchase Price Adjustment in accordance with Section 2.6 or the prorations made in accordance with Section 2.7 (other than the failure to pay or credit any amounts so included).

(f) Solely for purposes of calculating Losses arising from a breach of any representation, warranty or covenant hereunder (and not for purposes of determining the existence of a breach of any representation, warranty or covenant), any materiality or Material Adverse Effect qualifications in such representation or warranty shall be disregarded.

(g) Notwithstanding anything to the contrary contained in this Agreement, the limitations on any liability or Loss set forth in this Agreement shall not apply in instances of Seller's or Buyer's, as applicable, willful misconduct, criminal conduct or common law or statutory fraud.

### **Section 7.5 Indemnification Procedures.**

(a) Third Party Claims. If any Indemnified Party receives notice of the assertion or commencement of any Claim made or brought by any Third Party (a "**Third Party Claim**") against such Indemnified Party with respect to which the Indemnifying Party is obligated to provide indemnification under this Agreement, the Indemnified Party shall give the Indemnifying Party prompt written notice thereof. The failure to give such prompt written notice shall not, however, relieve the Indemnifying Party of its indemnification obligations, except and only to the extent that the Indemnifying Party forfeits rights or defenses by reason of such failure. Such notice by the Indemnified Party shall describe the Third Party Claim in reasonable detail, shall include copies of all material written evidence thereof and shall indicate the estimated amount, if reasonably practicable, of the Loss that has been or may be sustained by the Indemnified Party. The Indemnifying Party shall have the right to participate in, or by giving written notice to the Indemnified Party, to assume the defense of any Third Party Claim at the Indemnifying Party's expense and by the Indemnifying Party's own counsel, and the Indemnified Party shall cooperate in good faith in such defense. In the event that the Indemnifying Party assumes the defense of any Third Party Claim, subject to Section 7.5(b), it shall have the right to take such action as it deems necessary to avoid, dispute, defend, appeal or make counterclaims pertaining to any such Third Party Claim in the name and on behalf of the Indemnified Party. The Indemnified Party shall have the right, at its own cost and expense, to participate in the defense of any Third Party Claim with counsel selected by it, subject to the Indemnifying Party's right to control the defense thereof. If the Indemnifying Party elects not to compromise or defend such Third Party Claim or fails to promptly notify the Indemnified Party in writing of its election to defend as provided in this Agreement, the Indemnified Party may, subject to Section 7.5(b), pay, compromise or defend such Third Party Claim and, subject to the limitations set forth in this Article VII, seek indemnification for any and all Losses based upon, arising from or relating to such Third Party Claim. Seller and Buyer shall cooperate with each other in all reasonable respects in connection with the defense of any Third Party Claim, including making available (subject to the provisions of Section 5.18) information reasonably available to such Party relating to such Third Party Claim.

(b) Settlement of Third Party Claims. Notwithstanding any other provision of this Agreement, the Indemnifying Party shall not enter into settlement of any Third Party Claim without the prior written consent of the Indemnified Party (which consent shall not be unreasonably withheld or delayed), except as provided in this Section 7.5(b). If a firm offer is made to settle a Third Party Claim without leading to liability or the creation of a financial or other obligation on the part of the Indemnified Party and provides, in customary form, for the unconditional release of each Indemnified Party from all liabilities and obligations in connection with such Third Party Claim and the Indemnifying Party desires to accept and agree to such offer, the Indemnifying Party shall give written notice to that effect to the Indemnified Party. If the Indemnified Party fails to consent to such firm offer within ten (10) days after its receipt of such notice, the Indemnified Party may continue to contest or defend such Third Party Claim and in such event, the maximum liability of the Indemnifying Party as to such Third Party Claim shall not exceed the amount of such settlement offer. If the Indemnified Party fails to consent to such firm offer and also fails to assume defense of such Third Party Claim, the Indemnifying Party may settle the Third Party Claim upon the terms set forth in such firm offer to settle such Third Party Claim. If the Indemnified Party has assumed the defense pursuant to Section 7.5(a), it shall not agree to any settlement without the written consent of the Indemnifying Party (which consent shall not be unreasonably withheld or delayed).

(c) Direct Claims. Any Claim by an Indemnified Party for indemnification on account of a Loss which does not result from a Third Party Claim (a "**Direct Claim**") shall be asserted by the Indemnified Party giving the Indemnifying Party prompt written notice thereof, and in any event within thirty (30) days after the discovery by the Indemnified Party of the circumstances giving rise to such Claim. The failure to give such prompt written notice shall not, however, relieve the Indemnifying Party of its indemnification obligations, except and only to the extent that the Indemnifying Party forfeits rights or defenses by reason of such failure. Such notice by the Indemnified Party shall describe the Direct Claim in reasonable detail, shall include copies of all material written evidence thereof and shall indicate the estimated amount, if reasonably practicable, of the Loss that has been or may be sustained by the Indemnified Party. The Indemnifying Party shall have thirty (30) days after its receipt of such notice to respond in writing to such Direct Claim. During such thirty (30) day period, the Indemnified Party shall allow the Indemnifying Party and its Representatives to

investigate the matter or circumstance alleged to give rise to the Direct Claim, and whether and to what extent any amount is payable in respect of the Direct Claim, and the Indemnified Party shall assist the Indemnifying Party's investigation by giving such reasonable information and assistance (including access to the Indemnified Party's premises and personnel and the right to examine and copy any accounts, documents or records) as the Indemnifying Party or any of its professional advisors may reasonably request (subject to the provisions of Section 5.18). If the Indemnifying Party does not so respond within such thirty (30) day period, the Indemnifying Party shall be deemed to have rejected such claim, in which case the Indemnified Party shall be free to pursue such remedies as may be available to the Indemnified Party on the terms and subject to the provisions of this Agreement.

**Section 7.6 Tax Treatment of Indemnification Payments.** Unless otherwise required by applicable Law, all indemnification payments made pursuant to this Agreement will be treated as an adjustment to the Purchase Price for all Tax purposes

**Section 7.7 Waiver of Other Representations; No Reliance; "As Is" Sale.**

(a) NOTWITHSTANDING ANYTHING IN THIS AGREEMENT TO THE CONTRARY AND EXCEPT FOR THOSE REPRESENTATIONS AND WARRANTIES EXPRESSLY SET FORTH IN ARTICLE III, IT IS THE EXPLICIT INTENT OF EACH PARTY, AND THE PARTIES HEREBY AGREE, THAT NONE OF SELLER, ITS AFFILIATES OR THEIR RESPECTIVE REPRESENTATIVES HAS MADE OR IS MAKING ANY REPRESENTATION OR WARRANTY WHATSOEVER, EXPRESS OR IMPLIED, AT COMMON LAW, STATUTORY OR OTHERWISE, WRITTEN OR ORAL, WITH RESPECT TO, (I) THE ACQUIRED ASSETS, THE ASSUMED LIABILITIES, OR ANY PART THEREOF OR (II) THE ACCURACY OR COMPLETENESS OF THE INFORMATION, RECORDS, AND DATA NOW, HERETOFORE, OR HEREAFTER MADE AVAILABLE TO BUYER IN CONNECTION WITH THIS AGREEMENT AND ANY SUCH OTHER REPRESENTATIONS OR WARRANTIES ARE HEREBY EXPRESSLY DISCLAIMED. BUYER HAS NOT EXECUTED OR AUTHORIZED THE EXECUTION OF THIS AGREEMENT IN RELIANCE UPON ANY SUCH PROMISE, REPRESENTATION OR WARRANTY NOT EXPRESSLY SET FORTH HEREIN.

(b) WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, EXCEPT FOR THOSE REPRESENTATIONS AND WARRANTIES EXPRESSLY SET FORTH IN ARTICLE III, THE ACQUIRED ASSETS ARE SOLD "AS IS, WHERE IS," "WITH ALL FAULTS," AND NONE OF SELLER OR ITS AFFILIATES, NOR ANY OF THEIR RESPECTIVE REPRESENTATIVES, MAKE OR HAVE MADE, AND BUYER IS NOT RELYING ON, ANY REPRESENTATIONS OR WARRANTIES OF ANY KIND OR NATURE, EXPRESS OR IMPLIED, AT COMMON LAW, STATUTORY OR OTHERWISE, WRITTEN OR ORAL, AS TO LIABILITIES, OPERATIONS OF THE FACILITIES, TITLE, CONDITION, VALUE OR QUALITY OF THE ACQUIRED ASSETS OR THE PROSPECTS (FINANCIAL AND OTHERWISE), RISKS OR ANY OTHER MATTERS RESPECTING THE ACQUIRED ASSETS OR ASSUMED LIABILITIES, INCLUDING, WITHOUT LIMITATION, WITH RESPECT TO (I) THE ACTUAL OR RATED GENERATING CAPABILITY OF ANY OF THE FACILITIES OR THE ABILITY OF BUYER TO SELL FROM ANY OF THE FACILITIES ELECTRIC ENERGY, CAPACITY OR OTHER PRODUCTS RECOGNIZED BY ISO-NE FROM TIME TO TIME, (II) MERCHANTABILITY, USAGE, OR SUITABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE WITH RESPECT TO THE ACQUIRED ASSETS, OR ANY PART THEREOF, (III) THE WORKMANSHIP OF THE ACQUIRED ASSETS, OR THE ABSENCE OF ANY DEFECTS THEREIN, WHETHER LATENT OR PATENT, (IV) COMPLIANCE WITH ENVIRONMENTAL REQUIREMENTS RESPECTING THE ACQUIRED ASSETS, (V) WHETHER SELLER POSSESSES SUFFICIENT REAL PROPERTY OR PERSONAL PROPERTY TO OPERATE THE ACQUIRED ASSETS, OR (VI) THE PROBABLE SUCCESS OR PROFITABILITY OF OPERATING THE ACQUIRED ASSETS AFTER THE CLOSING, ALL OF WHICH ARE EXPRESSLY DISCLAIMED BY SELLER. EXCEPT AS OTHERWISE EXPRESSLY PROVIDED HEREIN, SELLER FURTHER SPECIFICALLY DISCLAIMS ANY REPRESENTATION OR WARRANTY REGARDING THE ABSENCE OF HAZARDOUS SUBSTANCES OR LIABILITY OR POTENTIAL LIABILITY ARISING UNDER ENVIRONMENTAL LAWS. WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, EXCEPT AS EXPRESSLY PROVIDED HEREIN, SELLER EXPRESSLY DISCLAIMS ANY REPRESENTATION OR WARRANTY OF ANY KIND REGARDING THE CONDITION OF THE ACQUIRED ASSETS OR THE SUITABILITY THEREOF FOR OPERATION AS POWER GENERATION FACILITIES OR AS SITES FOR THE DEVELOPMENT OF ADDITIONAL OR REPLACEMENT GENERATION CAPACITY. NO MATERIAL OR INFORMATION MADE AVAILABLE BY OR COMMUNICATIONS MADE BY SELLER, ITS AFFILIATES AND THEIR RESPECTIVE REPRESENTATIVES, THE NHPUC, OR ANY BROKER OR INVESTMENT BANKER IN EXPECTATION OF OR IN CONNECTION WITH THE TRANSACTIONS CONTEMPLATED HEREBY, INCLUDING WITHOUT LIMITATION ANY INFORMATION OR MATERIAL CONTAINED IN THE CONFIDENTIAL INFORMATION MEMORANDUM DATED AS OF MARCH 2017, ANY OTHER EVALUATION OR DUE DILIGENCE MATERIAL, THE DATA SITE, MANAGEMENT PRESENTATIONS, FUNCTIONAL "BREAK-OUT" DISCUSSIONS, OR ANY ORAL, WRITTEN OR ELECTRONIC RESPONSE TO ANY INFORMATION REQUEST MADE AVAILABLE TO BUYER, WILL CAUSE OR CREATE ANY WARRANTY, EXPRESS OR IMPLIED, AS TO THE TITLE, CONDITION, VALUE OR QUALITY OF THE ACQUIRED ASSETS OTHER THAN THOSE REPRESENTATIONS AND WARRANTIES OF SELLER EXPRESSLY SET FORTH IN ARTICLE III, AND EXCEPT AS EXPRESSLY PROVIDED HEREIN, SELLER SHALL NOT HAVE OR BE SUBJECT TO ANY LIABILITY TO

BUYER RESULTING THEREFROM.

### **Section 7.8 Exclusive Remedies; Certain Waivers, Releases and Limitations.**

(a) Notwithstanding anything to the contrary set forth herein, subject to Section 8.3, from and after the Closing, the rights and remedies of the Parties under this Article VII, in Section 5.4(d) and in Section 5.8(f) shall be the exclusive rights and remedies available to any Party hereto with respect to any breach of any representation, warranty, covenant or agreement set forth in this Agreement, except in each case with respect to Losses arising from common law or statutory fraud, criminal activity or willful misconduct. Nothing in this Section 7.8(a) shall limit any Party's rights to seek and obtain any equitable relief to which such Party is entitled pursuant to Article VIII.

(b) Without limiting the provisions of Section 7.8(a), Buyer, for itself and its Affiliates, effective as of the Closing, hereby irrevocably releases, and forever discharges Seller, its Representatives and its Affiliates from any and all claims, demands, Losses, Liabilities, damages, complaints, causes of action, investigations, hearings, actions, suits or other Claims or proceedings of any kind or character whether known or unknown, hidden or concealed, arising out of or related to any Environmental Liability, except for those Excluded Environmental Liabilities but only to the extent and for so long as the same are retained by Seller pursuant to Section 2.4(h) and Section 2.4(i). In furtherance of the foregoing, effective as of the Closing, Buyer, for itself and its Affiliates, hereby irrevocably waives, with respect to any matter it is releasing pursuant to the preceding sentence, any and all rights and benefits that it now has or in the future may have conferred upon it by virtue of any Law or common law principle which provides that a general release does not extend to claims which a party does not know or suspect to exist in its favor at the time of executing such release, if knowledge of such claims would have materially affected such party's settlement with the obligor. Buyer hereby acknowledges that it is aware that factual matters now unknown to it may have given or hereafter may give rise to claims, demands, Losses, Liabilities, damages, complaints, causes of action, investigations, hearings, actions, suits or other Claims or proceedings that are unknown, unanticipated and unsuspected as of the Effective Date and will not be known, anticipated or suspected prior to the Closing Date, and Buyer further agrees that this Section 7.8(b) has been negotiated and agreed upon in light of that awareness, and Buyer, for itself and on behalf of its Affiliates, nevertheless hereby intends to irrevocably release, forever discharge Seller and its Affiliates as set forth in the first sentence of this Section 7.8(b).

(c) To the extent the transfer, conveyance, assignment and delivery of the Acquired Assets to Buyer as contemplated in this Agreement is accomplished by deeds, assignments, easements, leases, licenses, bills of sale or other instruments of transfer and conveyance, whether executed at the Closing or thereafter, these instruments are made without representation or warranty by, or recourse against, Seller, except as expressly provided in this Agreement or in any such instrument.

(d) No Representative or Affiliate of Seller shall have any personal liability to Buyer or any other Person as a result of the breach of any representation, warranty, covenant, agreement or obligation of Seller in this Agreement, and no Representative or Affiliate of Buyer shall have any personal liability to Seller or any other Person as a result of the breach of any representation, warranty, covenant, agreement or obligation of Buyer in this Agreement.

(e) NOTWITHSTANDING ANYTHING IN THIS AGREEMENT TO THE CONTRARY, NO PARTY SHALL BE LIABLE FOR SPECIAL, PUNITIVE, EXEMPLARY, INCIDENTAL, CONSEQUENTIAL OR INDIRECT DAMAGES, OR LOST OPPORTUNITY, OR ANY DAMAGES BASED ON ANY TYPE OF MULTIPLE, WHETHER BASED ON CONTRACT, TORT, STRICT LIABILITY, OTHER LAW OR OTHERWISE AND WHETHER OR NOT ARISING FROM THE OTHER PARTY'S SOLE, JOINT OR CONCURRENT NEGLIGENCE, STRICT LIABILITY OR OTHER FAULT ("NON-REIMBURSABLE DAMAGES"), PROVIDED, THAT ANY AMOUNTS PAYABLE TO THIRD PARTIES PURSUANT TO A THIRD PARTY CLAIM SHALL NOT BE DEEMED TO CONSTITUTE NON-REIMBURSABLE DAMAGES.

## **ARTICLE VIII TERMINATION**

**Section 8.1 Termination.** This Agreement may be terminated at any time before the Closing as follows:

(a) By either Buyer or Seller, by written notice to the other, if the Closing shall not have occurred within twelve (12) months after the Effective Date, as may be extended pursuant to Section 5.16 (the "**Outside Date**"); *provided*, that (i) if the sole reason Closing has not occurred prior to the Outside Date is that one or more Consents of a Governmental Authority required to consummate the Closing pursuant to Article VI have not yet been obtained or made, and such Consents are being diligently pursued by the appropriate Party, then such Outside Date may be extended by either Party by written notice to the other Party delivered at any time before termination of this Agreement, for an additional ninety (90) days, and (ii) Buyer cannot terminate this Agreement under this provision if the failure of the Closing to occur is the result of the failure on the part of Buyer to perform any of its obligations hereunder and Seller cannot terminate this Agreement under this provision if the failure of the Closing to occur is the result of the failure on the

part of Seller to perform any of its obligations hereunder;

(b) By Seller, by written notice to Buyer if Seller is not then in material default of any of its obligations under this Agreement and Buyer has breached in any material respect any of its representations, warranties, covenants, agreements or obligations in this Agreement and such breach has not been cured within thirty (30) days following written notification thereof (*provided*, that if, at the end of such thirty (30) day period, Buyer is endeavoring in good faith, and proceeding diligently, to cure such breach, Buyer shall have an additional thirty (30) days in which to effect such cure), and such breach, if not cured, would have a material adverse effect on Buyer's ability to perform its obligations hereunder;

(c) By Buyer, by written notice to Seller if Buyer is not then in material default of any of its obligations under this Agreement and Seller has breached in any material respect any of its representations, warranties, covenants, agreements or obligations in this Agreement and (i) such breach has not been cured within thirty (30) days following written notification thereof; *provided, however*, that if, at the end of such thirty (30) day period, Seller is endeavoring in good faith, and proceeding diligently, to cure such breach, Seller shall have an additional thirty (30) days in which to effect such cure and (ii) such breach (to the extent not cured) would have a material and adverse effect on the operation of the Business, including the Acquired Assets, or would have a material and adverse effect on Seller's ability to perform its obligations hereunder;

(d) By either Buyer or Seller, by written notice to the other, if there shall be in effect any Law or final, non-appealable Order restraining, enjoining or otherwise prohibiting or making illegal the consummation of the transactions contemplated by this Agreement;

(e) By Buyer in accordance with Section 5.16 or Section 5.17;

(f) By Buyer pursuant to Section 2.6(a)(iii)(A)(2) or Section 5.15(b); or

(g) By mutual written agreement of Buyer and Seller.

## **Section 8.2 Effect of Termination; Termination Fee.**

(a) If this Agreement is validly terminated pursuant to Section 8.1, there will be no liability or obligation on the part of Seller or Buyer (or any of their respective Representatives or Affiliates), except as provided in this Section 8.2.

(b) Regardless of the reason for termination, Section 5.4(d), Section 5.18, Section 5.19, Section 7.7, Section 8.2, Section 8.2(d), Section 8.3 and Article IX (and, in each case the applicable definitions and rules of interpretation set forth in Article I) will survive any termination of this Agreement.

(c) Upon termination of this Agreement by either Party for any reason, each Party shall return or destroy, in accordance with the terms of the Confidentiality Agreements and Section 5.18, all documents and other materials provided by the other Party relating to the Acquired Assets, the Assumed Liabilities, the Facilities or to this Agreement, the Related Agreements or the transactions contemplated hereby or thereby, including any information relating to the Parties to this Agreement, whether obtained before or after the execution of this Agreement, and all information received by Buyer with respect to Seller, the Acquired Assets, the Assumed Liabilities, the Facilities, this Agreement, the Related Agreements or otherwise respecting the transactions contemplated hereby shall remain subject to the terms of the Confidentiality Agreements and Section 5.18.

(d) If this Agreement is terminated by Buyer pursuant to Section 8.1(a) (arising out of a failure of Seller to comply in all material respects with its obligations under this Agreement) or Section 8.1(c), and such failure to comply is through no fault of Buyer, and provided that Buyer has complied in all material respects with its obligations under this Agreement, Buyer shall be entitled to recover from Seller all costs incurred by Buyer in connection with the preparation, negotiation and execution of this Agreement or recovery of damages from Seller, including attorneys' fees and expenses of financial and other advisors. In addition to the foregoing damages (and not in lieu thereof), if such termination by Buyer occurs after January 1, 2018, Buyer is entitled to its loss of bargain, cost of funding or, at the election of Buyer but without duplication, loss or cost incurred as a result of its terminating, liquidating, obtaining or reestablishing any hedge or related trading position (or any gain resulting from any of them) of Buyer relating to any of the Facilities.

(e) If this Agreement is terminated by Seller pursuant to Section 8.1(a) (arising out of a failure by Buyer to pay the Purchase Price and make its other Closing deliverables under this Agreement after all of Buyer's conditions precedents to proceed to Closing have been satisfied) or Section 8.1(b), and such failure to comply is through no fault of Seller, and provided that Seller has complied in all material respects with its obligations under this Agreement, then, and in lieu of any other rights or remedies Seller may have at law or in equity, (i) Buyer hereby agrees to immediately pay to Seller, as liquidated damages (and not a penalty), an amount equal to Twenty-Six Million Two Hundred Fifty Dollars (\$26,250,000) in immediately available funds and (ii) Seller shall have the

right to immediately seek such relief from the guarantors under the Guaranty to satisfy such payment obligation. The Parties acknowledge and agree that the provisions for payment of liquidated damages in this Section 8.2(d) have been included because, in the event of termination of this Agreement pursuant to Section 8.1(a) or Section 8.1(b), the actual damages to be incurred by Seller are reasonably expected to approximate the amount of liquidated damages set forth in this Section 8.2(d) and because the actual amount of such damages would be difficult if not impossible to measure and prove precisely. The Parties therefore expressly intend to liquidate damages in advance in accordance with this Section 8.2(d), and, without limiting the generality of the foregoing, acknowledge and agree that the amount of liquidated damages set forth in this Section 8.2(d) is reasonable and is not greatly disproportionate to the presumable loss or injury of Seller in the event of termination of this Agreement pursuant to Section 8.1(a) or Section 8.1(b). Buyer acknowledges that the agreements contained in this Section 8.2(d) are an integral part of the transactions contemplated by this Agreement and that, without these agreements, Seller would not enter into this Agreement. The Parties acknowledge and agree that (A) Seller shall be entitled to pursue either payment of liquidated damages in accordance with this Section 8.2(d) or to pursue specific performance pursuant to Section 8.3 and (B) Seller may, in its sole discretion, elect to receive either an award of liquidated damages in accordance with this Section 8.2(d) or seek judgment awarding specific performance pursuant to Section 8.3; *provided*, that the Parties acknowledge and agree that under no circumstance shall Seller be entitled to receive both payment of liquidated damages in accordance with this Section 8.2(d) and specific performance pursuant to Section 8.3.

**Section 8.3 Specific Performance and Other Remedies.** Each Party hereby acknowledges and agrees that the rights of each Party to consummate the transactions contemplated hereby are special, unique and of extraordinary character, and that, if any of the provisions of this Agreement were not performed by a Party in accordance with their specific terms or were otherwise breached by a Party, the non-breaching Party would suffer irreparable damage and would be without an adequate remedy at law. Notwithstanding anything to the contrary herein, if any Party violates or fails or refuses to perform any covenant or agreement made by such Party herein, without limiting or waiving in any respect any rights or remedies of a Party under this Agreement now or hereafter existing at law, in equity or by statute, the non-breaching Party shall, in addition to any other remedy to which a Party is entitled at law or in equity, be entitled to specific performance of such covenant or agreement, injunctions to prevent or restrain breaches of this Agreement, and any other equitable relief, in each case without the proof of actual damages. Each Party agrees to waive any requirement for the security or posting of any bond in connection with any such equitable remedy, and agrees that it will not oppose the granting of an injunction, specific performance or other equitable relief on the basis that (a) the other Party has an adequate remedy at law, or (b) an award of specific performance is not an appropriate remedy for any reason at law or equity.

## ARTICLE IX MISCELLANEOUS

**Section 9.1 Expenses.** Except as otherwise expressly provided in this Agreement, including in Section 8.2, whether or not the Closing shall have occurred, each Party will pay its own costs and expenses (including, without limitation, fees and disbursements of counsel, financial advisors and accountants) incurred in anticipation of, relating to and in connection with the negotiation and execution of this Agreement and the transactions contemplated hereby. Notwithstanding the foregoing, (a) each Party will pay all filing fees for Consents of Governmental Authorities required in connection with this Agreement, the Related Agreements and the transactions contemplated hereby and thereby, including filing fees in connection with filings under the HSR Act or in connection with obtaining required Consents from FERC as set forth in this Agreement, (b) Buyer will pay all document recordation costs (including all New Hampshire County Registry of Deeds recording fees and New Hampshire Land and Community Heritage Investment Program surcharges for all deeds, mortgage indenture releases, easements, plans and other recorded documents), and (c) Seller will pay all fees, including filing and recording fees, related to the discharge and release of all Liens encumbering the Acquired Assets, excluding the Permitted Liens.

**Section 9.2 Notices.** All notices, requests, consents, waivers, demands, claims and other communications hereunder will be in writing and shall be deemed duly given (a) when delivered by hand (with written confirmation of receipt); (b) when received by the addressee if sent by a nationally recognized overnight courier (receipt requested); (c) on the date sent by facsimile or e-mail (in each case, with confirmation of delivery) if sent during normal business hours of the recipient, and on the next Business Day if sent after normal business hours of the recipient; or (d) on the fifth day after the date mailed, by certified or registered mail, return receipt requested, postage prepaid. Such communications must be sent to the applicable Party at the address and/or other contact information for such Party set forth below (or at such other address and/or other contact information for a Party as shall be specified in a notice given in accordance with this Section 9.2):

If to Seller:           Public Service Company of New Hampshire  
                                  c/o Eversource Energy  
                                  56 Prospect Street  
                                  Hartford, Connecticut 06103  
                                  Attention: General Counsel  
                                  with a copy to:

Public Service Company of New Hampshire  
780 North Commercial Street  
Manchester, New Hampshire 03101-1134  
Attention: Law Department

If to Buyer: Granite Shore Power LLC  
c/o Atlas Capital Resources II LP  
100 Northfield Street  
Greenwich, Connecticut 06830  
Attention: General Counsel

and

Granite Shore Power LLC  
c/o Castleton Commodities International LLC  
2200 Atlantic Street, Suite 800  
Stamford, Connecticut 06902  
Attn: General Counsel

**Section 9.3 Entire Agreement.** This Agreement (including the Exhibits and Schedules hereto), the Related Agreements and the Confidentiality Agreements constitute, as a complete and final integration thereof, the sole and entire agreement of the Parties with respect to the subject matter hereof, and supersede all prior and contemporaneous agreements (other than the Confidentiality Agreements), understandings or representations, both written and oral, between the Parties with respect to such subject matter. Except as otherwise set forth herein, all conflicts or inconsistencies between the terms hereof and the terms of any of the Related Agreements, if any, shall be resolved in favor of this Agreement.

**Section 9.4 Severability.** Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be valid, binding and enforceable under applicable Law. If any provision of this Agreement is held to be illegal, invalid or unenforceable under any present or future Law, and if the rights and obligations of any Party will not be materially and adversely affected thereby, (a) such provision will be fully severable, (b) this Agreement will be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a part hereof, (c) the remaining provisions of this Agreement will remain in full force and effect and will not be affected by the illegal, invalid or unenforceable provision or by its severance herefrom and (d) in lieu of such illegal, invalid or unenforceable provision, there will be added automatically as a part of this Agreement a legal, valid and enforceable provision as similar in terms of such illegal, invalid or unenforceable provision as may be possible.

**Section 9.5 Schedules and Exhibits.** Except as otherwise provided in this Agreement, all Schedules and Exhibits referred to herein, as the same may be amended, modified or supplemented from time to time in accordance with this Agreement, are intended to be and hereby are made a part of this Agreement. Any matter set forth in any Schedule under this Agreement corresponding to or qualifying a specific numbered paragraph of this Agreement shall be deemed to correspond to and qualify any other numbered paragraph of this Agreement to which the relevance or applicability of such matter is reasonably apparent on its face, whether or not there is an explicit cross-reference thereto. Certain information set forth in the Schedules is included solely for informational and other disclosure purposes, is not an admission of liability with respect to the matters covered by the information, and may not be required to be disclosed pursuant to this Agreement. The specification of any dollar amount in any provision of this Agreement or the inclusion of any specific item in the Schedules is not intended to imply, and shall not be deemed to be an acknowledgement or admission, that such amounts (or higher or lower amounts) or items are or are not material, and shall not otherwise be deemed to establish any standard of materiality or to define further or otherwise interpret the meaning of "material," "Material Adverse Effect," or any similar terms for purposes of the Agreement. In no event shall the inclusion of any matter in these Schedules be deemed or interpreted to broaden or otherwise amplify the representations, warranties, covenants or agreements contained in this Agreement. Capitalized terms used and not otherwise defined in the Schedules shall have the meanings given to them in this Agreement.

**Section 9.6 Successors and Assigns.** This Agreement shall be binding upon and inure to the benefit of the Parties named herein and their respective successors and permitted assigns. No Party may assign either this Agreement or any of its rights, interests, or obligations hereunder without the prior written consent of the other Party. Notwithstanding the foregoing, either Party may assign its rights under this Agreement without the consent of the other Party for purposes of providing collateral security in connection with any financing. No assignment shall relieve the assigning Party of any of its obligations hereunder or thereunder. Notwithstanding the foregoing, Buyer will have the right by written notice to Seller not less than fifteen (15) days prior to the Closing to direct the transfer of Acquired Assets (but without duplication) to one or more wholly-owned subsidiaries of Buyer (each, a "**Buyer Subsidiary**") and agrees that each Buyer Subsidiary will assume in writing (a copy of which shall be provided to Seller) any Assumed Liability related to such Acquired Assets assigned to it and be liable to Seller for Buyer's obligations under this Agreement related to such Assumed Liabilities and Acquired Assets, provided that Buyer will remain liable for all obligations related to such any Assumed Liability

assumed by a Buyer Subsidiary.

**Section 9.7 No Third Party Beneficiaries.** The terms and provisions of this Agreement are intended solely for the benefit of the Parties hereto, their respective successors and permitted assigns, and any Person benefitting from the indemnities, releases or limitations of liability provided herein, and nothing herein, express or implied, is intended to or shall confer upon any other Person (including any employee, any beneficiary or dependents thereof, or any collective bargaining representative thereof) any legal or equitable right, benefit or remedy of any nature whatsoever under or by reason of this Agreement.

**Section 9.8 No Joint Venture or Agency.** Nothing in this Agreement creates or is intended to create an association, trust, partnership, joint venture or other entity or similar legal relationship between the Parties, or impose a trust, partnership or fiduciary duty, obligation or liability on or with respect to either Party. Except as expressly provided herein, neither Party is or shall act as or be the agent or representative of the other Party.

**Section 9.9 Amendments and Waivers.** Except to the extent expressly set forth herein with respect to Schedule Updates during the Interim Period, this Agreement may not be amended, modified or supplemented except by an agreement in writing signed by each Party hereto. No waiver by any Party of any of the provisions hereof shall be effective unless explicitly set forth in writing and signed by the Party so waiving. No waiver by any Party shall operate or be construed as a waiver in respect of any failure, breach or default not expressly identified by such written waiver, whether of a similar or different character, and whether occurring before or after such written waiver. No failure to exercise, or delay in exercising, any right, remedy, power or privilege arising from this Agreement shall operate or be construed as a waiver thereof, nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege.

**Section 9.10 Governing Law.** This Agreement shall be governed by and construed in accordance with the internal laws of the state of New Hampshire without giving effect to any choice or conflict of law provision or rule (whether of the state of New Hampshire or any other jurisdiction) that would cause the application of Laws of any jurisdiction other than those of the state of New Hampshire, except to the extent that certain matters are pre-empted by federal Law or are governed by the Law of the jurisdiction of organization of any Party or other Person referred to herein.

**Section 9.11 Dispute Resolution.** Prior to instituting any litigation or dispute resolution mechanism, each of the Parties will attempt in good faith to resolve any dispute or claim promptly by referring any such matter to their respective senior executives for resolution. Either Party may give the other Party written notice of any dispute or claim. Within ten (10) days after delivery of said notice, the executives will meet at a mutually acceptable time and place, and thereafter as often as they reasonably deem necessary to exchange information and to attempt to resolve the dispute or claim within thirty (30) days.

**Section 9.12 Submission to Jurisdiction.** ANY ACTION, SUIT OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT, THE RELATED AGREEMENTS OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY SHALL BE INSTITUTED IN THE FEDERAL OR STATE COURTS LOCATED IN THE STATE OF NEW HAMPSHIRE IN ACCORDANCE WITH THE PROVISIONS OF THIS SECTION 9.12. EACH PARTY IRREVOCABLY AND UNCONDITIONALLY CONSENTS AND DOES HEREBY SUBMIT TO THE EXCLUSIVE JURISDICTION OF THE BUSINESS AND COMMERCIAL DISPUTE DOCKET (BCDD) OF THE SUPERIOR COURT OF THE STATE OF NEW HAMPSHIRE PURSUANT TO N.H. SUPERIOR COURT CIVIL RULE 207 OR THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF NEW HAMPSHIRE FOR ANY SUCH ACTION, SUIT OR PROCEEDING, AND HEREBY FURTHER IRREVOCABLY AND UNCONDITIONALLY WAIVES AND AGREES NOT TO PLEAD IN ANY SUCH COURT THAT ANY SUCH ACTION, SUIT, OR PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

**Section 9.13 Waiver of Jury Trial.** EACH PARTY ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY WHICH MAY ARISE UNDER THIS AGREEMENT OR THE RELATED AGREEMENTS IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES AND, THEREFORE, EACH SUCH PARTY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LEGAL ACTION ARISING OUT OF OR RELATING TO THIS AGREEMENT, THE RELATED AGREEMENTS OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY.

**Section 9.14 Counterparts.** This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall be deemed to be one and the same agreement. A signed copy of this Agreement delivered by facsimile, e-mail, PDF or other means of electronic transmission shall be deemed to have the same legal effect as delivery of an original signed copy of this Agreement.

*[Signature page follows.]*



IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed as of the date first written above.

**SELLER:**

PUBLIC SERVICE COMPANY OF  
NEW HAMPSHIRE

By: /S/ PHILIP J. LEMBO

Name: Philip J. Lembo

Title: Executive Vice President and Chief Financial Officer

**BUYER:**

GRANITE SHORE POWER LLC

By: GRANITE SHORE POWER HOLDINGS LLC, its Managing Member

By: ATLAS CAPITAL RESOURCES II LP,  
a Member

By: ATLAS CAPITAL GP II LP, its General Partner

By: ATLAS CAPITAL RESOURCES GP II LLC, its General Partner

By: /S/ TIMOTHY FAZIO

Name: Timothy Fazio

Title: Authorized Representative

By: CCI POWER ASSET HOLDINGS II LLC, a Member

By: /S/ BRADLEY ROMINE

Name: Bradley Romine

---

Title: Authorized Representative

**PURCHASE AND SALE AGREEMENT**

between

**PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE**  
as Seller

and

**HSE Hydro NH AC, LLC**  
as Buyer

**Dated as of October 11, 2017**

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## PURCHASE AND SALE AGREEMENT

This PURCHASE AND SALE AGREEMENT (the “**Agreement**”), dated and effective as of October 11, 2017 (the “**Effective Date**”), is entered into by and between HSE Hydro NH AC, LLC, a Delaware limited liability company (“**Buyer**”) and Public Service Company of New Hampshire, a New Hampshire corporation (“**Seller**”). Buyer and Seller are each referred to in this Agreement as a “**Party**” and collectively as the “**Parties**.”

### RECITALS:

WHEREAS, Seller owns the electric generating facilities described in Schedule 1 hereto (collectively, the “**Facilities**”);

WHEREAS, Seller owns 1,250 shares of capital stock (the “**ARCO Shares**”) of Androscoggin Reservoir Company, a Maine corporation (“**ARCO**”); and

WHEREAS, on the terms and subject to the conditions set forth in this Agreement, Seller desires to sell and assign to Buyer, and Buyer desires to purchase and assume from Seller, (i) certain assets and liabilities respecting the Facilities, and (ii) the ARCO Shares, all as set forth herein.

NOW, THEREFORE, in consideration of the foregoing and the representations, warranties, covenants and agreements hereinafter set forth, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties, intending to be legally bound, hereby agree as follows:

### ARTICLE I DEFINITIONS AND INTERPRETATION

**Section 1.1 Definitions.** As used in this Agreement, the following capitalized terms have the meanings set forth below:

“**Accrued Pension Benefit**” has the meaning set forth in Section 5.8(e)(i)(C).

“**Acquired Assets**” has the meaning set forth in Section 2.1.

“**Actual Prorated Amount**” has the meaning set forth in Section 2.7(c).

“**Affiliate**” means, with respect to any Person, any other Person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, such Person. For purposes of this definition, the term “control” (including the terms “controlled by” and “under common control with”) means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through ownership of voting securities or other ownership interests, by Contract or otherwise.

“**Agreement**” has the meaning set forth in the preamble.

“**ARCO**” has the meaning set forth in the recitals.

“**ARCO By-Laws**” means the By-Laws of ARCO, dated as of January 25, 1985.

“**ARCO ROFR**” means the right of ARCO and its stockholders to purchase the ARCO Shares pursuant to Article VII of the ARCO By-Laws.

“**ARCO Shares**” has the meaning set forth in the recitals.

“**Asset Demarcation Agreement**” has the meaning set forth in Section 2.10(e).

“**Assigned Contracts**” has the meaning set forth in Section 2.1(e).

“**Assigned Intellectual Property**” has the meaning set forth in Section 2.1(g).

“**Assigned Leases**” has the meaning set forth in Section 2.1(b).

“**Assignment and Assumption Agreement**” has the meaning set forth in Section 2.10(d).

“**Assignment and Assumption of Lease**” has the meaning set forth in Section 2.10(b).

“**Assumed Liabilities**” has the meaning set forth in Section 2.3.

“**Base Purchase Price**” has the meaning set forth in Section 2.5.

“**Bill of Sale**” has the meaning set forth in Section 2.10(c).

“**Business**” means the production and sale of power through the ownership and operation of the Acquired Assets.

“**Business Day**” means any day other than a Saturday, Sunday or day on which banks are legally closed for business in Manchester, New Hampshire or New York, New York.

“**Buyer**” has the meaning set forth in the preamble.

“**Buyer Indemnified Parties**” has the meaning set forth in Section 7.3.

“**Buyer Pension Benefit**” has the meaning set forth in Section 5.8(e)(i)(E).

“**Buyer Required Consents**” has the meaning set forth in Section 4.3(c).

“**Buyer’s Observers**” has the meaning set forth in Section 5.4(b).

“**Buyer’s Contributory Plan**” has the meaning set forth in Section 5.8(e)(ii)(A).

“**Buyer’s Pension Plan**” has the meaning set forth in Section 5.8(e)(i)(A).

“**CAMS**” means ISO-NE’s Customer and Asset Management System.

“**Cash**” means cash and cash equivalents (including marketable securities and short term investments) calculated in accordance with GAAP.

“**Casualty Loss**” has the meaning set forth in Section 5.16.

“**CBA Term**” means June 1, 2017 through the later of May 31, 2020 or two years after the Closing Date.

“**Claim**” means any claim, demand, complaint, action, legal proceeding (whether at law or in equity), arbitration, investigation, audit or suit commenced, brought, conducted or heard by or before any Governmental Authority or arbitrator.

“**Closing**” has the meaning set forth in Section 2.9.

“**Closing Date**” has the meaning set forth in Section 2.9.

“**Closing Purchase Price**” has the meaning set forth in Section 2.5.

“**Closing Statement**” has the meaning set forth in Section 2.6(c)(i).

“**Code**” means the Internal Revenue Code of 1986.

“**Combined Minimum Pension Benefit**” has the meaning set forth in Section 5.8(e)(i)(B).

“**Condemnation Value**” has the meaning set forth in Section 5.17.

“**Confidentiality Agreement**” means that certain Confidentiality Agreement between Seller and Hull Street Energy, LLC, a Delaware limited liability company, dated as of March 15, 2017.

“**Consent**” means any consent, authorization, approval, release, waiver, estoppel certificate or any similar agreement or approval of or by, or registration, notice, declaration or filing to or with, the applicable Governmental Authority or other Person, including any certificate, license, permit, Order or other action issued or taken by a Governmental Authority.

“**Contract**” means any legally binding contract, lease, mortgage, license, instrument, note or other evidence of indebtedness, purchase order, commitment, undertaking, indenture or other agreement.

“**Counterparty**” has the meaning set forth in Section 5.3(a).

“**Data Site**” means the “Project PurpleFinch” electronic data site established and maintained by Seller with IntraLinks, Inc.

“**Deed**” has the meaning set forth in Section 2.10(a).

“**Direct Claim**” has the meaning set forth in Section 7.6(c).

“**Easements**” means easements to be granted by Seller to Buyer to implement the easement plans with respect to the Facilities to be agreed to by Buyer and Seller in accordance with Section 5.2(f).

“**Effective Date**” has the meaning set forth in the preamble.

“**Employee Benefit Plan**” means any “employee benefit plan” (as such term is defined in Section 3(3) of ERISA), whether or not subject to ERISA, and any other employee benefit plan, program, policy or Contract, including any employment, pension, retirement, profit-sharing, thrift, savings, bonus plan, incentive, stock bonus, stock purchase, stock option or other equity or equity-based compensation, or retention, change in control, severance, deferred compensation, welfare benefit or fringe benefit plan, policy, program, agreement or arrangement.

“**Environment**” means soil, land surface or subsurface strata, real property, surface waters, groundwater, wetlands, sediments, drinking water supply, ambient air (including indoor air) and any other environmental medium or natural resource.

“**Environmental Attributes**” means any emissions and renewable energy credits, energy conservation credits, benefits, offsets and allowances, emission reduction credits or items of similar import or regulatory effect (including emissions reduction credits or allowances under all applicable emission trading, compliance or budget programs, or any other federal, state or regional emission, renewable energy or energy conservation trading or budget program) that are held by Seller and attributable to the operation of the Facilities.

“**Environmental Claim**” means any Claim by any Person alleging Liability of whatever kind or nature (including with respect to loss of life, injury to persons, property or business, damage to natural resources or trespass to property, whether or not such loss, injury, damage or trespass arose or was made manifest before the Closing Date or arises or becomes manifest on or after the Closing Date) arising out of, resulting from or in connection with: (a) the presence, Release of, or exposure to, any Hazardous Substances or (b) any actual or alleged violation or non-compliance with any Environmental Law or term or condition of any Environmental Permit.

“**Environmental Laws**” means all applicable Laws, Orders and any binding administrative or judicial interpretations thereof (including any binding agreement with any Governmental Authority) relating to: (a) pollution (or the cleanup thereof); (b) the regulation, protection and use of the Environment; (c) the protection, conservation, management, development, control and/or use of land, natural resources and wildlife (including endangered and threatened species); (d) the protection of human health or safety; (e) the management, manufacture, possession, presence, processing, use, generation, transportation, treatment, containment, storage, disposal, recycling, reclamation, Release, threatened Release, abatement, removal, remediation, or handling of, or exposure to, any Hazardous Substances; or (f) noise; and includes, without limitation, the following federal statutes (and their implementing regulations): the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986 (42 U.S.C. § 9601 et seq.); the Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act of 1976 and the Hazardous and Solid Waste Amendments Act of 1984 (42 U.S.C. § 6901 et seq.); the Federal Water Pollution Control Act of 1972, as amended by the Clean Water Act of 1977 (33 U.S.C. § 1251 et seq.); the Toxic Substances Control Act of 1976, as amended (15 U.S.C. § 2601 et seq.); the Emergency Planning and Community Right to Know Act of 1986 (42 U.S.C.

§ 11001 et seq.); the Clean Air Act of 1966, as amended by the Clean Air Act Amendments of 1990 (42 U.S.C. § 7401 et seq.); the Federal Insecticide, Fungicide, and Rodenticide Act, as amended (7 U.S.C. § 136 et seq.); the Coastal Zone Management Act of 1972, as amended (16 U.S.C. § 1451 et seq.); the Oil Pollution Act of 1990, as amended (33 U.S.C. § 2701 et seq.); the Rivers and Harbors Act of 1899, as amended (33 U.S.C. § 401 et seq.); the Hazardous Materials Transportation Act, as amended (49 U.S.C. §§ 5101 et seq.); the Endangered Species Act of 1973, as amended (16 U.S.C. § 1531 et seq.); the Occupational Safety and Health Act of 1970, as amended (29 U.S.C. § 651 et seq.); and the Safe Drinking Water Act of 1974, as amended (42 U.S.C. § 300f et seq.); and all analogous or comparable state statutes and regulations.

**“Environmental Liabilities”** means any Liabilities of whatever kind or nature (including without limitation any natural resources damages, property damages, personal injury damages, losses, Claims, judgments, amounts paid in settlement, fines, penalties, fees, expenses and costs, including Remediation costs, engineering costs, environmental consultant fees, laboratory fees, permitting fees, investigation costs, defense costs, costs of enforcement proceedings, costs of indemnification and contribution, costs of medical monitoring, and attorneys’ fees and expenses) arising out of, resulting from or in connection with (a) any violation or alleged violation of Environmental Laws or Environmental Permits, prior to, on or after the Closing Date, with respect to the ownership, operation or use of the Acquired Assets; (b) any Environmental Claims caused or allegedly caused by the presence, Release of, or exposure to Hazardous Substances at, on, in, under, adjacent to or migrating from the Acquired Assets prior to, on or after the Closing Date; (c) the investigation and/or Remediation (whether or not such investigation or Remediation commenced before the Closing Date or commences on or after the Closing Date) of Hazardous Substances that are present or have been Released prior to, on or after the Closing Date at, on, in, under, adjacent to or migrating from the Acquired Assets; (d) compliance with Environmental Laws or Environmental Permits on or after the Closing Date with respect to the ownership, operation or use of the Acquired Assets; (e) any Environmental Claim arising from or relating to the off-site disposal, treatment, storage, transportation, discharge, Release or recycling, or the arrangement for such activities, of Hazardous Substances, on or after the Closing Date, in connection with the ownership or operation of the Acquired Assets; and (f) the investigation and/or Remediation of Hazardous Substances that are generated, disposed, treated, stored, transported, discharged, Released, recycled, or the arrangement of such activities, on or after the Closing Date, in connection with the ownership or operation of the Acquired Assets, at any Offsite Disposal Facility.

**“Environmental Permits”** means those Permits required for the ownership or operation of any Acquired Asset under Environmental Laws.

**“ERISA”** means the Employee Retirement Income Security Act of 1974.

**“Estimated Closing Statement”** has the meaning set forth in [Section 2.6\(b\)](#).

**“Estimated Prorated Amount”** has the meaning set forth in [Section 2.7\(b\)](#).

**“Estimated Proration Adjustment Amount”** has the meaning set forth in [Section 2.7\(b\)](#).

**“Estimated Purchase Price Adjustment”** has the meaning set forth in [Section 2.6\(b\)](#).

**“Eversource”** means Eversource Energy, a Massachusetts voluntary association and the parent company of Seller, formerly known as Northeast Utilities.

**“Eversource Service”** means Eversource Energy Service Company, a Connecticut corporation and an Affiliate of Seller, formerly known as Northeast Utilities Service Company.

**“Excluded Assets”** has the meaning set forth in [Section 2.2](#).

**“Excluded Environmental Liabilities”** has the meaning set forth in [Section 2.4\(h\)](#).

**“Excluded Liabilities”** has the meaning set forth in [Section 2.4](#).

**“Facilities”** has the meaning set forth in the recitals. For avoidance of doubt, any individual Facility referred to herein by the name set forth in [Schedule 1](#) shall mean such Facility, as described in [Schedule 1](#).

**“FERC”** means the Federal Energy Regulatory Commission.

**“Final Purchase Price Adjustment”** has the meaning set forth in [Section 2.6\(c\)\(iii\)](#).

**“GAAP”** means United States generally accepted accounting principles in effect from time to time, as applied by Seller.

**“Generation CBA”** means the collective bargaining agreement between Seller and the Union, with respect to Seller’s Generation Group, in force as of the Effective Date.

**“Good Utility Practice”** means any of the practices, methods and acts engaged in or approved by a significant portion of the electric power generation industry during the relevant time period, or any of the practices, methods or acts which, in the exercise of reasonable judgment in light of the facts known at the time the decision was made, could have been expected to accomplish the desired result at a reasonable cost consistent with good business practices, reliability, safety and expedition. Good Utility Practice is not intended to be limited to the optimum practice, method or act to the exclusion of all others, but rather is intended to include acceptable practices, methods or acts generally accepted in the region, or required by the NHPUC, including but not limited to compliance with the standards established by the National Electrical Safety Code and ISO-NE.

**“Governmental Authority”** means any federal, state, local, municipal or foreign government or political subdivision thereof, or any agency or instrumentality of such government or political subdivision, or any self-regulated organization or other non-governmental regulatory authority or quasi-governmental authority (to the extent that the rules, regulations or orders of such organization or authority have the force of Law), or any arbitrator, court or tribunal of competent jurisdiction, but excluding Buyer and any subsequent owner of any of the Acquired Assets (if otherwise a Governmental Authority under this definition).

**“Hazardous Substance”** means (a) any petrochemical or petroleum product, oil, waste oil, coal ash, radioactive materials, radon, asbestos in any form, urea formaldehyde foam insulation, lead-containing materials and polychlorinated biphenyls; (b) any products, mixtures, compounds, materials or wastes, air emissions, toxic substances, wastewater discharges and any chemical, material or substance that may give rise to Liability pursuant to, or is listed or regulated under, or the human exposure to which or the Release of which is controlled or limited by applicable Environmental Laws; and (c) any materials or substances defined in Environmental Laws as “hazardous”, “toxic”, “pollutant” or “contaminant”, or words of similar meaning or regulatory effect.

**“HSR Act”** means the Hart-Scott-Rodino Antitrust Improvements Act of 1976.

**“Improvements”** means all buildings, structures (including all fuel handling and storage facilities), machinery and equipment, fixtures, construction in progress, including all piping, cables and similar equipment forming part of the mechanical, electrical, plumbing or HVAC infrastructure of any building, structure or equipment, and including all generating units, located on and affixed to the Sites, other than the Seller Marks.

**“Indemnified Party”** has the meaning set forth in [Section 7.5](#).

**“Indemnifying Party”** has the meaning set forth in [Section 7.5](#).

**“Independent Accountant”** has the meaning set forth in [Section 2.6\(c\)\(ii\)](#).

**“Independent Appraiser”** has the meaning set forth in [Section 2.8](#).

**“Intellectual Property”** means any and all of the following in any jurisdiction throughout the world: (a) trademarks and service marks, including all applications and registrations and the goodwill connected with the use of and symbolized by the foregoing, but not including the Seller Marks; (b) copyrights, including all applications and registrations, and works of authorship, whether or not copyrightable; (c) trade secrets and confidential knowhow; (d) patents and patent applications; (e) websites and internet domain name registrations; and (f) all other intellectual property and industrial property rights and assets, and all rights, interests and protections that are associated with, similar to, or required for the exercise of, any of the foregoing.

**“Intercompany Arrangements”** has the meaning set forth in [Section 2.2\(j\)](#).

**“Interconnection Agreements”** has the meaning set forth in [Section 2.10\(f\)](#).

**“Interim Period”** means the period of time commencing on the Effective Date and ending on the Closing.

**“Inventory”** or **“Inventories”** means natural gas, coal, biomass and oil inventories, raw materials, spare parts and consumable supplies located at or in transit to the Sites or identified in any Schedule hereto.

**“ISO-NE”** means ISO New England, Inc. or its successor.

**“Law”** means any statute, law, ordinance, regulation, rule, code, Order, constitution, treaty, common law, judgment, decree or other requirement, rule or other pronouncement having the effect of law of any Governmental Authority.

**“Leased Real Property”** has the meaning set forth in [Section 2.1\(b\)](#).

**“Liability”** means any liability or obligation (whether known or unknown, whether asserted or unasserted, whether absolute or contingent, whether accrued or unaccrued, whether liquidated or unliquidated, whether incurred or consequential and whether due or

to become due), including any liability for Taxes.

“**Lien**” means any lien, pledge, mortgage, deed of trust, security interest, charge, claim, easement, encroachment, conditional sale or other title retention device or arrangement, option, restriction on transfer, third party purchase right, right of first offer or refusal, or other similar encumbrance, or restriction on the creation of any of the foregoing.

“**Losses**” means any and all judgments, losses, liabilities, amounts paid in settlement, damages, fines, penalties, deficiencies, costs, Taxes, obligations and expenses (including interest, court costs and reasonable fees of attorneys, accountants and other experts). For all purposes in this Agreement, the term “Losses” does not include any Non-Reimbursable Damages.

“**Made Available**” means, with respect to documents and materials, that such documents or materials have been posted to the Data Site or otherwise provided to Buyer by Seller or its Representatives.

“**Material Adverse Effect**” means any change or event that is materially adverse to the assets, liabilities, operations or financial condition of the Acquired Assets, taken as a whole; provided, however, that any changes or events resulting from or arising out of the following shall not be considered when determining whether a Material Adverse Effect has occurred: (a) any change generally affecting the international, national or regional electric generating, transmission or distribution industry; (b) any change generally affecting the international, national or regional wholesale or retail markets for electric power; (c) any change generally affecting the international, national or regional wholesale or retail markets for the coal, natural gas or oil industries or the transportation or storage of coal, natural gas or oil; (d) any change in markets for commodities or supplies, including electric power, natural gas, oil, coal or other fuel and water, as applicable, used in connection with the Facilities; (e) any change in market (including the market for electrical power, coal, natural gas or oil) design, pricing or rules (including rules, systems, procedures, guidelines or requirements promulgated or modified by ISO-NE, any other regional transmission organization, NERC or any similar organization); (f) any change in general regulatory or political conditions, including any engagements of hostilities, acts of war or terrorist activities or changes imposed by a Governmental Authority associated with additional security; (g) any change in the international, national or regional electric transmission or distribution systems or operations thereof; (h) any change in any Laws (including Environmental Laws), GAAP, regulatory accounting principles or industry standards; (i) any change in the financial condition or results of operation of Buyer or its Affiliates, including its ability to access capital and equity markets and changes due to a change in the credit rating of Buyer or its Affiliates; (j) any change in the financial, banking, securities or currency markets (including the inability to finance the transactions contemplated hereby or any increased costs for financing or suspension of trading in, or limitation on prices for, securities on any domestic or international securities exchange); (k) any change in general national or regional economic or financial conditions or any failure or bankruptcy (or any similar event) of any financial services or banking institution or insurance company or counterparty to any Contract; (l) any actions to be taken pursuant to or in accordance with this Agreement, or taken by or at the request of Buyer; (m) the announcement, pendency or consummation of the transactions contemplated hereby, or the fact that the prospective owner of the Acquired Assets is Buyer; (n) any labor strike, request for representation, organizing campaign, work stoppage, slowdown, or lockout or other labor dispute; (o) any new or announced power provider entrants, including their effect on pricing or transmission; (p) any effects of weather and other acts of God; (q) any Casualty Loss or event of condemnation; (r) seasonality of the operations of the Facilities; or (s) any failure of the Acquired Assets to meet projections or forecasts or revenue or earnings predictions for any period; provided, that any Loss, Claim, occurrence, change or effect that is cured prior to the Closing Date shall not be considered a Material Adverse Effect; provided, further, that, for the avoidance of doubt, a Material Adverse Effect shall be measured only against past performance of the Acquired Assets, taken as a whole, and not against any forward-looking statements, financial projections or forecasts of the Acquired Assets.

“**Material Contracts**” has the meaning set forth in [Section 2.1\(e\)](#).

“**Mortgage Indenture**” means that certain First Mortgage Indenture, dated as of August 15, 1978, as amended and restated effective as of June 1, 2011, and supplemented, between Seller and U.S. Bank National Association, successor to Wachovia Bank, National Association, successor to First Union National Bank, formerly known as First Fidelity Bank, National Association, New Jersey, as trustee.

“**NEPOOL**” means the New England Power Pool, or its successor.

“**NHPUC**” means the New Hampshire Public Utilities Commission.

“**NHPUC Approval**” means the Consent of the NHPUC to the transactions contemplated by this Agreement and the Related Agreements as required under New Hampshire Law.

“**Non-Assigned Contracts**” has the meaning set forth in [Section 5.3\(a\)\(v\)](#).

“**Non-Reimbursable Damages**” has the meaning set forth in [Section 7.9\(e\)](#).

**“Non-Represented Scheduled Employees”** has the meaning set forth in Section 3.12(a).

**“Non-Represented Transferred Employees”** has the meaning set forth in Section 5.8(c).

**“Objection Notice”** has the meaning set forth in Section 2.6(c)(i).

**“Offsite Disposal Facility”** means a location, other than a Facility or a Site, that receives or received Hazardous Substances for disposal by Seller prior to the Closing Date or by Buyer on or after the Closing Date.

**“Order”** means any award, decision, injunction, judgment, order, writ, decree, rule, ruling, subpoena, or verdict entered, issued, made or rendered by any Governmental Authority that possesses competent jurisdiction.

**“Organizational Documents”** means, with respect to any Person, the certificate or articles of incorporation, organization or formation and by-laws, the limited partnership agreement, the partnership agreement or the operating or limited liability company agreement, equity holder agreements and/or other organizational and governance documents of such Person.

**“Other Assigned Contracts”** has the meaning set forth in Section 2.1(e).

**“Outside Date”** has the meaning set forth in Section 8.1(a).

**“Party”** and **“Parties”** each has the meaning set forth in the preamble.

**“Permits”** means all certificates, licenses, permits, approvals, Consents, Orders, decisions and other actions of a Governmental Authority pertaining to a particular Acquired Asset, or the ownership, operation or use thereof.

**“Permitted Capital Expenditures”** means (a) any capital expenditure or commitment to make capital expenditures which will not be completely funded by the later of December 31, 2017 and the Closing Date, and which will not involve a total liability after such date of an amount equal to or less than Three Hundred Thousand Dollars (\$300,000) individually or One Million Dollars (\$1,000,000) in the aggregate; (b) those capital expenditures that are set forth on Schedule 5.5; or (c) those capital expenditures otherwise agreed to by the Parties.

**“Permitted Lien”** means (a) any Lien for Taxes not yet due or delinquent or being contested in good faith; (b) any Lien arising in the ordinary course of business by operation of Law (including mechanics’, materialmen’s, warehousemen’s, carriers’, workmen’s, repairmen’s, landlords’, suppliers’ and other similar Liens) with respect to a Liability that is not yet due or delinquent or that is being contested in good faith; (c) any purchase money Lien (including Liens under purchase price conditional sales contracts and equipment leases) arising in the ordinary course of business; (d) any deposit or pledge made in connection with, or to secure payment of, workers’ compensation, unemployment insurance, old age pension programs mandated under applicable Laws or other social security regulations; (e) any exception or other matter set forth in the Title Commitments (whether or not subsequently deleted or endorsed over) or discoverable based on a review or examination of an accurate survey of the Sites or the land records of the respective counties in which the Sites are located; (f) any easement, right of way, zoning or planning restriction, building and land use Law or similar restriction or condition imposed by any Governmental Authority; (g) any Lien that will no longer be binding on the Acquired Assets after Closing; (h) any Lien created by or resulting from any act or omission of Buyer; (i) any Lien granted or created by the execution and delivery of this Agreement or any of the Related Agreements or pursuant to the terms and conditions hereof or thereof (including without limitation the Reserved Easements); (j) with respect to the ARCO Shares, the ARCO ROFR and restrictions on sales of securities under applicable securities Laws; and (k) the matters and Liens set forth on Schedule 1.1-PL.

**“Person”** means an individual, corporation, partnership (general or limited), limited liability company, joint venture, trust, association, unincorporated organization, other business organization or Governmental Authority.

**“Prepayments”** means all advance payments, prepaid expenses (including rent), prepaid Taxes, progress payments and deposits of Seller, and rights to receive prepaid expenses, deposits or progress payments relating to the ownership and operation of the Acquired Assets, but not including any prepaid expenses or deposits attributable to Excluded Assets.

**“Property Tax Stabilization Payments”** mean those property tax stabilization payments with respect to the Facilities payable by Seller under the Settlement Agreement.

**“Prorated Amount”** means (a) with respect to any Prorated Item that is a Prepayment, the amount allocable to the period on or after the Closing Date that was paid by Seller prior to the Closing Date, and (b) with respect to any other Prorated Item, the amount (expressed as a negative number) allocable to the period prior to the Closing Date, whether or not then due and payable, which was not paid by Seller prior to the Closing Date and which represents an Assumed Liability (excluding, for the avoidance of doubt, any amount paid by Seller after the Closing Date directly to the applicable Third Party), in each case, prorated in accordance with the methodology specified in Section 2.7.

“**Prorated Item**” has the meaning set forth in Section 2.7(a).

“**Purchase Price**” has the meaning set forth in Section 2.5.

“**Purchase Price Adjustment**” has the meaning set forth in Section 2.6(c)(i).

“**Real Property**” has the meaning set forth in Section 2.1(a).

“**Related Agreements**” means the Deeds, each Assignment and Assumption of Lease, the Bill of Sale, the Assignment and Assumption Agreement, the Asset Demarcation Agreement, the Easements, the Interconnection Agreements, the Transition Services Agreement, the Release of Mortgage Indenture, and the other agreements, certificates and documents to be delivered pursuant to this Agreement.

“**Release**” means any release, spill, emission, escape, migration, leaking, leaching, pumping, injection, dumping, deposit, disposal or discharge into or through the Environment.

“**Release of Mortgage Indenture**” has the meaning set forth in Section 2.10(g).

“**Remediation**” means any or all of the following activities to the extent required to address the presence or Release of, or exposure to, Hazardous Substances: (a) monitoring, investigation, assessment, treatment, cleanup, containment, removal, mitigation, response or restoration work; (b) obtaining any Permits or Consents of any Governmental Authority necessary to conduct any such activity; (c) preparing and implementing any plans or studies for any such activity; (d) obtaining a written notice (or an oral notice which is appropriately documented or memorialized) from a Governmental Authority with competent jurisdiction under Environmental Laws or a written opinion of a Licensed Professional Geologist (as defined in New Hampshire RSA 310-A:118, IV), as contemplated by the relevant Environmental Laws and in lieu of a written notice from a Governmental Authority, that no material additional work is required; and (e) any other activities reasonably determined by a Party to be necessary or appropriate or required under Environmental Laws.

“**Representative**” means, with respect to any Person, such Person’s Affiliates, and such Person and its Affiliates’ respective officers, directors, managers, employees, agents, consultants and advisors (including financial advisors, accountants and counsel).

“**Represented Scheduled Employees**” has the meaning set forth in Section 3.12(a).

“**Represented Transferred Employees**” has the meaning set forth in Section 5.8(a).

“**Reserved Easements**” means easements to be reserved by Seller with respect to certain T&D Assets and associated telecommunications facilities located on the site of the Acquired Assets, as set forth in Schedule 2.1(a), to be reserved in the Deeds substantially in the form to be agreed to by Seller and Buyer in accordance with Section 5.2(f).

“**Restoration Cost**” has the meaning set forth in Section 5.16.

“**Scheduled Employees**” has the meaning set forth in Section 3.12(a).

“**Schedule Update**” has the meaning set forth in Section 5.15.

“**Selected Represented Employees**” has the meaning set forth in Section 5.8(a).

“**Selected Non-Represented Employees**” has the meaning set forth in Section 5.8(c).

“**Seller**” has the meaning set forth in the preamble.

“**Seller Indemnified Parties**” has the meaning set forth in Section 7.4.

“**Seller Marks**” means any and all names, marks, trade names, trademarks and corporate symbols and logos incorporating “PSNH,” “Public Service Company of New Hampshire,” “Public Service of New Hampshire,” “Eversource,” “Eversource Energy” or “Northeast Utilities,” or any word or expression similar thereto or constituting an abbreviation or extension thereof, together with all other names, marks, trade names, trademarks and corporate symbols and logos of Seller or any of its Affiliates.

“**Seller Required Consents**” has the meaning set forth in Section 3.3.

“**Seller’s Knowledge**” means the actual knowledge (and not imputed or constructive knowledge) of the individuals listed on Schedule 1.1-K, after due inquiry.

“**Seller’s Pension Plan**” has the meaning set forth in Section 5.8(e)(i)(B).

“**Settlement Agreement**” means that certain 2015 Public Service Company of New Hampshire Restructuring and Rate Stabilization Agreement, dated as of June 10, 2015, by and among Seller, Eversource, the Office of Energy and Planning, Designated Advocate Staff of the NHPUC, the Office of Consumer Advocate, New Hampshire District 3 Senator Jeb Bradley, New Hampshire District 15 Senator Dan Feltes, the City of Berlin, New Hampshire, the Union, the Conservation Law Foundation, Inc., TransCanada Power Marketing Ltd., TransCanada Hydro Northeast Inc., and the New Hampshire Sustainable Energy Association d/b/a NH CleanTech Council, as amended by that certain Amendment to the 2015 Public Service Company of New Hampshire Restructuring and Rate Stabilization Agreement, dated January 26, 2016, and the Partial Litigation Settlement Between Settling Parties and Non-Avocate Staff, dated January 26, 2016, all as approved by NHPUC Order No. 25,920, dated July 1, 2016.

“**Site**” means the Real Property or Leased Real Property (as applicable) and Improvements forming a part of, or used or usable in connection with, a Facility. Any reference to a Site shall include, by definition, the surface and subsurface elements, including the soils and groundwater present at such Site, and any reference to items “at the Site” shall include all items “at, on, in, upon, over, across, under and within” the Site.

“**T&D Assets**” means the transmission, distribution, communication, substation and other assets necessary to current or future T&D Operations of Seller.

“**T&D Operations**” means the process of conducting and supporting the transmission, distribution and sale of electricity.

“**Tax**” or “**Taxes**” means any federal, state, local, or foreign income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental (including taxes under Code Section 59A), customs duties, capital stock, franchise, profits, withholding, social security (or similar, including FICA), unemployment, disability, real property, personal property, sales, use, transfer, border adjustment, registration, value added, alternative or add-on minimum, estimated, or other tax of any kind whatsoever, including any interest, penalty, or addition thereto, whether disputed or not.

“**Taxing Authority**” means, with respect to any Tax, the Governmental Authority (including the Internal Revenue Service) that imposes such Tax, and the agency (if any) charged with the collection of such Tax for such Governmental Authority.

“**Tax Return**” means any return, declaration, report, claim for refund, or information return or statement relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof.

“**Terminated Contracts**” has the meaning set forth in Section 5.6(a).

“**Third Party**” means a Person that is not a Party, or an Affiliate of a Party, to this Agreement.

“**Third Party Claim**” has the meaning set forth in Section 7.6(a).

“**Title Commitments**” has the meaning set forth in Section 2.1(a).

“**Transferable Permits**” has the meaning set forth in Section 2.1(d).

“**Transferred Books and Records**” means all books, operating records, engineering designs, blueprints, as-built plans, specifications, procedures, studies, reports, manuals, equipment repair records, safety records, maintenance records, service records, supplier, contractor and subcontractor lists, pending purchase orders, property and sales Tax Returns and related Tax records, and all Transferred Employee Records (in each case, in the format (including electronic format) in which such items are reasonably and practically available), in each case, in the possession of Seller to the extent relating specifically to the ownership or operation of the Facilities and the Acquired Assets; *provided*, that “Transferred Books and Records” shall not include: (a) any files or records relating to any employees who are not Transferred Employees, (b) files or records relating to any Transferred Employee afforded confidential treatment under any applicable Laws, except to the extent the affected employee consents in writing to such disclosure to Buyer, (c) all records prepared in connection with the sale of the Acquired Assets (and Seller’s other generation assets), including bids received from Third Parties and analyses relating to the Acquired Assets, (d) financial records, books of account or projections relating to the Acquired Assets, (e) books, records or other documents of Seller or its Affiliates related to corporate compliance matters not primarily developed for the Acquired Assets, (f) organizational documents (including minute books) of Seller, (g) materials, the disclosure of which would constitute a waiver of attorney-client or attorney work product privilege, or (h) any other books and records which Seller is prohibited from transferring to Buyer under applicable Law and is required by applicable Law to retain.

“**Transferred Employees**” means the Non-Represented Transferred Employees and the Represented Transferred Employees, collectively.

“**Transferred Employee Records**” means all personnel records maintained by Seller relating to the Transferred Employees, to the extent such files contain (a) names, addresses, dates of birth, job titles and descriptions; (b) dates of employment; (c) compensation and benefits information; (d) resumes and job applications; and (e) any other documents that Seller is not prohibited by Law from delivering to Buyer. To the extent the consent of a Transferred Employee is required under applicable Law in order for Seller to deliver a document that is part of the Transferred Employee Records to Buyer, Seller agrees to use commercially reasonable efforts to secure such consent.

“**Transfer Taxes**” means all transfer, sales, ad valorem, use, goods and services, value added, documentary, stamp duty, gross receipts, excise, transfer and conveyance Taxes and other similar Taxes, duties, fees or charges, together with any interest, penalties or additions in respect thereof.

“**Transition Service Cost Percentage**” means one hundred ten percent (110%) during the period of the first ninety (90) days after the Closing Date, one hundred twenty-five percent (125%) for the next ninety (90) days, and one hundred fifty percent (150%) thereafter.

“**Transition Services Agreement**” has the meaning set forth in Section 5.6(b).

“**Union**” means International Brotherhood of Electrical Workers, Local 1837.

“**VTPUC**” means the Vermont Public Utility Commission.

“**WARN Act**” means the Worker Adjustment and Retraining Notification Act, 29 U.S.C. § 2101, et seq.

**Section 1.2 Rules of Interpretation.** The following rules of interpretation apply to this Agreement:

(a) Unless otherwise specified, all Article, Section, Schedule and Exhibit references in this Agreement are to the Articles and Sections of, and the Schedules and Exhibits attached to, this Agreement. The Schedules and Exhibits attached to this Agreement constitute a part of this Agreement and are incorporated in this Agreement for all purposes.

(b) Article, Section and subsection headings in this Agreement are inserted for convenience only and shall not affect in any way the meaning or interpretation of this Agreement.

(c) If a term is defined as one part of speech (such as a noun), it shall have a corresponding meaning when used as another part of speech (such as a verb). Unless the context of this Agreement clearly requires otherwise, (i) words importing the masculine gender shall include the feminine and neutral genders and vice versa and (ii) words in the singular shall include the plural and vice versa. The words “include,” “includes,” and “including” are not limiting and shall mean “including without limitation.” The word “or” shall not be exclusive. The words “herein,” “hereunder,” “hereof,” “hereto” and similar terms used in this Agreement are references to this Agreement as a whole and not to any particular Article or Section or other portion of this Agreement in which such words appear. For purposes of computation of periods of time, the word “from” means “from and including” and the words “to” and “until” each mean “to but excluding.”

(d) Whenever this Agreement refers to a number of days, such number shall refer to calendar days unless Business Days are specified. Whenever any action must be taken hereunder on or by a day that is not a Business Day, then such action may validly be taken on or by the next day that is a Business Day.

(e) Unless the context of this Agreement clearly requires otherwise, any reference to any Contract means such Contract as amended and in effect from time to time in accordance with its terms and, if applicable, the terms of this Agreement.

(f) Unless the context of this Agreement clearly requires otherwise, reference to any Law means such Law as amended, modified, codified, replaced or re-enacted, in whole or in part, and in effect from time to time, including any successor legislation thereto and all rules and regulations promulgated thereunder.

(g) Currency amounts referenced in this Agreement are in U.S. Dollars.

(h) All accounting terms used but not expressly defined herein have the meanings given to them under GAAP.

(i) Each Party acknowledges that it and its attorneys have been given equal opportunity to negotiate the terms and conditions of this Agreement and that any rule of construction to the effect that ambiguities are to be resolved against the drafting Party, or any similar rule operating against the drafter of an agreement, shall not be applicable to the construction or interpretation of this Agreement.

**ARTICLE II**  
**PURCHASE AND SALE; CLOSING**

**Section 2.1 Purchase and Sale of Acquired Assets.** On the terms and subject to the conditions set forth in this Agreement, at the Closing, Seller shall sell, assign, convey and transfer to Buyer, and Buyer shall purchase, assume and acquire from Seller, free and clear of Liens other than Permitted Liens, all of Seller's right, title and interest in and to (i) the ARCO Shares and (ii) all properties, rights and assets owned by Seller constituting, or used in and necessary for the operation of, the Facilities and the Business (collectively, the "**Acquired Assets**"):

(a) The real property, Improvements thereon, easements and other rights in real property described in Schedule 2.1(a), but subject to the exceptions and encumbrances set forth in the title policy commitments provided to Buyer and described on Schedule 2.1(a) (the "**Title Commitments**") and subject to the Permitted Liens (the "**Real Property**");

(b) The leasehold interests and rights thereunder relating to real property with respect to which Seller is lessee set forth in Schedule 2.1(b), but subject to the exceptions and encumbrances set forth in the Title Commitments and subject to the Permitted Liens (the "**Leased Real Property**"), and all leases set forth in Schedule 2.1(b) with respect to the Leased Real Property (the "**Assigned Leases**");

(c) The machinery, equipment, tools, furniture, boats, vehicles, Inventories and other tangible and intangible personal property owned by Seller and located at or in transit to the Facilities (if related solely to any of the Acquired Assets) (including without limitation the items of personal property described on Schedule 2.1(c)), or, in the case of intangible personal property (other than Intellectual Property), otherwise used exclusively for the Facilities or the other Acquired Assets, including any Prepayments and all applicable warranties against manufacturers or vendors to the extent that such warranties are transferable, in each case as in existence on the Effective Date, but excluding such items disposed of by Seller in the ordinary course of business during the Interim Period and including such additional items as may be acquired by Seller for use in connection with the Acquired Assets in the ordinary course of business during the Interim Period;

(d) All Permits (including all pending applications for Permits or renewals thereof) relating to the ownership and operation of the Facilities or the Acquired Assets that, as of the Closing Date, are transferable by Seller to Buyer by assignment or otherwise under applicable Law including those that are identified as Transferable Permits on Schedule 3.5(b) or Schedule 3.11(a) (the "**Transferable Permits**"); *provided* that Seller shall, during the Interim Period, amend such Schedules to account for applicable changes arising during the Interim Period, to the extent such changes are not in violation of any applicable covenants in Section 5.5;

(e) Excluding the Assigned Leases addressed in Section 2.1(b), but including personal property leases (whether Seller is lessor or lessee thereunder), real property leases with respect to which Seller is lessor thereunder and railroad crossing licenses and side-track agreements for the benefit of Seller, (i) those Contracts that relate to, and are material to, the ownership or operation of the Acquired Assets or the Business and that are set forth in Schedule 2.1(e) (the "**Material Contracts**") and (ii) all other Contracts that relate exclusively to the ownership or operation of the Acquired Assets or otherwise relate to the operation of the Business and in either case are not, individually, or in the aggregate, material to Business (the "**Other Assigned Contracts**" and, together with the Material Contracts, the "**Assigned Contracts**"); *provided* that Seller shall retain the rights and interests under any Assigned Contract to the extent such rights and interests provide for indemnity and exculpation rights for pre-Closing occurrences for which Seller remains liable under this Agreement; and *provided further*, that Seller shall, during the Interim Period, amend such Schedule to set forth any amendments to any Material Contract, or any additional Contracts entered into during the Interim Period that are material to the ownership or operation of the Acquired Assets, in each case that are not in violation of any applicable covenants in Section 5.5;

(f) All Transferred Books and Records, subject to the right of Seller to retain copies for its use to the extent and subject to the conditions set forth herein;

(g) All Intellectual Property that is owned by Seller and primarily used in connection with the operation of the Facilities set forth in Schedule 2.1(g) (the "**Assigned Intellectual Property**");

(h) Subject to Section 2.2(f), the rights of Seller to the use of the names of the Facilities set forth in Schedule 1;

(i) Those Environmental Attributes set forth in Schedule 2.1(i), excluding such Environmental Attributes or portions thereof disposed of by Seller in the ordinary course of business during the Interim Period and including such additional Environmental Attributes as may be acquired by Seller for use in the operation of the Facilities in the ordinary course of business during the Interim Period; and

(j) All rights of Seller in and to any claims, causes of action, rights of recovery, rights of set-off, rights of refund and similar rights against a Third Party relating to any Assumed Liability, but excluding any such rights of Seller in, to or under any

insurance policies of Seller or any insurance proceeds therefrom.

For avoidance of doubt, the terms “Acquired Assets” and “Facilities” as used in this Agreement shall not include any properties, rights, assets or facilities of ARCO.

**Section 2.2 Excluded Assets.** Notwithstanding anything to the contrary in this Agreement, Buyer expressly understands and agrees that it is not purchasing or acquiring, and Seller is not selling, assigning or transferring, any properties, rights or assets of Seller other than the Acquired Assets, and all such other properties, rights and assets shall be excluded from the Acquired Assets (collectively, the “**Excluded Assets**”). The Excluded Assets to be retained by Seller include all of Seller’s right, title and interest in and to the following properties, rights and assets:

- (a) As identified on Schedule 2.2(a) or in the Asset Demarcation Agreement, the real and personal property comprising or constituting any or all of the T&D Assets (whether or not regarded as a “transmission,” “distribution” or “generation” asset for regulatory or accounting purposes), including all electric power, communications and telecommunications underground and aboveground lines, switchyard facilities, substation facilities, support equipment and other Improvements, the Reserved Easements, and all Permits and Contracts, to the extent they relate to the T&D Assets, and those certain assets and facilities identified for use or used by Seller or others pursuant to an agreement or agreements with Seller for telecommunications purposes;
- (b) The real property and Improvements thereon described in Schedule 2.2(b);
- (c) Except for Prepayments, (i) all Cash, accounts receivable, notes receivable, checkbooks and canceled checks, bank accounts and deposits, commercial paper, certificates of deposit, securities, and property or income Tax receivables, and (ii) any other Tax refunds, credits, prepayments or other rights to payment related to the Acquired Assets to the extent allocable to a period ending on or before the Closing Date;
- (d) All Contracts of Seller other than the Assigned Contracts and Assigned Leases;
- (e) All Permits of Seller other than the Transferable Permits;
- (f) All Intellectual Property including all Seller Marks other than the Assigned Intellectual Property;
- (g) Duplicate copies of all Transferred Books and Records (to the extent and subject to the conditions set forth herein), and all other records of Seller other than the Transferred Books and Records, including corporate seals, organizational documents, minute books, stock books, Tax Returns, financial records, books of account and other corporate records of Seller, and all employee-related or employee benefit-related files or records other than the Transferred Employee Records;
- (h) All insurance policies of Seller and insurance proceeds therefrom;
- (i) All rights of Seller in and to any claims, causes of action, rights of recovery, rights of set-off, rights of refund and similar rights against a Third Party relating to any period through the Closing or otherwise relating to any Excluded Liability, but excluding any such rights of Seller to the extent relating to an Assumed Liability;
- (j) All of Seller’s rights arising from or associated with any Contract or arrangement representing an intercompany transaction, agreement or arrangement between Seller and an Affiliate of Seller, whether or not such transaction, agreement or arrangement relates to the provisions of goods or services, payment arrangements, intercompany charges or balances or the like, including, but not limited to, the Terminated Contracts (“**Intercompany Arrangements**”), other than those Assigned Contracts set forth on Schedule 2.2(j);
- (k) All Employee Benefit Plans and trusts or other assets attributable thereto;
- (l) All assets of Seller related to its ownership, construction and operation of a portfolio of thermal electric generation assets and related facilities, together with fuel inventories, and including generating, selling, transmitting and delivering electric energy, capacity, ancillary services and Environmental Attributes from the generation assets to the interconnection point set forth in the respective Interconnection Agreements; and
- (m) The rights that accrue or will accrue to Seller under this Agreement and the Related Agreements.

**Section 2.3 Assumption of Assumed Liabilities.** On the terms and subject to the conditions set forth in this Agreement, from and after the Closing, Buyer shall assume and shall satisfy, perform or discharge when due only those Liabilities of Seller expressly provided for herein in respect of, or otherwise arising from the operation of the Business or the ownership, operation or use of the Acquired Assets, other than the Excluded Liabilities (the “**Assumed Liabilities**”) as follows:

(a) All Environmental Liabilities, excluding the Excluded Environmental Liabilities, but only to the extent that such Excluded Environmental Liabilities are subject to indemnification by Seller pursuant to Section 7.5(f), after which they shall become an Assumed Liability;

(b) Except as set forth in Section 2.4(c), all Liabilities under (i) the Assigned Contracts (including the Androscoggin River Headwaters Benefits Agreement, dated June 1, 1983, by and among Androscoggin Reservoir Company, Union Water Power Company, International Paper Company, Rumford Falls Power Company, James River Corporation, and Seller), the Assigned Leases, the Transferable Permits, in each case in accordance in its terms, (ii) the Assigned Intellectual Property, to the extent set forth on Schedule 2.1(g), and (iii) the Contracts, commitments and Transferable Permits entered into by Seller with respect to the Acquired Assets during the Interim Period consistent with Section 5.5, including, without limitation, commitments and agreements with respect to capital expenditures or Liabilities for real or personal property Taxes on any of the Acquired Assets (or, to the extent such agreements do not allocate such Tax liability between the Acquired Assets and the Excluded Assets, all Tax liability under such agreements entered into by Seller and any local government);

(c) All Liabilities (i) for any compensation, benefits, employment Taxes, workers compensation benefits and other similar Liabilities in respect of the Transferred Employees (including under the Generation CBA, any Employee Benefit Plan of Buyer, or any other agreement, plan, practice, policy, instrument or document relating to any of the Transferred Employees) to the extent arising or accruing on or after the Closing Date, but not including any Liabilities arising out of the Memorandum of Agreement to the Generation CBA dated September 7, 2017, (ii) relating to the Transferred Employees which Buyer has assumed or for which Buyer is otherwise responsible under Section 5.8, and (iii) in respect of any discrimination, wrongful discharge, unfair labor practice or similar Claim under applicable employment Laws by any Transferred Employee arising out of or relating to acts or omissions occurring on or after the Closing Date;

(d) All Liabilities for (i) Taxes (including, with respect to property Taxes, payments in addition to or in lieu of Taxes, but not including the Property Tax Stabilization Payments) relating to the ownership, operation, sale or use of the Facilities, the Acquired Assets or the Assumed Liabilities on or after the Closing Date and (ii) Taxes for which Buyer is liable pursuant to Section 2.7, Section 5.12 and Section 5.13; and

(e) All other Liabilities expressly allocated to Buyer in this Agreement or in any of the Related Agreements.

**Section 2.4 Excluded Liabilities.** Except for the Assumed Liabilities, Buyer shall not assume or be responsible for the performance of any Liabilities of Seller including, without limitation, any of the following Liabilities (collectively, the “**Excluded Liabilities**”):

(a) Any Liability of Seller in respect of or otherwise arising from the operation or use of the Excluded Assets;

(b) Any Liability of Seller arising from the making or performance of this Agreement or a Related Agreement or the transactions contemplated hereby or thereby;

(c) Any Liability of Seller under the Assigned Contracts or Assigned Leases (i) in respect of payment obligations for goods delivered or services rendered prior to the Closing Date or (ii) relating to a breach or default by Seller of any of its obligations thereunder occurring prior to the Closing Date, regardless of whether such Liability arises or is discovered on or after the Closing Date;

(d) Except for those Assumed Liabilities set forth in Section 2.3(c), any Liability of Seller (i) for any compensation, benefits, employment Taxes, workers compensation benefits and other similar Liabilities in respect of the Transferred Employees (including under the Generation CBA, any Employee Benefit Plan of Seller, or any other agreement, plan, practice, policy, instrument or document relating to any of the Transferred Employees) to the extent arising or accruing prior to the Closing Date, (ii) relating to the Transferred Employees for which Seller is responsible under Section 5.8, or (iii) in respect of any discrimination, wrongful discharge, unfair labor practice or similar Claim under applicable employment Laws by any Transferred Employee arising out of or relating to acts or omissions occurring prior to the Closing Date;

(e) Any Liability of Seller arising from or associated with any Intercompany Arrangement, other than Liabilities under those Assigned Contracts set forth on Schedule 2.2(j);

(f) Any Liability of Seller for any fines or penalties imposed by a Governmental Authority resulting from (i) any investigation or proceeding pending prior to the Closing Date or (ii) illegal acts or willful misconduct of Seller prior to the Closing Date;

(g) Any Liability for Taxes (including, with respect to property Taxes, payments in addition to or in lieu of Taxes and the Property Tax Stabilization Payments) relating to the ownership, operation, sale or use of the Acquired Assets prior to the Closing,

except those Taxes for which Buyer is liable pursuant to Section 2.7, Section 5.12 and Section 5.13;

(h) (i) any Environmental Liability to the extent such Environmental Liability arises out of or relates to any Governmental Authority's allegation and investigation of any violations of Environmental Laws by Seller, and (ii) any Liability relating to the treatment, disposal, storage, discharge, or Release of Hazardous Substances that were generated at the Sites through ownership or operation prior to the Closing Date, including relating to recycling or the arrangement for such activities at, or the transportation to, any Offsite Disposal Facility by Seller, prior to the Closing Date (such liabilities, the "**Excluded Environmental Liabilities**"). For the avoidance of doubt, it is the intention of the Parties that this Section 2.4(h) shall exclusively define those Environmental Liabilities constituting Excluded Liabilities hereunder, and that no other provision of this Section 2.4 shall be construed to include any Environmental Liabilities; and

(i) Any Liability of Seller in respect of accounts payable or accrued expenses.

**Section 2.5 Purchase Price.** In consideration for Seller's sale, assignment and transfer of the Acquired Assets to Buyer, at the Closing, Buyer shall (i) pay to Seller an aggregate amount equal to Eighty-Three Million Dollars (\$83,000,000) (the "**Base Purchase Price**") plus or minus amounts to account for (a) the Estimated Purchase Price Adjustment to be made as of the Closing under Section 2.6(a) and Section 2.6(b), and (b) the prorations to be made as of the Closing under Section 2.7 (the Base Purchase Price, as so adjusted, shall be referred to herein as the "**Closing Purchase Price**"), and (ii) assume the Assumed Liabilities. The Closing Purchase Price shall be payable in cash by wire transfer to Seller in accordance with written instructions of Seller given to Buyer at least three (3) Business Days prior to the Closing. Following the Closing, the Closing Purchase Price shall be subject to adjustment pursuant to Section 2.6(c) and Section 2.7(b), and the Closing Purchase Price, as so adjusted pursuant to such Sections, shall be herein referred to as the "**Purchase Price**."

**Section 2.6 Certain Adjustments to Base Purchase Price.** At the Closing, the Base Purchase Price shall be adjusted as set forth in Section 2.6(a) and Section 2.6(b), and the Closing Purchase Price shall be subject to adjustment following the Closing as set forth in Section 2.6(c).

(a) Determination of Adjustment. The Base Purchase Price shall be increased to account for the following items:

(i) The lesser of net book value of all Inventory held by Seller with respect to the Facilities as of the Closing Date and Three Hundred Ten Thousand Dollars (\$310,000);

(ii) Any Permitted Capital Expenditures paid by Seller during the Interim Period; and

(iii) Subject to, and without limiting, Seller's obligations in Section 5.5 to operate and maintain the Acquired Assets in the ordinary course of business consistent with Good Utility Practice, any operations and maintenance expenses paid for by Seller during the Interim Period that Seller would not have actually paid for but for Buyer's written request.

(b) Estimated Purchase Price Adjustment. At least five (5) Business Days prior to the Closing Date, Seller shall prepare and deliver to Buyer a statement (the "**Estimated Closing Statement**") setting forth in reasonable detail Seller's good faith estimate of the net amount of all adjustments to the Base Purchase Price required by Section 2.6(a) (the "**Estimated Purchase Price Adjustment**"), together with reasonable supporting material regarding the computation thereof. In calculating the Closing Purchase Price pursuant to Section 2.5, the Base Purchase Price will be increased to reflect the Estimated Proration Adjustment Amount.

(c) Post-Closing Adjustment.

(i) Within sixty (60) days following the Closing Date, Seller shall prepare and deliver to Buyer a statement (the "**Closing Statement**") that shall set forth in reasonable detail Seller's calculation of the net amount of all adjustments to the Base Purchase Price required by Section 2.6(a) taking into account actual data (the "**Purchase Price Adjustment**"), together with reasonable supporting material regarding the computation thereof. Buyer shall have thirty (30) days to review the Closing Statement following receipt thereof. On or before the end of such 30-day review period, Buyer may object to the Closing Statement by written notice to Seller (the "**Objection Notice**"), setting forth Buyer's specific objections to the calculation of the Purchase Price Adjustment. Such Objection Notice shall specify those items or amounts with which Buyer disagrees, together with a detailed written explanation of the reasons for disagreement with each such item or amount (and reasonable supporting material therefor), and shall set forth Buyer's calculation of the Purchase Price Adjustment based on such objections. To the extent not set forth in a timely-delivered Objection Notice, Buyer shall be deemed to have agreed with Seller's calculation of all other items and amounts contained in the Closing Statement and neither party may thereafter dispute any item or amount not set forth in such Objection Notice. If Buyer does not timely deliver any Objection Notice, Buyer shall be deemed to have agreed with and accepted Seller's calculation of the Purchase Price Adjustment, and the Closing Statement shall be final and binding on the Parties as of the end of Buyer's 30-day review period.

(ii) If Buyer timely delivers an Objection Notice to Seller, Buyer and Seller shall, during the thirty (30) day period following such delivery (or any mutually agreed extension thereof), use their commercially reasonable efforts to negotiate and reach agreement on the disputed items and amounts in order to determine the amount of the Purchase Price Adjustment. If, at the end of such period (or any mutually agreed extension thereof), the Parties are unable to resolve their disagreements, they shall jointly retain and refer their disagreements to a nationally recognized independent accounting firm selected by Seller (the “**Independent Accountant**”). The Parties shall instruct the Independent Accountant to promptly review this Section 2.6 and to determine solely with respect to the disputed items and amounts so submitted whether and to what extent, if any, the Purchase Price Adjustment set forth in the Closing Statement requires adjustment. The Independent Accountant shall base its determination solely on written submissions by Buyer and Seller. As promptly as practicable, but in no event later than thirty (30) days after its retention, the Independent Accountant shall deliver to Buyer and Seller a report which sets forth its resolution of the disputed items and amounts and its calculation of the Purchase Price Adjustment; *provided* that the Independent Accountant may not assign a value to any item greater than the greatest value for such item claimed by either Party or less than the smallest value for such item claimed by either Party. The decision of the Independent Accountant shall be final and binding on the Parties. The costs and expenses of the Independent Accountant shall be allocated between the Parties based upon the percentage which the portion of the contested amount not awarded to each party bears to the amount actually contested by such party, as determined by the Independent Accountant. The Parties agree to execute, if requested by the Independent Accountant, a reasonable engagement letter, including customary indemnities in favor of the Independent Accountant. The Parties shall cooperate and shall furnish each other and, if applicable, the Independent Accountant, with such documents and other records that may be reasonably requested in connection with the preparation, review and final determination of the Closing Statement and Purchase Price Adjustment and the other matters addressed in this Section 2.6.

(iii) For purposes of this Section 2.6(c), “**Final Purchase Price Adjustment**” means the Purchase Price Adjustment:

(A) As shown in the Closing Statement delivered by Seller to Buyer pursuant to Section 2.6(c)(i), if no Objection Notice with respect thereto is timely delivered by Buyer to Seller pursuant to Section 2.6(c)(i); or

(B) If an Objection Notice is so delivered, (x) as agreed by the Parties pursuant to Section 2.6(c)(ii) or (y) in the absence of such agreement, as shown in the Independent Accountant’s report delivered pursuant to Section 2.6(c)(ii).

(iv) Within three (3) Business Days after the Final Purchase Price Adjustment has been finally determined pursuant to this Section 2.6(c):

(A) If the Final Purchase Price Adjustment is less than the Estimated Purchase Price Adjustment, Seller shall pay to Buyer an amount equal to (x) the Estimated Purchase Price Adjustment minus (y) the Final Purchase Price Adjustment; and

(B) If the Final Purchase Price Adjustment is greater than the Estimated Purchase Price Adjustment, Buyer shall pay to Seller an amount equal to (x) the Final Purchase Price Adjustment minus (y) the Estimated Purchase Price Adjustment.

Any payment required to be made by a Party pursuant to this Section 2.6(c)(iv) shall be made to the other Party by wire transfer of immediately available funds to the account designated in writing by such other Party.

## **Section 2.7 Proration.**

(a) Buyer and Seller agree that all of the items (including any Prepayments with respect to such items) normally prorated in a sale of assets of the type contemplated by this Agreement, including those listed below, relating to the ownership and operation of the Acquired Assets (collectively, the “**Prorated Items**”), shall be prorated on a daily basis as of the Closing Date in accordance with this Section 2.7, with Seller liable to the extent such items relate to any period prior to the Closing Date, and Buyer liable to the extent such items relate to periods on and after the Closing Date:

(i) Personal property, real property, occupancy and water Taxes, assessments and other charges, if any, on or associated with the Acquired Assets;

(ii) Rent, Taxes and other items payable by or to Seller under any of the Assigned Contracts or Assigned Leases;

(iii) Any Permit, license, registration or other fees with respect to any Transferable Permit associated with the

Acquired Assets;

- (iv) Sewer rents and charges for water, telephone, electricity and other utilities; and
- (v) Revenues associated with the Environmental Attributes set forth in Schedule 2.1(i).

(b) At least five (5) Business Days prior to the Closing Date, Seller will deliver to Buyer a worksheet setting forth in reasonable detail (i) Seller's good faith reasonable estimate of the Prorated Amount for each Prorated Item (with respect to each Prorated Item, the "**Estimated Prorated Amount**"), together with reasonable supporting material regarding such estimate, and (ii) the calculation of the net amount of the Estimated Prorated Amounts (the "**Estimated Proration Adjustment Amount**"). In the event that, with respect to any Prorated Item, actual figures are not available as of the time of the calculation of the Estimated Prorated Amount, the Estimated Prorated Amount for such Prorated Item shall be a good faith reasonable estimate based upon the actual fee, cost or amount of the Prorated Item for the most recent preceding year (or appropriate period) for which an actual fee, cost or amount paid is available. In calculating the Closing Purchase Price pursuant to Section 2.5, the Base Purchase Price will be adjusted appropriately to reflect the Estimated Proration Adjustment Amount.

(c) When the actual Prorated Amount with respect to any Prorated Item (the "**Actual Prorated Amount**") becomes available to either Party, it shall promptly (and in any event within ninety (90) days following Closing) notify the other Party of such Prorated Item and Actual Prorated Amount, together with reasonable detail and supporting material regarding the computation thereof. For any Prorated Item with respect to which the Estimated Prorated Amount is not equal to the Actual Prorated Amount, upon the request of either Seller or Buyer, made within thirty (30) days of the date when such Actual Prorated Amount became available to such Party (or such Party received notice of such Actual Prorated Amount from the other Party, as applicable), the Parties shall agree on an adjustment to account for the difference between the Estimated Prorated Amount and the Actual Prorated Amount for such Prorated Item. All disputes between Seller and Buyer respecting any such requested adjustments that are not resolved by mutual agreement within sixty (60) days following the end of the foregoing ninety (90) day notice period shall be referred by the Parties to the Independent Accountant, who shall resolve such disputes and determine such final adjustment substantially in accordance with the procedures set forth in Section 2.6(c)(ii), applied *mutatis mutandis*. Any adjustment payment to be made by Buyer or Seller, as applicable, to the other Party pursuant to this Section 2.7(c) shall be paid within ten (10) days following the Parties' agreement (or the Independent Accountant's determination) with respect thereto by wire transfer of immediately available funds to the account designated in writing by such other Party. The Parties agree to cooperate and furnish each other with such documents and other records that may be reasonably requested in order to confirm all adjustment and proration calculations made pursuant to this Section 2.7.

## **Section 2.8 Allocation of Purchase Price.**

(a) Buyer and Seller shall agree upon an allocation among the Acquired Assets of the sum of the Purchase Price and the Assumed Liabilities consistent with Section 1060 of the Code and the Treasury Regulations thereunder on or before the Closing Date (or any mutually agreed extension thereof). Each of Buyer and Seller agrees to file Internal Revenue Service Form 8594 and all federal, state, local and foreign Tax Returns, and to report the transactions contemplated by this Agreement and the Related Agreements for federal income Tax and all other Tax purposes, in a manner consistent with the allocation determined pursuant to this Section 2.8 (as revised to take into account subsequent adjustments to the Purchase Price, including adjustments to the Purchase Price pursuant to Section 2.6 and Section 2.7 and any indemnification payment treated as an adjustment to the Purchase Price pursuant to Section 7.7, as mutually agreed upon by the Parties and in accordance with the provisions of the Code and the Treasury Regulations thereunder). Each of Buyer and Seller agrees to provide the other promptly with any other information required to complete Form 8594. Each of Buyer and Seller shall notify and provide the other with reasonable assistance in the event of an examination, audit or other proceeding regarding the agreed upon allocation of the Purchase Price.

(b) In compliance with the Settlement Agreement's requirement to fairly allocate among individual assets the sale price of any assets that are sold as a group, the Parties acknowledge and agree that the portion of the Purchase Price allocable to each Facility and to the ARCO Shares for purposes of the ARCO ROFR is as set forth on Schedule 2.8(b).

**Section 2.9 Closing.** Subject to the terms and conditions of this Agreement, the closing of the transactions contemplated by this Agreement (the "**Closing**") shall take place at the offices of Seller, 780 N. Commercial Street, Manchester, New Hampshire 03105-0330, beginning at 10:00 a.m. local time, on the third (3<sup>rd</sup>) Business Day following the date on which all of the conditions set forth in ARTICLE VI have either been satisfied or expressly waived by the Party for whose benefit such condition exists (other than conditions which, by their nature, are to be satisfied at Closing, but subject to the satisfaction or waiver of those conditions), or at such other time, date or place as the Parties may mutually agree. The date of Closing is hereinafter called the "**Closing Date**." The Closing shall be effective for all purposes herein as of 12:01 a.m. Eastern time on the Closing Date.

**Section 2.10 Deliveries by Seller at Closing.** At Closing, Seller shall deliver the following to Buyer, duly executed and properly acknowledged, if appropriate:

- (a) With respect to each parcel of Real Property, a deed conveying such parcel to Buyer, substantially in the form to be agreed to by Seller and Buyer in accordance with Section 5.2(f) and otherwise in a form suitable for recording (each, a “**Deed**”);
- (b) With respect to each Assigned Lease, an assignment and assumption of lease, substantially in the form to be agreed to by Seller and Buyer in accordance with Section 5.2(f) and otherwise in a form suitable for recording, if necessary (each, an “**Assignment and Assumption of Lease**”);
- (c) A bill of sale transferring the tangible personal property included in the Acquired Assets to Buyer, substantially in the form to be agreed to by Seller and Buyer in accordance with Section 5.2(f) (the “**Bill of Sale**”);
- (d) An assignment and assumption agreement pursuant to which Seller shall assign certain rights, liabilities and obligations to Buyer and Buyer shall assume the Assumed Liabilities, substantially in the form to be agreed to by Seller and Buyer in accordance with Section 5.2(f) (the “**Assignment and Assumption Agreement**”);
- (e) An agreement between the Parties evidencing their agreement as to the demarcation of ownership with respect to certain assets not situated wholly on real property owned, or to be owned, by either Seller or Buyer, as applicable, substantially in the form to be agreed to by Seller and Buyer in accordance with Section 5.2(f) (the “**Asset Demarcation Agreement**”);
- (f) With respect to each Facility, an agreement between the Parties respecting the interconnection of such Facility with Seller’s transmission system, substantially in the applicable forms to be agreed to by Seller and Buyer in accordance with Section 5.2(f) (together, the “**Interconnection Agreements**”);
- (g) A release of the Acquired Assets from the Lien imposed by the Mortgage Indenture, substantially in the form to be agreed to by Seller and Buyer in accordance with Section 5.2(f) (the “**Release of Mortgage Indenture**”);
- (h) The Easements;
- (i) If requested by Buyer, the Transition Services Agreement;
- (j) Stock certificates evidencing the ARCO Shares, duly endorsed in blank or accompanied by stock powers or other instruments of transfer duly executed in blank;
- (k) Certificates of title for the vehicles and boats which are part of the Acquired Assets;
- (l) Copies of all Seller Required Consents;
- (m) Seller’s Transfer Tax Declarations of Consideration required under New Hampshire RSA 78-B:10 and New Hampshire Department of Revenue Administration rules (Forms CD-57-S);
- (n) A certification of non-foreign status, pursuant to Treasury Regulations Section 1.1445-2(b)(2), with respect to Seller;
- (o) The officer’s certificate of Seller required by Section 6.1(c);
- (p) A certificate of existence and good standing with respect to Seller, as of a recent date, issued by the secretary of state or other appropriate Governmental Authority of the jurisdiction of Seller’s organization, and certificates of good standing and qualification or authorization to do business (or the equivalent certificates) with respect to Seller, each as of a recent date, issued by the secretary of state or similar Governmental Authority in each other jurisdiction where the actions to be performed hereunder make such qualification or authorization necessary;
- (q) A copy, certified by the Secretary or an Assistant Secretary of Seller, of corporate resolutions authorizing the execution and delivery of this Agreement and the Related Agreements and the consummation of the transactions contemplated hereby and thereby;
- (r) A certificate of the Secretary or an Assistant Secretary of Seller which shall identify by name and title and bear the signature of the officers of Seller authorized to execute and deliver this Agreement and the Related Agreements; and
- (s) All such other instruments or documents as Buyer and its counsel may reasonably request in order to give effect to the transfer of the Acquired Assets as contemplated hereby or to otherwise facilitate the transactions contemplated by this Agreement and the Related Agreements; *provided, however*, that this Section 2.10(s) shall not require Seller to prepare or obtain any surveys relating to the Real Property or Leased Real Property other than those previously provided to Buyer.

**Section 2.11 Deliveries by Buyer at Closing.** At Closing, Buyer shall deliver to Seller, duly executed and properly acknowledged, if appropriate:

- (a) The Closing Purchase Price in accordance with Section 2.5;
- (b) The Assignment and Assumption of Lease respecting each Assigned Lease;
- (c) The Bill of Sale;
- (d) The Assignment and Assumption Agreement;
- (e) The Asset Demarcation Agreement;
- (f) The Interconnection Agreements;
- (g) The Easements;
- (h) If requested by Buyer, the Transition Services Agreement;
- (i) Copies of all Buyer Required Consents;
- (j) Evidence of Buyer's membership in NEPOOL;
- (k) Buyer's Transfer Tax Declarations of Consideration required under New Hampshire RSA 78-B:10 and New Hampshire Department of Revenue Administration rules (Forms CD-57-P) and Inventory of Property Transfer Forms (Forms PA-34);
- (l) All applicable exemption certificates with respect to Taxes that would otherwise be imposed with respect to the transactions contemplated by this Agreement;
- (m) The officer's certificate of Buyer required by Section 6.2(c);
- (n) A certificate of existence and good standing with respect to Buyer, as of a recent date, issued by the secretary of state or other appropriate Governmental Authority of the jurisdiction of Buyer's organization, and certificates of good standing and qualification or authorization to do business (or the equivalent certificates) with respect to Buyer, each as of a recent date, issued by the secretary of state or similar Governmental Authority in each other jurisdiction where the actions to be performed hereunder make such qualification or authorization necessary;
- (o) A copy, certified by the Secretary or an Assistant Secretary of Buyer, of resolutions authorizing the execution and delivery of this Agreement and the Related Agreements and the consummation of the transactions contemplated hereby and thereby;
- (p) A certificate of the Secretary or an Assistant Secretary of Buyer which shall identify by name and title and bear the signature of the officers of Seller authorized to execute and deliver this Agreement and the Related Agreements; and
- (q) All such other instruments or documents as Seller and its counsel may reasonably request in order to give effect to the transfer of the Acquired Assets or the assumption of the Assumed Liabilities as contemplated hereby or to otherwise facilitate the transactions contemplated by this Agreement and the Related Agreements.

### **ARTICLE III REPRESENTATIONS AND WARRANTIES OF SELLER**

Seller represents and warrants to Buyer that the statements contained in this ARTICLE III are true and correct as of the Effective Date and as of the Closing Date, except as set forth in the Schedules.

**Section 3.1 Organization and Existence.** Seller is a corporation duly organized, validly existing and in good standing under the Laws of the State of New Hampshire. Seller is duly qualified or authorized to do business in each other jurisdiction in which the ownership or operation of the Acquired Assets make such qualification or authorization necessary, except in those jurisdictions where the failure to be so duly qualified or authorized would not have a Material Adverse Effect.

**Section 3.2 Authority and Enforceability.** Seller has the corporate power and authority to execute and deliver this Agreement and the Related Agreements to which it is a party and, subject to receipt of the Seller Required Consents, to perform its obligations hereunder and thereunder and to consummate the transactions contemplated hereby and thereby. All corporate actions or

proceedings to be taken by or on the part of Seller to authorize and permit the due execution and valid delivery by Seller of this Agreement and the Related Agreements to which it is a party, the performance by Seller of its obligations hereunder and thereunder, and the consummation by Seller of the transactions contemplated hereby and thereby have been duly and properly taken. This Agreement has been duly executed and delivered by Seller and, assuming the due authorization, execution and delivery by Buyer and receipt of the Seller Required Consents, constitutes the valid and legally binding obligation of Seller, enforceable against Seller in accordance with its terms and conditions, subject to applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or other similar Laws relating to creditors' rights generally and general principles of equity, whether such enforceability is considered in a proceeding in equity or at law. When each Related Agreement to which Seller is a party has been duly executed and delivered by Seller, assuming the due authorization, execution and delivery by each other party thereto and receipt of the Seller Required Consents, such Related Agreement will constitute the valid and legally binding obligation of Seller, enforceable against Seller in accordance with its terms and conditions, subject to applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or other similar Laws relating to creditors' rights generally and general principles of equity, whether such enforceability is considered in a proceeding in equity or at law.

**Section 3.3 No Conflicts; Consents and Approvals.** Assuming all of the Consents of the Governmental Authorities and other Persons set forth on Schedule 3.3 (the “**Seller Required Consents**”) have been obtained, and assuming the truth and accuracy of Buyer's representations and warranties set forth herein, the execution and delivery by Seller of this Agreement and the Related Agreements to which it is or will be a party do not and will not, the performance by Seller of its obligations hereunder and thereunder will not, and the consummation of the transactions contemplated hereby and thereby will not:

(a) conflict with or result in a violation or breach of any of the terms, conditions or provisions of the Organizational Documents of Seller;

(b) (i) conflict with, result in a breach of, constitute a default under, result in the acceleration of, or create in any Person the right to accelerate, terminate, modify, revoke, suspend or cancel (with or without giving of notice, the lapse of time or both), any material Contract to which Seller is bound or to which any of the Acquired Assets is subject, (ii) conflict with or result in a violation or breach of any Law, Order or Permit to which Seller or any of the Acquired Assets is subject, or (iii) require the Consent of any Governmental Authority under any applicable Law; or

(c) result in the imposition or creation of any Lien on any Acquired Asset, other than any Permitted Lien.

**Section 3.4 Legal Proceedings.** Except as set forth on Schedule 3.4, there is no Claim pending or, to Seller's Knowledge, threatened against Seller (a) that relates to any Facility or any of the Acquired Assets or that would, individually or in the aggregate, reasonably be expected to result in a Material Adverse Effect, or (b) that, as of the Effective Date, seeks an Order restraining, enjoining or otherwise prohibiting or making illegal any of the transactions contemplated hereby. Except as set forth on Schedule 3.4, neither Seller (to the extent relating to the Acquired Assets or the Business) nor any of the Acquired Assets are bound by any Order (other than any Order of general applicability). As of the Effective Date, Seller is not subject to any Order that prohibits the consummation of the transactions contemplated by this Agreement. None of the representations and warranties set forth in this Section 3.4 shall be deemed to relate to (i) Tax matters, which are addressed in Section 3.10, (ii) environmental matters, which are addressed in Section 3.11, (iii) employment and labor matters, which are addressed in Section 3.12, or (iv) employee benefits matters, which are addressed in Section 3.13.

**Section 3.5 Compliance with Laws; Permits.**

(a) Except as set forth on Schedule 3.5(a), Seller is in compliance in all material respects with all Laws applicable to the Acquired Assets and Seller's ownership and operation thereof.

(b) Schedule 3.5(b) lists all Permits (other than Environmental Permits) that are material to the ownership and operation of the Acquired Assets, and identifies those material Permits that are Transferable Permits. The Permits listed in Schedule 3.5(b) are in full force and effect. Seller is in compliance in all material respects with the terms of all Permits listed in Schedule 3.5(b).

(c) None of the representations and warranties set forth in this Section 3.5 shall be deemed to relate to (i) Tax matters, which are addressed in Section 3.10, (ii) environmental matters, which are addressed in Section 3.11, (iii) employment and labor matters, which are addressed in Section 3.12, or (iv) employee benefits matters, which are addressed in Section 3.13.

**Section 3.6 Title to Acquired Assets.** Except for Permitted Liens, Seller has valid title to the Real Property, and leasehold interests in the Leased Real Property, free and clear of Liens other than Permitted Liens. Seller has valid title to, valid leasehold interests in or valid licenses or rights to use all other Acquired Assets, free and clear of Liens other than Permitted Liens.

**Section 3.7 Assets Used in Operation of the Facilities.** Except as set forth in Schedule 3.7, (a) the Acquired Assets include

all of the material assets and properties that are used by Seller in the operation of the Facilities and necessary for the operation of the Business, and (b) all Acquired Assets that constitute tangible personal property are currently located at (or are in transit to) the Facilities and no such Acquired Assets intended for the Facilities are being held by Third Parties.

### **Section 3.8 Material Contracts.**

(a) Except (i) as listed in Schedule 2.1(b) or Schedule 2.1(e), (ii) for Contracts that will expire or be fully performed prior to the Closing Date, (iii) for Contracts that can be terminated upon sixty (60) days' or less notice without liability, and (iv) for Contracts entered into in the ordinary course of business that will not by their terms extend more than two (2) years beyond the Closing Date and whose payment obligations do not exceed Three Hundred Thousand Dollars (\$300,000) individually or One Million Dollars (\$1,000,000) in the aggregate, Seller is not a party to any Contract that is material to the ownership or operation of the Acquired Assets as owned and operated by Seller on the Effective Date.

(b) Except as described in Schedule 3.8(b), and assuming all Seller Required Consents required in connection with each Material Contract are obtained prior to Closing, (i) each Material Contract (except to the extent such Material Contract terminates or expires after the Effective Date in accordance with its terms) is in full force and effect and is a valid and binding obligation of Seller and, to Seller's Knowledge, of the other parties thereto, subject to applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or other similar Laws relating to creditors' rights generally and general principles of equity, whether considered in a proceeding in equity or at law, (ii) neither Seller nor, to Seller's Knowledge, any other party thereto, is in violation of or default under any Material Contract, and (iii) each Material Contract may be assigned to Buyer pursuant to this Agreement without breaching the terms thereof or resulting in the forfeiture or impairment of any material rights thereunder. No Material Contract has been terminated, repudiated, rescinded, amended or modified and, to Seller's Knowledge, no such termination, repudiation, rescission, amendment or modification is contemplated.

**Section 3.9 Insurance.** The Acquired Assets are insured to the extent specified under the material insurance policies listed on Schedule 3.9. No written notice of cancellation or termination has been received by Seller with respect to any such policy that has not been replaced on substantially similar terms prior to the date of such cancellation or termination. Schedule 3.9 sets forth a list of all pending claims that have been made under any such policy with respect to the Acquired Assets. Except as described in Schedule 3.9, Seller has not been refused any material insurance with respect to the Acquired Assets, nor has coverage with respect to the Acquired Assets been limited in any material respect by any insurance carrier to which Seller has applied for any such insurance or with which it has carried insurance, in each case, during the twelve (12) months ending on the Effective Date.

**Section 3.10 Taxes.** Seller has filed all Tax Returns that it was required to file with respect to the Acquired Assets and has paid all Taxes that have become due as indicated thereon (except where Seller is contesting such Taxes in good faith by appropriate proceedings), where the failure to so file or pay would, individually or in the aggregate, reasonably be expected to result in a Material Adverse Effect or result in any Liability to Buyer. There is no unpaid Tax due and payable that would reasonably be expected to result in a Material Adverse Effect or for which Buyer could become liable. Except as set forth on Schedule 3.10, there is no audit or other Claim now pending with respect to any material Tax respecting the Acquired Assets. Notwithstanding any other provision of this Agreement to the contrary, this Section 3.10 contains the sole and exclusive representations and warranties of Seller relating to Tax matters.

### **Section 3.11 Environmental Matters.**

(a) Schedule 3.11(a) lists all Environmental Permits that are material to the ownership and operation of the Acquired Assets, and identifies those material Environmental Permits that are Transferable Permits. Except as set forth on Schedule 3.11(a), the Environmental Permits listed in Schedule 3.11(a) are in full force and effect.

(b) Except as disclosed on Schedule 3.11(b), during the past five (5) years, with respect to the Acquired Assets: (i) Seller has not received any written notice from any Governmental Authority that it is not in compliance with Environmental Laws or that it failed to obtain material Environmental Permits; (ii) Seller has not received any written notice from any Governmental Authority that any Acquired Asset is listed under the Comprehensive Environmental Response, Compensation Liability Information Systems or any similar state list; (iii) Seller has not received written notice from any Person alleging Liability for any Environmental Claims and no Environmental Claims are pending or, to Seller's Knowledge, threatened, against Seller by any Governmental Authority or third party under any Environmental Laws; and (iv) Seller was not required by any applicable Environmental Laws to place any use or activities restrictions or any institutional controls on any Acquired Assets. Except as disclosed on Schedule 3.11(b), with respect to the Acquired Assets, there has been no occurrence of any the events described in clauses (i) – (iv) of the previous sentence at any time during Seller's ownership of the Acquired Assets which are not finally resolved or satisfied. Except as described in Schedule 3.11(b), Seller has no Knowledge of any matters which could give rise to material Environmental Liabilities.

(c) To the Seller's Knowledge, there has been no Release of Hazardous Substances in violation of Environmental

Laws at any of the Facilities that has not been duly and finally resolved to a condition of “No Further Action Required” or equivalent under applicable Environmental Laws.

(d) Notwithstanding any other provision of this Agreement to the contrary, this Section 3.11 contains the sole and exclusive representations and warranties of Seller relating to Environmental Laws, Environmental Permits, Hazardous Substances or other environmental matters.

### **Section 3.12 Employment and Labor Matters.**

(a) Schedule 3.12(a) sets forth (i) a list, organized by job classification at each Facility, of all employees of Seller who are represented by the Union and employed under the terms of the Generation CBA, and who are primarily employed in the operation or support of the Facilities as of the Effective Date (the “**Represented Scheduled Employees**”), and (ii) a list of all other employees of Seller or Eversource Service who are primarily employed in the operation or support of the Facilities as of the Effective Date, but are not represented by the Union (the “**Non-Represented Scheduled Employees**” and, together with the Represented Scheduled Employees, the “**Scheduled Employees**”), which list shall be amended during the Interim Period to reflect any changes thereto, to the extent such changes are not in violation of any applicable covenants in Section 5.5. Except as set forth on Schedule 3.12(a), there are no agreements or contracts for employment between Seller, on the one hand, and any Non-Represented Scheduled Employee, on the other which require the Buyer to pay any severance or other amounts following termination of such Non-Represented Scheduled Employee’s employment.

(b) The Generation CBA is the only collective bargaining agreement to which Seller is a party and which governs terms and conditions of employment of any Scheduled Employees listed in part (i) of Schedule 3.12(a), and Seller is not a party to any other collective bargaining agreement that is applicable to any other Scheduled Employee. Except as described in Schedule 3.12(b): (i) Seller has not experienced any strikes or work stoppages at any of the Facilities due to labor disagreements in the past five (5) years and to Seller’s Knowledge none is currently pending or threatened; (ii) Seller is in compliance in all material respects with all applicable Laws respecting employment and employment practices, equal employment opportunity, occupational health and safety and affirmative action, terms and conditions of employment and wages and hours with respect to the Scheduled Employees; (iii) Seller is not currently subject to any pending, or to Seller’s Knowledge threatened, unfair labor practice charge or complaint against Seller before the National Labor Relations Board or any other Governmental Authority with respect to the Scheduled Employees; (iv) no arbitration proceeding arising out of or under the Generation CBA is pending or, to Seller’s Knowledge threatened, against Seller with respect to the Scheduled Employees; and (v) Seller is in compliance in all material respects with the Generation CBA.

(c) Notwithstanding any other provision of this Agreement to the contrary, this Section 3.12 contains the sole and exclusive representations and warranties of Seller relating to employment and labor matters.

**Section 3.13 Employee Benefit Plans.** Schedule 3.13 lists, as of the Effective Date, all Employee Benefit Plans established, sponsored, maintained or contributed to (or required to be contributed to) by Seller in respect of the Scheduled Employees. True and complete copies of all such Employee Benefit Plans have been Made Available to Buyer. Seller does not contribute to, and has no obligation to contribute to, a “multiemployer plan” within the meaning of Section 3(37) of ERISA. No liability under Title IV or Section 302 of ERISA or Section 412 of the Code has been incurred by Seller with respect to the Scheduled Employees that has not been satisfied in full, and to Seller’s Knowledge no condition exists that presents a material risk to Seller of incurring any such liability, other than liability for premiums due the Pension Benefit Guaranty Corporation, which premiums have been paid. Notwithstanding any other provision of this Agreement to the contrary, this Section 3.13 contains the sole and exclusive representations and warranties of Seller relating to employee benefits matters.

**Section 3.14 Condemnation.** Seller has received no written notice from any Governmental Authority of any pending or threatened proceeding to condemn or take by power of eminent domain or otherwise, by any Governmental Authority, all or any part of the Acquired Assets.

**Section 3.15 Regulatory Status.** Seller is a “public utility” under New Hampshire RSA 362:2 and is subject to regulation as such by the NHPUC. With respect to Canaan Station, Seller is a “public service corporation” under the laws of Vermont and is subject to regulation as such by the VTPUC. Seller is an “electric utility company” that is a “subsidiary company” of a “holding company” which is registered under (and as those terms are defined in) the Public Utility Holding Company Act of 2005, and is subject to regulation as such by FERC. With respect to the Facilities and the Business, Seller has authorization from FERC to charge market-based rates for wholesale sales of capacity and energy in a final order, no longer subject to rehearing or appeal. Seller is not subject to any pending action, and to Seller’s Knowledge, no such action is threatened, in either case by FERC, NERC, any independent system operator or regional transmission organization, any state utility, or any state public services commission in any manner relating to the Facilities or the Business, and Seller is in compliance in all material respects with the requirements under the Federal Power Act, applicable to a “public utility” with authority to sell wholesale electric power, capacity and ancillary services at market-based rates and is in compliance in all material respects with all requirements of any federal, state, independent system operator or regional transmission

organization related to the generation or sale of wholesale power, in each case to the extent related to the Business. To Seller's Knowledge, there has been no Claim or conduct by any Person that would serve as the basis for any Claim against Seller before FERC. All material filings required to be made within the last three (3) calendar years with the FERC under the Federal Power Act, the Public Utility Holding Company Act of 2005, the Department of Energy or any applicable state public utility commissions, as the case may be, have been made, including all material forms, statements, reports, agreements and all material documents, exhibits, amendments and supplements appertaining thereto, including all rates, tariffs and related documents, in each case to the extent related to the Business, and all such filings complied in all material respects, as of their respective dates, with applicable requirements of applicable Law.

**Section 3.16 ARCO Shares.** Seller is the sole record and beneficial owner of the ARCO Shares, free and clear of Liens other than Permitted Liens. The ARCO By-Laws are in full force and effect, have not been terminated, repudiated, rescinded, amended or modified, and no such termination, repudiation, rescission, amendment or modification is contemplated. Other than the ARCO Bylaws, there are no agreements among or binding upon all of the shareholders of ARCO (in their capacity as such). Notwithstanding any other provision of this Agreement to the contrary, Section 3.2, Section 3.3, Section 3.4 and this Section 3.16 contain the sole and exclusive representations and warranties of Seller relating to ARCO and the ARCO Shares.

**Section 3.17 Brokers.** Except for the fees and expenses of J.P. Morgan Securities LLC, for which Seller is solely responsible, Seller does not have any Liability to pay fees or commissions to any broker, finder or agent with respect to the transactions contemplated by this Agreement or the Related Agreements for which Buyer could become liable or obligated.

**Section 3.18 Complete Copies.** True and complete copies of the Material Contracts, the Assigned Leases, the Transferable Permits and the Generation CBA have been Made Available to Buyer.

**Section 3.19 Exclusive Representations and Warranties.** It is the explicit intent of each Party hereto that Seller is not making any representation or warranty whatsoever, express or implied, respecting the Business, the Acquired Assets, the Assumed Liabilities or the transactions contemplated by this Agreement and the Related Agreements, except those representations and warranties expressly set forth in this ARTICLE III.

#### **ARTICLE IV REPRESENTATIONS AND WARRANTIES OF BUYER**

Buyer represents and warrants to Seller that the statements contained in this ARTICLE IV are true and correct as of the Effective Date and the Closing Date.

**Section 4.1 Organization and Existence.** Buyer is a limited liability company duly organized, validly existing and in good standing under the Laws of the State of Delaware. Buyer is duly qualified or authorized to do business in each other jurisdiction where the actions to be performed hereunder make such qualification or authorization necessary.

**Section 4.2 Authority and Enforceability.** Buyer has the limited liability company power and authority to execute and deliver this Agreement and the Related Agreements to which it is a party, to perform its obligations hereunder and thereunder and to consummate the transactions contemplated hereby and thereby. All limited liability company actions or proceedings to be taken by or on the part of Buyer to authorize and permit the due execution and valid delivery by Buyer of this Agreement and the Related Agreements to which it is a party, the performance by Buyer of its obligations hereunder and thereunder, and the consummation by Buyer of the transactions contemplated hereby and thereby have been duly and properly taken. This Agreement has been duly executed and delivered by Buyer and, assuming the due authorization, execution and delivery by Seller, constitutes the valid and legally binding obligation of Buyer, enforceable against Buyer in accordance with its terms and conditions, subject to applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or other similar Laws relating to creditors' rights generally and general principles of equity, whether such enforceability is considered in a proceeding in equity or at law. When each Related Agreement to which Buyer is a party has been duly executed and delivered by Buyer, assuming the due authorization, execution and delivery by each other party thereto, such Related Agreement will constitute the valid and legally binding obligation of Buyer, enforceable against Buyer in accordance with its terms and conditions, subject to applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or other similar Laws relating to creditors' rights generally and general principles of equity, whether such enforceability is considered in a proceeding in equity or at law.

**Section 4.3 Noncontravention.** The execution and delivery by Buyer of this Agreement and the Related Agreements to which it is or will be a party do not and will not, the performance by Buyer of its obligations hereunder and thereunder will not, and the consummation of the transactions contemplated hereby and thereby will not:

(a) conflict with or result in a violation or breach of any of the terms, conditions or provisions of the Organizational Documents of Buyer;

(b) conflict with, result in a breach of, constitute a default under, result in the acceleration of, or create in any Person the right to accelerate, terminate, modify, revoke, suspend or cancel (with or without giving of notice, the lapse of time or both), any Contract to which Buyer is bound or to which any of its assets is subject, except as would not reasonably be expected to have, individually or in the aggregate, a material adverse effect on Buyer's ability to perform its obligations hereunder; or

(c) assuming all of the Consents of the Governmental Authorities set forth on Schedule 4.3(c) (the "**Buyer Required Consents**") have been obtained, (i) conflict with or result in a violation or breach of any Law, Order or Permit to which Buyer or any of its assets is subject, or (ii) require the Consent of any Governmental Authority under any applicable Law; except, in the case of each of clauses (i) and (ii), as would not reasonably be expected to have, individually or in the aggregate, a material adverse effect on Buyer's ability to perform its obligations hereunder.

**Section 4.4 Legal Proceedings.** Buyer has not been served with notice of any Claim and no Claim is pending or, to Buyer's knowledge, threatened, against Buyer (a) that seeks an Order restraining, enjoining or otherwise prohibiting or making illegal any of the transactions contemplated hereby or (b) that would, individually or in the aggregate, reasonably be expected to have a material adverse effect on Buyer's ability to perform its obligations hereunder. Buyer is not bound by any Order that prohibits the consummation of the transactions contemplated by this Agreement or that would, individually or in the aggregate, reasonably be expected to have a material adverse effect on Buyer's ability to perform its obligations hereunder.

**Section 4.5 Compliance with Laws.** Buyer is not in violation of any Law applicable to Buyer or its assets the effect of which, individually or in the aggregate, would reasonably be expected to have a material adverse effect on Buyer's ability to perform its obligations hereunder.

**Section 4.6 Brokers.** Neither Buyer nor any of its Affiliates has any Liability to pay fees or commissions to any broker, finder or agent with respect to the transactions contemplated by this Agreement for which Seller or its Affiliates could become liable or obligated.

**Section 4.7 Availability of Funds.** Buyer has, and at the Closing will have, (a) cash on hand or other sources of immediately available funds in amounts sufficient to pay the full amount of the Purchase Price as well as any related fees, costs and expenses incurred by Buyer in connection with the transactions contemplated hereby, and (b) the resources and capabilities (financial or otherwise) to perform its obligations (including the Assumed Liabilities) under this Agreement and any Related Agreements. Buyer acknowledges and agrees that, notwithstanding anything to the contrary contained herein, its obligation to consummate the transactions contemplated hereby is not subject to Buyer or any of its Affiliates obtaining any financing, or to any other contingency or condition respecting financing or availability of funds.

**Section 4.8 Qualified Buyer.** To Buyer's knowledge, Buyer is qualified to obtain any Permits necessary for Buyer to own and operate the Acquired Assets as of the Closing, to the extent required by any Related Agreement or this Agreement, or is contemplated by Buyer.

**Section 4.9 Governmental Approvals.** As of the Effective Date, neither Buyer nor any of its Affiliates is a party to any Contract respecting the construction, development, acquisition, ownership or operation of any power facility or related asset that would reasonably be expected to cause a delay in any Governmental Authority's granting of a Buyer Required Consent or Seller Required Consent, and neither Buyer nor any of its Affiliates has any plans or has engaged in any discussions to enter into any such Contract prior to the Closing Date.

**Section 4.10 WARN Act.** Buyer does not intend, with respect to the Acquired Assets or Transferred Employees, to engage in a "plant closing" or "mass layoff," as such terms are defined in the WARN Act, within sixty (60) days after the Closing Date.

**Section 4.11 Independent Investigation.** Buyer is a sophisticated Person, knowledgeable about the industry in which Seller operates, experienced in investments in such businesses, and able to bear the economic risks associated with the transactions contemplated by this Agreement and the Related Agreements. Buyer has such knowledge and experience as to be aware of the risks and uncertainties inherent in the acquisition of the Acquired Assets, the assumption of the Assumed Liabilities, and the rights and obligations of the type contemplated in this Agreement. Buyer has conducted to its satisfaction, independently and without reliance on Seller or its Representatives (except to the extent that Buyer has relied on the representations and warranties of Seller set forth in ARTICLE III hereof), its own investigation, review and analysis of the Facilities, the Acquired Assets and the Assumed Liabilities, and based on such investigation, review and analysis, has formed an independent judgment concerning the assets, Liabilities, condition, operations and prospects of the Acquired Assets and the ownership and operation thereof. In making its decision to execute this Agreement and the Related Agreements and to enter into the transactions contemplated hereby and thereby, Buyer has relied and will rely solely upon the results of such independent investigation, review and analysis and the terms and conditions of this Agreement (including the representations and warranties of Seller set forth in ARTICLE III hereof) and the Related Agreements. Buyer acknowledges that it has had reasonable and sufficient access to the Facilities, the Acquired Assets and documents and other

information and materials in connection therewith, that all documents and other information and materials requested by Buyer have been provided to Buyer to its satisfaction, and that it and its Representatives have had the opportunity to meet with the personnel and Representatives of Seller to discuss and ask questions concerning the foregoing.

**Section 4.12 Disclaimer Regarding Projections.** Buyer may be in possession of certain plans, projections and other forecasts regarding the Acquired Assets and the Assumed Liabilities, including estimates, budgets of future revenues, expenses or expenditures, projections of future results of operations (or any component thereof), future cash flows (or any component thereof) or future financial condition (or any component thereof). Buyer acknowledges that there are substantial uncertainties inherent in attempting to make such plans, projections and other forecasts, that Buyer is familiar with such uncertainties, that Buyer is taking full responsibility for making its own independent evaluation of the adequacy and accuracy of all plans, projections and other forecasts so furnished to it, and that Buyer shall have no claim against Seller, its Affiliates or their respective Representatives with respect thereto. Accordingly, Buyer acknowledges that without limiting the generality of this Section 4.12, neither Seller nor any of its Affiliates has made any representation or warranty with respect to such plans, projections or other forecasts.

**Section 4.13 Investment Purposes; No Distribution.** Buyer acknowledges that the ARCO Shares being acquired pursuant to this Agreement have not been registered under the Securities Act of 1933 or under any state or foreign securities Laws, and that the ARCO Shares may not be transferred, assigned, sold, offered for sale, pledged or otherwise disposed of except pursuant to the registration provisions of the Securities Act of 1933 and any applicable state or foreign securities Laws or pursuant to an applicable exemption from registration under the Securities Act of 1933 and any applicable state or foreign securities Laws. Buyer is purchasing the ARCO Shares for its own account for investment purposes and not with a view to any public resale or other distribution thereof. Buyer is an “accredited investor” as defined under Rule 501 promulgated under the Securities Act of 1933, is able to bear the economic risk of holding the ARCO Shares for an indefinite period (including total loss of its investment), and has sufficient knowledge and experience in financial and business matters so as to be capable of evaluating the merits and risk of such investment.

## ARTICLE V COVENANTS

**Section 5.1 Closing Conditions.** From the Effective Date until the Closing (the “**Interim Period**”), subject to the terms and conditions of this Agreement, each Party shall use its commercially reasonable efforts to take such actions as are necessary, proper or advisable in order to expeditiously consummate and make effective the transactions contemplated by this Agreement and the Related Agreements (including satisfaction, but not waiver, of those closing conditions set forth in ARTICLE VI).

**Section 5.2 Notices, Consents and Approvals.** During the Interim Period:

(a) Subject to Section 5.2(c), during the Interim Period, each Party will and will cause its respective applicable Affiliates to, in order to consummate the transactions contemplated by this Agreement and the Related Agreements, provide reasonable cooperation to the other Party, and proceed diligently and in good faith and use all reasonable best efforts, as promptly as practicable, to (i) obtain the Buyer Required Consents and the Seller Required Consents, (ii) make all required filings with, and give all required notices to, the applicable Governmental Authorities or other Persons required to consummate the transactions contemplated by this Agreement and the Related Agreements, and (iii) cooperate in good faith with the applicable Governmental Authorities or other Persons and promptly provide such other information and communications to such Governmental Authorities or other Persons as such Governmental Authorities or other Persons may reasonably request in connection with the foregoing. The Parties will provide prompt notification to each other when any such Consent referred to in this Section 5.2(a) is obtained, taken, made, given or denied, as applicable, and will, subject to Section 5.2(b), promptly advise each other of any material communications (in oral or written form) with any Governmental Authority or other Person regarding any of the transactions contemplated under this Agreement or the Related Agreements.

(b) In furtherance of the covenants set forth in Section 5.2(a):

(i) As soon as practicable following the Effective Date, Buyer and Seller shall prepare all necessary filings in connection with the transactions contemplated by this Agreement and the Related Agreements that may be required to be filed by such Party with applicable Governmental Authorities or under any applicable Laws. Such filings shall be submitted as soon as practicable following the Effective Date, but in no event later than thirty (30) days thereafter (subject to extension by mutual written agreement. The Parties shall (A) request expedited treatment of any such filings (where applicable), (B) subject to applicable Law and the instructions of any Governmental Authority, keep each other apprised of the status of matters relating to such filings, including by promptly furnishing each other with copies of any notices, correspondence or other written communication from the relevant Governmental Authority, (C) promptly make any appropriate or necessary subsequent or supplemental filings, submissions or responses to any Governmental Authority, and (D) cooperate in the preparation of such filings, submissions or responses as is reasonably necessary and appropriate, including by making available to the other Party such information as the other Party may reasonably request in order to complete such filings or respond to information requests

by any Governmental Authority. Prior to making any material filing, submission, response or other communication to any Governmental Authority (or members of their respective staffs) in oral or written form, each Party will permit the other Party (or its counsel) a reasonable opportunity to review and provide comments on such proposed filing, submission, response or other communication, and will consult with and consider in good faith the views of the other Party in connection therewith. Each Party will consult with the other Party in advance of any material meeting or conference (in person or by telephone) with any such Governmental Authority, and to the extent not prohibited by Law or such Governmental Authority, give the other Party the opportunity to attend and to participate in such meetings and conferences. Notwithstanding the foregoing, neither Buyer nor Seller shall be obligated to share any information, filing, submission or response with the other Party if a Governmental Authority objects to the sharing of such information, filing, submission or response or if prohibited by applicable Law.

(ii) The Parties shall not, and shall cause their respective Affiliates not to, take any action that would reasonably be expected to materially adversely affect or delay the Consent of any Governmental Authority with respect to any of the filings referred to in Section 5.2(a). In addition, Buyer shall not knowingly take any action that would reasonably be expected to materially adversely affect or delay the Consent of any Governmental Authority with respect to any other asset sales being undertaken by Seller.

(iii) Except as set forth in Section 9.1 or as otherwise set forth in this Section 5.2, each Party shall bear its own fees, costs and all other expenses (including filing fees, transfer fees, legal fees and other filing preparation costs) associated with any Consents or other actions contemplated by this Section 5.2 in connection with or otherwise related to the transactions contemplated by this Agreement and the Related Agreements.

(c) In addition to the covenants set forth in Section 5.2(a) and Section 5.2(b), Buyer and Seller, as applicable, shall undertake promptly any and all actions required to complete lawfully the transactions contemplated by this Agreement and the Related Agreements prior to the Outside Date, including by (i) responding to and complying with, as promptly as reasonably practicable, any request for information or documentary material regarding such transactions from any relevant Governmental Authority (including, if applicable, responding to any “second request” for additional information or documentary material under the HSR Act as promptly as reasonably practicable), (ii) causing the prompt expiration or termination (including requesting early termination and/or approvals thereof) of any applicable waiting period and clearance or approval by any relevant Governmental Authority, including defense against, and the resolution of, any objections or challenges, in court or otherwise, by any relevant Governmental Authority or other Person preventing consummation of such transactions, and (iii) making any necessary post-Closing filing or proffering and consenting to an Order providing for the sale or other disposition, or the holding separate, of particular assets, categories of assets or lines of business, including the Acquired Assets or any other assets or lines of business of Buyer or any of its Affiliates, in order to mitigate or otherwise remedy any requirements of, or concerns of, any Governmental Authority, or proffering and consenting to any other restriction, prohibition or limitation on any of the Acquired Assets, or on Buyer or any of Buyer’s Affiliates or any of their respective assets, in order to mitigate or remedy such requirements or concerns. The entry by any Governmental Authority in any legal proceeding of an Order permitting the consummation of the transactions contemplated by this Agreement and/or any of the Related Agreements but which is subject to certain conditions or requires Buyer or any of its Affiliates to take any action, including any restructuring of the Acquired Assets or lines of business of Buyer or any of its Affiliates or any changes to the existing business of Buyer or any of its Affiliates, shall not be deemed a failure to satisfy the conditions specified in ARTICLE VI. For the avoidance of doubt, Buyer shall not take any action with respect to its obligations under this Section 5.2(c) which would bind Seller or any of its Affiliates irrespective of whether the transactions contemplated hereby occur.

(d) Buyer further agrees that neither it nor any of its Affiliates shall, prior to Closing, enter into any other Contract to acquire or market or control the output of, nor acquire or market or control the output of, electric generating facilities or uncommitted generation capacity in the ISO-NE market if the proposed acquisition or ability to market or control output of such additional electric generating facilities or uncommitted generation capacity in such market could reasonably be expected to increase the market power attributable to Buyer and its Affiliates in such market in a manner materially adverse to approval of the transactions contemplated by this Agreement and the Related Agreements by any relevant Governmental Authority or Counterparty or that would reasonably be expected to prevent or otherwise materially interfere with, or materially delay the consummation of the transactions contemplated hereby and thereby.

(e) During the Interim Period, Buyer and Seller shall cooperate and use their commercially reasonable efforts to secure the transfer or reissuance of the Transferable Permits to Buyer (including obtaining any necessary Consents thereto), or the substitution of Buyer for Seller where appropriate on pending applications for such Transferable Permits or renewals thereof, effective as of the Closing Date. If the Parties are unable to secure the transfer, reissuance or substitution respecting one or more Transferable Permits effective as of the Closing Date, Seller shall continue to reasonably cooperate with Buyer’s efforts to secure such transfer, reissuance or substitution following the Closing Date. Each Party agrees that it will accept the terms of all Transferable Permits as existing on the Effective Date relating to the operation of the Acquired Assets, and that it will not seek to amend any of such terms in connection with filings with Governmental Authorities relating to the transactions contemplated by this Agreement and the Related Agreements, other

than as necessary to effect the transfer or reissuance thereof to Buyer. In addition, with respect to any Transferable Permits for which the date for renewal will have passed by the Closing Date, Seller and Buyer shall cooperate to file by the Closing Date all applications with Governmental Authorities necessary to renew such Transferable Permits in a timely fashion without any material modifications to the terms thereof, except as may be required by applicable Law or to effect the renewal of such Permit in the name of Buyer.

(f) Promptly after the Effective Date and during the Interim Period, Buyer and Seller will in good faith negotiate the terms and conditions of the Related Agreements, Easements and easement plans with the intention of the forms of each being final on or before the thirtieth (30<sup>th</sup>) day after the Effective Date.

### **Section 5.3 Assigned Contracts.**

(a) During the Interim Period, Buyer and Seller shall use commercially reasonable efforts to obtain all required Consents to the assignment to Buyer of the Assigned Contracts from the applicable counterparties thereto (each, a “**Counterparty**”), effective as of the Closing Date, in accordance with the following:

(i) Seller shall have primary responsibility for obtaining all necessary Consents to the assignment of Material Contracts, *provided* that Buyer shall cooperate with Seller’s efforts in this regard and shall use commercially reasonable efforts to assist Seller when so requested by Seller. Seller shall have primary responsibility for obtaining all necessary Consents to the assignment of Other Assigned Contracts, and in furtherance thereof, to the maximum extent permitted by Law and each applicable Other Assigned Contract, Seller appoints Buyer as Seller’s agent to obtain all required Consents of any Counterparty to each of the Other Assigned Contracts for the assignment thereof to Buyer effective as of the Closing Date, which Seller shall pursue, using commercially reasonable efforts, in accordance with a mutually agreed protocol and form letters to be sent to such Counterparties.

(ii) To the extent that any Assigned Contract relates to assets or services that are both used in the operations of one or more Facilities and used by Seller in its other operations, the Parties shall cooperate and use commercially reasonable efforts to obtain the required Consent for any partial assignment, apportionment or other arrangement as may be necessary or practicable to permit Buyer to obtain such portion of assets or services necessary for the continued operation of such Facilities on and after the Closing Date, and to permit Seller to retain such other rights or portion of the assets or services to continue its operations on and after the Closing Date, it being understood that the portion of each such Assigned Contract relating to Buyer’s continued operation of such Facilities on and after the Closing Date must be assigned to or otherwise obtained by Buyer as of the Closing pursuant to Section 2.1(e), and Schedule 2.1(e) (with respect to Material Contracts) shall be updated accordingly.

(iii) Seller shall reasonably cooperate with Buyer in providing any notices to Counterparties as may be required by the terms of any Assigned Contract or as Buyer (acting reasonably) may deem necessary or advisable, including notices providing Counterparties with updated notice information and updated bank account information to which any applicable payments should be made by such Counterparties. Buyer shall, where necessary, enter into a master agreement or similar enabling agreement with any Counterparty, on substantially the same terms as those in place on the Effective Date in a master or enabling agreement between Seller and such Counterparty, in connection with the assignment to Buyer of one or more purchase orders or similar Contracts subject to such master agreement or enabling agreement with Seller.

(iv) For the avoidance of doubt, it is specifically acknowledged and agreed by the Parties that neither Party shall be obligated to incur, pay, reimburse or provide or cause any of their respective Affiliates to incur, pay, reimburse or provide, any liability, compensation, consideration or charge to obtain the Consent of any Counterparty to the assignment of any Assigned Contract except to the extent set forth in or required by the terms of such Assigned Contract.

(v) To the extent that Seller’s rights under any Contract included as an Acquired Asset may not be assigned without the Consent of another Person, and such Consent has not been obtained by the Closing, this Agreement shall not constitute an agreement to assign the same if an attempted assignment would constitute a breach thereof or be unlawful or ineffective (or would otherwise impair Buyer’s rights and obligations thereunder), and such Contract shall not be so assigned at the Closing (such non-assigned Contracts, the “**Non-Assigned Contracts**”). Seller and Buyer shall continue to comply with their obligations under this Section 5.3(a) to the extent and for so long as the applicable Non-Assigned Contract shall not have been assigned to Buyer (and Seller, to the maximum extent permitted by Law and such Non-Assigned Contract, shall appoint Buyer to be Seller’s agent with respect to such Non-Assigned Contract for the purpose of obtaining an assignment thereof to Buyer); *provided* that neither Seller nor Buyer shall have any obligation to offer or pay any consideration in order to obtain any such Consent to assignment; *provided, further*, that Buyer and Seller shall use their commercially reasonable efforts, to the maximum extent permitted by Law and such Non-Assigned Contract, to enter into one or more back-to-back Contracts, or such other reasonable arrangements, that would place Buyer in the same or a substantially similar position and provide Buyer the same or substantially similar rights, privileges, liabilities, benefits and obligations, in each case, as if such Non-Assigned

Contract had been assigned to Buyer as of the Closing.

(b) During the Interim Period, Buyer and Seller shall use commercially reasonable efforts to obtain all required Consents to the assignment to Buyer of any warranty described in Section 2.1(c), effective as of the Closing Date. To the extent that Seller's rights under any such warranty may not be assigned without the Consent of another Person, and such Consent has not been obtained by the Closing, this Agreement shall not constitute an agreement to assign the same if an attempted assignment would constitute a breach thereof or be unlawful or ineffective (or would otherwise impair Buyer's rights and obligations thereunder), and such warranty shall not be so assigned at the Closing. Seller and Buyer shall continue to comply with their obligations under this Section 5.3(b) to the extent and for so long as the applicable warranty shall not have been assigned to Buyer, and Seller, to the maximum extent permitted by Law and such warranty, shall from and after the Closing, appoint Buyer to be Seller's agent for the purpose of enforcing such warranty so as to the maximum extent possible to provide Buyer with the rights and obligations of such warranty. Notwithstanding the foregoing, Seller shall not be obligated to bring or file suit against any Third Party; *provided* that if Seller shall determine not to bring or file suit after being requested by Buyer to do so, Seller shall, to the maximum extent permitted by Law or any applicable Contract, enter into such reasonable arrangements with Buyer so that Buyer may bring or file such suit with respect to the rights of Seller.

#### **Section 5.4 Access of Buyer and Seller.**

(a) During the Interim Period, Seller will provide Buyer and its Representatives with reasonable access, upon reasonable prior notice and during normal business hours, to the Facilities, the Scheduled Employees and all information related to the Acquired Assets, the Scheduled Employees and the Assumed Liabilities in possession of Seller and its Affiliates (including, subject to the receipt of any required Consents and in accordance with applicable Law, such information and records respecting the Scheduled Employees as Buyer reasonably deems necessary to comply with its obligations under this Agreement), and to the Representatives of Seller who have significant responsibility with respect thereto, in each case, as reasonably requested by Buyer in connection with the consummation of the transactions contemplated by this Agreement, but only to the extent that such access does not unreasonably interfere with the operation of the Facilities or the other business or operations of Seller or its Affiliates, and subject to compliance with applicable Laws and Permits; *provided*, that Seller shall have the right to have its Representatives present for any communication with the Scheduled Employees, or any other employees or officers of Seller or its Affiliates, and to impose reasonable restrictions and requirements for safety purposes. In connection with and subject to the limitations set forth in the foregoing, during the Interim Period, Seller shall permit Buyer and its Representatives to make such reasonable inspections of the Sites as Buyer may reasonably request (and Buyer shall be entitled, at its expense, to have the Sites surveyed and to conduct non-invasive physical inspections thereof); *provided, however*, that Buyer shall not be entitled to (i) perform any Phase I or Phase II environmental studies or environmental site assessments, except that Buyer may, at Buyer's cost and direction and upon notice to and in cooperation with Seller, engage the original environmental firm to update the existing Phase I environmental assessments posted to the Data Site to enable Buyer to conduct an examination of all appropriate inquiries and be afforded the protections of a bona fide purchaser under Environmental Laws, and Buyer shall promptly furnish Seller with a copy of any such updates or reports, and shall cause Seller to be listed as an identified user of the updated reports, or (ii) collect any air, soil, surface water or ground water samples nor to perform any invasive or destructive sampling on the Sites. Seller shall furnish Buyer with a copy of each material report, schedule or other document filed or received by Seller or its Affiliates with a Governmental Authority with respect to the Acquired Assets during the Interim Period. Notwithstanding the foregoing, and without limiting the generality of the confidentiality provisions set forth in this Agreement, the Confidentiality Agreement or any Related Agreement, Seller shall not be required to provide any information or access to any Facilities (A) which Seller reasonably believes it is prohibited from providing to Buyer by reason of any applicable Law or Permit, (B) which, if provided to Buyer, could constitute a waiver by Seller of the attorney-client privilege in respect of such information, (C) which Seller is required to keep confidential or prevent access to by reason of a Contract with a Third Party, or (D) relating to any potential sale of the Acquired Assets, or any other generating facilities of Seller, to any other Person; *provided, however*, that the Parties will, to the extent legally permissible, reasonably necessary and practicable, use commercially reasonable efforts to make appropriate substitute disclosure arrangements, or seek appropriate waivers or consents, under circumstances in which the foregoing restrictions of this sentence apply.

(b) During the Interim Period, upon reasonable prior request of Buyer and at Buyer's sole cost and expense, Seller will permit designated employees or Representatives of Buyer ("**Buyer's Observers**") to observe all operations of Seller related to the Facilities, with such observation permitted on a cooperative basis in the presence of personnel of Seller during normal daytime business hours of Seller; *provided, however*, that Buyer's Observers shall not unreasonably interfere with the operation of the Facilities by Seller or the other business or operations of Seller or its Affiliates.

(c) Buyer shall not be permitted during the Interim Period to contact any of Seller's vendors, customers or suppliers, or any Governmental Authorities (except, in accordance with Section 5.2 or Section 5.3, in connection with Consents to be obtained in connection with this Agreement or any Related Agreement), regarding the operations or legal status of Seller or with respect to the transactions contemplated under this Agreement or the Related Agreements without receiving prior written authorization from Seller (not to be unreasonably withheld, conditioned or delayed); *provided*, that nothing in this Section 5.4(c) shall be construed to restrict Buyer or its Affiliates from contacting any Person to the extent the subject of such communications is not related to this Agreement or

any Related Agreement, or the transactions contemplated hereby or thereby.

(d) Buyer agrees to indemnify and hold harmless Seller, its Affiliates and their Representatives for any and all Losses incurred by Seller, its Affiliates or their Representatives arising out of any exercise of the access rights under this Section 5.4, including any Claims by any of Buyer's Representatives for any injuries or property damage while present at the Facilities, except in cases of Seller's or its Representatives' gross negligence or willful misconduct.

(e) On or as soon as reasonably practicable after the Closing Date (but in no event more than twenty (20) days thereafter), Seller shall deliver to Buyer all the Transferred Books and Records (to the extent not already located at the Facilities or otherwise Made Available to Buyer on or prior to the Closing), except as prohibited by applicable Law.

(f) Following the Closing, Seller shall be entitled to retain copies (at Seller's sole cost and expense and subject to the confidentiality and non-disclosure obligations set forth herein) of all books and records relating to its ownership or operation of the Acquired Assets and the Assumed Liabilities.

(g) After the Closing, Buyer will, and will cause its Representatives to, provide Seller and its Affiliates, including their respective Representatives, reasonable access to or copies of all books, records, files and documents to the extent they are related to the Acquired Assets or the Assumed Liabilities, and to periods ending prior to the Closing Date in order to permit Seller and its Affiliates and their respective Representatives to prepare and file their Tax Returns and to prepare for and participate in any investigation with respect thereto, to prepare for and participate in any other investigation and defend any Claims relating to or involving Seller or its Affiliates, to discharge its obligations under this Agreement, to comply with financial reporting requirements, and for other reasonable purposes, and will afford Seller and its Affiliates reasonable assistance in connection therewith at no cost to Seller. Buyer will cause such records to be maintained for not less than seven (7) years from the Closing Date and will not dispose of such records without first offering in writing to deliver them to Seller; *provided, however*, that in the event that Buyer transfers all or a portion of the Acquired Assets or the Assumed Liabilities to any Third Person during such period, Buyer may transfer to such Third Person all or a portion of the books, records, files and documents related thereto, *provided* such transferee expressly assumes in writing the obligations of Buyer under this Section 5.4(g).

(h) On and after the Closing Date, (i) at the request of either Party, the other Party shall make available to such requesting Party, its Affiliates and their respective Representatives, those employees of the non-requesting Party or its Affiliates requested by such requesting Party in connection with any Claim, including to provide testimony, to be deposed, to act as witnesses and to assist counsel, and (ii) at the reasonable request of Seller, Seller shall have reasonable access to the Transferred Employees for a period of seven (7) years following the Closing Date, for purposes of consultation or otherwise, to the extent that such access may reasonably be required by Seller in connection with matters relating to or affected by the operations of Seller prior to the Closing; *provided, however*, that, in each case, (x) such access to such employees shall not unreasonably interfere with the normal conduct of the operations of the non-requesting Party, (y) the requesting Party shall pay and reimburse the non-requesting Party for the out-of-pocket costs reasonably incurred by the non-requesting Party in making such employees available, and (z) such assistance shall be provided insofar as the same may be provided without violating any Law or Permit, or waiving any attorney-client privilege, as determined in the reasonable opinion of counsel to the non-requesting Party.

**Section 5.5 Conduct of Business Pending the Closing.** Except as set forth in Schedule 5.5, during the Interim Period, Seller will operate and maintain the Acquired Assets in the ordinary course of business consistent with Good Utility Practice, unless otherwise contemplated by this Agreement or with the prior written consent of Buyer (which consent shall not be unreasonably withheld or delayed). Without limiting the generality of the foregoing, except as otherwise expressly contemplated by this Agreement or as set forth in Schedule 5.5, Seller shall not, without the prior written consent of the Buyer (which consent shall not be unreasonably withheld or delayed), during the Interim Period, with respect to the Acquired Assets or Assumed Liabilities:

(a) Except for Acquired Assets used at or consumed by the Facilities in the ordinary course of business consistent with Good Utility Practice, and except for sales or dispositions of obsolete or surplus assets in connection with the normal repair or replacement of assets or properties, (i) sell, lease (as lessor), license (as licensor), transfer or otherwise dispose of any of the Acquired Assets, or (ii) encumber, pledge, mortgage or suffer to be imposed on any of the Acquired Assets any Lien other than Permitted Liens;

(b) Make any material change in the levels of Inventories customarily maintained by the Seller with respect to the Acquired Assets, except for such changes that are consistent with Good Utility Practice;

(c) Terminate, make any waiver under, extend, materially amend, or renew or replace any Material Contract, Assigned Lease or Transferable Permit other than in the ordinary course of business consistent with Good Utility Practice, or as may be required or permitted to implement another provision of this Section 5.5, pursuant to Section 5.2(e) or Section 5.3 or otherwise in connection with transferring Seller's rights or obligations thereunder to the Buyer pursuant to this Agreement; *provided* that, during the Interim Period, and subject to Section 5.15, Schedule 2.1(b), Schedule 2.1(e), Schedule 3.5(b) and Schedule 3.11(a), as appropriate, shall be

amended to account for any matter permitted under this Section 5.5(c);

(d) Enter into any Contract relating to the ownership or operation of the Acquired Assets, except for any Contract (i) entered into in the ordinary course of business that will be terminated or fully performed prior to the Closing (without assignment to, or any continuing Liability of, Buyer on or after the Closing), (ii) that can be freely assigned to Buyer at the Closing and terminated by Buyer at its option at any time on or after the Closing without penalty or cancellation charge, (iii) that can be freely assigned to Buyer at the Closing and that does not increase an Assumed Liability or which increases an Assumed Liability by an amount of Three Hundred Thousand Dollars (\$300,000) or less individually or One Million Dollars (\$1,000,000) or less in the aggregate with other such Contracts, or (iv) as may be required or permitted pursuant to Section 5.3 or to implement another provision of this Section 5.5, so long as such Contract can be freely assigned to Buyer at the Closing; *provided* that, during the Interim Period, Schedule 2.1(e) shall be amended to account for any Contract permitted under this Section 5.5(d);

(e) Enter into, amend, or otherwise modify any real or personal property Tax agreement, treaty or settlement that would reasonably be expected to affect the Tax Liabilities of Buyer or any of its Affiliates in a material manner for any taxable year or period ending after the Closing Date;

(f) Make, or enter into any Contractual commitment to make, any capital expenditures relating to the Acquired Assets, Facilities or Sites, except for those capital expenditures or commitments necessitated by Good Utility Practice;

(g) Materially increase the level of wages, compensation or other benefits of any Scheduled Employee, except as required pursuant to the Generation CBA or applicable Law or in accordance with Seller's ordinary course of business consistent with past practices;

(h) Terminate the employment of any Scheduled Employee except for cause, or hire any employee who would be a Scheduled Employee (other than to replace or fill vacancies on compensation and other terms substantially similar to those paid by Seller for any replaced employee), in each case, without first consulting with Buyer; *provided*, that, during the Interim Period, Schedule 3.12(a) shall be amended to reflect any changes in the Scheduled Employees listed thereon that are permitted under this Section 5.5(h); or

(i) Except for amendments which do not result in any increased liability by Buyer following the Closing or as required by Law, agree to any amendment to or waiver of any term of the Generation CBA, or enter into any new collective bargaining agreement with respect to any Scheduled Employees.

Notwithstanding anything to the contrary herein, Seller may take commercially reasonable actions with respect to emergency situations or as required by Law as reasonably determined by Seller and without Buyer's prior written consent, so long as Seller shall promptly inform Buyer upon taking any such action; *provided*, that Seller shall notify Buyer of any such actions as soon as reasonably practicable; *provided*, further, that the taking of such actions in an emergency that would otherwise be prohibited hereunder shall not be deemed to cure any breach of this Agreement (other than a breach of Section 5.5 resulting from the taking of such action).

#### **Section 5.6 Termination of Certain Services and Contracts; Transition Matters.**

(a) Notwithstanding anything in this Agreement to the contrary, at or prior to the Closing, Seller shall (i) terminate, effective upon the Closing, any services provided to any of the Facilities or with respect to the Acquired Assets by Seller, or by any Affiliate thereof under an Intercompany Arrangement, including the termination or severance of insurance policies with respect to coverage for any of the Facilities, Tax services, legal services and banking services (to include the severance of any centralized clearance accounts), other than any such services provided pursuant to the Transition Services Agreement and other than with respect to those Assigned Contracts set forth on Schedule 2.2(j) and (ii) terminate each Contract requested by Buyer within thirty (30) days after the date hereof or such later date as may be requested by Buyer and agreed to by Seller (which such terminations shall be provided so long as Seller will not incur any Liability from and after the Closing Date as a result of such termination) (such services or Contracts collectively, the "**Terminated Contracts**"). For avoidance of doubt, Buyer acknowledges and agrees that all insurance coverage with respect to the Acquired Assets, including those policies referred to in Section 3.9, shall be terminated as of the Closing, and that Buyer shall be solely responsible for providing insurance in respect of the Acquired Assets and for any claims made in connection with such insurance policies after the Closing regardless of when the event or occurrence relating to any claim arose.

(b) At the request of Buyer, at the Closing, Seller shall, and shall cause Eversource Services to, enter into an agreement with Buyer to provide, following Closing, those transition services respecting the Acquired Assets that are reasonably agreed upon by Buyer and Seller at a price equal to the applicable Transition Service Cost Percentage of cost (as allocated in accordance with the same methodologies used for such allocations by Seller and its Affiliates in accordance with past practice) and in accordance with the other terms and conditions set forth therein (the "**Transition Services Agreement**"). The Parties will agree upon any remaining terms and conditions of the Transition Services Agreement in a commercially reasonable manner as soon as practicable

after the date hereof and in any event within sixty (60) days of the date hereof.

(c) Within thirty (30) days after the date hereof, Buyer shall deliver to Seller a list of its proposed representatives to a joint transition team. Seller will add its representatives to such team within ten (10) Business Days after receipt of Buyer's list. Such team will be responsible for preparing as soon as reasonably practicable after the date hereof, and using commercially reasonable efforts to timely implement, a transition plan which will identify and describe substantially all of the various transition activities that the Parties will cause to occur before and after the Closing and any other transfer of control matters that any Party reasonably believes should be addressed in such transition plan. Buyer and Seller shall use commercially reasonable efforts to cause their representatives on such transition team to cooperate in good faith and take reasonable steps necessary to develop a mutually acceptable transition plan no later than sixty (60) days after the date of this Agreement.

**Section 5.7 Seller Marks.** Buyer acknowledges and agrees that as a result of the consummation of the transactions contemplated by this Agreement, it will not obtain any right, title, interest, license or other right hereunder to use any of the Seller Marks. Prior to the Closing, Seller may remove any of the Seller Marks as it determines in its sole discretion. As soon as reasonably practicable but in no event more than sixty (60) days after the Closing Date, Buyer shall dispose of any unused products, materials, stationery and literature bearing the Seller Marks remaining at the Facilities following the Closing. Following the Closing, upon reasonable prior written notice and at mutually agreed upon reasonable times, Buyer shall allow Seller, at Seller's cost, to remove, cover or conceal the Seller Marks appearing on signage at the primary entrances of the Facilities; provided, however, Seller agrees to indemnify and hold harmless Buyer, its Affiliates and their Representatives for any and all Losses incurred by Buyer, its Affiliates or their Representatives arising out of any exercise of the access rights under this Section 5.7, including any Claims by any of Seller's Representatives for any injuries or property damage while present at the Facilities, except in cases of Buyer's or its Representatives' gross negligence or willful misconduct. Thereafter, Buyer shall not use any Seller Mark or any name or term confusingly similar to any Seller Mark in connection with the sale of any products or services, in the corporate or doing business name of any of its Affiliates or otherwise in the conduct of its or any of its Affiliates' businesses or operations; provided, however that Buyer shall not be in violation of this Section 5.7 to the extent such violation results from Seller's failure to remove all Seller Marks at the Facilities. In the event that Buyer breaches this Section 5.7, Seller shall be entitled to specific performance of this Section 5.7 and to injunctive relief against further violations, as well as any other remedies at law or in equity available to Seller.

#### **Section 5.8 Employee Matters.**

(a) Settlement Agreement. The Parties acknowledge and agree that under New Hampshire Law (New Hampshire RSA 369-B:3-b) and the Settlement Agreement, affected employees are entitled to certain employee protections that apply in connection with the transactions contemplated hereby, including provisions requiring that Buyer undertake certain employee-related obligations as a condition to the consummation of the transactions contemplated hereby. The Parties acknowledge and agree that the covenants and agreements set forth in this Section 5.8 are intended to implement the applicable employee protection provisions and requirements set forth under New Hampshire Law and in the Settlement Agreement and shall be interpreted consistently therewith.

#### (b) Represented Transferred Employees.

(i) Schedule 5.8(b)(i) sets forth the total number of Represented Scheduled Employees (including all such Represented Scheduled Employees who are on inactive status due to any short-term disability, long-term disability or other approved leave) employed in each job classification as of the Effective Date. Within fifteen (15) days following the Effective Date, Buyer shall provide notice to Seller of the number of Represented Scheduled Employees by classification and facility which Buyer desires to retain. The Parties shall cooperate in good faith with the Union to identify, within thirty (30) days after receipt of Buyer's notice, in accordance with the applicable provisions of the Generation CBA and the Settlement Agreement, the particular Represented Scheduled Employees to whom Buyer shall offer employment pursuant to the terms of this Section 5.8 (the "**Selected Represented Employees**"). Within sixty (60) days following the Effective Date, Buyer shall offer employment, commencing as of 12:01 a.m. Eastern time on the Closing Date, to all such Selected Represented Employees.

(ii) All such offers of employment shall be made in accordance with applicable Laws, the Generation CBA and the Settlement Agreement, and otherwise on terms consistent with the provisions of this Section 5.8. Those employees who accept such offer of employment are referred to herein as the "**Represented Transferred Employees.**" Buyer shall, as soon as reasonably practicable and in no event more than fifteen (15) Business Days following the Effective Date, provide notice to the Union (i) that Buyer recognizes the Union, as of the Closing, as the collective bargaining representative for all Represented Transferred Employees, (ii) that Buyer agrees to become party to and bound by the terms of the Generation CBA and to assume Seller's obligations with respect to the Represented Transferred Employees thereunder, and (iii) that describes Buyer's plans regarding staffing by classification and operations of the Facilities, as required by the Generation CBA.

(iii) On and after the Closing, Buyer shall comply with all applicable obligations under the Generation CBA with respect to the Represented Transferred Employees covered thereby.

(c) Non-Represented Transferred Employees.

(i) Within forty-five (45) days following the Effective Date, Buyer shall offer employment to those Non-Represented Scheduled Employees set forth on Schedule 5.8(c)(i) whom Buyer desires to employ commencing as of 12:01 a.m. Eastern time on the Closing Date (the “**Selected Non-Represented Employees**”). All such offers of employment shall be made in accordance with applicable Laws and otherwise on terms consistent with the provisions of this Section 5.8. Those Selected Non-Represented Employees who accept such offer of employment are referred to herein as the “**Non-Represented Transferred Employees**.”

(ii) The Parties acknowledge and agree that, pursuant to the Settlement Agreement and New Hampshire RSA 369-B:3-b, the Non-Represented Transferred Employees are entitled to employee protections no less than those set forth in the Generation CBA with respect to the Represented Transferred Employees. As required by the Settlement Agreement, Buyer shall, from and after Closing, assume and comply with those employee protection obligations to the Non-Represented Transferred Employees required by New Hampshire RSA 369-B:3-b.

(iii) Continuing from Closing through no sooner than the end of the CBA Term, Buyer shall maintain an overall benefit package for the Non-Represented Transferred Employees at least as favorable as the overall benefit package provided to each such Non-Represented Transferred Employee immediately prior to the Closing.

(d) Service Credit. Buyer shall recognize and apply each Transferred Employee’s prior service with Seller toward any eligibility, vesting, accrual and benefit calculation purposes under the Employee Benefits Plans and other compensation arrangements of Buyer, including Buyer’s Pension Plan and any other plans established to provide benefits described in the Generation CBA and/or in Seller’s policies and plans applicable to Non-Represented Transferred Employees. Buyer shall vest each Transferred Employee under the Employee Benefits Plans of Buyer to the extent such employee is vested under the Employee Benefits Plans of Seller (or its applicable Affiliates) immediately prior to the Closing. Buyer shall waive all limitations with respect to preexisting conditions, exclusions and waiting periods with respect to participation and coverage requirements under Buyer’s health and welfare plans under Seller’s (or its applicable Affiliates’) comparable plans in which such Transferred Employee participates. Within a reasonable time prior to the Closing Date, Seller shall, subject to applicable Law, provide Buyer with such pertinent data or information as Buyer shall reasonably require to determine each Transferred Employee’s service, eligibility, vesting, accrued benefits and other relevant information under the Employee Benefits Plans of Seller or its applicable Affiliates (including Seller’s Pension Plan).

(e) Pension and Retirement Benefits.

(i) Defined Benefit Pension Plan Participants.

(A) As soon as practicable after the Effective Date, Buyer shall take all necessary and appropriate action to establish and maintain a tax qualified defined benefit or defined contribution plan (“**Buyer’s Pension Plan**”) for Transferred Employees who participate in Seller’s defined benefit pension plan in accordance with the provisions of this Section 5.8(e).

(B) For purposes of this Section 5.8(e)(i), the term “**Combined Minimum Pension Benefit**” means, for any such Transferred Employee, the Transferred Employee’s total pension benefit as calculated as of the earlier of (i) such Transferred Employee’s retirement date and (ii) the end of the CBA Term, using (A) the pension benefit formula under the Eversource Pension Plan (“**Seller’s Pension Plan**”) applicable to such Transferred Employee as of the Closing Date, (B) such Transferred Employee’s final average earnings (as specified in Seller’s Pension Plan) as of the earlier of (i) such Transferred Employee’s retirement date and (ii) the end of the CBA Term,, taking into account compensation earned from both Seller and Buyer, (C) such Transferred Employee’s total years of service with both Seller (or its applicable Affiliates and predecessors) and Buyer as of the earlier of (i) such Transferred Employee’s retirement date and (ii) the end of the CBA Term, and (D) covered compensation as of the earlier of (i) such Transferred Employee’s retirement date and (ii) the end of the CBA Term.

(C) For purposes of this Section 5.8(e)(i), the term “**Accrued Pension Benefit**” means, for any such Transferred Employee, the pension benefit payable to such Transferred Employee under Seller’s Pension Plan at such Transferred Employee’s retirement, which shall be calculated based upon (A) the pension benefit formula under the Seller’s Pension Plan applicable to such Transferred Employee as of the Closing Date, (B) such Transferred Employee’s years of credited service with Seller (or its applicable Affiliates) as of the Closing Date, (C) such Transferred Employee’s final average earnings (as specified in the Seller’s Pension Plan) as of the Closing Date, and (D) such Transferred Employee’s covered compensation as of the Closing Date.

(D) Upon such Transferred Employee’s retirement date, Seller (or its Affiliates) shall provide each such

Transferred Employee with a vested and non-forfeitable right to a pension benefit equal to such Transferred Employee's Accrued Pension Benefit.

(E) On and after Closing, and continuing through no sooner than the end of the CBA Term, Buyer shall provide each such Transferred Employee with a pension benefit under Buyer's Pension Plan equal to or exceeding the difference between such Transferred Employee's Combined Minimum Pension Benefit and such Transferred Employee's Accrued Pension Benefit (the "**Buyer Pension Benefit**"). Such Buyer Pension Benefit must be guaranteed to each Transferred Employee and protected from forfeiture to no less extent than an ERISA plan benefit. If any such Transferred Employee's Buyer Pension Benefit should be subject to Social Security and Medicare Taxes that do not apply to ERISA pension benefits, Buyer shall "gross up" such Buyer Pension Benefit to offset such additional Tax liability to the applicable Transferred Employee.

(F) On and after Closing, and continuing through no sooner than the end of the CBA Term, in the event that any such Transferred Employee (A) is involuntarily separated from employment as a result of layoff from Buyer (or any of its Affiliates) and (B) at the time of Closing (x) is age 50-54 and (y) whose age plus credited service equal or exceed 65 years, then such Transferred Employees shall be provided those pension and other retirement benefits described in Schedule 5.8(e)(i)(F).

(ii) Contributory Retirement Plan Participants.

(A) As soon as practicable after the Effective Date, Buyer shall take all necessary and appropriate action to establish and maintain a tax qualified contributory retirement plan ("**Buyer's Contributory Plan**") for the Transferred Employees who participate in Seller's "K-Vantage" contributory retirement plan in accordance with the provisions of this Section 5.8(e)(ii).

(B) On and after Closing and through the end of the CBA Term, Buyer (or its Affiliates) shall provide each Transferred Employee with contributions to Buyer's Contributory Plan in an amount no less than the amount such Transferred Employee would have received under Seller's "K-Vantage" contributory retirement plan, as set forth in Schedule 5.8(e)(ii)(B).

(f) Transition Matters. Effective as of the Closing, the Transferred Employees shall cease active participation in all Employee Benefit Plans of Seller (or its applicable Affiliates). Seller (or its applicable Affiliates) shall pay, in accordance with Seller's customary practice, to all Transferred Employees all accrued salary or wages, including overtime, vacation pay or other benefits to which they are entitled under the Employee Benefit Plans of Seller (or its applicable Affiliates) as of immediately prior to the Closing. Buyer and Seller intend that the transactions contemplated by this Agreement should not constitute a separation, termination or severance of employment of any Transferred Employee for purposes of any Employee Benefit Plan that provides for separation, termination or severance benefits, and that each such Transferred Employee will have continuous employment immediately before and immediately after the Closing. All Liability and Claims relating to the employment and compensation of any Transferred Employee on and after the Closing shall be the sole responsibility of Buyer, and Buyer agrees to indemnify and hold harmless Seller, its Affiliates and their Representatives for any and all Losses incurred by Seller, its Affiliates or their Representatives arising out of or related to Buyer's (or its Affiliate's) employment of any Transferred Employee following the Closing.

(g) Severance Benefits. Any Transferred Employee who is terminated as a result of a reduction in force or change in operational practices prior to the end of the CBA Term will be entitled to the benefits set forth in Schedule 5.8(g) from Buyer.

(h) WARN Act; Restructuring Activities. Seller agrees to timely perform and discharge all requirements under the WARN Act and under applicable state and local Laws for the notification of its and its Affiliates' employees arising from the sale of the Acquired Assets to Buyer up to and including the Closing Date, including those employees who will become Transferred Employees effective as of the Closing Date. After the Closing Date, Buyer shall be responsible for performing and discharging all requirements under the WARN Act and under applicable state and local Laws for the notification of its employees, whether Transferred Employees or otherwise. All severance and other costs (other than in respect of any Accrued Pension Benefits) associated with workforce restructuring activities associated with the Transferred Employees subsequent to the Closing Date shall be borne solely by Buyer.

(i) Successors and Assigns. Notwithstanding anything herein to the contrary, the agreements and obligations of Buyer set forth in this Section 5.8 shall be binding upon and enforceable against any successor or assign or any other entity acquirer of Buyer, whether by sale, transfer, merger, acquisition or otherwise. Buyer shall make it a condition of any such sale, transfer, merger, acquisition or other transaction or event that any such successor or assign or other entity acquirer shall be bound by the terms of this Section 5.8.

(j) Notwithstanding anything to the contrary herein, except for Buyer's obligations in respect of the Buyer Pension Benefit and the Buyer's Contribution Plan which are set forth in Section 5.8(e)(i) and Section 5.8(e)(ii), respectively, and Buyer's obligations in respect of severance benefits as set forth in Section 5.8(g), Buyer shall have no obligation to provide any other post-employment benefits to any Transferred Employee and to the extent any obligations to provide any such post-employment benefits are owing to Transferred Employees, including without limitation in respect of retiree health benefits or contributions, Seller shall provide any such benefits and shall be solely responsible for any obligations associated therewith.

**Section 5.9 ISO-NE and NEPOOL Matters.**

(a) At the Closing, Buyer shall be a member in good standing in NEPOOL. Except as required to preserve system reliability and in compliance with the requirements of the ISO-NE or NEPOOL, and as may be otherwise provided in any Related Agreement, following Closing, Seller shall not, directly or indirectly, interfere with Buyer's efforts to expand or modify generation capacity at any of the Sites.

(b) Not less than five (5) Business Days prior to the Closing Date, Buyer shall initiate, and Seller shall confirm, with ISO-NE Buyer's acquisition of the Facilities from Seller, to be effective as of the Closing Date, pursuant to the CAMS User Guide for Company and Affiliate Maintenance, Version 1.4, Section 2.3.15, Asset Ownership Share Transfers. In the event that ISO-NE (or NEPOOL) does not recognize until after the Closing Buyer's acquisition of the Facilities as of the Closing Date (or recognizes such acquisition effective as of any date other than the Closing Date), the Parties agree that (i) any proceeds received by Seller or its Affiliates from ISO-NE (or NEPOOL) after Closing relating to Buyer's ownership of the Facilities on and after the Closing Date shall be promptly paid over to Buyer, and (ii) any proceeds received by Buyer or its Affiliates from ISO-NE (or NEPOOL) after Closing relating to Seller's ownership of the Facilities prior to the Closing Date shall be promptly paid over to Seller. The Parties further agree that (x) any amounts received by Buyer or its Affiliates from ISO-NE after the Closing respecting the Facilities, to the extent attributable to any period prior to the Closing, including (A) ISO-NE Winter Reliability Program revenues attributable to any period prior to the Closing, and (B) ISO-NE Forward Capacity Market capacity payments attributable to any period prior to the Closing, shall be promptly paid over to Seller; and (y) any amounts received by Seller or its Affiliates from ISO-NE after Closing respecting the Facilities, to the extent attributable to any period on and after the Closing, including (A) ISO-NE Winter Reliability Program revenues attributable to any period on and after the Closing and (B) ISO-NE Forward Capacity Market capacity payments attributable to any period on and after the Closing, shall be promptly paid over to Buyer. Any payment required to be made by a Party pursuant to this Section 5.9(b) shall be made to the other Party by wire transfer of immediately available funds to the account designated in writing by such other Party.

**Section 5.10 Post-Closing Operations.** As required by the Settlement Agreement, Buyer hereby covenants and agrees that Buyer shall (and shall cause any successor or assign of Buyer to) cause the Facilities to remain in service for a minimum of eighteen (18) months following the Closing Date.

**Section 5.11 Discharge of Environmental Liabilities.** On and after the Closing Date, with respect to Environmental Liabilities which constitute Excluded Environmental Liabilities, Buyer will use commercially reasonable efforts not to prejudice or impair Seller's rights under the Environmental Laws or interfere with Seller's ability to contest in appropriate administrative, judicial or other proceedings its Liability, if any, for Environmental Claims or Remediation. To the extent relevant to those Environmental Liabilities which constitute Excluded Liabilities, (a) Buyer further agrees to provide to Seller draft copies of all plans and studies prepared in connection with any Site investigation or Remediation prior to their submission to the Governmental Authority with jurisdiction under Environmental Laws, (b) Seller shall have the right, without the obligation, to attend all meetings between Buyer, its Representatives, and such Governmental Authorities, and (c) Buyer shall promptly provide to Seller copies of all written information, plans, documents and material correspondence submitted to or received from such Governmental Authorities relating to Buyer's discharge of any Environmental Liabilities assumed pursuant to this Agreement.

**Section 5.12 Transfer Taxes.** Notwithstanding any other provision of this Agreement to the contrary, Buyer and Seller shall in good faith determine the amount and at Closing each pay fifty percent (50%) of all Transfer Taxes that may be imposed upon, or payable, collectible or incurred in connection with the transfer of the Acquired Assets to Buyer or otherwise in connection with the transactions contemplated by this Agreement and the Related Agreements. Accordingly, if Seller is required by Law to pay any such Transfer Taxes, Buyer shall reimburse Seller such that Buyer bears fifty percent (50%) of such Transfer Taxes. Buyer shall, at its own expense, prepare and timely file all Tax Returns relating to any such Transfer Tax (and Seller shall cooperate with respect thereto as reasonably necessary, including by preparing, executing and providing its Tax Return to Buyer, or by joining in the execution of any such Tax Returns if required by applicable Law), shall notify Seller when such filings have been made and shall provide Seller with copies thereof.

**Section 5.13 Tax Matters.** Except as provided in Section 5.12 relating to Transfer Taxes:

(a) With respect to Taxes to be prorated in accordance with Section 2.7 of this Agreement, Buyer shall prepare and

timely file all Tax Returns required to be filed after the Closing with respect to the Acquired Assets, if any, and Buyer shall duly and timely pay all such Taxes shown to be due on such Tax Returns (or shall reimburse Seller for any such Taxes paid by Seller). Buyer's preparation of any such Tax Returns shall be subject to Seller's review and comment, and Buyer shall consider in good faith any comments received from Seller. No later than twenty (20) Business Days prior to the due date of any such Tax Return, Buyer shall make such Tax Return available for Seller's review and comment. Buyer shall respond no later than five (5) Business Days prior to the due date for filing such Tax Return. Without the prior written consent of Seller, Buyer will not (i) file or amend any Tax Return relating to any taxable period ending on or prior to the Closing Date, or to any taxable period beginning before the Closing Date and ending after the Closing Date, or any portion thereof or (ii) extend or waive, or cause to be extended or waived, any statute of limitations or other period for the assessment of any Tax or deficiency related to any such taxable period (or portion thereof).

(b) Whenever any Taxing Authority asserts a claim, makes an assessment, or otherwise disputes the amount of Taxes relating to any taxable period ending on or prior to the Closing Date, or to any taxable period beginning before the Closing Date and ending after the Closing Date, or any portion thereof, Buyer shall, upon receipt of such assertion, promptly, but no later than thirty (30) days thereafter, inform Seller in writing of such assertion. With respect to proceedings that relate solely to Taxes that represent Excluded Liabilities and to any proceedings described on Schedule 3.10, Seller shall have the sole right to control any such proceedings and to determine whether and when to settle any such claim, assessment or dispute; *provided, however*, that Seller shall not settle any Tax controversies in a manner that would reasonably be expected to affect the Tax Liabilities of Buyer or any of its Affiliates in a material manner for any taxable year or period ending after the Closing Date without the prior written consent of Buyer. With respect to proceedings that relate to Taxes that represent Assumed Liabilities, Buyer shall have the sole right to control any such proceedings and determine whether and when to settle any such claim, assessment or dispute; *provided, however*, that Buyer shall not settle any Tax controversies in a manner that would reasonably be expected to affect the Tax Liabilities of Seller or any of its Affiliates in a material manner for any taxable year or period without the prior written consent of Seller. Each of Buyer and Seller shall provide the other with such assistance and cooperation as may reasonably be requested by the other Party in connection with the preparation of any Tax Return, any audit or other examination by any Taxing Authority, or any judicial or administrative proceedings relating to Liability for Taxes. Such assistance and cooperation shall include the retention and (upon the other Party's request) the provision of records and information that are reasonably relevant to any such audit, litigation or other proceeding and making employees available on a mutually convenient basis to provide additional information and explanation of any material provided hereunder, and each will retain and provide the requesting Party with any records or information until the expiration of the statute of limitations (and, to the extent notified by the other Party, any extensions thereof) of the respective taxable periods which may be relevant to such Tax Return, audit or examination, proceedings or determination.

**Section 5.14 Further Assurances.** At any time and from time to time after the Closing, at the reasonable request of a Party and without further consideration, the other Party will or will cause its Affiliates to execute and deliver such instruments of sale, transfer, conveyance, assignment, assumption and confirmation and take such actions as the Parties may reasonably agree are necessary to transfer, convey and assign to Buyer, and to confirm Buyer's title to or interest in the Acquired Assets and assumption of and obligation with respect to the Assumed Liabilities, to put Buyer in actual possession and operating control of the Acquired Assets, and otherwise to consummate and give effect to the transactions contemplated by this Agreement. For avoidance of doubt, in the event that any asset that is an Acquired Asset shall not have been conveyed to Buyer at the Closing, Seller shall, subject to Section 5.3, use its commercially reasonable efforts to convey such asset to Buyer as promptly as is practicable after the Closing.

**Section 5.15 Schedule Updates.** From time to time during the Interim Period, Seller may supplement or amend and deliver updates to the Schedules with respect to any changes or events occurring or conditions arising after the Effective Date, including such supplements or amendments to Schedules expressly permitted or required herein (each, a "**Schedule Update**"). In the event that any Schedule Update discloses any such change, event or condition that would prevent the Seller from satisfying the condition set forth in Section 6.1(a), then either (A) Seller shall have a reasonable opportunity to cure such fact or circumstance or (B) if Seller determines that such fact or circumstance is incapable of cure by Seller by the Outside Date, Seller shall promptly notify Buyer of such determination, and then within five (5) Business Days of such determination, Buyer and Seller shall in good faith seek to quantify the amount of Losses relating to such fact or circumstance that Buyer would reasonably be expected to suffer as a result thereof. In the event the Buyer and Seller are unable to agree as to the amount of Losses resulting from such fact or circumstance, such matter shall be referred to the Independent Accountant for final determination. The amount of any such Losses finally determined (whether by agreement of the parties or by the Independent Accountant) shall result in a dollar for dollar reduction to the Base Purchase Price payable by Buyer at the Closing, provided, that if the amount of such Losses are equal to or greater than ten percent (10%) of the Base Purchase Price, either Seller or Buyer may, in their discretion, elect to terminate this Agreement in lieu of accepting a reduction to the Base Purchase Price by delivering a written termination notice to the other Party. If, pursuant to this Section 5.15, either Seller cures such fact or circumstance, or the amount of Losses is finally determined (and, if applicable, neither Seller nor Buyer exercises any termination right pursuant to the previous sentence), then the Schedule Update relating to such fact or circumstance shall be deemed to be part of the Schedules for purposes of determining whether Seller has satisfied the condition set forth in Section 6.1(a). In the event that Seller provides a Schedule Update, Seller shall also promptly provide any additional information relating thereto as Buyer may reasonably request.

**Section 5.16 Casualty.** If any Acquired Asset is damaged or destroyed by a casualty loss during the Interim Period (a “**Casualty Loss**”), and the cost of restoring such damaged or destroyed Acquired Asset to a condition reasonably comparable to its prior condition inclusive of a reasonable estimate of the likely business interruption cost associated with such event (assuming commercially reasonable efforts are undertaken to remediate such casualty event) (such costs with respect to any Acquired Asset, the “**Restoration Cost**”) does not exceed ten percent (10%) of the Base Purchase Price, Seller may elect, by written notice to Buyer provided within sixty (60) days of the applicable Casualty Loss, to either (a) reduce the amount of the Purchase Price by the estimated Restoration Cost (as estimated by a qualified firm mutually selected by Buyer and Seller as promptly as practicable after the date of the event giving rise to the Casualty Loss) or (b) restore such damaged or destroyed Acquired Asset at Seller’s expense at any time prior to the Outside Date to a condition reasonably comparable to its condition prior to such Casualty Loss, and in either event such Casualty Loss shall not affect the Closing; *provided*, that in the event Seller elects to restore such damaged or destroyed Acquired Asset pursuant to the foregoing clause (b), Seller shall have the option, exercisable by delivering written notice to Buyer, to extend the Outside Date by an additional period of up to ninety (90) days after the original Outside Date set forth in Section 8.1(a) to the extent additional time is needed to complete such restoration. If Seller does not make an election as set forth in the preceding sentence within such sixty (60) day period following the Casualty Loss, Seller shall be deemed to have elected to reduce the amount of the Purchase Price by the estimated Restoration Cost as provided above. If the Restoration Cost exceeds ten percent (10%) of the Base Purchase Price, Buyer may elect, by written notice to Seller provided within sixty (60) days of the applicable Casualty Loss, to either (i) reduce the amount of the Purchase Price by the estimated Restoration Cost (as estimated by a qualified firm mutually selected by Buyer and Seller as promptly as practicable after the date of the event giving rise to the Casualty Loss) or (ii) terminate this Agreement. If Buyer does not make an election as set forth in the preceding sentence within such sixty (60) day period following the Casualty Loss, Seller may elect to terminate this Agreement by written notice to Buyer delivered within ten (10) days thereafter. In the event Seller elects to restore such damaged or destroyed Acquired Asset or to reduce the amount of the Purchase Price by the estimated Restoration Cost pursuant to this Section 5.16, (A) for avoidance of doubt, Buyer shall have no rights to any insurance proceeds related thereto, to which Seller shall be solely entitled, and (B) on or after the Closing, Buyer will, at Seller’s written election, assign to Seller the rights, if any, to any contribution available under any long term service agreement or other Contract included in the Acquired Assets, as and to the extent relating to the applicable Casualty Loss, and, to the extent that Buyer receives any proceeds or other compensation associated with any such Casualty Loss, Buyer shall cause the amount of such proceeds or compensation to be paid over to Seller promptly upon receipt.

**Section 5.17 Condemnation.** If any Acquired Assets are taken by condemnation during the Interim Period and such Acquired Assets have a condemnation value (the “**Condemnation Value**”) that does not exceed ten percent (10%) of the Base Purchase Price, the Purchase Price shall be reduced by such Condemnation Value and such condemnation shall not affect the Closing. If the Condemnation Value exceeds ten percent (10%) of the Base Purchase Price, Buyer may elect, by written notice to Seller provided within sixty (60) days of the applicable Condemnation Event, to either reduce the Purchase Price by such Condemnation Value or terminate this Agreement. If Buyer does not make such an election within such sixty (60) day period, Seller may elect to terminate this Agreement by written notice to Buyer delivered within ten (10) days thereafter. To the extent the amount of the Purchase Price is reduced by the Condemnation Value pursuant to this Section 5.17, (A) for avoidance of doubt, Buyer shall have no rights to any condemnation award or insurance proceeds related thereto, to which Seller shall be solely entitled, and (B) Buyer shall, to the extent that it receives any award, proceeds or other compensation associated with any such condemnation event on or after Closing, cause the amount of such award, proceeds or compensation to be paid over to Seller promptly upon receipt.

**Section 5.18 Confidentiality.** Buyer acknowledges and agrees that the Confidentiality Agreement remains in full force and effect and, in addition, covenants and agrees to keep confidential, in accordance with the provisions of the Confidentiality Agreement, information provided to Buyer pursuant to this Agreement (including this Agreement and the Exhibits and Schedules hereto); *provided*, that from and after Closing, Buyer shall not have any obligation to maintain the confidentiality of information with respect to the Acquired Assets, but Buyer’s confidentiality obligations under the Confidentiality Agreement (including with respect to information concerning Seller and its Affiliates) shall otherwise continue. If this Agreement is, for any reason, terminated prior to the Closing, the Confidentiality Agreement and the provisions of this Section 5.18 shall nonetheless continue in full force and effect. From and after the Closing, Seller agrees to keep all non-public information relating to Buyer or the Acquired Assets (including to the extent contained in any copy of the Transferred Books and Records maintained by Seller) confidential and not to disclose such information without Buyer’s written consent (unless required by Law or Order).

**Section 5.19 Public Announcements.** Except as otherwise expressly provided herein, each Party shall, and shall cause its Affiliates (as applicable) to, consult with the other Party regarding the timing and content of any public announcements regarding this Agreement, the Closing and the other transactions contemplated by this Agreement to the news media, financial community, any Governmental Authority, customers, suppliers or the general public. Except as otherwise provided herein, no Party or its Affiliates shall make any such public announcement without the prior written consent of the other Party, unless any such disclosure is otherwise required by Law or by the rules of a national securities exchange (in which case such Party will provide to the other Party reasonable advance notice of and an opportunity to review any such disclosure).

**Section 5.20 ARCO ROFR.** As promptly as practicable following the Effective Date, Seller shall comply with the ARCO

ROFR requirements set forth in Article VII of the ARCO By-Laws, and shall promptly notify Buyer in the event that ARCO or any of its stockholders exercises its right to purchase the ARCO Shares in accordance with the ARCO ROFR. Upon the exercise of such right by ARCO or any of its stockholders, (a) Seller shall not be required to sell, and Buyer shall not be required to purchase, the ARCO Shares pursuant to this Agreement, the ARCO Shares shall cease to be included as an Acquired Asset hereunder, and any provisions of this Agreement relating to the ARCO Shares shall be deemed of no further force and effect, (b) the Purchase Price shall automatically be deemed to be reduced by the amount allocated to the ARCO Shares on Schedule 2.8(b), (c) except as set forth in the foregoing, the remaining provisions of this Agreement shall continue in full force and effect in all respects, and (d) the removal of the ARCO Shares from the transactions contemplated hereby as contemplated by this Section 5.20 shall not be deemed a breach or default of this Agreement in any event.

**Section 5.21 Exclusivity.** From and after the Effective Date, Seller agrees not to engage in any discussions or negotiations concerning any potential sale of the Acquired Assets to any party other than Buyer.

## ARTICLE VI CONDITIONS TO CLOSING

**Section 6.1 Buyer's Conditions to Closing.** The obligation of Buyer to consummate the transactions contemplated by this Agreement is subject to the fulfillment, at or prior to Closing, of each of the following conditions (except to the extent waived in writing by Buyer):

(a) Representations and Warranties. (i) The representations and warranties made by Seller in ARTICLE III that are not qualified by "materiality," "Material Adverse Effect" or similar qualifiers shall be true and correct in all material respects on the Closing Date as though made on and as of the Closing Date (except to the extent such representations and warranties expressly relate to an earlier date, in which case as of such earlier date) and (ii) the representations and warranties made by Seller in ARTICLE III that are qualified by "materiality," "Material Adverse Effect" or similar qualifiers shall be true and correct on the Closing Date as though made on and as of the Closing Date (except to the extent such representations and warranties expressly relate to an earlier date, in which case as of such earlier date).

(b) Performance. Seller shall have performed and complied, in all material respects, with all agreements, covenants and obligations required by this Agreement to be performed or complied with by Seller at or before the Closing.

(c) Officer's Certificate. Seller shall have delivered to Buyer at the Closing a certificate of an authorized officer of Seller, dated as of the Closing Date, stating that the conditions set forth in Section 6.1(a) and Section 6.1(b) have been satisfied.

(d) Consents. The Seller Required Consents and the Buyer Required Consents marked with an asterisk on Schedule 3.3 and Schedule 4.3(c) shall have been duly obtained, made or given and shall be in full force and effect, and all terminations or expirations of waiting periods imposed by any Governmental Authority with respect thereto (including under the HSR Act, if applicable) shall have occurred.

(e) No Injunctions. On the Closing Date, there shall be no Laws or Orders in effect that operate to restrain, enjoin or otherwise prevent or make illegal the consummation of the transactions contemplated by this Agreement.

(f) Deliveries. Seller shall have delivered or shall stand ready to deliver all of the certificates, instruments, agreements, documents and other items specified to be delivered by it hereunder, including pursuant to Section 2.10.

(g) Material Adverse Effect. No Material Adverse Effect shall have occurred.

**Section 6.2 Seller's Conditions to Closing.** The obligation of Seller to consummate the transactions contemplated by this Agreement is subject to the fulfillment, at or prior to Closing, of each of the following conditions (except to the extent waived in writing by Seller):

(a) Representations and Warranties. (i) The representations and warranties made by Buyer in ARTICLE IV that are not qualified by "materiality," "Material Adverse Effect" or similar qualifiers shall be true and correct in all material respects on the Closing Date as though made on and as of the Closing Date (except to the extent such representations and warranties expressly relate to an earlier date, in which case as of such earlier date) and (ii) the representations and warranties made by Buyer in ARTICLE IV that are qualified by "materiality," "Material Adverse Effect" or similar qualifiers shall be true and correct on the Closing Date as though made on and as of the Closing Date (except to the extent such representations and warranties expressly relate to an earlier date, in which case as of such earlier date).

(b) Performance. Buyer shall have performed and complied, in all material respects, with all agreements, covenants and obligations required by this Agreement to be performed or complied with by Buyer at or before the Closing.

(c) Officer's Certificate. Buyer shall have delivered to Seller at the Closing a certificate of an authorized officer of Buyer, dated as of the Closing Date, stating that the conditions set forth in Section 6.2(a) and Section 6.2(b) have been satisfied.

(d) Consents. The Seller Required Consents and the Buyer Required Consents marked with an asterisk on Schedule 3.3 and Schedule 4.3(c) shall have been duly obtained, made or given and shall be in full force and effect, and all terminations or expirations of waiting periods imposed by any Governmental Authority with respect thereto (including under the HSR Act, if applicable) shall have occurred.

(e) No Injunctions. On the Closing Date, there shall be no Laws or Orders in effect that operate to restrain, enjoin, prohibit or otherwise prevent or make illegal the consummation of the transactions contemplated by this Agreement.

(f) Deliveries. Buyer shall have delivered or shall stand ready to deliver all of the certificates, instruments, agreements, documents and other items specified to be delivered by it hereunder, including pursuant to Section 2.11.

(g) Closing Purchase Price. Buyer shall have delivered the Closing Purchase Price in accordance with Section 2.5.

## ARTICLE VII INDEMNIFICATION; LIMITATIONS OF LIABILITY AND WAIVERS

**Section 7.1 Survival.** Subject to the limitations and other provisions of this Agreement, the representations and warranties of Seller set forth in Section 3.1 (Organization and Existence), Section 3.2 (Authority and Enforceability) and Section 3.17 (Brokers) and the representations and warranties of Buyer set forth in Section 4.1 (Organization and Existence), Section 4.2 (Authority and Enforceability) and Section 4.6 (Brokers), shall survive the Closing and shall remain in full force and effect for a period of twelve (12) months following the Closing Date. All other representations and warranties of any Party contained in this Agreement shall expire at the Closing and shall have no further force or effect. The covenants and agreements of the Parties contained in this Agreement to be performed on or prior to the Closing shall expire at the Closing and have no further force or effect, and the covenants and agreements of the Parties contained in this Agreement that by their terms survive the Closing or contemplate performance after the Closing shall survive Closing until fully performed. The indemnification obligations of any Party pursuant to this ARTICLE VII with respect to any breach of a representation, warranty, covenant or other agreement hereunder shall terminate upon the expiration of such representation, warranty, covenant or other agreement.

**Section 7.2 Effect of Closing.** Upon the Closing, any condition to the obligations of either Party to consummate the transactions contemplated hereby that has not been satisfied as of the Closing Date, and any representation, warranty, covenant or agreement that has been breached or left unsatisfied by either Party as of the Closing Date, will be deemed waived by the Parties as of the Closing Date, and each Party will be deemed to fully release and forever discharge the other Party on account of any and all Claims and Losses with respect to the same. Nothing in this Section 7.2 shall be deemed to affect any provision herein which expressly survives the Closing or pertains to matters which will occur after the Closing.

**Section 7.3 Indemnification by Seller.** Subject to the other provisions of this ARTICLE VII, from and after the Closing, Seller shall indemnify, defend and hold harmless Buyer, its Affiliates and their respective Representatives (collectively, the “**Buyer Indemnified Parties**”) from and against all Losses suffered or incurred by a Buyer Indemnified Party resulting or arising from:

(a) Any breach of any representation or warranty of Seller contained in this Agreement that survives the Closing pursuant to Section 7.1;

(b) Any breach of any covenant or agreement of Seller contained in this Agreement that survives the Closing pursuant to Section 7.1; or

(c) Any Excluded Liability.

**Section 7.4 Indemnification by Buyer.** Subject to the other provisions of this ARTICLE VII, from and after the Closing, Buyer shall indemnify, defend and hold harmless Seller, its Affiliates and their respective Representatives (collectively, the “**Seller Indemnified Parties**”) from and against all Losses suffered or incurred by a Seller Indemnified Party resulting or arising from:

(a) Any breach of any representation or warranty of Buyer contained in this Agreement that survives the Closing pursuant to Section 7.1;

(b) Any breach of any covenant or agreement of Buyer contained in this Agreement that survives the Closing pursuant to Section 7.1; or

(c) Any Assumed Liability.

**Section 7.5 Certain Limitations.** The Buyer Indemnified Party or Seller Indemnified Party, as applicable, making a claim for indemnification under this ARTICLE VII is referred to herein as the “**Indemnified Party**” and the Party against whom such claims are asserted under this ARTICLE VII is referred to as the “**Indemnifying Party**.” The indemnification provided for in this ARTICLE VII shall be subject to the following limitations and other provisions:

(a) Notwithstanding anything herein to the contrary, the aggregate amount of all Losses for which Seller shall be liable pursuant to Section 7.3(a) shall not exceed an amount equal to the Purchase Price.

(b) Any Indemnified Party that becomes aware of a Loss for which it seeks indemnification under this ARTICLE VII shall be required to use commercially reasonable efforts to mitigate the Loss.

(c) Losses of any Indemnified Party hereunder shall be calculated after deducting the amount of any insurance proceeds and any indemnity, contribution or other similar Third Party recoveries actually received or reasonably expected to be received by such Indemnified Party in respect of such Loss at or prior to the time of such calculation (net of the reasonable out of pocket costs and expenses associated with such recoveries and any associated increases in insurance premiums). The Indemnified Party shall use its commercially reasonable efforts to recover under insurance policies or indemnity, contribution or similar agreements for any Losses prior to seeking indemnification under this Agreement.

(d) Losses of any Indemnified Party hereunder shall be determined net of (i) any Tax benefit actually realized as of the time of such determination as a result of sustaining such Losses, and (ii) the net present value, calculated as of the time of such determination, of Tax benefits reasonably expected to be derived as a result of sustaining such Losses.

(e) All Losses shall be determined without duplication of recovery under any other provisions of this Agreement or any Related Agreement. Without limiting the generality of the foregoing, (i) if any fact, circumstance, condition, agreement or event forming a basis for a claim for indemnification under this ARTICLE VII shall overlap with any fact, circumstance, condition, agreement or event forming the basis of any other claim for indemnification under this ARTICLE VII, there shall be no duplication in the calculation of the amount of Losses, and (ii) neither Seller nor Buyer shall have any liability under this ARTICLE VII for Losses relating to matters to the extent included in the calculation of the Purchase Price Adjustment in accordance with Section 2.6 or the prorations made in accordance with Section 2.7 (other than the failure to pay or credit any amounts so included).

(f) Notwithstanding anything to the contrary herein, Seller’s liability for indemnification of Excluded Environmental Liabilities pursuant to Section 7.3(c) (i) shall terminate on the fifth (5<sup>th</sup>) anniversary of the Closing Date, after which Seller shall have no further obligation to indemnify any Buyer Indemnified Party in respect of such Excluded Environmental Liabilities pursuant to Section 7.3(c); *provided*, that any such claims for indemnification in respect of Excluded Environmental Liabilities asserted in good faith by any Buyer Indemnified Party prior to the fifth (5<sup>th</sup>) anniversary of the Closing Date and not finally resolved prior to the fifth (5<sup>th</sup>) anniversary of the Closing Date shall survive until finally resolved, subject to the dollar limitations set forth in clause (ii) below, (ii) shall in no event exceed, in the aggregate, ten percent (10%) of the Purchase Price, and (iii) shall be subject to reduction to the extent such liability results from a violation by Buyer of its obligations under Section 5.11.

#### **Section 7.6 Indemnification Procedures.**

(a) Third Party Claims. If any Indemnified Party receives notice of the assertion or commencement of any Claim made or brought by any Third Party (a “**Third Party Claim**”) against such Indemnified Party with respect to which the Indemnifying Party is obligated to provide indemnification under this Agreement, the Indemnified Party shall give the Indemnifying Party prompt written notice thereof. The failure to give such prompt written notice shall not, however, relieve the Indemnifying Party of its indemnification obligations, except and only to the extent that the Indemnifying Party forfeits rights or defenses by reason of such failure. Such notice by the Indemnified Party shall describe the Third Party Claim in reasonable detail, shall include copies of all material written evidence thereof and shall indicate the estimated amount, if reasonably practicable, of the Loss that has been or may be sustained by the Indemnified Party. The Indemnifying Party shall have the right to participate in, or by giving written notice to the Indemnified Party, to assume the defense of any Third Party Claim at the Indemnifying Party’s expense and by the Indemnifying Party’s own counsel, and the Indemnified Party shall cooperate in good faith in such defense. In the event that the Indemnifying Party assumes the defense of any Third Party Claim, subject to Section 7.6(b), it shall have the right to take such action as it deems necessary to avoid, dispute, defend, appeal or make counterclaims pertaining to any such Third Party Claim in the name and on behalf of the Indemnified Party. The Indemnified Party shall have the right, at its own cost and expense, to participate in the defense of any Third Party Claim with counsel selected by it, subject to the Indemnifying Party’s right to control the defense thereof. If the Indemnifying Party elects not to compromise or defend such Third Party Claim or fails to promptly notify the Indemnified Party in writing of its election to defend as provided in this Agreement, the Indemnified Party may, subject to Section 7.6(b), pay, compromise or defend such Third Party Claim and, subject to the limitations set forth in this ARTICLE VII, seek indemnification for any and all Losses based upon, arising from or

relating to such Third Party Claim. Seller and Buyer shall cooperate with each other in all reasonable respects in connection with the defense of any Third Party Claim, including making available (subject to the provisions of Section 5.18) information reasonably available to such Party relating to such Third Party Claim.

(b) Settlement of Third Party Claims. Notwithstanding any other provision of this Agreement, the Indemnifying Party shall not enter into settlement of any Third Party Claim without the prior written consent of the Indemnified Party (which consent shall not be unreasonably withheld or delayed), except as provided in this Section 7.6(b). If a firm offer is made to settle a Third Party Claim without leading to liability or the creation of a financial or other obligation on the part of the Indemnified Party and provides, in customary form, for the unconditional release of each Indemnified Party from all liabilities and obligations in connection with such Third Party Claim and the Indemnifying Party desires to accept and agree to such offer, the Indemnifying Party shall give written notice to that effect to the Indemnified Party. If the Indemnified Party fails to consent to such firm offer within ten (10) days after its receipt of such notice, the Indemnified Party may continue to contest or defend such Third Party Claim and in such event, the maximum liability of the Indemnifying Party as to such Third Party Claim shall not exceed the amount of such settlement offer. If the Indemnified Party fails to consent to such firm offer and also fails to assume defense of such Third Party Claim, the Indemnifying Party may settle the Third Party Claim upon the terms set forth in such firm offer to settle such Third Party Claim. If the Indemnified Party has assumed the defense pursuant to Section 7.6(a), it shall not agree to any settlement without the written consent of the Indemnifying Party (which consent shall not be unreasonably withheld or delayed).

(c) Direct Claims. Any Claim by an Indemnified Party for indemnification on account of a Loss which does not result from a Third Party Claim (a “**Direct Claim**”) shall be asserted by the Indemnified Party giving the Indemnifying Party prompt written notice thereof, and in any event within thirty (30) days after the discovery by the Indemnified Party of the circumstances giving rise to such Claim. The failure to give such prompt written notice shall not, however, relieve the Indemnifying Party of its indemnification obligations, except and only to the extent that the Indemnifying Party forfeits rights or defenses by reason of such failure. Such notice by the Indemnified Party shall describe the Direct Claim in reasonable detail, shall include copies of all material written evidence thereof and shall indicate the estimated amount, if reasonably practicable, of the Loss that has been or may be sustained by the Indemnified Party. The Indemnifying Party shall have thirty (30) days after its receipt of such notice to respond in writing to such Direct Claim. During such thirty (30) day period, the Indemnified Party shall allow the Indemnifying Party and its Representatives to investigate the matter or circumstance alleged to give rise to the Direct Claim, and whether and to what extent any amount is payable in respect of the Direct Claim, and the Indemnified Party shall assist the Indemnifying Party’s investigation by giving such reasonable information and assistance (including access to the Indemnified Party’s premises and personnel and the right to examine and copy any accounts, documents or records) as the Indemnifying Party or any of its professional advisors may reasonably request (subject to the provisions of Section 5.18). If the Indemnifying Party does not so respond within such thirty (30) day period, the Indemnifying Party shall be deemed to have rejected such claim, in which case the Indemnified Party shall be free to pursue such remedies as may be available to the Indemnified Party on the terms and subject to the provisions of this Agreement.

**Section 7.7 Tax Treatment of Indemnification Payments.** Unless otherwise required by applicable Law, all indemnification payments made pursuant to this Agreement will be treated as an adjustment to the Purchase Price for all Tax purposes

**Section 7.8 Waiver of Other Representations; No Reliance; “As Is” Sale.**

(a) NOTWITHSTANDING ANYTHING IN THIS AGREEMENT TO THE CONTRARY AND EXCEPT FOR THOSE REPRESENTATIONS AND WARRANTIES EXPRESSLY SET FORTH IN ARTICLE III, IT IS THE EXPLICIT INTENT OF EACH PARTY, AND THE PARTIES HEREBY AGREE, THAT NONE OF SELLER, ITS AFFILIATES OR THEIR RESPECTIVE REPRESENTATIVES HAS MADE OR IS MAKING ANY REPRESENTATION OR WARRANTY WHATSOEVER, EXPRESS OR IMPLIED, AT COMMON LAW, STATUTORY OR OTHERWISE, WRITTEN OR ORAL, WITH RESPECT TO, (I) THE ACQUIRED ASSETS, THE ASSUMED LIABILITIES, OR ANY PART THEREOF OR (II) THE ACCURACY OR COMPLETENESS OF THE INFORMATION, RECORDS, AND DATA NOW, HERETOFORE, OR HEREAFTER MADE AVAILABLE TO BUYER IN CONNECTION WITH THIS AGREEMENT AND ANY SUCH OTHER REPRESENTATIONS OR WARRANTIES ARE HEREBY EXPRESSLY DISCLAIMED. BUYER HAS NOT EXECUTED OR AUTHORIZED THE EXECUTION OF THIS AGREEMENT IN RELIANCE UPON ANY SUCH PROMISE, REPRESENTATION OR WARRANTY NOT EXPRESSLY SET FORTH HEREIN.

(b) WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, EXCEPT FOR THOSE REPRESENTATIONS AND WARRANTIES EXPRESSLY SET FORTH IN ARTICLE III, THE ACQUIRED ASSETS ARE SOLD “AS IS, WHERE IS,” “WITH ALL FAULTS,” AND NONE OF SELLER OR ITS AFFILIATES, NOR ANY OF THEIR RESPECTIVE REPRESENTATIVES, MAKE OR HAVE MADE, AND BUYER IS NOT RELYING ON, ANY REPRESENTATIONS OR WARRANTIES OF ANY KIND OR NATURE, EXPRESS OR IMPLIED, AT COMMON LAW, STATUTORY OR OTHERWISE, WRITTEN OR ORAL, AS TO LIABILITIES, OPERATIONS OF THE FACILITIES, TITLE, CONDITION, VALUE OR QUALITY OF THE ACQUIRED ASSETS OR THE PROSPECTS (FINANCIAL AND OTHERWISE), RISKS OR ANY OTHER MATTERS RESPECTING THE ACQUIRED ASSETS OR ASSUMED

LIABILITIES, INCLUDING, WITHOUT LIMITATION, WITH RESPECT TO (TO THE EXTENT NOT OTHERWISE PROVIDED FOR HEREIN) (I) THE ACTUAL OR RATED GENERATING CAPABILITY OF ANY OF THE FACILITIES OR THE ABILITY OF BUYER TO SELL FROM ANY OF THE FACILITIES ELECTRIC ENERGY, CAPACITY OR OTHER PRODUCTS RECOGNIZED BY ISO-NE FROM TIME TO TIME, (II) MERCHANTABILITY, USAGE, OR SUITABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE WITH RESPECT TO THE ACQUIRED ASSETS, OR ANY PART THEREOF, (III) THE WORKMANSHIP OF THE ACQUIRED ASSETS, OR THE ABSENCE OF ANY DEFECTS THEREIN, WHETHER LATENT OR PATENT, (IV) COMPLIANCE WITH ENVIRONMENTAL REQUIREMENTS RESPECTING THE ACQUIRED ASSETS, (V) WHETHER SELLER POSSESSES SUFFICIENT REAL PROPERTY OR PERSONAL PROPERTY TO OPERATE THE ACQUIRED ASSETS, OR (VI) THE PROBABLE SUCCESS OR PROFITABILITY OF OPERATING THE ACQUIRED ASSETS AFTER THE CLOSING, ALL OF WHICH ARE EXPRESSLY DISCLAIMED BY SELLER. EXCEPT AS OTHERWISE EXPRESSLY PROVIDED HEREIN, SELLER FURTHER SPECIFICALLY DISCLAIMS ANY REPRESENTATION OR WARRANTY REGARDING THE ABSENCE OF HAZARDOUS SUBSTANCES OR LIABILITY OR POTENTIAL LIABILITY ARISING UNDER ENVIRONMENTAL LAWS. WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, EXCEPT AS EXPRESSLY PROVIDED HEREIN, SELLER EXPRESSLY DISCLAIMS ANY REPRESENTATION OR WARRANTY OF ANY KIND REGARDING THE CONDITION OF THE ACQUIRED ASSETS OR THE SUITABILITY THEREOF FOR OPERATION AS POWER GENERATION FACILITIES OR AS SITES FOR THE DEVELOPMENT OF ADDITIONAL OR REPLACEMENT GENERATION CAPACITY. NO MATERIAL OR INFORMATION MADE AVAILABLE BY OR COMMUNICATIONS MADE BY SELLER, ITS AFFILIATES AND THEIR RESPECTIVE REPRESENTATIVES, THE NHPUC, OR ANY BROKER OR INVESTMENT BANKER IN EXPECTATION OF OR IN CONNECTION WITH THE TRANSACTIONS CONTEMPLATED HEREBY, INCLUDING WITHOUT LIMITATION ANY INFORMATION OR MATERIAL CONTAINED IN THE CONFIDENTIAL INFORMATION MEMORANDUM DATED AS OF MARCH 2017, ANY OTHER EVALUATION OR DUE DILIGENCE MATERIAL, THE DATA SITE, MANAGEMENT PRESENTATIONS, FUNCTIONAL “BREAK-OUT” DISCUSSIONS, OR ANY ORAL, WRITTEN OR ELECTRONIC RESPONSE TO ANY INFORMATION REQUEST MADE AVAILABLE TO BUYER, WILL CAUSE OR CREATE ANY WARRANTY, EXPRESS OR IMPLIED, AS TO THE TITLE, CONDITION, VALUE OR QUALITY OF THE ACQUIRED ASSETS OTHER THAN THOSE REPRESENTATIONS AND WARRANTIES OF SELLER EXPRESSLY SET FORTH IN ARTICLE III, AND EXCEPT AS EXPRESSLY PROVIDED HEREIN, SELLER SHALL NOT HAVE OR BE SUBJECT TO ANY LIABILITY TO BUYER RESULTING THEREFROM.

**Section 7.9 Exclusive Remedies; Certain Waivers, Releases and Limitations.**

(a) Notwithstanding anything to the contrary set forth herein, subject to Section 8.3, from and after the Closing, the rights and remedies of the Parties under this ARTICLE VII shall be the exclusive rights and remedies available to any Party hereto with respect to any breach of any representation, warranty, covenant or agreement set forth in this Agreement or otherwise in respect of the transactions contemplated by this Agreement or the Related Agreements (excluding the Asset Demarcation Agreement, the Easements, the Interconnection Agreements, and the Transition Services Agreement). In furtherance of the foregoing, subject to Section 8.3, each Party hereby waives, from and after the Closing, any and all rights, claims and causes of action for any breach of any representation, warranty, covenant or agreement set forth in this Agreement or otherwise relating to the transactions contemplated by this Agreement or the Related Agreements that it may have against the other Party hereto and its Affiliates and their respective Representatives arising under or based upon any Law or otherwise, except pursuant to the provisions of this ARTICLE VII. Nothing in this Section 7.9(a) shall limit any Party’s rights to seek and obtain any equitable relief to which such Party is entitled pursuant to Section 8.3; provided, however, that any monetary awards awarded as a part of such equitable relief shall be subject to the limitations set forth in this ARTICLE VII.

(b) Without limiting the provisions of Section 7.9(a), Buyer, for itself and its Affiliates, effective as of the Closing, hereby irrevocably releases, agrees to hold harmless and forever discharges Seller, its Representatives and its Affiliates from any and all claims, demands, Losses, Liabilities, damages, complaints, causes of action, investigations, hearings, actions, suits or other Claims or proceedings of any kind or character whether known or unknown, hidden or concealed, arising out of or related to any Environmental Liability, except for Excluded Environmental Liabilities but only to the extent and for so long as the same are retained by Seller pursuant to Section 2.4(h). In furtherance of the foregoing, effective as of the Closing, Buyer, for itself and its Affiliates, hereby irrevocably waives, with respect to any matter it is releasing pursuant to the preceding sentence, any and all rights and benefits that it now has or in the future may have conferred upon it by virtue of any Law or common law principle which provides that a general release does not extend to claims which a party does not know or suspect to exist in its favor at the time of executing such release, if knowledge of such claims would have materially affected such party’s settlement with the obligor. Buyer hereby acknowledges that it is aware that factual matters now unknown to it may have given or hereafter may give rise to claims, demands, Losses, Liabilities, damages, complaints, causes of action, investigations, hearings, actions, suits or other Claims or proceedings that are unknown, unanticipated and unsuspected as of the Effective Date and will not be known, anticipated or suspected prior to the Closing Date, and Buyer further agrees that this Section 7.9(b) has been negotiated and agreed upon in light of that awareness, and Buyer, for itself and on behalf of its Affiliates, nevertheless hereby intends to irrevocably release, hold harmless and forever discharge

Seller and its Affiliates as set forth in the first sentence of this Section 7.9(b).

(c) To the extent the transfer, conveyance, assignment and delivery of the Acquired Assets to Buyer as contemplated in this Agreement is accomplished by deeds, assignments, easements, leases, licenses, bills of sale or other instruments of transfer and conveyance, whether executed at the Closing or thereafter, these instruments are made without representation or warranty by, or recourse against, Seller, except as expressly provided in this Agreement or in any such instrument.

(d) No Representative or Affiliate of Seller shall have any personal liability to Buyer or any other Person as a result of the breach of any representation, warranty, covenant, agreement or obligation of Seller in this Agreement, and no Representative or Affiliate of Buyer shall have any personal liability to Seller or any other Person as a result of the breach of any representation, warranty, covenant, agreement or obligation of Buyer in this Agreement.

(e) NOTWITHSTANDING ANYTHING IN THIS AGREEMENT OR ANY RELATED AGREEMENT (EXCLUDING THE ASSET DEMARCATION AGREEMENT, THE EASEMENTS, THE INTERCONNECTION AGREEMENTS, AND THE TRANSITION SERVICES AGREEMENT) TO THE CONTRARY, EXCEPT TO THE EXTENT PURSUANT TO A THIRD PARTY CLAIM, NO PARTY SHALL BE LIABLE FOR SPECIAL, PUNITIVE, EXEMPLARY, INCIDENTAL, CONSEQUENTIAL OR INDIRECT DAMAGES, OR LOST OPPORTUNITY, LOST PROFITS, DIMINUTION OF VALUE OR ANY DAMAGES BASED ON ANY TYPE OF MULTIPLE, WHETHER BASED ON CONTRACT, TORT, STRICT LIABILITY, OTHER LAW OR OTHERWISE AND WHETHER OR NOT ARISING FROM THE OTHER PARTY'S SOLE, JOINT OR CONCURRENT NEGLIGENCE, STRICT LIABILITY OR OTHER FAULT (“NON-REIMBURSABLE DAMAGES”).

## ARTICLE VIII TERMINATION

**Section 8.1 Termination.** This Agreement may be terminated at any time before the Closing as follows:

(a) By either Buyer or Seller, by written notice to the other, if the Closing shall not have occurred within twelve (12) months after the Effective Date, as may be extended pursuant to Section 5.16 (the “**Outside Date**”); *provided*, that (i) if the sole reason Closing has not occurred prior to the Outside Date is that one or more Consents of a Governmental Authority required to consummate the Closing pursuant to ARTICLE VI have not yet been obtained or made, and such Consents are being diligently pursued by the appropriate Party, then such Outside Date may be extended by either Party by written notice to the other Party delivered at any time before termination of this Agreement, for an additional ninety (90) days, and (ii) Buyer cannot terminate this Agreement under this provision if the failure of the Closing to occur is the result of the failure on the part of Buyer to perform any of its obligations hereunder and Seller cannot terminate this Agreement under this provision if the failure of the Closing to occur is the result of the failure on the part of Seller to perform any of its obligations hereunder;

(b) By Seller, by written notice to Buyer, (i) immediately if Buyer has (A) breached its obligation to pay the Closing Purchase Price pursuant to Section 2.5 and Section 2.11(a), or (B) breached any of its covenants, agreements or obligations contained in Section 5.18 at any time; or (ii) if Buyer has breached in any material respect any other representation, warranty, covenant, agreement or obligation in this Agreement and such breach, in the case of this clause (ii), has not been cured within thirty (30) days following written notification thereof; *provided, however*, that if, at the end of such thirty (30) day period, Buyer is endeavoring in good faith, and proceeding diligently, to cure such breach, Buyer shall have an additional thirty (30) days in which to effect such cure;

(c) By Buyer, by written notice to Seller, if Seller has breached any of its representations, warranties, covenants, agreements or obligations in this Agreement and (i) such breach has not been cured within thirty (30) days following written notification thereof; *provided, however*, that if, at the end of such thirty (30) day period, Seller is endeavoring in good faith, and proceeding diligently, to cure such breach, Seller shall have an additional thirty (30) days in which to effect such cure and (ii) such breach (to the extent not cured) would result in a Material Adverse Effect or would have a material adverse effect on Seller's ability to perform its obligations hereunder;

(d) By either Buyer or Seller, by written notice to the other, if there shall be in effect any Law or final, non-appealable Order restraining, enjoining or otherwise prohibiting or making illegal the consummation of the transactions contemplated by this Agreement;

(e) By Buyer or Seller, as applicable, in accordance with Section 5.16 or Section 5.17; or

(f) By mutual written agreement of Buyer and Seller.

**Section 8.2 Effect of Termination; Termination Fee.**

(a) If this Agreement is validly terminated pursuant to Section 8.1, there will be no liability or obligation on the part of Seller or Buyer (or any of their respective Representatives or Affiliates), except as provided in this Section 8.2.

(b) Regardless of the reason for termination, Section 5.4(d), Section 5.18, Section 5.19, Section 7.9, Section 8.2, Section 8.3 and ARTICLE IX (and, in each case the applicable definitions and rules of interpretation set forth in ARTICLE I) will survive any termination of this Agreement.

(c) Upon termination of this Agreement by either Party for any reason, each Party shall return or destroy, in accordance with the terms of the Confidentiality Agreement and Section 5.18, all documents and other materials provided by the other Party relating to the Acquired Assets, the Assumed Liabilities, the Facilities or to this Agreement, the Related Agreements or the transactions contemplated hereby or thereby, including any information relating to the Parties to this Agreement, whether obtained before or after the execution of this Agreement, and all information received by Buyer with respect to Seller, the Acquired Assets, the Assumed Liabilities, the Facilities, this Agreement, the Related Agreements or otherwise respecting the transactions contemplated hereby shall remain subject to the terms of the Confidentiality Agreement and Section 5.18.

(d) If this Agreement is terminated by Seller pursuant to Section 8.1(b), then notwithstanding any other provision of this Agreement but without limiting any right of Seller to an injunction, specific performance or other non-monetary equitable relief in accordance with Section 8.3, Buyer hereby agrees to pay immediately to Seller, as liquidated damages (and not a penalty) in connection with any such termination, an amount equal to Twelve Million, Four Hundred Fifty Dollars (\$12,450,000) in immediately available funds. The Parties acknowledge and agree that the provisions for payment of liquidated damages in this Section 8.2(d) have been included because, in the event of termination of this Agreement pursuant to Section 8.1(b), the actual damages to be incurred by Seller are reasonably expected to approximate the amount of liquidated damages set forth in this Section 8.2(d) and because the actual amount of such damages would be difficult if not impossible to measure and prove precisely. The Parties therefore expressly intend to liquidate damages in advance in accordance with this Section 8.2(d), and, without limiting the generality of the foregoing, acknowledge and agree that the amount of liquidated damages set forth in this Section 8.2(d) is reasonable and is not greatly disproportionate to the presumable loss or injury of Seller in the event of termination of this Agreement pursuant to Section 8.1(b). Buyer acknowledges that the agreements contained in this Section 8.2(d) are an integral part of the transactions contemplated by this Agreement and that, without these agreements, Seller would not enter into this Agreement. The Parties acknowledge and agree that (A) Seller shall be entitled both to pursue payment of liquidated damages in accordance with this Section 8.2(d) and to pursue specific performance pursuant to Section 8.3 and (B) Seller may, in its sole discretion, elect to receive either an award of liquidated damages in accordance with this Section 8.2(d) or judgment awarding specific performance pursuant to Section 8.3; *provided*, that the Parties acknowledge and agree that under no circumstance shall Seller be entitled to receive both payment of liquidated damages in accordance with this Section 8.2(d) and specific performance pursuant to Section 8.3.

(e) In the event Seller or Buyer, as applicable, commences a proceeding in order to obtain (i) payment hereunder that results in a judgment against Buyer or Seller for the amounts set forth in Section 8.2(d), or (ii) specific performance or other equitable relief that results in a judgment against Buyer or Seller pursuant to Section 8.3, then in either case Buyer or Seller, as applicable, shall also pay to Seller or Buyer, as applicable, its costs and expenses (including reasonable attorneys' fees and expenses) in connection with such proceeding, together with interest on the amounts due pursuant to Section 8.2(d) or this Section 8.2(e) from the date such payment was required to be made until the date of payment at the prime lending rate as published in The Wall Street Journal in effect on the date such payment was required to be made.

**Section 8.3 Specific Performance and Other Remedies.** Each Party hereby acknowledges and agrees that the rights of each Party to consummate the transactions contemplated hereby are special, unique and of extraordinary character, and that, if any of the provisions of this Agreement were not performed by a Party in accordance with their specific terms or were otherwise breached by a Party, the non-breaching Party would suffer irreparable damage and would be without an adequate remedy at law. Notwithstanding anything to the contrary herein, if any Party violates or fails or refuses to perform any covenant or agreement made by such Party herein, without limiting or waiving in any respect any rights or remedies of a Party under this Agreement now or hereafter existing at law, in equity or by statute, the non-breaching Party shall, in addition to any other remedy to which a Party is entitled at law or in equity, be entitled to specific performance of such covenant or agreement, injunctions to prevent or restrain breaches of this Agreement, and any other equitable relief, in each case without the proof of actual damages. Each Party agrees to waive any requirement for the security or posting of any bond in connection with any such equitable remedy, and agrees that it will not oppose the granting of an injunction, specific performance or other equitable relief on the basis that (a) the other Party has an adequate remedy at law, or (b) an award of specific performance is not an appropriate remedy for any reason at law or equity.

## ARTICLE IX MISCELLANEOUS

**Section 9.1 Expenses.** Except as otherwise expressly provided in this Agreement, including in Section 8.2, whether or not the Closing shall have occurred, each Party will pay its own costs and expenses (including, without limitation, fees and disbursements of

counsel, financial advisors and accountants) incurred in anticipation of, relating to and in connection with the negotiation and execution of this Agreement and the transactions contemplated hereby. Notwithstanding the foregoing, Buyer will pay (a) all filing fees for Consents of Governmental Authorities required in connection with this Agreement, the Related Agreements and the transactions contemplated hereby and thereby, including filing fees in connection with obtaining required Consents from FERC and any filings under the HSR Act, (b) all document recordation costs (including all New Hampshire County Registry of Deeds recording fees and New Hampshire Land and Community Heritage Investment Program surcharges for all deeds, mortgage indenture releases, easements, plans and other recorded documents) and fifty percent (50%) of all Transfer Taxes in connection with the transactions contemplated by this Agreement and the Related Agreements in accordance with Section 5.12, and (c) all costs and expenses of any title policy and all endorsements thereto that Buyer elects to obtain.

**Section 9.2 Notices.** All notices, requests, consents, waivers, demands, claims and other communications hereunder will be in writing and shall be deemed duly given (a) when delivered by hand (with written confirmation of receipt); (b) when received by the addressee if sent by a nationally recognized overnight courier (receipt requested); (c) on the date sent by facsimile or e-mail (in each case, with confirmation of delivery) if sent during normal business hours of the recipient, and on the next Business Day if sent after normal business hours of the recipient; or (d) on the fifth day after the date mailed, by certified or registered mail, return receipt requested, postage prepaid. Such communications must be sent to the applicable Party at the address and/or other contact information for such Party set forth below (or at such other address and/or other contact information for a Party as shall be specified in a notice given in accordance with this Section 9.2):

If to Seller:           Public Service Company of New Hampshire  
                                  c/o Eversource Energy  
                                  56 Prospect Street  
                                  Hartford, Connecticut 06103  
                                  Attention: General Counsel  
                                  with a copy to:

                                  Public Service Company of New Hampshire  
                                  780 North Commercial Street  
                                  Manchester, New Hampshire 03101-1134  
                                  Attention: Law Department

If to Buyer:

                                  c/o Hull Street Energy, LLC  
                                  4920 Elm Street, Suite 205  
                                  Bethesda, MD 20814  
                                  Attention: David Meeker  
                                  Facsimile No.: (443) 378-8616  
                                  Telephone: (240) 800-3217  
                                  Email: dmeeker@hullstreetenergy.com

                                  with a copy to:

                                  Manatt, Phelps & Phillips, LLP  
                                  1050 Connecticut Avenue, NW, Suite 600  
                                  Washington, DC 20036  
                                  Attention: Alan M. Noskow  
                                  Facsimile No.: (202) 637-1595  
                                  Telephone: (202) 585-6525  
                                  e-mail: anoskow@manatt.com

**Section 9.3 Entire Agreement.** This Agreement (including the Exhibits and Schedules hereto), the Related Agreements and the Confidentiality Agreement constitute, as a complete and final integration thereof, the sole and entire agreement of the Parties with respect to the subject matter hereof, and supersede all prior and contemporaneous agreements (other than the Confidentiality Agreement), understandings or representations, both written and oral, between the Parties with respect to such subject matter. Except as otherwise set forth herein, all conflicts or inconsistencies between the terms hereof and the terms of any of the Related Agreements, if any, shall be resolved in favor of this Agreement.

**Section 9.4 Severability.** Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be

valid, binding and enforceable under applicable Law. If any provision of this Agreement is held to be illegal, invalid or unenforceable under any present or future Law, and if the rights and obligations of any Party will not be materially and adversely affected thereby, (a) such provision will be fully severable, (b) this Agreement will be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a part hereof, (c) the remaining provisions of this Agreement will remain in full force and effect and will not be affected by the illegal, invalid or unenforceable provision or by its severance herefrom and (d) in lieu of such illegal, invalid or unenforceable provision, there will be added automatically as a part of this Agreement a legal, valid and enforceable provision as similar in terms of such illegal, invalid or unenforceable provision as may be possible.

**Section 9.5 Schedules and Exhibits.** Except as otherwise provided in this Agreement, all Schedules and Exhibits referred to herein, as the same may be amended, modified or supplemented from time to time in accordance with this Agreement, are intended to be and hereby are made a part of this Agreement. Any matter set forth in any Schedule under this Agreement corresponding to or qualifying a specific numbered paragraph of this Agreement shall be deemed to correspond to and qualify any other numbered paragraph of this Agreement to which the relevance or applicability of such matter is reasonably apparent on its face, whether or not there is an explicit cross-reference thereto. Certain information set forth in the Schedules is included solely for informational and other disclosure purposes, is not an admission of liability with respect to the matters covered by the information, and may not be required to be disclosed pursuant to this Agreement. The specification of any dollar amount in any provision of this Agreement or the inclusion of any specific item in the Schedules is not intended to imply, and shall not be deemed to be an acknowledgement or admission, that such amounts (or higher or lower amounts) or items are or are not material, and shall not otherwise be deemed to establish any standard of materiality or to define further or otherwise interpret the meaning of “material,” “Material Adverse Effect,” or any similar terms for purposes of the Agreement. In no event shall the inclusion of any matter in these Schedules be deemed or interpreted to broaden or otherwise amplify the representations, warranties, covenants or agreements contained in this Agreement. Capitalized terms used and not otherwise defined in the Schedules shall have the meanings given to them in this Agreement.

**Section 9.6 Successors and Assigns.** This Agreement shall be binding upon and inure to the benefit of the Parties named herein and their respective successors and permitted assigns. No Party may assign either this Agreement or the Related Agreements or any of its rights, interests, or obligations hereunder or thereunder without the prior written consent of the other Party; *provided*, that Buyer may, upon notice to Seller, collaterally assign all or part of its rights under this Agreement or other Related Agreements to any third party lender or one or more wholly-owned subsidiaries of Buyer, *provided*, that such transferee agrees in writing to be bound by the terms hereof applicable to Buyer and provides a copy of such undertaking to Seller. No assignment shall relieve the assigning Party of any of its obligations hereunder or thereunder.

**Section 9.7 No Third Party Beneficiaries.** The terms and provisions of this Agreement are intended solely for the benefit of the Parties hereto, their respective successors and permitted assigns, and any Person benefitting from the indemnities, releases or limitations of liability provided herein, and nothing herein, express or implied, is intended to or shall confer upon any other Person (including any employee, any beneficiary or dependents thereof, or any collective bargaining representative thereof) any legal or equitable right, benefit or remedy of any nature whatsoever under or by reason of this Agreement.

**Section 9.8 No Joint Venture or Agency.** Nothing in this Agreement creates or is intended to create an association, trust, partnership, joint venture or other entity or similar legal relationship between the Parties, or impose a trust, partnership or fiduciary duty, obligation or liability on or with respect to either Party. Except as expressly provided herein, neither Party is or shall act as or be the agent or representative of the other Party.

**Section 9.9 Amendments and Waivers.** Except to the extent expressly set forth herein with respect to Schedule Updates during the Interim Period, this Agreement may not be amended, modified or supplemented except by an agreement in writing signed by each Party hereto. No waiver by any Party of any of the provisions hereof shall be effective unless explicitly set forth in writing and signed by the Party so waiving. No waiver by any Party shall operate or be construed as a waiver in respect of any failure, breach or default not expressly identified by such written waiver, whether of a similar or different character, and whether occurring before or after such written waiver. No failure to exercise, or delay in exercising, any right, remedy, power or privilege arising from this Agreement shall operate or be construed as a waiver thereof, nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege.

**Section 9.10 Governing Law.** This Agreement shall be governed by and construed in accordance with the internal laws of the state of New Hampshire without giving effect to any choice or conflict of law provision or rule (whether of the state of New Hampshire or any other jurisdiction) that would cause the application of Laws of any jurisdiction other than those of the state of New Hampshire, except to the extent that certain matters are pre-empted by federal Law or are governed by the Law of the jurisdiction of organization of any Party or other Person referred to herein.

**Section 9.11 Dispute Resolution.** Prior to instituting any litigation or dispute resolution mechanism, each of the Parties will attempt in good faith to resolve any dispute or claim promptly by referring any such matter to their respective senior executives for resolution. Either Party may give the other Party written notice of any dispute or claim. Within ten (10) days after delivery of said

notice, the executives will meet at a mutually acceptable time and place, and thereafter as often as they reasonably deem necessary to exchange information and to attempt to resolve the dispute or claim within thirty (30) days.

**Section 9.12 Submission to Jurisdiction.** ANY ACTION, SUIT OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT, THE RELATED AGREEMENTS OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY SHALL BE INSTITUTED IN THE FEDERAL OR STATE COURTS LOCATED IN THE STATE OF NEW HAMPSHIRE IN ACCORDANCE WITH THE PROVISIONS OF THIS SECTION 9.12. EACH PARTY IRREVOCABLY AND UNCONDITIONALLY CONSENTS HEREBY TO SUBMIT TO THE EXCLUSIVE JURISDICTION OF THE BUSINESS AND COMMERCIAL DISPUTE DOCKET (BCDD) OF THE SUPERIOR COURT OF THE STATE OF NEW HAMPSHIRE PURSUANT TO N.H. SUPERIOR COURT CIVIL RULE 207 OR THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF NEW HAMPSHIRE FOR ANY SUCH ACTION, SUIT OR PROCEEDING, AND HEREBY FURTHER IRREVOCABLY AND UNCONDITIONALLY WAIVES AND AGREES NOT TO PLEAD IN ANY SUCH COURT THAT ANY SUCH ACTION, SUIT, OR PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM. SERVICE OF PROCESS, SUMMONS, NOTICE OR OTHER DOCUMENT BY MAIL TO SUCH PARTY'S ADDRESS SET FORTH HEREIN SHALL BE EFFECTIVE SERVICE OF PROCESS FOR ANY ACTION, SUIT OR OTHER PROCEEDING BROUGHT IN ANY SUCH COURT.

**Section 9.13 Waiver of Jury Trial.** EACH PARTY ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY WHICH MAY ARISE UNDER THIS AGREEMENT OR THE RELATED AGREEMENTS IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES AND, THEREFORE, EACH SUCH PARTY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LEGAL ACTION ARISING OUT OF OR RELATING TO THIS AGREEMENT, THE RELATED AGREEMENTS OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY.

**Section 9.14 Counterparts.** This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall be deemed to be one and the same agreement. A signed copy of this Agreement delivered by facsimile, e-mail, PDF or other means of electronic transmission shall be deemed to have the same legal effect as delivery of an original signed copy of this Agreement.

*[Signature page follows.]*

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed as of the date first written above.

**SELLER:**

PUBLIC SERVICE COMPANY OF  
NEW HAMPSHIRE

/S/ PHILIP J. LEMBO

Name: Philip J. Lembo

Title: Executive Vice President and Chief Financial Officer

**BUYER:**

HSE HYDRO NH AC, LLC

/S/ DAVID G. MEEKER

Name: David G. Meeker

Title: Vice President



<i>(Thousands of Dollars)</i>	For the Years Ended December 31,				
	2017	2016	2015	2014	2013
Earnings, as defined:					
Net income	\$ 995,515	\$ 949,821	\$ 886,004	\$ 827,065	\$ 793,689
Income tax expense	578,892	554,997	539,967	468,297	426,941
Equity in earnings of equity investees	(27,432)	(243)	(883)	(1,044)	(1,318)
Dividends received from equity investees	20,042	120	—	—	582
Fixed charges, as below	451,287	429,406	397,392	386,451	362,403
Less: Interest capitalized (including AFUDC)	(12,453)	(10,791)	(7,221)	(5,766)	(4,062)
Preferred dividend security requirements of consolidated subsidiaries (pre-tax)	(12,532)	(12,532)	(12,532)	(12,532)	(12,803)
Total earnings, as defined	\$ 1,993,319	\$ 1,910,778	\$ 1,802,727	\$ 1,662,471	\$ 1,565,432
Fixed charges, as defined:					
Interest expense	\$ 421,755	\$ 400,961	\$ 372,420	\$ 362,106	\$ 338,699
Rental interest factor	4,547	5,122	5,219	6,047	6,839
Preferred dividend security requirements of consolidated subsidiaries (pre-tax)	12,532	12,532	12,532	12,532	12,803
Interest capitalized (including AFUDC)	12,453	10,791	7,221	5,766	4,062
Total fixed charges, as defined	\$ 451,287	\$ 429,406	\$ 397,392	\$ 386,451	\$ 362,403
Ratio of Earnings to Fixed Charges	4.42	4.45	4.54	4.30	4.32

## Ratio of Earnings to Fixed Charges

For the Years Ended December 31,

<i>(Thousands of Dollars)</i>	2017	2016	2015	2014	2013
<b>Earnings, as defined:</b>					
Net income	\$ 376,726	\$ 334,254	\$ 299,360	\$ 287,754	\$ 279,412
Income tax expense	186,646	208,308	177,396	133,451	141,663
Equity in earnings of equity investees	(39)	(61)	(31)	(32)	(67)
Dividends received from equity investees	—	60	—	—	289
Fixed charges, as below	152,888	152,635	153,751	152,513	139,929
Less: Interest capitalized (including AFUDC)	(5,102)	(3,319)	(2,630)	(1,867)	(2,249)
<b>Total earnings, as defined</b>	<b>\$ 711,119</b>	<b>\$ 691,877</b>	<b>\$ 627,846</b>	<b>\$ 571,819</b>	<b>\$ 558,977</b>
<b>Fixed charges, as defined:</b>					
Interest expense	\$ 142,973	\$ 144,110	\$ 145,795	\$ 147,421	\$ 133,650
Rental interest factor	4,813	5,206	5,326	3,225	4,030
Interest capitalized (including AFUDC)	5,102	3,319	2,630	1,867	2,249
<b>Total fixed charges, as defined</b>	<b>\$ 152,888</b>	<b>\$ 152,635</b>	<b>\$ 153,751</b>	<b>\$ 152,513</b>	<b>\$ 139,929</b>
<b>Ratio of Earnings to Fixed Charges</b>	<b>4.65</b>	<b>4.53</b>	<b>4.08</b>	<b>3.75</b>	<b>3.99</b>

## Ratio of Earnings to Fixed Charges

For the Years Ended December 31,

*(Thousands of Dollars)*

	2017	2016	2015	2014	2013
Earnings, as defined:					
Net income	\$ 374,726	\$ 350,777	\$ 401,048	\$ 360,907	\$ 328,984
Income tax expense	242,085	225,789	265,014	239,249	210,234
Equity in earnings of equity investees	(302)	(325)	(351)	(416)	(568)
Dividends received from equity investees	—	35	—	—	424
Fixed charges, as below	114,419	117,542	107,089	108,705	99,431
Less: Interest capitalized (including AFUDC)	(4,800)	(5,278)	(3,022)	(2,891)	(1,009)
Total earnings, as defined	\$ 726,128	\$ 688,540	\$ 769,778	\$ 705,554	\$ 637,496
Fixed charges, as defined:					
Interest expense	\$ 105,729	\$ 108,430	\$ 100,139	\$ 102,809	\$ 95,234
Rental interest factor	3,890	3,834	3,928	3,005	3,188
Interest capitalized (including AFUDC)	4,800	5,278	3,022	2,891	1,009
Total fixed charges, as defined	\$ 114,419	\$ 117,542	\$ 107,089	\$ 108,705	\$ 99,431
Ratio of Earnings to Fixed Charges	6.35	5.86	7.19	6.49	6.41

## Ratio of Earnings to Fixed Charges

<i>(Thousands of Dollars)</i>	For the Years Ended December 31,				
	2017	2016	2015	2014	2013
<b>Earnings, as defined:</b>					
Net income	\$ 135,996	\$ 131,985	\$ 114,442	\$ 113,944	\$ 111,397
Income tax expense	88,675	82,364	73,060	72,135	71,101
Equity in earnings of equity investees	(9)	(15)	(8)	(8)	(12)
Dividends received from equity investees	—	25	—	—	42
Fixed charges, as below	52,851	51,843	47,949	46,530	47,318
Less: Interest capitalized (including AFUDC)	(729)	(787)	(994)	(640)	(500)
<b>Total earnings, as defined</b>	<b>\$ 276,784</b>	<b>\$ 265,415</b>	<b>\$ 234,449</b>	<b>\$ 231,961</b>	<b>\$ 229,346</b>
<b>Fixed charges, as defined:</b>					
Interest expense	\$ 51,007	\$ 50,040	\$ 45,990	\$ 45,349	\$ 46,176
Rental interest factor	1,115	1,016	965	541	642
Interest capitalized (including AFUDC)	729	787	994	640	500
<b>Total fixed charges, as defined</b>	<b>\$ 52,851</b>	<b>\$ 51,843</b>	<b>\$ 47,949</b>	<b>\$ 46,530</b>	<b>\$ 47,318</b>
<b>Ratio of Earnings to Fixed Charges</b>	<b>5.24</b>	<b>5.12</b>	<b>4.89</b>	<b>4.99</b>	<b>4.85</b>

Subsidiaries of the Registrants as of February 23, 2018 <sup>(1)</sup>

	State of Incorporation
Eversource Energy (a Massachusetts business trust) <sup>(2)</sup>	MA
The Connecticut Light and Power Company <sup>(2) (3)</sup>	CT
Connecticut Yankee Atomic Power Company <sup>(4)</sup>	CT
Eversource Energy Service Company	CT
Eversource Energy Transmission Ventures, Inc.	CT
Eversource Gas Transmission LLC	MA
Eversource Gas Transmission II LLC	MA
Eversource LNG Service Company LLC	MA
Northern Pass Transmission LLC	NH
Renewable Properties, Inc.	NH
Eversource Holdco Corporation	MA
Eversource Investment LLC	MA
Eversource Investment Service Company LLC	MA
Eversource Water Ventures, Inc.	CT
Eversource Aquarion Holdings, Inc.	DE
Aquarion Company	DE
Aquarion Water Company	CT
Aquarion Water Company of Connecticut	CT
Aquarion Water Company of Massachusetts, Inc.	MA
Aquarion Water Capital of Massachusetts, Inc.	DE
Aquarion Water Company of New Hampshire, Inc.	NH
Homeowner Safety Valve Company	DE
HWP Company	MA
North Atlantic Energy Corporation	NH
North Atlantic Energy Service Corporation	NH
Northeast Nuclear Energy Company	CT
NSTAR Electric Company <sup>(2) (3)</sup>	MA
Harbor Electric Energy Company	MA
Public Service Company of New Hampshire <sup>(2) (3)</sup>	NH
Properties, Inc.	NH
PSNH Funding LLC 3	DE
The Rocky River Realty Company	CT
Yankee Atomic Electric Company <sup>(4)</sup>	MA
Yankee Energy System, Inc.	CT
Hopkinton LNG Corp.	MA
NSTAR Gas Company <sup>(3)</sup>	MA
Yankee Gas Services Company <sup>(3)</sup>	CT

- (1) The names of some of our subsidiaries which, if considered in the aggregate as a single subsidiary, would not constitute a “significant subsidiary,” have been omitted in accordance with Item 601(b)(21)(ii) of Regulation S-K.
- (2) SEC Registrant.
- (3) Each of these entities is doing business as Eversource Energy.
- (4) For The Connecticut Light and Power Company, NSTAR Electric Company and Public Service Company of New Hampshire, investments in Connecticut Yankee Atomic Power Company and Yankee Atomic Electric Company are accounted for under the equity method.

**CONSENTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statements Nos. 333-128811 and 333-211062 on Form S-3 and Registration Statements Nos. 333-121364, 333-142724, and 333-181258 on Form S-8 of our report dated February 23, 2018 (which report expresses an unqualified opinion and includes explanatory paragraphs relating to the acquisition of Macquarie Utilities, Inc. on December 4, 2017 and the exclusion of Eversource Aquarion Holdings, Inc. (formerly Macquarie Utilities, Inc.) from the assessment of internal controls over financial reporting), relating to the consolidated financial statements and the financial statement schedules of Eversource Energy and subsidiaries, and the effectiveness of Eversource Energy and subsidiaries' internal control over financial reporting, appearing in this Annual Report on Form 10-K of Eversource Energy for the year ended December 31, 2017.

We also consent to the incorporation by reference in Registration Statement No. 333-211062-04 on Form S-3 of our report dated February 23, 2018, relating to the financial statements and the financial statement schedule of The Connecticut Light and Power Company appearing in this Annual Report on Form 10-K of The Connecticut Light and Power Company for the year ended December 31, 2017.

We also consent to the incorporation by reference in Registration Statement No. 333-211062-03 on Form S-3 of our report dated February 23, 2018, relating to the consolidated financial statements and the financial statement schedule of NSTAR Electric Company and subsidiary (which report expresses an unqualified opinion and includes an emphasis of a matter paragraph relating to the merger of NSTAR Electric Company and Western Massachusetts Electric Company as of December 31, 2017) appearing in this Annual Report on Form 10-K of NSTAR Electric Company for the year ended December 31, 2017.

We also consent to the incorporation by reference in Registration Statement No. 333-211062-02 on Form S-3 of our report dated February 23, 2018, relating to the consolidated financial statements and the financial statement schedule of Public Service Company of New Hampshire and subsidiary appearing in this Annual Report on Form 10-K of Public Service Company of New Hampshire for the year ended December 31, 2017.

/s/ Deloitte & Touche LLP

Hartford, Connecticut  
February 23, 2018

CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, James J. Judge, certify that:

1. I have reviewed this Annual Report on Form 10-K of Eversource Energy (the registrant);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 23, 2018

/s/ James J. Judge

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James J. Judge  
Chairman of the Board, President and Chief Executive Officer  
(Principal Executive Officer)

CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, James J. Judge, certify that:

1. I have reviewed this Annual Report on Form 10-K of The Connecticut Light and Power Company (the registrant);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 23, 2018

/s/ James J. Judge

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James J. Judge  
Chairman  
(Principal Executive Officer)

CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, James J. Judge, certify that:

1. I have reviewed this Annual Report on Form 10-K of NSTAR Electric Company (the registrant);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 23, 2018

/s/ James J. Judge

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James J. Judge  
Chairman  
(Principal Executive Officer)

CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, James J. Judge, certify that:

1. I have reviewed this Annual Report on Form 10-K of Public Service Company of New Hampshire (the registrant);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 23, 2018

/s/ James J. Judge

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James J. Judge

Chairman

(Principal Executive Officer)

CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Philip J. Lembo, certify that:

1. I have reviewed this Annual Report on Form 10-K of Eversource Energy (the registrant);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 23, 2018

/s/ Philip J. Lembo

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Philip J. Lembo

Executive Vice President and Chief Financial Officer

(Principal Financial Officer)

CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Philip J. Lembo, certify that:

1. I have reviewed this Annual Report on Form 10-K of The Connecticut Light and Power Company (the registrant);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 23, 2018

/s/ Philip J. Lembo

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Philip J. Lembo  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)

CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Philip J. Lembo, certify that:

1. I have reviewed this Annual Report on Form 10-K of NSTAR Electric Company (the registrant);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 23, 2018

/s/ Philip J. Lembo

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Philip J. Lembo  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)

CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Philip J. Lembo, certify that:

1. I have reviewed this Annual Report on Form 10-K of Public Service Company of New Hampshire (the registrant);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 23, 2018

/s/ Philip J. Lembo

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Philip J. Lembo

Executive Vice President and Chief Financial Officer

(Principal Financial Officer)

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this Annual Report on Form 10-K of Eversource Energy (the registrant) for the period ending December 31, 2017 as filed with the Securities and Exchange Commission (the Report), we, James J. Judge, Chairman of the Board, President and Chief Executive Officer of the registrant, and Philip J. Lembo, Executive Vice President and Chief Financial Officer of the registrant, certify, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the registrant.

/s/ James J. Judge

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James J. Judge

Chairman of the Board, President and Chief Executive Officer

/s/ Philip J. Lembo

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Philip J. Lembo

Executive Vice President and Chief Financial Officer

Date: February 23, 2018

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the registrant and will be retained by the registrant and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this Annual Report on Form 10-K of The Connecticut Light and Power Company (the registrant) for the period ending December 31, 2017 as filed with the Securities and Exchange Commission (the Report), we, James J. Judge, Chairman of the registrant, and Philip J. Lembo, Executive Vice President and Chief Financial Officer of the registrant, certify, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the registrant.

/s/ James J. Judge

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James J. Judge  
Chairman

/s/ Philip J. Lembo

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Philip J. Lembo  
Executive Vice President and Chief Financial Officer

Date: February 23, 2018

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the registrant and will be retained by the registrant and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this Annual Report on Form 10-K of NSTAR Electric Company (the registrant) for the period ending December 31, 2017 as filed with the Securities and Exchange Commission (the Report), we, James J. Judge, Chairman of the registrant, and Philip J. Lembo, Executive Vice President and Chief Financial Officer of the registrant, certify, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the registrant.

/s/ James J. Judge

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James J. Judge  
Chairman

/s/ Philip J. Lembo

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Philip J. Lembo  
Executive Vice President and Chief Financial Officer

Date: February 23, 2018

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the registrant and will be retained by the registrant and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this Annual Report on Form 10-K of Public Service Company of New Hampshire (the registrant) for the period ending December 31, 2017 as filed with the Securities and Exchange Commission (the Report), we, James J. Judge, Chairman of the registrant, and Philip J. Lembo, Executive Vice President and Chief Financial Officer of the registrant, certify, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the registrant.

/s/ James J. Judge

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James J. Judge  
Chairman

/s/ Philip J. Lembo

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Philip J. Lembo  
Executive Vice President and Chief Financial Officer

Date: February 23, 2018

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the registrant and will be retained by the registrant and furnished to the Securities and Exchange Commission or its staff upon request.



**ATTACHMENT 7-6**

**Eversource 2018 Financial  
Report**



UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

**FORM 10-K**

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

**For the Fiscal Year Ended December 31, 2018**

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

<b><u>Commission File Number</u></b>	<b><u>Registrant; State of Incorporation; Address; and Telephone Number</u></b>	<b><u>I.R.S. Employer Identification No.</u></b>
1-5324	<b>EVERSOURCE ENERGY</b> (a Massachusetts voluntary association) 300 Cadwell Drive Springfield, Massachusetts 01104 Telephone: (800) 286-5000	04-2147929
0-00404	<b>THE CONNECTICUT LIGHT AND POWER COMPANY</b> (a Connecticut corporation) 107 Selden Street Berlin, Connecticut 06037-1616 Telephone: (800) 286-5000	06-0303850
1-02301	<b>NSTAR ELECTRIC COMPANY</b> (a Massachusetts corporation) 800 Boylston Street Boston, Massachusetts 02199 Telephone: (800) 286-5000	04-1278810
1-6392	<b>PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE</b> (a New Hampshire corporation) Energy Park 780 North Commercial Street Manchester, New Hampshire 03101-1134 Telephone: (800) 286-5000	02-0181050

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

<b><u>Registrant</u></b>	<b><u>Title of Each Class</u></b>	<b><u>Name of Each Exchange on Which Registered</u></b>
<b>Eversource Energy</b>	Common Shares, \$5.00 par value	New York Stock Exchange, Inc.

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

<u>Registrant</u>	<u>Title of Each Class</u>
<b>The Connecticut Light and Power Company</b>	Preferred Stock, par value \$50.00 per share, issuable in series, of which the following series are outstanding:
	\$1.90 Series of 1947
	\$2.00 Series of 1947
	\$2.04 Series of 1949
	\$2.20 Series of 1949
	3.90% Series of 1949
	\$2.06 Series E of 1954
	\$2.09 Series F of 1955
	4.50% Series of 1956
	4.96% Series of 1958
	4.50% Series of 1963
	5.28% Series of 1967
	\$3.24 Series G of 1968
6.56% Series of 1968	

<b>NSTAR Electric Company</b>	Preferred Stock, par value \$100.00 per share, issuable in series, of which the following series are outstanding:
	4.25% Series of 1956
	4.78% Series of 1958

NSTAR Electric Company and Public Service Company of New Hampshire each meet the conditions set forth in General Instruction I(1)(a) and (b) of Form 10-K, and each is therefore filing this Form 10-K with the reduced disclosure format specified in General Instruction I(2) of Form 10-K.

Indicate by check mark if the registrants are well-known seasoned issuers, as defined in Rule 405 of the Securities Act.

<u>Yes</u>	<u>No</u>
<input checked="" type="checkbox"/>	<input type="checkbox"/>

Indicate by check mark if the registrants are not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

<u>Yes</u>	<u>No</u>
<input type="checkbox"/>	<input checked="" type="checkbox"/>

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days.

<u>Yes</u>	<u>No</u>
<input checked="" type="checkbox"/>	<input type="checkbox"/>

Indicate by check mark whether the registrants have submitted electronically and posted on its corporate Web sites, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrants were required to submit and post such files).

<u>Yes</u>	<u>No</u>
<input checked="" type="checkbox"/>	<input type="checkbox"/>

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

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

	<u>Large accelerated filer</u>	<u>Accelerated filer</u>	<u>Non-accelerated filer</u>	<u>Smaller reporting company</u>	<u>Emerging growth company</u>
Eversource Energy	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The Connecticut Light and Power Company	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
NSTAR Electric Company	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Public Service Company of New Hampshire	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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

Indicate by check mark whether the registrants are shell companies (as defined in Rule 12b-2 of the Exchange Act):

	<u>Yes</u>	<u>No</u>
Eversource Energy	<input type="checkbox"/>	<input checked="" type="checkbox"/>

The Connecticut Light and Power Company	<input type="checkbox"/>	<input checked="" type="checkbox"/>
NSTAR Electric Company	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Public Service Company of New Hampshire	<input type="checkbox"/>	<input checked="" type="checkbox"/>

The aggregate market value of Eversource Energy's Common Shares, \$5.00 par value, held by non-affiliates, computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of Eversource Energy's most recently completed second fiscal quarter (June 30, 2018) was \$18,544,847,538 based on a closing market price of \$58.61 per share for the 316,410,980 common shares outstanding held by non-affiliates on June 30, 2018.

Indicate the number of shares outstanding of each of the issuers' classes of common stock, as of the latest practicable date:

<u>Company - Class of Stock</u>	<u>Outstanding as of January 31, 2019</u>
Eversource Energy Common Shares, \$5.00 par value	316,981,088
The Connecticut Light and Power Company Common Stock, \$10.00 par value	6,035,205 shares
NSTAR Electric Company Common Stock, \$1.00 par value	200 shares
Public Service Company of New Hampshire Common Stock, \$1.00 par value	301 shares

Eversource Energy holds all of the 6,035,205 shares , 200 shares and 301 shares of the outstanding common stock of The Connecticut Light and Power Company, NSTAR Electric Company and Public Service Company of New Hampshire, respectively.

Eversource Energy, The Connecticut Light and Power Company, NSTAR Electric Company and Public Service Company of New Hampshire each separately file this combined Form 10-K. Information contained herein relating to any individual registrant is filed by such registrant on its own behalf. Each registrant makes no representation as to information relating to the other registrants.

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## GLOSSARY OF TERMS

The following is a glossary of abbreviations and acronyms that are found in this report:

### Current or former Eversource Energy companies, segments or investments:

Eversource, ES or the Company	Eversource Energy and subsidiaries
Eversource parent or ES parent	Eversource Energy, a public utility holding company
ES parent and other companies	ES parent and other companies are comprised of Eversource parent, Eversource Service, Eversource Water Ventures, Inc. (parent company of Aquarion), and other subsidiaries, which primarily includes our unregulated businesses, HWP Company, The Rocky River Realty Company (a real estate subsidiary), the consolidated operations of CYAPC and YAEC, and Eversource parent's equity ownership interests that are not consolidated
CL&P	The Connecticut Light and Power Company
NSTAR Electric	NSTAR Electric Company
PSNH	Public Service Company of New Hampshire
PSNH Funding	PSNH Funding LLC 3, a bankruptcy remote, special purpose, wholly-owned subsidiary of PSNH
NSTAR Gas	NSTAR Gas Company
Yankee Gas	Yankee Gas Services Company
Aquarion	Eversource Aquarion Holdings, Inc. and its subsidiaries (formerly known as Macquarie Utilities Inc)
NPT	Northern Pass Transmission LLC
Northern Pass	The HVDC and associated alternating-current transmission line project from Canada into New Hampshire
Eversource Service	Eversource Energy Service Company
Bay State Wind	A project being developed jointly by Eversource and Denmark-based Ørsted (formerly known as DONG Energy) to construct an offshore wind farm off the coast of Massachusetts
CYAPC	Connecticut Yankee Atomic Power Company
MYAPC	Maine Yankee Atomic Power Company
YAEC	Yankee Atomic Electric Company
Yankee Companies	CYAPC, YAEC and MYAPC
Regulated companies	The Eversource regulated companies are comprised of the electric distribution and transmission businesses of CL&P, NSTAR Electric and PSNH, the natural gas distribution businesses of Yankee Gas and NSTAR Gas, NPT, Aquarion, and the solar power facilities of NSTAR Electric

### Regulators:

DEEP	Connecticut Department of Energy and Environmental Protection
DOE	U.S. Department of Energy
DOER	Massachusetts Department of Energy Resources
DPU	Massachusetts Department of Public Utilities
EPA	U.S. Environmental Protection Agency
FERC	Federal Energy Regulatory Commission
ISO-NE	ISO New England, Inc., the New England Independent System Operator
MA DEP	Massachusetts Department of Environmental Protection
NHPUC	New Hampshire Public Utilities Commission
PURA	Connecticut Public Utilities Regulatory Authority
SEC	U.S. Securities and Exchange Commission
SJC	Supreme Judicial Court of Massachusetts

### Other Terms and Abbreviations:

Access Northeast	A project jointly owned by Eversource, Enbridge, Inc. ("Enbridge"), and National Grid plc ("National Grid") through Algonquin Gas Transmission, LLC ("AGT")
ADIT	Accumulated Deferred Income Taxes
AFUDC	Allowance For Funds Used During Construction
AOCI	Accumulated Other Comprehensive Income
ARO	Asset Retirement Obligation
Bcf	Billion cubic feet
C&LM	Conservation and Load Management
CfD	Contract for Differences
CTA	Competitive Transition Assessment
CWIP	Construction Work in Progress
EDC	Electric distribution company
EPS	Earnings Per Share
ERISA	Employee Retirement Income Security Act of 1974



ESOP	Employee Stock Ownership Plan
Eversource 2017 Form 10-K	The Eversource Energy and Subsidiaries 2017 combined Annual Report on Form 10-K as filed with the SEC
Fitch	Fitch Ratings
FMCC	Federally Mandated Congestion Charge
FTR	Financial Transmission Rights
GAAP	Accounting principles generally accepted in the United States of America
GSC	Generation Service Charge
GSRP	Greater Springfield Reliability Project
GWh	Gigawatt-Hours
HQ	Hydro-Québec, a corporation wholly-owned by the Québec government, including its divisions that produce, transmit and distribute electricity in Québec, Canada
HVDC	High-voltage direct current
Hydro Renewable Energy	Hydro Renewable Energy, Inc., a wholly-owned subsidiary of Hydro-Québec
IPP	Independent Power Producers
ISO-NE Tariff	ISO-NE FERC Transmission, Markets and Services Tariff
kV	Kilovolt
kVa	Kilovolt-ampere
kW	Kilowatt (equal to one thousand watts)
kWh	Kilowatt-Hours (the basic unit of electricity energy equal to one kilowatt of power supplied for one hour)
LBR	Lost Base Revenue
LNG	Liquefied natural gas
LRS	Supplier of last resort service
MG	Million gallons
MGP	Manufactured Gas Plant
MMBtu	One million British thermal units
MMcf	Million cubic feet
Moody's	Moody's Investors Services, Inc.
MW	Megawatt
MWh	Megawatt-Hours
NEEWS	New England East-West Solution
NETOs	New England Transmission Owners (including Eversource, National Grid and Avangrid)
OCI	Other Comprehensive Income/(Loss)
PAM	Pension and PBOP Rate Adjustment Mechanism
PBOP	Postretirement Benefits Other Than Pension
PBOP Plan	Postretirement Benefits Other Than Pension Plan
PCRBS	Pollution Control Revenue Bonds
Pension Plan	Single uniform noncontributory defined benefit retirement plan
PPA	Pension Protection Act
RRBs	Rate Reduction Bonds
RECs	Renewable Energy Certificates
Regulatory ROE	The average cost of capital method for calculating the return on equity related to the distribution and generation business segment excluding the wholesale transmission segment
RNS	Regional Network Service
ROE	Return on Equity
RRB	Rate Reduction Bond or Rate Reduction Certificate
RSUs	Restricted share units
S&P	Standard & Poor's Financial Services LLC
SBC	Systems Benefits Charge
SCRC	Stranded Cost Recovery Charge
SERP	Supplemental Executive Retirement Plans and non-qualified defined benefit retirement plans
SS	Standard service
TCAM	Transmission Cost Adjustment Mechanism
TSA	Transmission Service Agreement
UI	The United Illuminating Company

EVERSOURCE ENERGY AND SUBSIDIARIES  
THE CONNECTICUT LIGHT AND POWER COMPANY  
NSTAR ELECTRIC COMPANY AND SUBSIDIARY  
PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE AND SUBSIDIARIES

2018 FORM 10-K ANNUAL REPORT

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**EVERSOURCE ENERGY AND SUBSIDIARIES  
THE CONNECTICUT LIGHT AND POWER COMPANY  
NSTAR ELECTRIC COMPANY AND SUBSIDIARY  
PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE AND SUBSIDIARIES**

**SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES  
LITIGATION REFORM ACT OF 1995**

References in this Annual Report on Form 10-K to "Eversource," the "Company," "we," "our," and "us" refer to Eversource Energy and its consolidated subsidiaries. CL&P, NSTAR Electric, and PSNH are each doing business as Eversource Energy.

From time to time, we make statements concerning our expectations, beliefs, plans, objectives, goals, strategies, assumptions of future events, future financial performance or growth and other statements that are not historical facts. These statements are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. You can generally identify our forward-looking statements through the use of words or phrases such as "estimate," "expect," "anticipate," "intend," "plan," "project," "believe," "forecast," "should," "could," and other similar expressions. Forward-looking statements are based on the current expectations, estimates, assumptions or projections of management and are not guarantees of future performance. These expectations, estimates, assumptions or projections may vary materially from actual results. Accordingly, any such statements are qualified in their entirety by reference to, and are accompanied by, the following important factors that could cause our actual results to differ materially from those contained in our forward-looking statements, including, but not limited to:

- cyberattacks or breaches, including those resulting in the compromise of the confidentiality of our proprietary information and the personal information of our customers,
- acts of war or terrorism, physical attacks or grid disturbances that may damage and disrupt our transmission and distribution systems,
- ability or inability to commence and complete our major strategic development projects and opportunities,
- actions or inaction of local, state and federal regulatory, public policy and taxing bodies,
- substandard performance of third-party suppliers and service providers,
- fluctuations in weather patterns, including extreme weather due to climate change,
- changes in business conditions, which could include disruptive technology related to our current or future business model,
- increased conservation measures of customers and development of alternative energy sources,
- contamination of, or disruption in, our water supplies,
- changes in economic conditions, including impact on interest rates, tax policies, and customer demand and payment ability,
- changes in levels or timing of capital expenditures,
- disruptions in the capital markets or other events that make our access to necessary capital more difficult or costly,
- changes in laws, regulations or regulatory policy, including compliance with environmental laws and regulations,
- changes in accounting standards and financial reporting regulations,
- actions of rating agencies, and
- other presently unknown or unforeseen factors.

Other risk factors are detailed in our reports filed with the SEC and updated as necessary, and we encourage you to consult such disclosures.

All such factors are difficult to predict and contain uncertainties that may materially affect our actual results, many of which are beyond our control. You should not place undue reliance on the forward-looking statements, as each speaks only as of the date on which such statement is made, and, except as required by federal securities laws, we undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time and it is not possible for us to predict all of such factors, nor can we assess the impact of each such factor on the business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. For more information, see Item 1A, *Risk Factors*, included in this combined Annual Report on Form 10-K. This Annual Report on Form 10-K also describes material contingencies and critical accounting policies in the accompanying *Management's Discussion and Analysis of Financial Condition and Results of Operations* and *Combined Notes to Financial Statements*. We encourage you to review these items.

**EVERSOURCE ENERGY AND SUBSIDIARIES  
THE CONNECTICUT LIGHT AND POWER COMPANY  
NSTAR ELECTRIC COMPANY AND SUBSIDIARY  
PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE AND SUBSIDIARIES**

**PART I**

**Item 1. Business**

Please refer to the Glossary of Terms for definitions of defined terms and abbreviations used in this combined Annual Report on Form 10-K.

Eversource Energy, headquartered in Boston, Massachusetts and Hartford, Connecticut, is a public utility holding company subject to regulation by the FERC under the Public Utility Holding Company Act of 2005. We are engaged primarily in the energy delivery business through the following wholly-owned utility subsidiaries:

- The Connecticut Light and Power Company (CL&P), a regulated electric utility that serves residential, commercial and industrial customers in parts of Connecticut;
- NSTAR Electric Company (NSTAR Electric), a regulated electric utility that serves residential, commercial and industrial customers in parts of eastern and western Massachusetts and owns solar power facilities;
- Public Service Company of New Hampshire (PSNH), a regulated electric utility that serves residential, commercial and industrial customers in parts of New Hampshire;
- NSTAR Gas Company (NSTAR Gas), a regulated natural gas utility that serves residential, commercial and industrial customers in parts of Massachusetts;
- Yankee Gas Services Company (Yankee Gas), a regulated natural gas utility that serves residential, commercial and industrial customers in parts of Connecticut; and
- Eversource Aquarion Holdings, Inc. (Aquarion), a utility holding company that owns three separate regulated water utility subsidiaries and collectively serves residential, commercial, industrial, and municipal and fire protection customers in parts of Connecticut, Massachusetts and New Hampshire. On December 4, 2017, Eversource acquired Eversource Aquarion Holdings, Inc. and its subsidiaries (formerly known as Macquarie Utilities Inc).

CL&P, NSTAR Electric and PSNH also serve New England customers through Eversource Energy's electric transmission business. Along with NSTAR Gas and Yankee Gas, each is doing business as Eversource Energy in its respective service territory.

Eversource Energy, CL&P, NSTAR Electric and PSNH each report their financial results separately. We also include information in this report on a segment basis for Eversource Energy. Eversource Energy has four reportable segments: electric distribution, electric transmission, natural gas distribution and water distribution. These segments represent substantially all of Eversource Energy's total consolidated revenues. CL&P, NSTAR Electric and PSNH do not report separate business segments.

**ELECTRIC DISTRIBUTION SEGMENT**

Eversource Energy's electric distribution segment consists of the distribution businesses of CL&P, NSTAR Electric and PSNH, which are engaged in the distribution of electricity to retail customers in Connecticut, Massachusetts and New Hampshire, respectively, and the solar power facilities of NSTAR Electric, and the generation facilities of PSNH before such facilities were sold in January and August 2018.

**ELECTRIC DISTRIBUTION – CONNECTICUT – THE CONNECTICUT LIGHT AND POWER COMPANY**

CL&P's distribution business consists primarily of the purchase, delivery and sale of electricity to its residential, commercial and industrial customers. As of December 31, 2018, CL&P furnished retail franchise electric service to approximately 1.25 million customers in 149 cities and towns in Connecticut, covering an area of 4,400 square miles. CL&P does not own any electric generation facilities.

**Rates**

CL&P is subject to regulation by the PURA, which, among other things, has jurisdiction over rates, certain dispositions of property and plant, mergers and consolidations, issuances of long-term securities, standards of service and construction and operation of facilities. CL&P's present general rate structure consists of various rate and service classifications covering residential, commercial and industrial services. CL&P's retail rates include a delivery service component, which includes distribution, transmission, conservation, renewable energy programs and other charges that are assessed on all customers.

Under Connecticut law, all of CL&P's customers are entitled to choose their energy suppliers, while CL&P remains their electric distribution company. For those customers who do not choose a competitive energy supplier, under SS rates for customers with less than 500 kilowatts of demand (residential customers and small and medium commercial and industrial customers), and LRS rates for customers with 500 kilowatts or more of demand (larger commercial and industrial customers), CL&P purchases power under standard offer contracts and passes the cost of the purchased power to customers through a combined charge on customers' bills.

The rates established by the PURA for CL&P are comprised of the following:

- An electric GSC, which recovers energy-related costs incurred as a result of providing electric generation service supply to all customers that have not migrated to competitive energy suppliers. The GSC is adjusted periodically and reconciled annually in accordance with the policies and procedures of the PURA, with any differences refunded to, or recovered from, customers.
- A revenue decoupling adjustment that reconciles annual base distribution rate recovery amounts recovered from customers to the pre-established level of baseline distribution delivery service revenue requirement approved by the PURA of approximately \$1.1 billion, effective May 1, 2018 and May 1, 2019, and \$1.2 billion, effective May 1, 2020. These pre-established levels of baseline distribution delivery service revenue requirement are also subject to adjustment at each of these dates in accordance with provisions of the April 2018 rate case settlement agreement described below.
- A distribution charge, which includes a fixed customer charge and a demand and/or energy charge to collect the costs of building and expanding the infrastructure to deliver electricity to customers, as well as ongoing operating costs to maintain the infrastructure.
- An Electric System Improvements (ESI) charge, which collects the costs of building and expanding the infrastructure to deliver electricity to customers above the level recovered through the distribution charge. The ESI also recovers costs associated with CL&P's system resiliency program. The ESI is adjusted periodically and reconciled annually in accordance with the policies and procedures of the PURA, with any differences refunded to, or recovered from, customers.
- An FMCC, which recovers any costs imposed by the FERC as part of the New England Standard Market Design, including locational marginal pricing, locational installed capacity payments, and any costs approved by the PURA to reduce these charges. The FMCC has both a bypassable component and a non-bypassable component, and is adjusted periodically and reconciled annually in accordance with the policies and procedures of the PURA, with any differences refunded to, or recovered from, customers.
- A transmission charge that recovers the cost of transporting electricity over high-voltage lines from generating plants to substations, including costs allocated by ISO-NE to maintain the wholesale electric market. The transmission charge is adjusted periodically and reconciled annually to actual costs incurred, and reviewed by the PURA, with any difference refunded to, or recovered from, customers.
- A CTA charge, assessed to recover stranded costs associated with electric industry restructuring such as various IPP contracts. The CTA is reconciled annually to actual costs incurred and reviewed by the PURA, with any difference refunded to, or recovered from, customers.
- An SBC, established to fund expenses associated with various hardship and low-income programs. The SBC is reconciled annually to actual costs incurred and reviewed by the PURA, with any difference refunded to, or recovered from, customers.
- A Renewable Energy Investment Charge, which is used to promote investment in renewable energy sources. Amounts collected by this charge are deposited into the Connecticut Clean Energy Fund and administered by the Connecticut Green Bank.
- A conservation charge, comprised of both a statutory rate and Conservation Adjustment Mechanism (CAM) established to implement cost-effective energy conservation programs and market transformation initiatives. The conservation charge is reconciled annually to actual costs incurred, and reviewed by the PURA, with any difference refunded to, or recovered from, customers through an approved adjustment to the following year's energy conservation spending plan budget.

As required by regulation, CL&P, jointly with UI, entered into the following contracts whereby UI will share 20 percent and CL&P will share 80 percent of the costs and benefits (CL&P's portion of these costs are either recovered from, or refunded to, customers through the FMCC):

- Four capacity CfDs (totaling approximately 787 MW of capacity) with three electric generation units and one demand response project, which extend through 2026 and have terms of up to 15 years beginning in 2009. The capacity CfDs obligate both CL&P and UI to make or receive payments on a monthly basis to or from the project and generation owners based on the difference between a contractually set capacity price and the capacity market prices that the project and generation owners receive in the ISO-NE capacity markets.
- Three peaker CfDs (totaling approximately 500 MW of peaking capacity) with three peaking generation units. The three peaker CfDs pay the generation owners the difference between capacity, forward reserve and energy market revenues and a cost-of-service payment stream for 30 years beginning in 2008 (including costs of plant operation and the prices that the generation owners receive for capacity and other products in the ISO-NE markets).

Distribution Rate Case: CL&P's distribution rates were established in an April 2018 PURA-approved rate case settlement agreement with rates effective May 1, 2018. For further information, see "Regulatory Developments and Rate Matters - Connecticut" in the accompanying Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

### Sources and Availability of Electric Power Supply

As noted above, CL&P does not own any generation assets and purchases energy supply to serve its SS and LRS loads from a variety of competitive sources through requests for proposals. During 2018, CL&P supplied approximately 45 percent of its customer load at SS or LRS rates while the other 55 percent of its customer load had migrated to competitive energy suppliers. In terms of the total number of CL&P customers, this equates to 28 percent being on competitive supply, while 72 percent remain with SS or LRS. Because this customer migration is only for energy supply service, it has no impact on CL&P's electric distribution business or its operating income.

CL&P periodically enters into full requirements contracts for SS loads for periods of up to one year. CL&P typically enters into full requirements contracts for LRS loads every three months. Currently, CL&P has full requirements contracts in place for 100 percent of its SS loads for the first half of 2019. For the second half of 2019, CL&P has 70 percent of its SS load under full requirements contracts and intends to purchase an additional 30 percent of full requirements. None of the SS load for 2020 has been procured. CL&P has full requirements contracts in place for its LRS loads through June 2019 and intends to purchase 100 percent of full requirements for the remainder of 2019.

### ELECTRIC DISTRIBUTION – MASSACHUSETTS – NSTAR ELECTRIC COMPANY

NSTAR Electric's distribution business consists primarily of the purchase, delivery and sale of electricity to its residential, commercial and industrial customers. As of December 31, 2018, NSTAR Electric furnished retail franchise electric service to approximately 1.47 million customers in Boston and 139 cities and towns in eastern and western Massachusetts, including Cape Cod, Martha's Vineyard and the greater Springfield metropolitan area, covering an aggregate area of approximately 3,200 square miles. NSTAR Electric does not own any generating facilities used to supply customers and purchases its energy requirements from competitive energy suppliers.

In December 2016, the DPU approved NSTAR Electric's application to develop 62 MW of new solar power facilities in addition to the 8 MW of existing solar power facilities. Currently, NSTAR Electric owns 58 MW of solar power facilities on sites in Massachusetts that were completed from 2010 through 2018. We expect the remaining 4 MW of new facilities to be completed in 2019. Similar to NSTAR Electric's current practice on the existing 58 MW of solar power facilities, we expect that NSTAR Electric will sell energy from the new facilities into the ISO-NE market. We estimate our investment in these new facilities will be approximately \$170 million.

### Rates

NSTAR Electric is subject to regulation by the DPU, which, among other things, has jurisdiction over rates, certain dispositions of property and plant, mergers and consolidations, issuances of long-term securities, acquisition of securities, standards of service and construction and operation of facilities. The present general rate structure for NSTAR Electric consists of various rate and service classifications covering residential, commercial and industrial services.

Under Massachusetts law, all customers of NSTAR Electric are entitled to choose their energy suppliers, while NSTAR Electric remains their electric distribution company. NSTAR Electric purchases power from competitive suppliers on behalf of, and passes the related cost through to, its customers who do not choose a competitive energy supplier (basic service). Electric distribution companies in Massachusetts are required to obtain and resell power to retail customers through basic service for those who choose not to buy energy from a competitive energy supplier. Most of the residential customers of NSTAR Electric have continued to buy their power from NSTAR Electric at basic service rates. Most commercial and industrial customers have switched to a competitive energy supplier.

The Cape Light Compact, an inter-governmental organization consisting of the 21 towns and two counties on Cape Cod and Martha's Vineyard, serves 200,000 customers through the delivery of energy efficiency programs, consumer advocacy, competitive electricity supply and green power options. NSTAR Electric continues to provide electric service to these customers including the delivery of power, maintenance of infrastructure, capital investment, meter reading, billing, and customer service.

The rates established by the DPU for NSTAR Electric are comprised of the following:

- A basic service charge that represents the collection of energy costs incurred as a result of providing electric generation service supply to all customers that have not migrated to competitive energy suppliers, including costs related to charge-offs of uncollectible energy costs from customers. Basic service rates are reset every six months (every three months for large commercial and industrial customers). Additionally, the DPU has authorized NSTAR Electric to recover the cost of its NSTAR Green wind contracts through the basic service charge. Basic service costs are reconciled annually, with any differences refunded to, or recovered from, customers.
- A distribution charge, which includes a fixed customer charge and a demand and/or energy charge to collect the costs of building and expanding the distribution infrastructure to deliver electricity to its destination, as well as ongoing operating costs.
- A revenue decoupling adjustment that reconciles annual base distribution rate recovery amounts recovered from customers to the pre-established level of baseline distribution delivery service revenue requirement approved by the DPU of approximately \$956 million on an annualized basis for 2018. Effective February 1, 2018, NSTAR Electric operated entirely under a decoupled rate structure. Annual

base distribution amounts are adjusted for inflation and filed for approval by the DPU on an annual basis, until the next rate case. The baseline distribution delivery service revenue requirement approved by the DPU for 2019 is \$988 million.

- A transmission charge that recovers the cost of transporting electricity over high-voltage lines from generating plants to substations, including costs allocated by ISO-NE to maintain the wholesale electric market. The transmission charge is reconciled annually to actual costs incurred and reviewed by the DPU, with any difference refunded to, or recovered from, customers.
- A transition charge that represents costs to be collected primarily from previously held investments in generating plants, costs related to existing above-market power contracts, and contract costs related to long-term power contract buy-outs. The transition charge is reconciled annually to actual costs incurred and reviewed by the DPU, with any difference refunded to, or recovered from, customers.
- A renewable energy charge that represents a legislatively-mandated charge to support the Massachusetts Renewable Energy Trust Fund.
- An energy efficiency charge that represents a legislatively-mandated charge to collect costs for energy efficiency programs. The energy efficiency charge is reconciled annually to actual costs incurred and reviewed by the DPU, with any difference refunded to, or recovered from, customers.
- Reconciling adjustment charges that recover certain DPU-approved costs, including pension and PBOP benefits, low income customer discounts, credits issued to net-metering facilities installed by customers, payments to solar facilities qualified under the state solar renewable energy target program, attorney general consultant expenses, long-term renewable contracts, company owned solar facilities, vegetation management costs, credits related to the Tax Cuts and Jobs Act of 2017, and storm restoration. These charges are reconciled annually to actual costs incurred and reviewed by the DPU, with any difference refunded to, or recovered from, customers.

As required by regulation, NSTAR Electric, along with two other Massachusetts electric utilities, signed long-term commitments to purchase a combined estimated generating capacity of approximately 101 MW of wind and solar power from one wind farm in New York (28 MW), and nine solar projects in Connecticut, Maine, New Hampshire and Rhode Island (73 MW), over 20 years. One solar project began operating in January 2019, and the other eight solar projects are scheduled to begin operating in late 2019. In addition, the one wind farm in New York is scheduled to begin operating by year end 2020.

Distribution Rate Case: NSTAR Electric's distribution rates were established in a 2017 DPU-approved rate case with rates effective February 1, 2018. For further information, see "Regulatory Developments and Rate Matters - Massachusetts" in the accompanying Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

Service Quality Metrics: NSTAR Electric is subject to service quality ("SQ") metrics that measure safety, reliability and customer service, and could be required to pay to customers a SQ charge of up to 2.5 percent of annual transmission and distribution revenues for failing to meet such metrics. NSTAR Electric will not be required to pay a SQ charge for its 2018 performance as the company achieved results at or above target for all of its SQ metrics in 2018.

#### **Sources and Availability of Electric Power Supply**

As noted above, NSTAR Electric does not own any generation assets (other than solar power facilities) and purchases its energy requirements from a variety of competitive sources through requests for proposals issued periodically, consistent with DPU regulations. NSTAR Electric enters into supply contracts for basic service for 48 percent of its residential and small commercial and industrial ("C&I") customers twice per year for twelve-month terms. NSTAR Electric enters into supply contracts for basic service for 18 percent of large C&I customers every three months.

During 2018, NSTAR Electric supplied approximately 55 percent of its residential customer load, 33 percent of its small C&I customer load, and 8 percent of its large C&I customer load at basic service rates. The remainder of its customer load was distributed between municipal aggregation and competitive supply. Because customer migration is limited to energy supply service, it has no impact on the delivery business or operating income of NSTAR Electric.

#### **ELECTRIC DISTRIBUTION – NEW HAMPSHIRE – PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE**

PSNH's distribution business consists primarily of the purchase, delivery and sale of electricity to its residential, commercial and industrial customers. As of December 31, 2018, PSNH furnished retail franchise electric service to approximately 519,000 retail customers in 211 cities and towns in New Hampshire, covering an area of approximately 5,630 square miles.

On January 10, 2018, PSNH completed the sale of its thermal generation assets pursuant to a 2017 purchase and sale agreement. The thermal generation facilities included approximately 1,100 MW of coal, natural gas, biomass and oil-fired electricity generation facilities. On August 26, 2018, PSNH completed the sale of its hydroelectric generation assets pursuant to a separate 2017 purchase and sale agreement. For further information, see "Generation Divestiture" below. As of December 31, 2018, PSNH does not own any electric generation facilities.

## Rates

PSNH is subject to regulation by the NHPUC, which, among other things, has jurisdiction over rates, certain dispositions of property and plant, mergers and consolidations, issuances of securities, standards of service and construction and operation of facilities.

Under New Hampshire law, all of PSNH's customers are entitled to choose competitive energy suppliers. During 2018, approximately 24 percent of all of PSNH's customers (approximately 56 percent of load) were taking service from competitive energy suppliers.

The rates established by the NHPUC for PSNH are comprised of the following:

- A default energy service charge recovers energy-related costs incurred as a result of providing electric generation service supply to all customers that have not migrated to competitive energy suppliers. Through March 31, 2018, the default energy service charge recovered the costs of PSNH's generation, as well as purchased power, and included an allowed ROE of 9.81 percent. Effective April 1, 2018, as a result of the completion of the divestiture of its non-hydro generation assets, PSNH purchased power for retail customers who had not chosen a competitive supplier through a periodic market solicitation with the rate set to recover the cost of that power, statutorily mandated renewable portfolio standard costs and the continued cost associated with the ownership of the Hydro generation units until the completion of the divestiture of the hydro units in August 2018. Effective September 1, 2018, any remaining costs from ownership of generation are recovered as part of the SCRC described below.
- A distribution charge, which includes kilowatt-hour and/or demand-based charges to recover costs related to the maintenance and operation of PSNH's infrastructure to deliver power to its destination, as well as power restoration and service costs. It also includes a customer charge to collect the cost of providing service to a customer; such as the installation, maintenance, reading and replacement of meters and maintaining accounts and records.
- A transmission charge that recovers the cost of transporting electricity over high-voltage lines from generating plants to substations, including costs allocated by ISO-NE to maintain the wholesale electric market.
- An SCRC, which allows PSNH to recover its stranded costs, including above-market expenses incurred under mandated power purchase obligations, other long-term investments and obligations, and the remaining costs associated with the 2018 sales of its generation facilities.
- An SBC, which funds energy efficiency programs for all customers, as well as assistance programs for residential customers within certain income guidelines.

The default energy service charge and SCRC rates change semi-annually and the transmission and SBC rates change annually. These rates are reconciled annually in accordance with the policies and procedures of the NHPUC, with any differences refunded to, or recovered from, customers.

PSNH distribution rates were established in a settlement approved by the NHPUC in 2010. Prior to the expiration of that settlement on June 30, 2015, the NHPUC approved the continuation of those rates, and increased funding via rates, of PSNH's reliability enhancement program.

## Generation Divestiture

In June 2015, Eversource and PSNH entered into the 2015 Public Service Company of New Hampshire Restructuring and Rate Stabilization Agreement, pursuant to which PSNH agreed to divest its generation assets, subject to NHPUC approval. The NHPUC approved this agreement as well as the final divestiture plan and auction process in 2016. On October 11, 2017, PSNH entered into two Purchase and Sale Agreements with private investors, one to sell its thermal generation assets at a purchase price of \$175 million, subject to adjustment, (the "Thermal Agreement") and a second to sell its hydroelectric generation assets at a purchase price of \$83 million, subject to adjustment (the "Hydro Agreement"). The NHPUC approved these agreements in late November 2017, at which time the Company classified these assets as held for sale.

On January 10, 2018, PSNH completed the sale of its thermal generation assets pursuant to the Thermal Agreement. In accordance with the Thermal Agreement, the original purchase price of \$175 million was adjusted to reflect working capital adjustments, closing date adjustments and proration of taxes and fees prior to closing, totaling \$40.9 million. In the second quarter of 2018, the purchase price was further adjusted by \$17.3 million relating to the valuation of certain allowances. As a result of these adjustments, net proceeds from the sale of the thermal assets totaled \$116.8 million.

On July 16, 2018, FERC issued its order approving the transfer of PSNH's six hydroelectric licenses to private investors. On August 26, 2018, PSNH completed the sale of its hydroelectric generation assets pursuant to the Hydro Agreement. In accordance with the Hydro Agreement, the original purchase price of \$83 million was adjusted to reflect contractual adjustments totaling \$5.8 million, resulting in net proceeds of \$77.2 million. The difference between the carrying value of the hydroelectric generation assets and the sale proceeds resulted in a gain of \$17.3 million. An estimated gain from the sale of these assets was included as an offset to the total remaining costs associated with the sale of generation assets that were securitized on May 8, 2018.

On May 8, 2018, PSNH Funding issued \$635.7 million of securitized RRBs pursuant to a finance order issued by the NHPUC on January 30, 2018 to recover remaining costs resulting from the divestiture of PSNH's generation assets. These RRBs are secured by a non-bypassable charge recoverable from PSNH customers. PSNH recorded regulatory assets and other deferred costs in connection with the generation asset divestiture and the securitization of remaining costs, which are probable of recovery through collection of the non-bypassable charge. For further information on the securitized RRB issuance, see "Liquidity - Rate Reduction Bonds" in the accompanying Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

### **Sources and Availability of Electric Power Supply**

From January 1, 2018 through March 31, 2018, approximately 24 percent of PSNH's default energy service load was met through its own generation and approximately 18 percent was met through long-term power supply provided pursuant to orders of the NHPUC. The remaining 58 percent of PSNH's load was met by short-term (less than one year) purchases and spot purchases in the competitive New England wholesale power market. Included in the 58 percent are PSNH's obligations to purchase power from approximately two dozen IPPs, the output of which it either uses to serve its customer load or sells into the ISO-NE market. Beginning on April 1, 2018, 100 percent of PSNH's default energy service load was met through purchases of energy requirements from competitive sources through requests for proposals issued periodically, consistent with NHPUC regulations.

PSNH no longer owns any generation assets and enters into supply contracts for energy service twice per year for six-month terms for 76 percent of its residential and small commercial and industrial ("C&I") customers and for 15 percent of its large C&I customers.

During 2018, PSNH supplied approximately 42 percent of its customer load at default energy service rates while the other 58 percent of its customer load had migrated to competitive energy suppliers. Because this customer migration is only for energy supply service, it has no impact on PSNH's electric distribution business or its operating income.

### **ELECTRIC TRANSMISSION SEGMENT**

Each of CL&P, NSTAR Electric and PSNH owns and maintains transmission facilities that are part of an interstate power transmission grid over which electricity is transmitted throughout New England. Each of CL&P, NSTAR Electric and PSNH, and most other New England utilities, are parties to a series of agreements that provide for coordinated planning and operation of the region's transmission facilities and the rules by which they acquire transmission services. Under these arrangements, ISO-NE, a non-profit corporation whose board of directors and staff are independent of all market participants, serves as the regional transmission organization of the New England transmission system.

### **Wholesale Transmission Rates**

Wholesale transmission revenues are recovered through FERC-approved formula rates. Annual transmission revenue requirements include recovery of transmission costs and include a return on equity applied to transmission rate base. Transmission revenues are collected from New England customers, including distribution customers of CL&P, NSTAR Electric and PSNH. The transmission rates provide for an annual true-up of estimated to actual costs. The financial impacts of differences between actual and estimated costs are deferred for future recovery from, or refunded to, transmission customers.

### **FERC ROE Complaints**

Four separate complaints have been filed at the FERC by combinations of New England state attorneys general, state regulatory commissions, consumer advocates, consumer groups, municipal parties and other parties (collectively the "Complainants"). In each of the first three complaints, filed on October 1, 2011, December 27, 2012, and July 31, 2014, respectively, the Complainants challenged the NETOs' base ROE of 11.14 percent that had been utilized since 2005 and sought an order to reduce it prospectively from the date of the final FERC order and for the separate 15 -month complaint periods. In the fourth complaint, filed April 29, 2016, the Complainants challenged the NETOs' base ROE of 10.57 percent and the maximum ROE for transmission incentive ("incentive cap") of 11.74 percent, asserting that these ROEs were unjust and unreasonable.

In response to appeals of the FERC decision in the first complaint filed by the NETOs and the Complainants, the U.S. Court of Appeals for the D.C. Circuit issued a decision on April 14, 2017 vacating and remanding the FERC's decision. On October 16, 2018, FERC issued an order on all four complaints describing how it intends to address the issues that were remanded by the Court. FERC proposed a new framework to determine (1) whether an existing ROE is unjust and unreasonable and, if so, (2) how to calculate a replacement ROE. For further information, see "FERC Regulatory Matters - FERC ROE Complaints" in the accompanying Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

### **Transmission Projects**

During 2018, we were involved in the planning, development and construction of a series of electric transmission projects, including the Greater Hartford Central Connecticut projects ("GHCC") and the Greater Boston Reliability Solutions, that will be built within the next three years and that will enhance system reliability and improve capacity. We were also involved in the planning and development of the Seacoast Reliability Project, for which the New Hampshire Site Evaluation Committee ("NHSEC") indicated its unanimous approval of the project on December 10, 2018, and subsequently issued its written decision on January 31, 2019. This project is scheduled to be completed by the end of 2019.

In March 2018, the NHSEC issued a written decision denying Northern Pass' siting application after which the Massachusetts EDCs terminated the selection of, and subsequent contract negotiations with, Northern Pass under the Massachusetts Clean Energy RFP. On April 27, 2018, NPT filed a motion for rehearing with the NHSEC and on July 12, 2018, the NHSEC issued its written decision denying Northern Pass' motion for rehearing. On August 10, 2018, NPT filed an appeal to the New Hampshire Supreme Court, alleging that the NHSEC failed to follow applicable law in its review of the project. On October 12, 2018, the New Hampshire Supreme Court accepted this appeal. Subsequently, the NHSEC transmitted the record of its proceedings to the New Hampshire Supreme Court on December 11, 2018. Briefing of the appeal began on February 4, 2019. The New Hampshire Supreme Court has not set a date for oral argument. NPT intends to continue to pursue NHSEC approval to construct this project. Consistent with Eversource's and HQ's long-term relationship to bring clean energy into New England, Eversource and HQ remain committed to Northern Pass and the many benefits this project will bring to our customers and the region. For further information, see "Business Development and Capital Expenditures - Electric Transmission Business" in the accompanying Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

### **Transmission Rate Base**

Transmission rate base under our FERC-approved tariff primarily consists of our investment in transmission net utility plant less accumulated deferred income taxes.

Under our FERC-approved tariff, and with the exception of transmission projects that received specific FERC approval to include CWIP in rate base, transmission projects generally enter rate base after they are placed in commercial operation. At the end of 2018, our estimated transmission rate base was approximately \$6.7 billion, including approximately \$3.0 billion at CL&P, \$2.7 billion at NSTAR Electric, and \$920 million at PSNH.

### **NATURAL GAS DISTRIBUTION SEGMENT**

NSTAR Gas distributes natural gas to approximately 296,000 customers in 51 communities in central and eastern Massachusetts covering 1,067 square miles, and Yankee Gas distributes natural gas to approximately 237,000 customers in 72 cities and towns in Connecticut covering 2,187 square miles. Total throughput (sales and transportation) in 2018 was approximately 70.1 Bcf for NSTAR Gas and 58.6 Bcf for Yankee Gas. Our natural gas businesses provide firm natural gas sales and transportation service to eligible retail customers who require a continuous natural gas supply throughout the year, such as residential customers who rely on natural gas for heating, hot water and cooking needs, as well as commercial and industrial customers that rely on natural gas for space heating, hot water, cooking and commercial and industrial applications.

A portion of the storage of natural gas supply for NSTAR Gas during the winter heating season is provided by Hopkinton LNG Corp., an indirect, wholly-owned subsidiary of Eversource Energy. NSTAR Gas has access to Hopkinton LNG Corp. facilities in Hopkinton, Massachusetts consisting of a LNG liquefaction and vaporization plant and three above-ground cryogenic storage tanks having an aggregate capacity of 3.0 Bcf of liquefied natural gas. NSTAR Gas also has access to Hopkinton LNG Corp. facilities in Acushnet, Massachusetts that include additional storage capacity of 0.5 Bcf. Total vaporization capacity of these facilities is 0.21 Bcf per day. Yankee Gas owns a 1.2 Bcf LNG facility in Waterbury, Connecticut, which also has the ability to liquefy and vaporize up to 0.1 Bcf per day. This facility is used primarily to assist Yankee Gas in meeting its supplier-of-last-resort obligations and also enables it to provide economic supply and make economic refill of natural gas, typically during periods of low demand.

NSTAR Gas and Yankee Gas generate revenues primarily through the sale and/or transportation of natural gas. While all NSTAR Gas customers have the ability to choose to transport natural gas, in the past year, transportation represented only about two percent of the total residential load, while transportation represented about 56 percent of the total commercial and industrial load. Retail natural gas service in Connecticut is partially unbundled: residential customers in Yankee Gas' service territory buy natural gas supply and delivery only from Yankee Gas while commercial and industrial customers may choose their natural gas suppliers. NSTAR Gas offers firm transportation service to all customers who purchase natural gas from sources other than NSTAR Gas while Yankee Gas offers firm transportation service to its commercial and industrial customers who purchase natural gas from sources other than Yankee Gas. NSTAR Gas offers interruptible transportation and interruptible natural gas sales service to high volume commercial and industrial customers. Yankee Gas offers interruptible transportation and interruptible natural gas sales service to commercial and industrial customers that have the ability to switch from natural gas to an alternate fuel on short notice. NSTAR Gas and Yankee Gas can interrupt service to these customers during peak demand periods or at any other time to maintain distribution system integrity.

### **Rates**

NSTAR Gas and Yankee Gas are subject to regulation by the DPU and the PURA, respectively, which, among other things, have jurisdiction over rates, certain dispositions of property and plant, mergers and consolidations, issuances of long-term securities, standards of service and construction and operation of facilities.

Retail natural gas delivery and supply rates are established by the DPU and the PURA and are comprised of:

- A distribution charge consisting of a fixed customer charge and a demand and/or energy charge that collects the costs of building, maintaining, and expanding the natural gas infrastructure to deliver natural gas supply to its customers. This also includes collection of ongoing operating costs.
- A seasonal cost of gas adjustment clause ("CGAC") at NSTAR Gas that collects natural gas supply costs, pipeline and storage capacity costs, costs related to charge-offs of uncollected energy costs and working capital related costs. The CGAC is reset semi-annually

with any difference being recovered from, or refunded to, customers during the following corresponding season. In addition, NSTAR Gas files interim changes to its CGAC factor when the actual costs of natural gas supply vary from projections by more than five percent.

- A local distribution adjustment clause ("LDAC") at NSTAR Gas that collects all energy efficiency and related program costs, environmental costs, pension and PBOP related costs, attorney general consultant costs, and costs associated with low income customers. The LDAC is reset annually with any difference being recovered from, or refunded to, customers during the following period and provides for the recovery of certain costs applicable to both sales and transportation customers.
- A Purchased Gas Adjustment ("PGA") clause, which is evaluated monthly and allows Yankee Gas to recover the costs of the procurement of natural gas for its firm and seasonal customers. Differences between actual natural gas costs and collection amounts on August 31st of each year are deferred and then recovered from, or refunded to, customers during the following year. Carrying charges on outstanding balances are calculated using Yankee Gas' weighted average cost of capital in accordance with the directives of the PURA.
- Conservation Adjustment Mechanism ("CAM") at Yankee Gas, which allows 100 percent recovery of conservation costs through this mechanism including program incentives to promote energy efficiency, as well as recovery of any lost revenues associated with implementation of energy conservation measures. A reconciliation of CAM revenues to expenses is performed annually with any difference being recovered from, or refunded to, customers with carrying charges during the following year.

NSTAR Gas purchases financial contracts based on the New York Mercantile Exchange ("NYMEX") natural gas futures in order to reduce cash flow variability associated with the price for approximately one-third of its normal winter season natural gas supplies. These purchases are made under a program approved by the DPU in 2006. This practice attempts to minimize the impact of fluctuations in natural gas prices to NSTAR Gas' firm natural gas customers. These financial contracts do not procure natural gas supply. All costs incurred or benefits realized when these contracts are settled are included in the CGAC.

NSTAR Gas is subject to SQ metrics that measure safety, reliability and customer service and could be required to pay to customers a SQ charge of up to 2.5 percent of annual distribution revenues for failing to meet such metrics. NSTAR Gas will not be required to pay a SQ charge for its 2018 performance as it achieved results at or above target for all of its SQ metrics in 2018.

NSTAR Gas distribution rates were set in its 2015 DPU approved rate case. Yankee Gas distribution rates were set in a December 2018 PURA approved rate case settlement agreement, with rates effective November 15, 2018.

The 2018 Yankee Gas settlement agreement required Yankee Gas to implement a Distribution Integrity Management Program ("DIMP") cost recovery mechanism to further invest capital to replace aging infrastructure. The DIMP mechanism allows for recovery of costs associated with capital additions of approximately \$26 million to \$37 million annually, which is incremental to the \$150 million included in base distribution rate base per year. The settlement agreement also provides Yankee Gas the opportunity to seek recovery of additional capital spending above these levels with PURA approval. PURA ordered an accelerated replacement program for Yankee Gas to fully replace its cast iron and bare steel facilities in 11 years and fully replace copper services and certain steel mains and services in 14 years. Yankee Gas was also authorized to continue its ongoing natural gas system expansion program, implement a revenue decoupling rate mechanism, and recover merger costs. The settlement agreement included a regulatory ROE of 9.3 percent. In addition, the distribution rates charged to customers were adjusted to reflect the prospective impacts of the lower federal corporate income tax rate, the overcollection of the lower income tax rate from January 1, 2018, and the EDIT from the Tax Cuts and Jobs Act. Although new rates were effective January 1, 2019, the provisions of the settlement agreement took effect November 15, 2018. For further information on the 2018 Yankee Gas settlement agreement, see "Regulatory Developments and Rate Matters - Connecticut" in the accompanying Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

### **Natural Gas Replacement and Expansion**

Massachusetts: On July 7, 2014, Massachusetts enacted "An Act Relative to Natural Gas Leaks". This act established a uniform natural gas leak classification standard for all Massachusetts natural gas utilities and a program that accelerates the replacement of aging natural gas infrastructure. The program enabled companies, including NSTAR Gas, to better manage the scheduling and costs of replacement. The act also called for the DPU to authorize natural gas utilities to design and offer programs to customers that will increase the availability, affordability and feasibility of natural gas service for new customers.

In October of each year, pursuant to the act, NSTAR Gas files the Gas System Enhancement Program ("GSEP") with the DPU for the following construction year. NSTAR Gas' program accelerates the replacement of certain natural gas distribution facilities in the system to less than 25 years. The GSEP includes a tariff that provides NSTAR Gas an opportunity to collect the costs for the program on an annual basis through a reconciling factor. On April 30th each year, the DPU approves the GSEP rate recovery factor that goes into effect on May 1st.

Connecticut: In 2013, in accordance with Connecticut law and regulations, the PURA approved a comprehensive joint natural gas infrastructure expansion plan (the "Expansion Plan") filed by Yankee Gas and other Connecticut natural gas distribution companies. In January 2015, the PURA approved a joint settlement agreement proposed by Yankee Gas and other Connecticut natural gas distribution companies and regulatory agencies that clarified the procedures and oversight criteria applicable to the Expansion Plan. Yankee Gas has received approval from PURA for its 2014, 2015 and 2016 System Expansion Reconciliations as of November 2017. Yankee Gas filed its 2017 System Expansion Reconciliation in March 2018 and is awaiting PURA review. Yankee Gas intends to file its 2018 System Expansion Reconciliation on March 15, 2019.

## Sources and Availability of Natural Gas Supply

NSTAR Gas maintains a flexible resource portfolio consisting of natural gas supply contracts, transportation contracts on interstate pipelines, market area storage and peaking services. NSTAR Gas purchases transportation, storage, and balancing services from Tennessee Gas Pipeline Company and Algonquin Gas Transmission Company, as well as other upstream pipelines that transport natural gas from major natural gas producing regions in the U.S., including the Gulf Coast, Mid-continent region, and Appalachian Shale supplies to the final delivery points in the NSTAR Gas service area. NSTAR Gas purchases all of its natural gas supply under a firm, competitively bid annual portfolio management contract. In addition to the firm transportation and natural gas storage supplies discussed above, NSTAR Gas utilizes on-system LNG facilities to meet its winter peaking demands. These LNG facilities, described below, are located within NSTAR Gas' distribution system and are used to liquefy and store pipeline natural gas during the warmer months for vaporization and use during the heating season. During the summer injection season, excess pipeline capacity and supplies are used to deliver and store natural gas in market area underground storage facilities located in Maryland and Pennsylvania. Stored natural gas is withdrawn during the winter season to supplement flowing pipeline supplies in order to meet firm heating demand. NSTAR Gas has firm underground storage contracts and total storage capacity entitlements of approximately 6.6 Bcf, of which 3.5 Bcf LNG storage is provided by Hopkinton LNG Corp. in facilities located in Hopkinton and Acushnet, MA.

The PURA requires Yankee Gas to meet the needs of its firm customers under all weather conditions. Specifically, Yankee Gas must structure its supply portfolio to meet firm customer needs under a design day scenario (defined as the coldest day in 30 years) and under a design year scenario (defined as the average of the four coldest years in the last 30 years). Yankee Gas also maintains a flexible resource portfolio consisting of natural gas supply contracts, transportation contracts on interstate pipelines, off-system storage and its on-system 1.2 Bcf LNG storage facility to meet consumption needs during the coldest days of winter. Yankee Gas obtains its interstate capacity from the three interstate pipelines that directly serve Connecticut: the Algonquin, Tennessee and Iroquois Pipelines, which connect to other upstream pipelines that transport natural gas from major natural gas producing regions, including the Gulf Coast, Mid-continent, Canadian regions and Appalachian Shale supplies.

Based on information currently available regarding projected growth in demand and estimates of availability of future supplies of pipeline natural gas, each of NSTAR Gas and Yankee Gas believes that participation in planned and anticipated pipeline and storage expansion projects will be required in order for it to meet current and future sales growth opportunities.

## WATER DISTRIBUTION SEGMENT

Eversource Water Ventures, Inc., a Connecticut corporation, through its wholly-owned subsidiary, Eversource Aquarion Holdings, Inc. (Aquarion), operates three separate regulated water utilities in Connecticut (Aquarion Water Company of Connecticut, or "AWC-CT"), Massachusetts (Aquarion Water Company of Massachusetts, or "AWC-MA") and New Hampshire (Aquarion Water Company of New Hampshire, or "AWC-NH"). These regulated companies provide water services to approximately 228,000 residential, commercial, industrial, municipal and fire protection and other customers, in 59 towns and cities in Connecticut, Massachusetts and New Hampshire. As of December 31, 2018, approximately 87 percent of Aquarion's customers were based in Connecticut.

### Rates

Aquarion's water utilities are subject to regulation by the PURA, the DPU and the NHPUC in Connecticut, Massachusetts and New Hampshire, respectively. These regulatory agencies, have jurisdiction over, among other things, rates, certain dispositions of property and plant, mergers and consolidations, issuances of long-term securities, standards of service and construction and operation of facilities.

Aquarion's general rate structure consists of various rate and service classifications covering residential, commercial, industrial, and municipal and fire protection services.

The rates established by the PURA, DPU and NHPUC are comprised of the following:

- A base rate, which is comprised of fixed charges based on meter/fire connection sizes, as well as volumetric charges based on the amount of water sold. Together these charges are designed to recover the full cost of service resulting from a general rate proceeding.
- In Connecticut, a revenue adjustment mechanism ("RAM") that reconciles earned revenues, with certain allowed adjustments, on an annual basis, to the revenue requirement approved by the PURA in AWC-CT's last rate case (2013), which is an annual amount of \$177.9 million.
- In Connecticut and New Hampshire, a water infrastructure conservation adjustment ("WICA") charge, which is applied between rate case proceedings and seeks recovery of allowed costs associated with WICA-eligible capital projects placed in-service. The WICA is updated semi-annually in Connecticut and annually in New Hampshire.
- In Massachusetts, treatment plant surcharges, which are a series of three surcharges in Massachusetts (one fixed and two volumetric in nature) that are designed to recover certain operating costs and the costs of the lease of the treatment plant located in Hingham. These surcharges are applicable only to customers in Hingham, Hull and Cohasset.

## Sources and Availability of Water Supply

Our water utilities obtain their water supplies from owned surface water sources (reservoirs) and groundwater supplies (wells) with a total supply yield of approximately 131 million gallons per day, as well as water purchased from other water suppliers. Approximately 98 percent of our annual production is self-supplied and processed at 10 surface water treatment plants and numerous well stations, which are all located in Connecticut, Massachusetts, and New Hampshire.

The capacities of Aquarion's sources of supply, and water treatment, pumping and distribution facilities, are considered sufficient to meet the present requirements of Aquarion's customers under normal conditions. On occasion, drought declarations are issued for portions of Aquarion's service territories in response to extended periods of dry weather conditions.

## OFFSHORE WIND PROJECTS

Bay State Wind is an offshore wind project being jointly developed by Eversource and Denmark-based Ørsted. Bay State Wind is located in a 300-square-mile area of the Atlantic Ocean approximately 25 miles south of the coast of Massachusetts and has the ultimate potential to generate at least 2,000 MW of clean, renewable energy. Eversource and Ørsted each hold a 50 percent ownership interest in Bay State Wind. Bay State Wind has previously submitted proposals, and expects to participate in future solicitations, for offshore wind in Connecticut, Massachusetts, New York and Rhode Island based on each state's clean energy requirements.

On February 8, 2019, Eversource and Ørsted entered into a 50-50 partnership for key offshore wind assets in the Northeast. Eversource paid approximately \$225 million for a 50 percent interest in Ørsted's Revolution Wind and South Fork Wind power projects, as well as the 257-square-mile tract off the coasts of Massachusetts and Rhode Island. Revolution Wind is a 700 MW offshore wind power project located approximately 15 miles south of the Rhode Island coast, and South Fork Wind is approximately a 130 MW offshore wind power project located 35 miles east of Long Island. Subject to permitting, finalized power purchase agreements, where applicable, further development, and final investment decisions by Ørsted and Eversource, Revolution Wind is expected to be commissioned in 2023 and South Fork Wind is expected by the end of 2022.

For more information, see "Business Development and Capital Expenditures – Offshore Wind Projects" in the accompanying Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

## NATURAL GAS TRANSMISSION PROJECT

Access Northeast is a natural gas pipeline and storage project jointly owned by Eversource, Enbridge, Inc. ("Enbridge") and National Grid plc ("National Grid"), through Algonquin Gas Transmission, LLC ("AGT"). Eversource owns a 40 percent interest in the project, which is accounted for as an equity method investment. In 2018, management determined that the future cash flows of the Access Northeast project were uncertain and could no longer be reasonably estimated and that the book value of our equity method investment was not recoverable. As a result, Eversource recorded an other-than-temporary impairment of \$32.9 million pre-tax within Other Income, Net on our statement of income in 2018, which represented the full carrying value of our equity method investment. For more information, see "Business Development and Capital Expenditures – Natural Gas Transmission Project" in the accompanying Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

## PROJECTED CAPITAL EXPENDITURES

We project to make capital expenditures of \$12.75 billion from 2019 through 2023, of which we expect \$8.06 billion to be in our electric and natural gas distribution segments, \$3.35 billion to be in our electric transmission segment and \$0.62 billion to be in our water distribution segment. We also project to invest \$0.72 billion in information technology and facilities upgrades and enhancements. These projections do not include any expected investments related to NPT or offshore wind projects.

## FINANCING

Our credit facilities and indentures require that Eversource parent and certain of its subsidiaries, including CL&P, NSTAR Electric, PSNH, NSTAR Gas, Yankee Gas, and Aquarion, comply with certain financial and non-financial covenants as are customarily included in such agreements, including maintaining a ratio of consolidated debt to total capitalization of no more than 65 percent. All of these companies currently are, and expect to remain, in compliance with these covenants.

As of December 31, 2018, \$801.1 million of Eversource's long-term debt, including \$350.0 million, \$250.0 million, \$150.0 million, \$50.0 million and \$1.1 million for Eversource parent, CL&P, PSNH, Yankee Gas and Aquarion, respectively, will mature within the next 12 months.

## **NUCLEAR FUEL STORAGE**

CL&P, NSTAR Electric, PSNH, and several other New England electric utilities are stockholders in three inactive regional nuclear generation companies, CYAPC, MYAPC and YAEC (collectively, the Yankee Companies). The Yankee Companies have completed the physical decommissioning of their respective generation facilities and are now engaged in the long-term storage of their spent nuclear fuel. The Yankee Companies have completed collection of their decommissioning and closure costs through the proceeds from the spent nuclear fuel litigation against the DOE and have refunded amounts to their member companies. These proceeds were used by the Yankee Companies to offset the decommissioning and closure cost amounts due from their member companies or to decrease the wholesale FERC-approved rates charged under power purchase agreements with CL&P, NSTAR Electric and PSNH and several other New England utilities. The decommissioning rates charged by the Yankee Companies have been reduced to zero. CL&P, NSTAR Electric and PSNH can recover these costs from, or refund proceeds to, their customers through state regulatory commission-approved retail rates.

We consolidate the assets and obligations of CYAPC and YAEC on our consolidated balance sheet because our ownership and voting interests are more than 50 percent of each of these companies.

## **OTHER REGULATORY AND ENVIRONMENTAL MATTERS**

### **General**

We are regulated in virtually all aspects of our business by various federal and state agencies, including FERC, the SEC, and various state and/or local regulatory authorities with jurisdiction over the industry and the service areas in which each of our companies operates, including the PURA, which has jurisdiction over CL&P, Yankee Gas, and Aquarion, the NHPUC, which has jurisdiction over PSNH and Aquarion, and the DPU, which has jurisdiction over NSTAR Electric, NSTAR Gas, and Aquarion.

### **Environmental Regulation**

We are subject to various federal, state and local requirements with respect to water quality, air quality, toxic substances, hazardous waste and other environmental matters. Additionally, major generation and transmission facilities may not be constructed or significantly modified without a review of the environmental impact of the proposed construction or modification by the applicable federal or state agencies.

### **Renewable Portfolio Standards**

Each of the states in which we do business also has Renewable Portfolio Standards ("RPS") requirements, which generally require fixed percentages of our energy supply to come from renewable energy sources such as solar, wind, hydropower, landfill gas, fuel cells and other similar sources.

New Hampshire's RPS provision requires increasing percentages of the electricity sold to retail customers to have direct ties to renewable sources. In 2018, the total RPS obligation was 18.7 percent and it will ultimately reach 25.2 percent in 2025. The costs of the RECs are recovered by PSNH through rates charged to customers.

Similarly, Connecticut's RPS statute requires increasing percentages of the electricity sold to retail customers to have direct ties to renewable sources. In 2018, the total RPS obligation was 25 percent and will ultimately reach 38 percent in 2020. CL&P is permitted to recover any costs incurred in complying with RPS from its customers through its GSC rate.

Massachusetts' RPS program also requires electricity suppliers to meet renewable energy standards. For 2018, the requirement was 23.365 percent, and will ultimately reach 37.75 percent in 2020. NSTAR Electric is permitted to recover any costs incurred in complying with RPS from its customers through rates. NSTAR Electric also owns renewable solar power facilities. The RECs generated from NSTAR Electric's solar power facilities are sold to other energy suppliers, and the proceeds from these sales are credited back to customers.

### **Hazardous Materials Regulations**

We have recorded a liability for what we believe, based upon currently available information, is our reasonably estimable environmental investigation, remediation, and/or Natural Resource Damages costs for waste disposal sites for which we have probable liability. Under federal and state law, government agencies and private parties can attempt to impose liability on us for recovery of investigation and remediation costs at hazardous waste sites. As of December 31, 2018, the liability recorded for our reasonably estimable and probable environmental remediation costs for known sites needing investigation and/or remediation, exclusive of recoveries from insurance or from third parties, was \$64.7 million, representing 60 sites. These costs could be significantly higher if additional remediation becomes necessary or when additional information as to the extent of contamination becomes available.

The most significant liabilities currently relate to future clean-up costs at former MGP facilities. These facilities were owned and operated by our predecessor companies from the mid-1800's to mid-1900's. By-products from the manufacture of gas using coal resulted in fuel oils, hydrocarbons, coal tar, purifier wastes, metals and other waste products that may pose a potential risk to human health and the environment. We currently have partial or full ownership responsibilities at former MGP sites that have a reserve balance of \$50.1 million of the total \$64.7 million as of December 31, 2018. MGP costs are recoverable through rates charged to our customers.

## **Electric and Magnetic Fields**

For more than twenty years, published reports have discussed the possibility of adverse health effects from electric and magnetic fields ("EMF") associated with electric transmission and distribution facilities and appliances and wiring in buildings and homes. Although weak health risk associations reported in some epidemiology studies remain unexplained, most researchers, as well as numerous scientific review panels, considering all significant EMF epidemiology and laboratory studies, have concluded that the available body of scientific information does not support the conclusion that EMF affects human health.

In accordance with recommendations of various regulatory bodies and public health organizations, we reduce EMF associated with new transmission lines by the use of designs that can be implemented without additional cost or at a modest cost. We do not believe that other capital expenditures are appropriate to minimize unsubstantiated risks.

## **Global Climate Change and Greenhouse Gas Emission Issues**

Global climate change and greenhouse gas emission issues have received an increased focus from state governments and the federal government. The EPA initiated a rulemaking addressing greenhouse gas emissions and, on December 7, 2009, issued a finding that concluded that greenhouse gas emissions are "air pollution" that endangers public health and welfare and should be regulated. The EPA has mandated greenhouse gas emission reporting beginning in 2011 for emissions for certain aspects of our business including volume of gas supplied to large customers and fugitive emissions of SF6 gas and methane.

We are continually evaluating the regulatory risks and regulatory uncertainty presented by climate change concerns. Such concerns could potentially lead to additional rules and regulations that impact how we operate our general utility business. These could include federal "cap and trade" laws, carbon taxes, and fuel and energy taxes. We expect that any costs of these rules and regulations would be recovered from customers.

## **EMPLOYEES**

As of December 31, 2018, Eversource Energy employed a total of 7,998 employees, excluding temporary employees, of which 1,307 were employed by CL&P, 1,618 were employed by NSTAR Electric, and 736 were employed by PSNH. Approximately 50 percent of our employees are members of the International Brotherhood of Electrical Workers, the Utility Workers Union of America or The United Steelworkers, and are covered by nine collective bargaining agreements.

## **INTERNET INFORMATION**

Our website address is [www.eversource.com](http://www.eversource.com). We make available through our website a link to the SEC's EDGAR website (<http://www.sec.gov/edgar/searchedgar/companysearch.html>), at which site Eversource's, CL&P's, NSTAR Electric's and PSNH's combined Annual Reports on Form 10-K, combined Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports may be reviewed. Information contained on the Company's website or that can be accessed through the website is not incorporated into and does not constitute a part of this Annual Report on Form 10-K. Printed copies of these reports may be obtained free of charge by writing to our Investor Relations Department at Eversource Energy, 107 Selden Street, Berlin, CT 06037.

## **Item 1A. Risk Factors**

In addition to the matters set forth under "Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995" included immediately prior to Item 1, *Business*, above, we are subject to a variety of significant risks. Our susceptibility to certain risks, including those discussed in detail below, could exacerbate other risks. These risk factors should be considered carefully in evaluating our risk profile.

### **Cyberattacks could severely impair operations, negatively impact our business, lead to the disclosure of confidential information and adversely affect our reputation.**

A successful cyberattack on the information technology systems that control our transmission and distribution systems or other assets could impair or prevent us from managing these systems and facilities, operating our systems effectively, or properly managing our data, networks and programs. The breach of certain information technology systems could adversely affect our ability to correctly record, process and report financial information. A major cyber incident could result in significant expenses to investigate and to repair system damage or security breaches and could lead to litigation, fines, other remedial action, heightened regulatory scrutiny and damage to our reputation.

We have instituted safeguards to protect our information technology systems and assets. We devote substantial resources to network and application security, encryption and other measures to protect our computer systems and infrastructure from unauthorized access or misuse and interface with numerous external entities to improve our cybersecurity situational awareness. The FERC, through the North American Electric Reliability Corporation, requires certain safeguards to be implemented to deter cyberattacks. These safeguards may not always be effective due to the evolving nature of cyberattacks. We maintain limited cyber insurance to cover damages and defense costs related to breaches of networks or operational technology.

Any such cyberattacks could result in loss of service to customers and a significant decrease in revenues, which could have a material adverse impact on our financial position, results of operations and cash flows.

### **Acts of war or terrorism, both threatened and actual, or physical attacks could adversely affect our ability to operate our systems and could adversely affect our financial results and liquidity.**

Acts of war or terrorism, both threatened and actual, or actual physical attacks that damage our transmission and distribution systems or other assets could negatively impact our ability to transmit or distribute energy, distribute water, or operate our systems efficiently or at all. Because our electric transmission systems are part of an interconnected regional grid, we face the risk of blackout due to grid disturbances or disruptions on a neighboring interconnected system. If our assets were physically damaged and were not recovered in a timely manner, it could result in a loss of service to customers and a significant decrease in revenues.

Any such acts of war or terrorism, physical attacks or grid disturbances could result in a significant decrease in revenues, significant expense to repair system damage, costs associated with governmental actions in response to such attacks, and liability claims, all of which could have a material adverse impact on our financial position, results of operations and cash flows.

### **Strategic development opportunities may not be successful and projects may not commence operation as scheduled or be completed, which could have a material adverse effect on our business prospects.**

We are pursuing broader strategic development investment opportunities that will benefit the New England region related to the construction of electric transmission facilities, off-shore wind electric generation facilities, interconnections to generating resources and other investment opportunities. The development of these activities involve numerous risks. Various factors could result in increased costs or result in delays or cancellation of these projects. Risks include regulatory approval processes, new legislation, economic events or factors, environmental and community concerns, design and siting issues, difficulties in obtaining required rights of way, competition from incumbent utilities and other entities, and actions of strategic partners. Should any of these factors result in such delays or cancellations, our financial position, results of operations, and cash flows could be adversely affected or our future growth opportunities may not be realized as anticipated.

As a result of legislative and regulatory changes, the states in which we provide service have implemented new selection procedures for new major electric transmission, natural gas pipeline, off-shore wind and other clean energy facilities. These procedures require the review of competing projects and permit the selection of only those projects that are expected to provide the greatest benefit to customers. If the projects in which we have invested are not selected for construction, or even if our projects are selected, then legislative or regulatory actions could result in our projects not being probable of entering the construction phase, which could have a material adverse effect on our future financial position, results of operations and cash flows.

### **The actions of regulators and legislators can significantly affect our earnings, liquidity and business activities.**

The rates that our electric, natural gas and water companies charge their customers are determined by their state regulatory commissions and by the FERC. These commissions also regulate the companies' accounting, operations, the issuance of certain securities and certain other matters. The FERC also regulates the transmission of electric energy, the sale of electric energy at wholesale, accounting, issuance of certain securities and certain other matters.

Under state and federal law, our electric, natural gas and water companies are entitled to charge rates that are sufficient to allow them an opportunity to recover their reasonable operating and capital costs and a reasonable ROE, to attract needed capital and maintain their financial integrity, while also protecting relevant public interests. Each of these companies prepares and submits periodic rate filings with their respective regulatory commissions for review and approval. As a result of a catastrophic event not involving Eversource, regulators and legislators could impose additional requirements resulting in additional costs to the Company.

The FERC has jurisdiction over our transmission costs recovery and our allowed ROEs. Certain outside parties have filed four complaints against all electric companies under the jurisdiction of ISO-NE alleging that our allowed ROEs are unjust and unreasonable. An adverse decision in any of these four complaints could adversely affect our financial position, results of operations and cash flows.

FERC's policy has encouraged competition for transmission projects, even within existing service territories of electric companies. Implementation of FERC's goals, including within our service territories, may expose us to competition for construction of transmission projects, additional regulatory considerations, and potential delay with respect to future transmission projects, which may adversely affect our results of operations.

There is no assurance that regulators will approve the recovery of all costs incurred by our electric, natural gas and water companies, including costs for construction, operation and maintenance, as well as a reasonable return on their respective regulated assets. The amount of costs incurred by the companies, coupled with increases in fuel and energy prices, could lead to consumer or regulatory resistance to the timely recovery of such costs, thereby adversely affecting our financial position, results of operations and cash flows.

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

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

**The effects of climate change, including severe storms, could cause significant damage to any of our facilities requiring extensive expenditures, the recovery for which is subject to approval by regulators.**

Climate change creates physical and financial risks. Physical risks from climate change may include an increase in sea levels and changes in weather conditions, such as changes in precipitation and extreme weather events including drought. Customers' energy needs vary with weather conditions, primarily temperature and humidity. For residential customers, heating and cooling represent their largest energy use. For water customers, conservation measures imposed by the communities we serve could impact water usage. To the extent weather conditions are affected by climate change, customers' energy and water usage could increase or decrease depending on the duration and magnitude of the changes.

Severe weather, such as ice and snow storms, hurricanes and other natural disasters, may cause outages and property damage, which may require us to incur additional costs that may not be recoverable from customers. The cost of repairing damage to our operating subsidiaries' facilities and the potential disruption of their operations due to storms, natural disasters or other catastrophic events could be substantial, particularly as regulators and customers demand better and quicker response times to outages. If, upon review, any of our state regulatory authorities finds that our actions were imprudent, some of those restoration costs may not be recoverable from customers. The inability to recover a significant amount of such costs could have an adverse effect on our financial position, results of operations and cash flows.

**Our transmission and distribution systems may not operate as expected, and could require unplanned expenditures, which could adversely affect our financial position, results of operations and cash flows.**

Our ability to properly operate our transmission and distribution systems is critical to the financial performance of our business. Our transmission and distribution businesses face several operational risks, including the breakdown, failure of, or damage to operating equipment, information technology systems, or processes, especially due to age; labor disputes; disruptions in the delivery of electricity, natural gas and water, including impacts on us or our customers; increased capital expenditure requirements, including those due to environmental regulation; catastrophic events such as fires, explosions, or other similar occurrences; extreme weather conditions beyond equipment and plant design capacity; other unanticipated operations and maintenance expenses and liabilities; and potential claims for property damage or personal injuries beyond the scope of our insurance coverage. Many of our transmission projects are expected to alleviate identified reliability issues and reduce customers' costs. However, if the in-service date for one or more of these projects is delayed due to economic events or factors, or regulatory or other delays, the risk of failures in the electricity transmission system may increase. Any failure of our transmission and distribution systems to operate as planned may result in increased capital costs, reduced earnings or unplanned increases in operation and maintenance costs. The inability to recover a significant amount of such costs could have an adverse effect on our financial position, results of operations and cash flows.

**New technology, conservation measures and alternative energy sources could adversely affect our operations and financial results.**

Advances in technology that reduce the costs of alternative methods of producing electric energy to a level that is competitive with that of current electric production methods, could result in loss of market share and customers, and may require us to make significant expenditures to remain competitive. These changes in technology could also alter the channels through which electric customers buy or utilize energy, which could reduce our revenues or increase our expenses. Economic downturns or periods of high energy supply costs typically can lead to the development of legislative and regulatory policy designed to promote reductions in energy consumption and increased energy efficiency and self-generation by customers. Customers' increased use of energy efficiency measures, distributed generation and energy storage technology could result in lower demand. Similarly, mandatory water conservation imposed by regulators due to drought conditions could result in lower demand for water. Reduced demand for electricity due to energy efficiency measures and the use of distributed generation, and reduced demand for water due to mandatory or voluntary conservation efforts, to the extent not substantially offset through ratemaking or decoupling mechanisms, could have a material adverse effect on our financial condition, results of operations and cash flows.

**The unauthorized access to and the misappropriation of confidential and proprietary customer, employee, financial or system operating information could adversely affect our business operations and adversely impact our reputation.**

In the regular course of business, we maintain sensitive customer, employee, financial and system operating information and are required by various federal and state laws to safeguard this information. Cyber intrusions, security breaches, theft or loss of this information by cybercrime or otherwise could lead to the release of critical operating information or confidential customer or employee information, which could adversely affect our business operations or adversely impact our reputation, and could result in significant costs, fines and litigation. We maintain limited privacy protection liability insurance to cover limited damages and defense costs arising from unauthorized disclosure of, or failure to protect, private information, as well as costs for notification to, or for credit card monitoring of, customers, employees and other persons in the event of a breach of private information. This insurance covers amounts paid to avert, prevent or stop a network attack or the disclosure of personal information, and costs of a qualified forensic firm to determine the cause, source and extent of a network attack or to investigate, examine and analyze our network to find the cause, source and extent of a data breach. While we have implemented measures designed to prevent network attacks and mitigate their effects should they occur, these measures may not be effective due to the continually evolving nature of efforts to access confidential information.

**Contamination of our water supplies, the failure of dams on reservoirs providing water to our customers, or requirements to repair, upgrade or dismantle any of these dams, may disrupt our ability to distribute water to our customers and result in substantial additional costs, which could adversely affect our financial condition, and results of operations.**

Our water supplies, including water provided to our customers, are subject to possible contamination from naturally occurring compounds or man-made substances.

Our water systems include impounding dams and reservoirs of various sizes. Although we believe our dams are structurally sound and well-maintained, significant damage to these facilities, or a significant decrease in the water in our reservoirs, could adversely affect our ability to provide water to our customers until the facilities and a sufficient amount of water in our reservoirs can be restored. A failure of a dam could result in personal injuries and downstream property damage for which we may be liable. The failure of a dam would also adversely affect our ability to supply water in sufficient quantities to our customers. Any losses or liabilities incurred due to a failure of one of our dams may not be covered by existing insurance, may exceed such insurance coverage limits, or may not be recoverable in rates. Any such losses may make it difficult for us to obtain insurance at acceptable rates in the future, and may have a material adverse effect on our financial condition, results of operations and cash flows.

**Our goodwill is valued and recorded at an amount that, if impaired and written down, could adversely affect our future operating results and total capitalization.**

We have a significant amount of goodwill on our consolidated balance sheet, which, as of December 31, 2018, totaled \$4.4 billion. The carrying value of goodwill represents the fair value of an acquired business in excess of the fair value of identifiable assets and liabilities as of the acquisition date. We test our goodwill balances for impairment on an annual basis or whenever events occur or circumstances change that would indicate a potential for impairment. A determination that goodwill is deemed to be impaired would result in a non-cash charge that could materially adversely affect our financial position, results of operations and total capitalization. The annual goodwill impairment test in 2018 resulted in a conclusion that our goodwill was not impaired.

**Eversource Energy and its utility subsidiaries are exposed to significant reputational risks, which make them vulnerable to increased regulatory oversight or other sanctions.**

Because utility companies, including our electric, natural gas and water utility subsidiaries, have large customer bases, they are subject to adverse publicity focused on the reliability of their distribution services and the speed with which they are able to respond to electric outages, natural gas leaks and similar interruptions caused by storm damage or other unanticipated events. Adverse publicity of this nature could harm the reputations of Eversource Energy and its subsidiaries; may make state legislatures, utility commissions and other regulatory authorities less likely to view them in a favorable light; and may cause them to be subject to less favorable legislative and regulatory outcomes or increased regulatory oversight. Unfavorable regulatory outcomes can include more stringent laws and regulations governing our operations, such as reliability and customer service quality standards or vegetation management requirements, as well as fines, penalties or other sanctions or requirements. The imposition of any of the foregoing could have a material adverse effect on the business, financial position, results of operations and cash flows of Eversource Energy and each of its utility subsidiaries.

**Limits on our access to and increases in the cost of capital may adversely impact our ability to execute our business plan.**

We use short-term debt and the long-term capital markets as a significant source of liquidity and funding for capital requirements not obtained from our operating cash flow. If access to these sources of liquidity becomes constrained, our ability to implement our business strategy could be adversely affected. In addition, higher interest rates would increase our cost of borrowing, which could adversely impact our results of operations. A downgrade of our credit ratings or events beyond our control, such as a disruption in global capital and credit markets, could increase our cost of borrowing and cost of capital or restrict our ability to access the capital markets and negatively affect our ability to maintain and to expand our businesses.

**Our counterparties may not meet their obligations to us or may elect to exercise their termination rights, which could adversely affect our earnings.**

We are exposed to the risk that counterparties to various arrangements who owe us money, have contracted to supply us with energy or other commodities or services, or who work with us as strategic partners, including on significant capital projects, will not be able to perform their obligations, will terminate such arrangements or, with respect to our credit facilities, fail to honor their commitments. Should any of these counterparties fail to perform their obligations or terminate such arrangements, we might be forced to replace the underlying commitment at higher market prices and/or have to delay the completion of, or cancel a capital project. Should any lenders under our credit facilities fail to perform, the level of borrowing capacity under those arrangements could decrease. In any such events, our financial position, results of operations, or cash flows could be adversely affected.

**Costs of compliance with environmental laws and regulations may increase and have an adverse effect on our business and results of operations.**

Our subsidiaries' operations are subject to extensive federal, state and local environmental statutes, rules and regulations that govern, among other things, water quality, water discharges, the management of hazardous and solid waste, and air emissions. Compliance with these requirements requires us to incur significant costs relating to environmental monitoring, maintenance and upgrading of facilities, remediation and permitting. The costs of compliance with existing legal requirements or legal requirements not yet adopted may increase in the future. An increase in such costs, unless promptly recovered, could have an adverse impact on our business and our financial position, results of operations and cash flows.

For further information, see Item 1, *Business - Other Regulatory and Environmental Matters*, included in this Annual Report on Form 10-K.

**Market performance or changes in assumptions may require us to make significant contributions to our pension and other postretirement benefit plans.**

We provide a defined benefit pension plan and other postretirement benefits for a substantial number of employees, former employees and retirees. Our future pension obligations, costs and liabilities are highly dependent on a variety of factors, many of which are beyond our control. These factors include estimated investment returns, interest rates, discount rates, health care cost trends, benefit changes, salary increases and the demographics of plan participants. If our assumptions prove to be inaccurate, our future costs could increase significantly. In addition, various factors, including underperformance of plan investments and changes in law or regulation, could increase the amount of contributions required to fund our pension plan in the future. Additional large funding requirements, when combined with the financing requirements of our construction program, could impact the timing and amount of future financings and negatively affect our financial position, results of operations and cash flows. For further information, see Note 10A, "Employee Benefits - Pensions and Postretirement Benefits Other Than Pension," to the financial statements.

**The loss of key personnel or the inability to hire and retain qualified employees could have an adverse effect on our business, financial position and results of operations.**

Our operations depend on the continued efforts of our employees. Retaining key employees and maintaining the ability to attract new employees are important to both our operational and financial performance. We cannot guarantee that any member of our management or any key employee at the Eversource parent or subsidiary level will continue to serve in any capacity for any particular period of time. In addition, a significant portion of our workforce in our subsidiaries, including many workers with specialized skills maintaining and servicing the electric, natural gas and water infrastructure, will be eligible to retire over the next five to ten years. Such highly skilled individuals cannot be quickly replaced due to the technically complex work they perform. We have developed strategic workforce plans to identify key functions and proactively implement plans to assure a ready and qualified workforce, but we cannot predict the impact of these plans on our ability to hire and retain key employees.

**As a holding company with no revenue-generating operations, Eversource parent's liquidity is dependent on dividends from its subsidiaries, its commercial paper program, and its ability to access the long-term debt and equity capital markets.**

Eversource parent is a holding company and as such, has no revenue-generating operations of its own. Its ability to meet its debt service obligations and to pay dividends on its common shares is largely dependent on the ability of its subsidiaries to pay dividends to or repay borrowings from Eversource parent, and/or Eversource parent's ability to access its commercial paper program or the long-term debt and equity capital markets. Prior to funding Eversource parent, the subsidiary companies have financial obligations that must be satisfied, including among others, their operating expenses, debt service, preferred dividends of certain subsidiaries, and obligations to trade creditors. Additionally, the

subsidiary companies could retain their free cash flow to fund their capital expenditures in lieu of receiving equity contributions from Eversource parent. Should the subsidiary companies not be able to pay dividends or repay funds due to Eversource parent, or if Eversource parent cannot access its commercial paper programs or the long-term debt and equity capital markets, Eversource parent's ability to pay interest, dividends and its own debt obligations would be restricted.

**Item 1B. Unresolved Staff Comments**

We do not have any unresolved SEC staff comments.

## Item 2. Properties

### Transmission and Distribution System

As of December 31, 2018, Eversource and our electric operating subsidiaries owned the following:

Eversource	Electric Distribution	Electric Transmission
Number of substations owned	495	74
Transformer capacity (in kVa)	43,632,000	16,149,000
Overhead lines (in circuit miles)	40,542	3,949
Capacity range of overhead transmission lines (in kV)	N/A	69 to 345
Underground lines (in circuit miles)	17,453	405
Capacity range of underground transmission lines (in kV)	N/A	69 to 345

	CL&P		NSTAR Electric		PSNH	
	Distribution	Transmission	Distribution	Transmission	Distribution	Transmission
Number of substations owned	181	20	174	34	140	20
Transformer capacity (in kVa)	21,752,000	3,633,000	17,568,000	7,465,000	4,312,000	5,051,000
Overhead lines (in circuit miles)	16,930	1,675	11,413	1,233	12,199	1,041
Capacity range of overhead transmission lines (in kV)	N/A	69 to 345	N/A	69 to 345	N/A	115 to 345
Underground lines (in circuit miles)	6,673	137	8,814	267	1,966	1
Capacity range of underground transmission lines (in kV)	N/A	69 to 345	N/A	115 to 345	N/A	115

	Eversource	CL&P	NSTAR Electric	PSNH
Underground and overhead line transformers in service	627,046	290,640	170,964	165,442
Aggregate capacity (in kVa)	36,601,452	15,855,590	14,157,211	6,588,651

### Electric Generating Plants

On January 10, 2018, Eversource and PSNH completed the sale of PSNH's thermal generation assets, including steam, internal combustion and biomass units. The sale of hydroelectric generation assets was completed on August 26, 2018. See Note 13, "Generation Asset Sale," in the accompanying Item 8, *Financial Statements and Supplementary Data* for further information.

As of December 31, 2018, NSTAR Electric owned the following solar power facilities:

Type of Plant	Number of Sites	Year Installed	Claimed Capability** (kilowatts)
Solar Fixed Tilt, Photovoltaic	20	2010 - 2018	58,100

\*\* Claimed capability represents the direct current nameplate capacity of the plants.

CL&P does not own any electric generating plants.

### Natural Gas Distribution System

As of December 31, 2018, Yankee Gas owned 28 active gate stations, 199 district regulator stations, and approximately 3,398 miles of natural gas main pipeline. Yankee Gas also owns a liquefaction and vaporization plant and above ground storage tank with a storage capacity equivalent of 1.2 Bcf of natural gas in Waterbury, Connecticut.

As of December 31, 2018, NSTAR Gas owned 21 active gate stations, 164 district regulator stations, and approximately 3,299 miles of natural gas main pipeline. Hopkinton, another subsidiary of Eversource, owns a satellite vaporization plant and above ground storage tanks in Acushnet, MA (0.5 Bcf of natural gas). In addition, Hopkinton owns a liquefaction and vaporization plant with above ground storage tanks in Hopkinton, MA (3.0 Bcf of natural gas). Combined, the two plants' tanks have an aggregate storage capacity equivalent to 3.5 Bcf of natural gas that is provided to NSTAR Gas under contract.

### Water Distribution System

Aquarion's properties consist of water transmission and distribution mains and associated valves, hydrants and service lines, water treatment plants, pumping facilities, wells, tanks, meters, dams, reservoirs, buildings, and other facilities and equipment used for the operation of our systems, including the collection, treatment, storage, and distribution of water.

As of December 31, 2018, Aquarion owned and operated sources of water supply with a combined yield of approximately 131 million gallons per day; 3,625 miles of transmission and distribution mains; 10 surface water treatment plants; 31 dams; and 107 wellfields.

## Franchises

**CL&P** Subject to the power of alteration, amendment or repeal by the General Assembly of Connecticut and subject to certain approvals, permits and consents of public authority and others prescribed by statute, CL&P has, subject to certain exceptions not deemed material, valid franchises free from burdensome restrictions to provide electric transmission and distribution services in the respective areas in which it is now supplying such service.

In addition to the right to provide electric transmission and distribution services as set forth above, the franchises of CL&P include, among others, limited rights and powers, as set forth under Connecticut law and the special acts of the General Assembly constituting its charter, to manufacture, generate, purchase and/or sell electricity at retail, including to provide Standard Service, Supplier of Last Resort service and backup service, to sell electricity at wholesale and to erect and maintain certain facilities on public highways and grounds, all subject to such consents and approvals of public authority and others as may be required by law. The franchises of CL&P include the power of eminent domain. Connecticut law prohibits an electric distribution company from owning or operating generation assets. However, under "An Act Concerning Electricity and Energy Efficiency," enacted in 2007, an electric distribution company, such as CL&P, is permitted to purchase an existing electric generating plant located in Connecticut that is offered for sale, subject to prior approval from the PURA and a determination by the PURA that such purchase is in the public interest.

**NSTAR Electric** Through its charter, which is unlimited in time, NSTAR Electric has the right to engage in the business of delivering and selling electricity within its respective service territory, and has the power incidental thereto and is entitled to all the rights and privileges of and subject to the duties imposed upon electric companies under Massachusetts laws. The locations in public ways for electric transmission and distribution lines are obtained from municipal and other state authorities who, in granting these locations, act as agents for the state. In some cases, the actions of these authorities are subject to appeal to the DPU. The rights to these locations are not limited in time and are subject to the action of these authorities and the legislature. Under Massachusetts law, no other entity may provide electric delivery service to retail customers within NSTAR Electric service territory without the written consent of NSTAR Electric. This consent must be filed with the DPU and the municipality so affected. The franchises of NSTAR Electric include the power of eminent domain, obtained through application to the DPU.

The Massachusetts restructuring legislation defines service territories as those territories actually served on July 1, 1997 and following municipal boundaries to the extent possible. The restructuring legislation further provides that until terminated by law or otherwise, distribution companies shall have the exclusive obligation to serve all retail customers within their service territories and no other person shall provide distribution service within such service territories without the written consent of such distribution companies.

**PSNH** The NHPUC, pursuant to statutory requirements, has issued orders granting PSNH exclusive franchises to distribute electricity in the respective areas in which it is now supplying such service.

In addition to the right to distribute electricity as set forth above, the franchises of PSNH include, among others, rights and powers to manufacture, generate, purchase, and transmit electricity, to sell electricity at wholesale to other utility companies and municipalities and to erect and maintain certain facilities on certain public highways and grounds, all subject to such consents and approvals of public authority and others as may be required by law. PSNH's status as a public utility gives it the ability to petition the NHPUC for the right to exercise eminent domain for distribution services and for transmission eligible for regional cost allocation.

PSNH is also subject to certain regulatory oversight by the Maine Public Utilities Commission and the Vermont Public Utility Commission.

**NSTAR Gas** Through its charter, which is unlimited in time, NSTAR Gas has the right to engage in the business of delivering and selling natural gas within its respective service territory, and has the power incidental thereto and is entitled to all the rights and privileges of and subject to the duties imposed upon natural gas companies under Massachusetts laws. The locations in public ways for natural gas distribution pipelines are obtained from municipal and other state authorities who, in granting these locations, act as agents for the state. In some cases, the actions of these authorities are subject to appeal to the DPU. The rights to these locations are not limited in time and are subject to the action of these authorities and the legislature. Under Massachusetts law, no other entity may provide natural gas delivery service to retail customers within the NSTAR Gas service territory without the written consent of NSTAR Gas. This consent must be filed with the DPU and the municipality so affected.

**Yankee Gas** Yankee Gas holds valid franchises to sell natural gas in the areas in which Yankee Gas supplies natural gas service, which it acquired either directly or from its predecessors in interest. Generally, Yankee Gas holds franchises to serve customers in areas designated by those franchises as well as in most other areas throughout Connecticut so long as those areas are not occupied and served by another natural gas utility under a valid franchise of its own or are not subject to an exclusive franchise of another natural gas utility or by consent. Yankee Gas' franchises are perpetual but remain subject to the power of alteration, amendment or repeal by the General Assembly of the State of Connecticut, the power of revocation by the PURA and certain approvals, permits and consents of public authorities and others prescribed by statute. Generally, Yankee Gas' franchises include, among other rights and powers, the right and power to manufacture, generate, purchase, transmit and distribute natural gas and to erect and maintain certain facilities on public highways and grounds, and the right of eminent domain, all subject to such consents and approvals of public authorities and others as may be required by law.

**Aquarion Water Company of Connecticut** AWC-CT derives its rights and franchises to operate from special acts of the Connecticut General Assembly and subject to certain approvals, permits and consents of public authority and others prescribed by statute and by its charter, AWC-CT has, with minor exceptions, solid franchises free from burdensome restrictions and unlimited as to time, and is authorized to sell potable water in the towns (or parts thereof) in which water is now being supplied by AWC-CT.

In addition to the right to sell water as set forth above, the franchises of AWC-CT include rights and powers to erect and maintain certain facilities on public highways and grounds, all subject to such consents and approvals of public authority and others as may be required by law. Under the Connecticut General Statutes, AWC-CT may, upon payment of compensation, take and use such lands, springs, streams or ponds, or such rights or interests therein as the Connecticut Superior Court, upon application, may determine is necessary to enable AWC-CT to supply potable water for public or domestic use in its franchise areas.

**Aquarion Water Company of Massachusetts** Through its charters, which are unlimited in time, AWC-MA has the right to engage in the business of distributing and selling water within its service territories, and has the power incidental thereto and is entitled to all the rights and privileges of and subject to the duties imposed upon water companies under Massachusetts laws. AWC-MA has the right to construct and maintain its mains and distribution pipes in and under any public ways and to take and hold water within its respective service territories. Subject to DPU regulation, AWC-MA has the right to establish and fix rates for use of the water distributed and to establish reasonable regulations regarding the same. Certain of the towns within our service area have the right, at any time, to purchase the corporate property and all rights and privileges of AWC-MA according to pricing formulas and procedures specifically described in AWC-MA's respective charters and in compliance with Massachusetts law.

**Aquarion Water Company of New Hampshire** The NHPUC, pursuant to statutory law, has issued orders granting and affirming AWC-NH's exclusive franchise to own, operate, and manage plant and equipment and any part of the same, for the conveyance of water for the public located within its franchise territory. That franchise territory encompasses the towns of Hampton, North Hampton and Rye. Subject to NHPUC's regulations, AWC-NH has the right to establish and fix rates for use of the water distributed and to establish reasonable regulations regarding the same.

In addition to the right to provide water supply, the franchise also allows AWC-NH to sell water at wholesale to other water utilities and municipalities and to construct plant and equipment and maintain such plant and equipment on certain public highways and grounds, all subject to such consents and approvals of public authority and others as may be required by law.

AWC-NH's status as a regulated public utility gives it the ability to petition the NHPUC for the right to exercise eminent domain for the establishment of plant and equipment. It can also petition the NHPUC for exemption from the operation of any local ordinance when certain utility structures are reasonably necessary for the convenience or welfare of the public and the local conditions, and, if the purpose of the structure relates to water supply withdrawal, the exemption is recommended by the New Hampshire Department of Environmental Services.

### **Item 3. Legal Proceedings**

#### **1. Yankee Companies v. U.S. Department of Energy**

*DOE Phase I Damages* - In 1998, the Yankee Companies filed separate complaints against the DOE in the Court of Federal Claims seeking monetary damages resulting from the DOE's failure to begin accepting spent nuclear fuel for disposal by January 31, 1998 pursuant to the terms of the 1983 spent fuel and high-level waste disposal contracts between the Yankee Companies and the DOE ("DOE Phase I Damages"). Phase I covered damages for the years 1998 through 2002. Following multiple appeals and cross-appeals in December 2012, the judgment awarding \$39.6 million, \$38.3 million and \$81.7 million to CYAPC, YAEC and MYAPC, respectively, became final.

In January 2013, the proceeds from the DOE Phase I Damages Claim were received by the Yankee Companies and transferred to each Yankee Company's respective decommissioning trust.

In June 2013, FERC approved CYAPC, YAEC and MYAPC to reduce rates in their wholesale power contracts through the application of the DOE proceeds for the benefit of customers. Changes to the terms of the wholesale power contracts became effective on July 1, 2013. In accordance with the FERC order, CL&P, NSTAR Electric and PSNH began receiving the benefit of the DOE proceeds, and the benefits have been passed on to customers.

On September 17, 2014, in accordance with the MYAPC refund plan, MYAPC returned a portion of the DOE Phase I Damages proceeds to the member companies, including CL&P, NSTAR Electric and PSNH, in the amount of \$3.2 million, \$1.9 million and \$1.4 million, respectively.

*DOE Phase II Damages* - In December 2007, the Yankee Companies each filed subsequent lawsuits against the DOE seeking recovery of actual damages incurred related to the alleged failure of the DOE to provide for a permanent facility to store spent nuclear fuel generated in years 2001 through 2008 for CYAPC and YAEC and from 2002 through 2008 for MYAPC ("DOE Phase II Damages"). In November 2013, the court issued a final judgment awarding \$126.3 million, \$73.3 million, and \$35.8 million to CYAPC, YAEC and MYAPC, respectively. On January 14, 2014, the Yankee Companies received a letter from the U.S. Department of Justice stating that the DOE will not appeal the court's final judgment.

In March and April 2014, CYAPC, YAEC and MYAPC received payment of \$126.3 million, \$73.3 million and \$35.8 million, respectively, of the DOE Phase II Damages proceeds and made the required informational filing with FERC in accordance with the process and methodology outlined in the 2013 FERC order. The Yankee Companies returned the DOE Phase II Damages proceeds to the member companies, including CL&P, NSTAR Electric and PSNH, for the benefit of their respective customers, on June 1, 2014. Refunds to CL&P's, NSTAR Electric's and PSNH's customers for these DOE proceeds began in the third quarter of 2014 and all refunds under these proceedings have been disbursed.

*DOE Phase III Damages* - In August 2013, the Yankee Companies each filed subsequent lawsuits against the DOE seeking recovery of actual damages incurred in the years 2009 through 2012 ("DOE Phase III"). The DOE Phase III trial concluded on July 1, 2015, followed by a post-trial briefing that concluded on October 4, 2015. On March 25, 2016, the court issued its decision and awarded CYAPC, YAEC and MYAPC damages of \$32.6 million, \$19.6 million and \$24.6 million, respectively. In total, the Yankee Companies were awarded \$76.8 million of the \$77.9 million in damages sought in the DOE Phase III. The decision became final on July 18, 2016, and the Yankee Companies received the awards from the DOE on October 14, 2016. The Yankee Companies received FERC approval of their proposed distribution of certain amounts of the awarded damages proceeds to member companies, including CL&P, NSTAR Electric and PSNH, which CYAPC and MYAPC made in December 2016. MYAPC also refunded \$56.5 million from its spent nuclear fuel trust, a portion of which was also refunded to the Eversource utility subsidiaries. In total, Eversource received \$26.1 million, of which CL&P, NSTAR Electric and PSNH received \$13.6 million, \$8.6 million and \$3.9 million, respectively. These amounts have been refunded to the customers of the respective Eversource utility subsidiaries.

*DOE Phase IV Damages* - On May 22, 2017, each of the Yankee Companies filed subsequent lawsuits against the DOE in the Court of Federal Claims seeking monetary damages totaling approximately \$100 million for CYAPC, YAEC and MYAPC, resulting from the DOE's failure to begin accepting spent nuclear fuel for disposal covering the years from 2013 to 2016 ("DOE Phase IV"). On February 21, 2019, the Yankee Companies received a partial summary judgment and partial final judgment in their favor for the undisputed amount of monetary damages, which is the vast majority of the damages being sought. The DOE Phase IV trial for the remaining amount of damages is expected to begin in 2019.

## 2. Other Legal Proceedings

For further discussion of legal proceedings, see Item 1, *Business*: "- Electric Distribution Segment," "- Electric Transmission Segment," and "- Natural Gas Distribution Segment" for information about various state and federal regulatory and rate proceedings, civil lawsuits related thereto, and information about proceedings relating to power, transmission and pricing issues; "- Nuclear Fuel Storage" for information related to nuclear waste; and "- Other Regulatory and Environmental Matters" for information about proceedings involving toxic substances and hazardous waste, electric and magnetic fields, and other matters. In addition, see Item 1A, *Risk Factors*, for general information about several significant risks.

## Item 4. Mine Safety Disclosures

Not applicable.

## EXECUTIVE OFFICERS OF THE REGISTRANT

The following table sets forth the executive officers of Eversource Energy as of February 26, 2019. All of the Company's officers serve terms of one year and until their successors are elected and qualified:

Name	Age	Title
James J. Judge	63	President and Chief Executive Officer
Philip J. Lembo	63	Executive Vice President and Chief Financial Officer
Gregory B. Butler	61	Executive Vice President and General Counsel
Christine M. Carmody	56	Executive Vice President-Human Resources and Information Technology
Joseph R. Nolan, Jr.	55	Executive Vice President-Customer and Corporate Relations
Leon J. Olivier	71	Executive Vice President-Enterprise Energy Strategy and Business Development
Werner J. Schweiger	59	Executive Vice President and Chief Operating Officer
Jay S. Buth	49	Vice President, Controller and Chief Accounting Officer

*James J. Judge.* Mr. Judge has served as Chairman of the Board, President and Chief Executive Officer of Eversource Energy since May 3, 2017; as a Trustee of Eversource Energy and as Chairman of CL&P, NSTAR Electric and PSNH since May 4, 2016; and as Chairman, President and Chief Executive Officer of Eversource Service and Chairman of NSTAR Gas and Yankee Gas since May 9, 2016. Mr. Judge has served as a Director of CL&P, PSNH, Yankee Gas and Eversource Service since April 10, 2012; of NSTAR Electric and NSTAR Gas since September 27, 1999; and of Eversource Aquarion Holdings, Inc. Previously, Mr. Judge served as President and Chief Executive Officer of Eversource Energy from May 4, 2016 until May 3, 2017; and as Executive Vice President and Chief Financial Officer of Eversource Energy, CL&P, NSTAR Electric and PSNH from April 10, 2012 until May 4, 2016; of NSTAR Gas, Yankee Gas and Eversource Service from April 10, 2012 until May 9, 2016. Mr. Judge has served as Chairman of the Board of Eversource Energy Foundation, Inc. since May 9, 2016; and as a Director since April 10, 2012. He previously served as Treasurer of Eversource Energy Foundation, Inc. from April 10, 2012 until May 9, 2016. He has served as a Trustee of the NSTAR Foundation since December 12, 1995.

*Philip J. Lembo.* Mr. Lembo has served as Executive Vice President and Chief Financial Officer of Eversource Energy since May 3, 2017; and of CL&P, NSTAR Electric, NSTAR Gas, PSNH, Yankee Gas and Eversource Service since March 31, 2017. Mr. Lembo has served as a Director of CL&P, NSTAR Electric and PSNH since May 4, 2016; of NSTAR Gas, Yankee Gas and Eversource Service since May 9, 2016; and of Eversource Aquarion Holdings, Inc. Mr. Lembo previously served as Executive Vice President, Chief Financial Officer and Treasurer of Eversource Energy from August 8, 2016 until May 3, 2017; of CL&P, NSTAR Electric, PSNH, NSTAR Gas, Yankee Gas and Eversource Service from August 8, 2016 until March 31, 2017; as Senior Vice President, Chief Financial Officer and Treasurer of Eversource Energy, CL&P, NSTAR Electric and PSNH from May 4, 2016 until August 8, 2016; and of NSTAR Gas, Yankee Gas and Eversource Service from May 9, 2016 until August 8, 2016; as Vice President and Treasurer of Eversource Energy, CL&P and PSNH from April 10, 2012 until May 4, 2016; and of Yankee Gas and Eversource Service from April 10, 2012 until May 9, 2016. Mr. Lembo served as Vice President and Treasurer of NSTAR Electric and NSTAR Gas from

March 29, 2006 until May 4, 2016. Mr. Lembo has served as a Director of Eversource Energy Foundation, Inc. since May 9, 2016. He previously served as Treasurer of Eversource Energy Foundation, Inc. from May 9, 2016 until March 31, 2017. He has served as a Trustee of the NSTAR Foundation since May 9, 2016.

*Gregory B. Butler* . Mr. Butler has served as Executive Vice President and General Counsel of Eversource Energy, CL&P, NSTAR Electric, NSTAR Gas, PSNH, Yankee Gas and Eversource Service since August 8, 2016. Mr. Butler has served as a Director of NSTAR Electric and NSTAR Gas since April 10, 2012; of Eversource Service since November 27, 2012; of CL&P, PSNH and Yankee Gas since April 22, 2009; and of Eversource Aquarion Holdings, Inc. Mr. Butler previously served as Senior Vice President and General Counsel of Eversource Energy from May 1, 2014 until August 8, 2016; of NSTAR Electric and NSTAR Gas from April 10, 2012 until August 8, 2016; of CL&P, PSNH, Yankee Gas and Eversource Service from March 9, 2006 until August 8, 2016; and as Senior Vice President, General Counsel and Secretary of Eversource Energy from April 10, 2012 until May 1, 2014. He has served as a Director of Eversource Energy Foundation, Inc. since December 1, 2002. He has been a Trustee of the NSTAR Foundation since April 10, 2012.

*Christine M. Carmody*. Ms. Carmody has served as Executive Vice President-Human Resources and Information Technology of Eversource Energy and Eversource Service since August 8, 2016. Ms. Carmody has served as a Director of Eversource Service since November 27, 2012. Previously Ms. Carmody served as Senior Vice President-Human Resources of Eversource Energy from May 4, 2016 until August 8, 2016; of Eversource Service from April 10, 2012 until August 8, 2016; as Senior Vice President-Human Resources of CL&P, PSNH and Yankee Gas from November 27, 2012 until September 29, 2014; of NSTAR Electric and NSTAR Gas from August 1, 2008 until September 29, 2014; and as a Director of CL&P, PSNH and Yankee Gas from April 10, 2012 until September 29, 2014; and of NSTAR Electric and NSTAR Gas from November 27, 2012 until September 29, 2014. Ms. Carmody has served as a Director of Eversource Energy Foundation, Inc. since April 10, 2012. She has served as a Trustee of the NSTAR Foundation since August 1, 2008.

*Joseph R. Nolan, Jr.* Mr. Nolan has served as Executive Vice President-Customer and Corporate Relations of Eversource Energy and Eversource Service since August 8, 2016. Mr. Nolan has served as a Director of Eversource Service since November 27, 2012. Previously Mr. Nolan served as Senior Vice President-Corporate Relations of Eversource Energy from May 4, 2016 until August 8, 2016; of Eversource Service from April 10, 2012 to August 8, 2016; of NSTAR Electric and NSTAR Gas from April 10, 2012 until September 29, 2014; and of CL&P, PSNH and Yankee Gas from November 27, 2012 until September 29, 2014. Mr. Nolan previously served as a Director of CL&P, PSNH and Yankee Gas from April 10, 2012 until September 29, 2014; and of NSTAR Electric and NSTAR Gas from November 27, 2012 until September 29, 2014. Mr. Nolan has served as a Director of Eversource Energy Foundation, Inc. since April 10, 2012, and as Executive Director of Eversource Energy Foundation, Inc. since October 15, 2013. He has served as a Trustee of the NSTAR Foundation since October 1, 2000.

*Leon J. Olivier* . Mr. Olivier has served as Executive Vice President-Enterprise Energy Strategy and Business Development of Eversource Energy since September 2, 2014; and of Eversource Service since August 11, 2014. Mr. Olivier has served as a Director of Eversource Service since January 17, 2005. Mr. Olivier previously served as Executive Vice President and Chief Operating Officer of Eversource Energy from May 13, 2008 until September 2, 2014; of Eversource Service from May 13, 2008 until August 11, 2008; as Chief Executive Officer of NSTAR Electric and NSTAR Gas from April 10, 2012 until August 11, 2014; of CL&P, PSNH and Yankee Gas from January 15, 2007 until August 11, 2014; as a Director of NSTAR Electric and NSTAR Gas from November 27, 2012 until September 29, 2014; of PSNH and Yankee Gas from January 17, 2005 until September 29, 2014; and of CL&P from September 10, 2001 until September 29, 2014. He has served as a Director of Eversource Energy Foundation, Inc. since April 1, 2006. Mr. Olivier has served as a Trustee of the NSTAR Foundation since April 10, 2012.

*Werner J. Schweiger*. Mr. Schweiger has served as Executive Vice President and Chief Operating Officer of Eversource Energy since September 2, 2014; of Eversource Service since August 11, 2014; and as Chief Executive Officer of CL&P, NSTAR Electric, NSTAR Gas, PSNH and Yankee Gas since August 11, 2014. Mr. Schweiger has served as a Director of Eversource Service, NSTAR Gas and Yankee Gas since September 29, 2014; and of CL&P, PSNH and NSTAR Electric since May 28, 2013. He previously served as President of CL&P from June 2, 2015 until June 27, 2016; as President of NSTAR Gas and Yankee Gas from September 29, 2014 until November 10, 2014; as President-Electric Distribution of Eversource Service from January 16, 2013 until August 11, 2014; as President of NSTAR Electric from April 10, 2012 until January 16, 2013; and as a Director of NSTAR Electric from November 27, 2012 until January 16, 2013. Mr. Schweiger has served as a Director of Eversource Energy Foundation, Inc. since September 29, 2014. He has served as a Trustee of the NSTAR Foundation since September 29, 2014.

*Jay S. Buth*. Mr. Buth has served as Vice President, Controller and Chief Accounting Officer of Eversource Energy, CL&P, NSTAR Electric, NSTAR Gas, PSNH, Yankee Gas and Eversource Service since April 10, 2012.

**PART II**

**Item 5. Market for the Registrants' Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

(a) Market Information

Our common shares are listed on the New York Stock Exchange. The ticker symbol is "ES." There is no established public trading market for the common stock of CL&P, NSTAR Electric and PSNH. All of the common stock of CL&P, NSTAR Electric and PSNH is held solely by Eversource.

(b) Holders

As of January 31, 2019, there were 35,874 registered common shareholders of our company on record. As of the same date, there were a total of 316,981,088 shares outstanding.

(c) Dividends

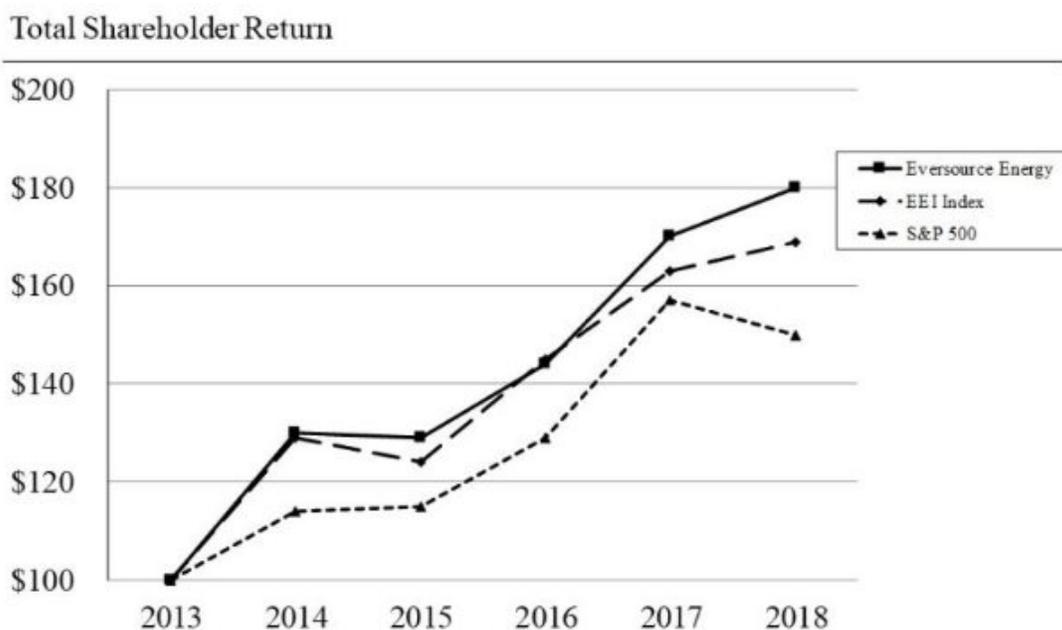
Information with respect to dividends and dividend restrictions for Eversource, CL&P, NSTAR Electric and PSNH is contained in Item 8, *Financial Statements and Supplementary Data*, in the *Combined Notes to Financial Statements*, within this Annual Report on Form 10-K.

(d) Securities Authorized for Issuance Under Equity Compensation Plans

For information regarding securities authorized for issuance under equity compensation plans, see Item 12, *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*, included in this Annual Report on Form 10-K.

(e) Performance Graph

The performance graph below illustrates a five-year comparison of cumulative total returns based on an initial investment of \$100 in 2013 in Eversource Energy common stock, as compared with the S&P 500 Stock Index and the EEI Index for the period 2013 through 2018, assuming all dividends are reinvested.



	December 31,					
	2013	2014	2015	2016	2017	2018
Eversource Energy	\$100	\$130	\$129	\$144	\$170	\$180
EEI Index	\$100	\$129	\$124	\$145	\$163	\$169
S&P 500	\$100	\$114	\$115	\$129	\$157	\$150

*Purchases of Equity Securities by the Issuer and Affiliated Purchasers*

The following table discloses purchases of our common shares made by us or on our behalf for the periods shown below. The common shares purchased consist of open market purchases made by the Company or an independent agent. These share transactions related to shares awarded under the company's incentive plan and dividend reinvestment plan and matching contributions under the Eversource 401k Plan.

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans and Programs (at month end)</b>
October 1 - October 31, 2018	95,834	\$ 61.32	—	—
November 1 - November 30, 2018	2,248	64.62	—	—
December 1 - December 31, 2018	180,526	64.42	—	—
<b>Total</b>	<b>278,608</b>	<b>\$ 63.36</b>	<b>—</b>	<b>—</b>

## Item 6. Selected Consolidated Financial Data

### Eversource Selected Consolidated Financial Data (Unaudited)

(Thousands of Dollars, except percentages and common share information)

	2018	2017	2016	2015	2014
<b>Balance Sheet Data:</b>					
Property, Plant and Equipment, Net	\$ 25,610,428	\$ 23,617,463	\$ 21,350,510	\$ 19,892,441	\$ 18,647,041
Total Assets	38,241,256	36,220,386	32,053,173	30,580,309	29,740,387
Common Shareholders' Equity	11,486,817	11,086,242	10,711,734	10,352,215	9,976,815
Noncontrolling Interest - Preferred Stock of Subsidiaries	155,570	155,570	155,568	155,568	155,568
Long-Term Debt <sup>(a)</sup>	13,086,062	12,325,520	9,603,237	9,034,457	8,851,600
Obligations Under Capital Leases <sup>(a)</sup>	10,735	9,898	8,924	8,222	9,434
<b>Income Statement Data:</b>					
Operating Revenues	\$ 8,448,201	\$ 7,751,952	\$ 7,639,129	\$ 7,954,827	\$ 7,741,856
Net Income	\$ 1,040,519	\$ 995,515	\$ 949,821	\$ 886,004	\$ 827,065
Net Income Attributable to Noncontrolling Interests	7,519	7,519	7,519	7,519	7,519
Net Income Attributable to Common Shareholders	\$ 1,033,000	\$ 987,996	\$ 942,302	\$ 878,485	\$ 819,546
<b>Common Share Data:</b>					
Net Income Attributable to Common Shareholders:					
Basic Earnings Per Common Share	\$ 3.25	\$ 3.11	\$ 2.97	\$ 2.77	\$ 2.59
Diluted Earnings Per Common Share	\$ 3.25	\$ 3.11	\$ 2.96	\$ 2.76	\$ 2.58
Dividends Declared Per Common Share	\$ 2.02	\$ 1.90	\$ 1.78	\$ 1.67	\$ 1.57
Market Price - Closing (end of year) <sup>(b)</sup>	\$ 65.04	\$ 63.18	\$ 55.23	\$ 51.07	\$ 53.52
Book Value Per Common Share (end of year)	\$ 36.25	\$ 34.98	\$ 33.80	\$ 32.64	\$ 31.47
Tangible Book Value Per Common Share (end of year) <sup>(c)</sup>	\$ 22.27	\$ 21.00	\$ 22.70	\$ 21.54	\$ 20.37
Rate of Return Earned on Average Common Equity (%) <sup>(d)</sup>	9.2	9.1	9.0	8.7	8.4
Market-to-Book Ratio (end of year) <sup>(e)</sup>	1.8	1.8	1.6	1.6	1.7

### CL&P Selected Financial Data (Unaudited)

(Thousands of Dollars)

	2018	2017	2016	2015	2014
<b>Balance Sheet Data:</b>					
Property, Plant and Equipment, Net	\$ 8,909,701	\$ 8,271,030	\$ 7,632,392	\$ 7,156,809	\$ 6,809,664
Total Assets	11,409,719	10,630,246	10,035,044	9,592,957	9,344,400
Common Stockholder's Equity	4,199,317	3,587,127	3,470,387	3,140,717	2,936,767
Preferred Stock Not Subject to Mandatory Redemption	116,200	116,200	116,200	116,200	116,200
Long-Term Debt <sup>(a)</sup>	3,254,016	3,059,135	2,766,010	2,763,682	2,841,951
Obligations Under Capital Leases <sup>(a)</sup>	4,465	5,711	6,767	7,624	8,439
<b>Income Statement Data:</b>					
Operating Revenues	3,096,174	2,887,359	2,805,955	2,802,675	2,692,582
Net Income	377,717	376,726	334,254	299,360	287,754
<b>Common Stock Data:</b>					
Cash Dividends on Common Stock	60,000	254,800	199,599	196,000	171,200

<sup>(a)</sup> Includes portions due within one year.

<sup>(b)</sup> Market price information reflects closing prices as reflected by the New York Stock Exchange.

<sup>(c)</sup> Common Shareholders' Equity adjusted for goodwill and intangibles divided by total common shares outstanding.

<sup>(d)</sup> Net Income Attributable to Common Shareholders divided by average Common Shareholders' Equity.

<sup>(e)</sup> The closing market price divided by the book value per share.

See the *Combined Notes to Financial Statements* in this Annual Report on Form 10-K for a description of the sale of PSNH's thermal and hydroelectric generation assets in 2018 and the December 31, 2017 classification of these generation assets as held for sale, the acquisition of Aquarion on December 4, 2017, and any accounting changes materially affecting the comparability of the information reflected in the tables above.

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

### EVERSOURCE ENERGY AND SUBSIDIARIES

The following discussion and analysis should be read in conjunction with our consolidated financial statements and related combined notes included in this combined Annual Report on Form 10-K. References in this combined Annual Report on Form 10-K to "Eversource," the "Company," "we," "us," and "our" refer to Eversource Energy and its consolidated subsidiaries. All per-share amounts are reported on a diluted basis. The consolidated financial statements of Eversource, NSTAR Electric and PSNH and the financial statements of CL&P are herein collectively referred to as the "financial statements."

Refer to the Glossary of Terms included in this combined Annual Report on Form 10-K for abbreviations and acronyms used throughout this *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

The only common equity securities that are publicly traded are common shares of Eversource. The earnings and EPS of each business discussed below do not represent a direct legal interest in the assets and liabilities of such business but rather represent a direct interest in our assets and liabilities as a whole. EPS by business is a financial measure not recognized under GAAP calculated by dividing the Net Income Attributable to Common Shareholders of each business by the weighted average diluted Eversource common shares outstanding for the period. We use this non-GAAP financial measure to evaluate and provide details of earnings results by business. We believe that the non-GAAP presentation is a meaningful representation of our financial performance and provides additional and useful information to readers of this report in analyzing historical and future performance by business. This non-GAAP financial measure should not be considered as an alternative to reported Net Income Attributable to Common Shareholders or EPS determined in accordance with GAAP as an indicator of operating performance.

The results of Aquarion and its subsidiaries, hereinafter referred to as "Aquarion," are included from the date of the acquisition, December 4, 2017, through December 31, 2018 throughout this *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

#### Financial Condition and Business Analysis

##### Executive Summary

The following items in this executive summary are explained in more detail in this combined Annual Report on Form 10-K:

##### *Earnings Overview and Future Outlook:*

- We earned \$1.03 billion, or \$3.25 per share, in 2018, compared with \$988.0 million, or \$3.11 per share, in 2017.
- Our electric distribution segment earned \$455.4 million, or \$1.44 per share, in 2018, compared with \$497.4 million, or \$1.57 per share, in 2017. Our electric transmission segment earned \$427.2 million, or \$1.34 per share, in 2018, compared with \$391.9 million, or \$1.23 per share, in 2017. Our natural gas distribution segment earned \$93.2 million, or \$0.29 per share, in 2018, compared with \$74.6 million, or \$0.23 per share, in 2017. Our water distribution segment earned \$30.9 million, or \$0.10 per share, in 2018, compared with a net loss of \$1.2 million in 2017.
- Eversource parent and other companies earned \$26.3 million, or \$0.08 per share, in 2018, compared with \$25.3 million, or \$0.08 per share, in 2017.
- We currently project 2019 earnings of between \$3.40 per share and \$3.50 per share.

##### *Liquidity:*

- Cash flows provided by operating activities totaled \$1.78 billion in 2018, compared with \$2.00 billion in 2017. Investments in property, plant and equipment totaled \$2.52 billion in 2018 and \$2.35 billion in 2017. Cash and cash equivalents totaled \$108.1 million as of December 31, 2018, compared with \$38.2 million as of December 31, 2017.
- In 2018, we issued \$2.20 billion of new long-term debt, consisting of \$1.55 billion at Eversource parent, \$500 million at CL&P, \$50 million at Yankee Gas, and \$100 million at NSTAR Gas. Proceeds from these new issuances were used primarily to repay short-term borrowings and repay long-term debt at maturity. In 2018, PSNH issued \$635.7 million of securitized RRBs. In 2018, we repaid, at maturity, \$1.05 billion of previously issued long-term debt, consisting of \$450 million at Eversource parent, \$300 million at CL&P, \$199.3 million at PSNH and \$100 million at Yankee Gas.
- In 2018, we paid cash dividends of \$640.1 million, or \$2.02 per common share, compared with \$602.1 million, or \$1.90 per common share, in 2017. On February 6, 2019, our Board of Trustees approved a common share dividend payment of \$0.535 per share, payable on March 29, 2019 to shareholders of record as of March 5, 2019. The 2019 dividend represents an increase of 5.9 percent over the dividend paid in December 2018, and is the equivalent to dividends on common shares of approximately \$678 million on an annual basis.

- We project to make capital expenditures of \$12.75 billion from 2019 through 2023, of which we expect \$8.06 billion to be in our electric and natural gas distribution segments, \$3.35 billion to be in our electric transmission segment and \$0.62 billion to be in our water distribution segment. We also project to invest \$0.72 billion in information technology and facilities upgrades and enhancements. These projections do not include any expected investments related to NPT or offshore wind projects.
- In December 2018, CYAPC paid \$145 million to the DOE to partially settle its pre-1983 spent nuclear fuel obligation, which is classified as long-term debt on Eversource's consolidated balance sheet. CYAPC funded this payment from proceeds of its spent nuclear fuel trust, which is classified as marketable securities on Eversource's consolidated balance sheet. Eversource consolidates CYAPC because CL&P's, NSTAR Electric's and PSNH's combined ownership and voting interests in CYAPC is 63 percent. As a result of consolidating CYAPC, CYAPC's payment to the DOE is included in operating cash flows on Eversource's 2018 consolidated statement of cash flows.

*Strategic, Legislative, Regulatory, Policy and Other Items:*

- On February 8, 2019, Eversource and Ørsted entered into a 50-50 partnership for key offshore wind assets in the Northeast. Eversource paid approximately \$225 million for a 50 percent interest in Ørsted's Revolution Wind and South Fork Wind power projects, as well as the 257-square-mile tract off the coasts of Massachusetts and Rhode Island. Revolution Wind is a 700 MW offshore wind power project located approximately 15 miles south of the Rhode Island coast, and South Fork Wind is approximately a 130 MW offshore wind power project located 35 miles east of Long Island. Subject to permitting, finalized power purchase agreements, where applicable, further development, and final investment decisions by Ørsted and Eversource, Revolution Wind is expected to be commissioned in 2023 and South Fork Wind is expected by the end of 2022.
- On December 12, 2018, PURA approved the Yankee Gas distribution rate case settlement agreement, which included, among other things, rate increases of \$1.4 million, \$15.8 million and \$13.0 million, for rate years beginning November 15, 2018, January 1, 2020, and January 1, 2021, respectively. As a result of this decision, we recognized an \$11.7 million pre-tax benefit to earnings in 2018 (\$4.0 million at the natural gas distribution segment and \$7.7 million at Eversource Parent and Other Companies).

Earnings Overview

*Consolidated:* Below is a summary of our earnings by business, which also reconciles the non-GAAP financial measure of EPS by business to the most directly comparable GAAP measure of diluted EPS.

	For the Years Ended December 31,					
	2018		2017 <sup>(1)</sup>		2016	
	Amount	Per Share	Amount	Per Share	Amount	Per Share
<i>(Millions of Dollars, Except Per Share Amounts)</i>						
Net Income Attributable to Common Shareholders (GAAP)	\$ 1,033.0	\$ 3.25	\$ 988.0	\$ 3.11	\$ 942.3	\$ 2.96
Regulated Companies	\$ 1,006.7	\$ 3.17	\$ 962.7	\$ 3.03	\$ 911.3	\$ 2.86
Eversource Parent and Other Companies	26.3	0.08	25.3	0.08	31.0	0.10
Net Income Attributable to Common Shareholders (GAAP)	\$ 1,033.0	\$ 3.25	\$ 988.0	\$ 3.11	\$ 942.3	\$ 2.96

*Regulated Companies:* Our regulated companies comprise the electric distribution (including NSTAR Electric's solar power facilities and PSNH's generation facilities prior to sale in 2018), electric transmission, natural gas distribution and water distribution segments. A summary of our segment earnings and EPS is as follows:

	For the Years Ended December 31,					
	2018		2017 <sup>(1)</sup>		2016	
	Amount	Per Share	Amount	Per Share	Amount	Per Share
<i>(Millions of Dollars, Except Per Share Amounts)</i>						
Electric Distribution	\$ 455.4	\$ 1.44	\$ 497.4	\$ 1.57	\$ 462.8	\$ 1.46
Electric Transmission	427.2	1.34	391.9	1.23	370.8	1.16
Natural Gas Distribution	93.2	0.29	74.6	0.23	77.7	0.24
Water Distribution	30.9	0.10	(1.2)	—	N/A	N/A
Net Income - Regulated Companies	\$ 1,006.7	\$ 3.17	\$ 962.7	\$ 3.03	\$ 911.3	\$ 2.86

<sup>(1)</sup> Our water distribution business was determined to be a reportable segment beginning in 2018. The 2017 segment information has been recast to conform to the current year presentation.

Our electric distribution segment earnings decreased \$42.0 million in 2018, as compared to 2017, due primarily to lower generation earnings of \$29.7 million at PSNH resulting from the sales of its thermal and hydroelectric generation assets in 2018, higher depreciation expense, higher operations and maintenance expense, higher interest expense, and higher property and other tax expense. The earnings decrease was partially offset by higher non-service income from our benefit plans, the impact of the CL&P base distribution rate increase effective May 1, 2018, and the recognition of carrying charges on PSNH storm costs approved for recovery. Earnings were also favorably impacted by lower income tax expense, net of lower distribution revenues resulting from the Tax Cuts and Jobs Act.

Our electric transmission segment earnings increased \$35.3 million in 2018, as compared to 2017, due primarily to a higher transmission rate base as a result of our continued investment in our transmission infrastructure, partially offset by a reduction in the benefits from tax reform as compared to 2017 and approximately \$6 million (after-tax) in tax-related regulatory assets that we concluded were not recoverable from customers.

Our natural gas distribution segment earnings increased \$18.6 million in 2018, as compared to 2017, due primarily to an increase in sales volumes and demand revenues driven by colder January, April, October and November weather in Connecticut in 2018, as compared to the same periods in 2017, as well as growth in new customer base, and an earnings benefit resulting from the Yankee Gas rate case settlement approved by PURA in December 2018. Earnings were also favorably impacted by lower income tax expense, net of lower distribution revenues resulting from the Tax Cuts and Jobs Act. The increase in earnings was partially offset by higher operations and maintenance expense and higher depreciation expense. Effective November 15, 2018, fluctuations in Connecticut natural gas sales volumes no longer impact earnings as a result of a decoupled rate structure at Yankee Gas approved in the 2018 rate case settlement.

Our 2018 and 2017 water distribution segment results reflect the earnings of the Aquarion water distribution business, which was acquired on December 4, 2017.

*Eversource Parent and Other Companies:* Eversource parent and other companies earned \$26.3 million in 2018, compared with \$25.3 million in 2017. Earnings were positively impacted by a lower effective tax rate due in part to an \$18 million aggregate after-tax benefit resulting from both federal and Connecticut tax law changes, unrealized gains on our investment in a renewable energy fund, and an income tax benefit associated with our investments. The increase in earnings was offset by a pre-tax \$32.9 million (\$26 million after-tax) other-than-temporary impairment to our equity method investment in the Access Northeast project, higher interest expense, and a lower earnings benefit in 2018, as compared to 2017, related to the allowed recovery of certain previously expensed merger-related costs in distribution rates. For further information on the impairment of our Access Northeast project, see "Business Development and Capital Expenditures - Natural Gas Transmission Project" in this *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

*Electric, Natural Gas and Water Sales Volumes:* Weather, fluctuations in energy supply costs, conservation measures (including utility-sponsored energy efficiency programs), and economic conditions affect customer energy usage and water consumption. Industrial sales volumes are less sensitive to temperature variations than residential and commercial sales volumes. In our service territories, weather impacts both electric and water sales volumes during the summer and both electric and natural gas sales volumes during the winter; however, natural gas sales volumes are more sensitive to temperature variations than electric sales volumes. Customer heating or cooling usage may not directly correlate with historical levels or with the level of degree-days that occur.

Fluctuations in retail electric sales volumes at PSNH and natural gas sales volumes at Yankee Gas prior to November 15, 2018 impacted earnings ("Traditional" in the table below). For CL&P, NSTAR Electric (effective February 1, 2018 as a result of a DPU-approved rate case decision), Yankee Gas (effective November 15, 2018 as a result of a PURA-approved rate case settlement) and NSTAR Gas, fluctuations in retail sales volumes do not impact earnings due to their respective regulatory commission-approved distribution revenue decoupling mechanisms ("Decoupled" in the table below). These distribution revenues are decoupled from their customer sales volumes, which breaks the relationship between sales volumes and revenues recognized. Fluctuations in water sales volumes largely do not impact earnings as our Connecticut water distribution business is also decoupled.

A 2016 DPU-approved energy efficiency plan at NSTAR Electric authorized recovery of LBR in its eastern Massachusetts service territory until LBR was covered under a decoupled rate structure, which occurred on February 1, 2018. NSTAR Electric recognized LBR of \$7.0 million in 2018, compared to \$73.7 million in 2017, and no longer has an LBR recovery mechanism effective February 1, 2018.

A summary of our retail electric GWh sales volumes, our firm natural gas MMcf sales volumes, and our water MG sales volumes, and percentage changes, for the years ended December 31, 2018 and 2017, is as follows:

	Electric			Firm Natural Gas			Water		
	Sales Volumes (GWh)		Percentage Increase	Sales Volumes (MMcf)		Percentage Increase/(Decrease)	Sales Volumes (MG)		Percentage Increase/(Decrease)
	2018	2017 <sup>(1)</sup>		2018	2017 <sup>(2)</sup>		2018	2017 <sup>(3)</sup>	
Traditional	9,790	9,465	3.4%	44,715	39,455	13.3 %	2,252	2,202	2.3 %
Decoupled and Special Contracts <sup>(4)</sup>	43,591	42,781	1.9%	61,242	61,571	(0.5)%	21,479	22,565	(4.8)%
<b>Total Sales Volumes</b>	<b>53,381</b>	<b>52,246</b>	<b>2.2%</b>	<b>105,957</b>	<b>101,026</b>	<b>4.9 %</b>	<b>23,731</b>	<b>24,767</b>	<b>(4.2)%</b>

<sup>(1)</sup> In 2017 and in the month of January 2018, NSTAR Electric operated under two different rate structures (traditional and decoupled) based on its service territory geography. Effective February 1, 2018, NSTAR Electric operated entirely under a decoupled rate structure. The 2017 sales volumes for NSTAR Electric have been recast to present February through December 2017 as decoupled, to conform to the current year presentation.

<sup>(2)</sup> In 2017 and until November 14, 2018, Yankee Gas operated under a traditional rate structure. Effective November 15, 2018, Yankee Gas operated under a decoupled rate structure. The 2017 sales volumes for Yankee Gas have been recast to present November 15th through December 2017 as decoupled, to conform to the current year presentation.

- (3) Eversource acquired its water distribution business on December 4, 2017. Full 2017 sales volumes have been presented for comparative purposes.
- (4) Special contracts are unique to Yankee Gas natural gas distribution customers who take service under such an arrangement and generally specify the amount of distribution revenue to be paid to Yankee Gas regardless of the customers' usage.

Traditional retail electric sales volumes were higher in 2018, as compared to 2017, due primarily to warmer summer weather in 2018 and colder weather in January 2018 at NSTAR Electric (prior to its decoupled rate structure). Cooling degree days in 2018 were 25.8 percent higher in New Hampshire, as compared to 2017. Heating degree days in January of 2018 were 21.7 percent higher in the Boston metropolitan area, as compared to January 2017.

Our firm natural gas sales volumes are subject to many of the same influences as our retail electric sales volumes. In addition, they have benefited from customer growth in our natural gas distribution segment. Traditional firm natural gas sales volumes were higher in 2018, as compared to 2017, due primarily to colder January, April, October and November weather in 2018. Heating degree days in January through November 2018 were 9.1 percent higher in Connecticut, as compared to the same period in 2017.

### Liquidity

Cash and cash equivalents totaled \$108.1 million as of December 31, 2018, compared with \$38.2 million as of December 31, 2017.

*Short Term Debt - Commercial Paper Programs and Credit Agreements* : Eversource parent has a \$1.45 billion commercial paper program allowing Eversource parent to issue commercial paper as a form of short-term debt. Eversource parent, CL&P, PSNH, NSTAR Gas and Yankee Gas are also parties to a five-year \$1.45 billion revolving credit facility. Effective December 10, 2018, the revolving credit facility's termination date was extended for one additional year to December 8, 2023. The revolving credit facility serves to backstop Eversource parent's \$1.45 billion commercial paper program.

NSTAR Electric has a \$650 million commercial paper program allowing NSTAR Electric to issue commercial paper as a form of short-term debt. NSTAR Electric is also a party to a five-year \$650 million revolving credit facility. Effective December 10, 2018, the revolving credit facility's termination date was extended for one additional year to December 8, 2023. The revolving credit facility serves to backstop NSTAR Electric's \$650 million commercial paper program.

The amount of borrowings outstanding and available under the commercial paper programs were as follows:

	Borrowings Outstanding as of December 31,		Available Borrowing Capacity as of December 31,		Weighted-Average Interest Rate as of December 31,	
	2018	2017	2018	2017	2018	2017
<i>(Millions of Dollars)</i>						
Eversource Parent Commercial Paper Program	\$ 631.5	\$ 979.3	\$ 818.5	\$ 470.7	2.77%	1.86%
NSTAR Electric Commercial Paper Program	278.5	234.0	371.5	416.0	2.50%	1.55%

There were no borrowings outstanding on either the Eversource parent or NSTAR Electric revolving credit facilities as of December 31, 2018 or 2017. Eversource's water distribution segment has a \$100.0 million revolving credit facility, which expires on August 19, 2019, and there were no amounts outstanding as of December 31, 2018 and \$76.0 million outstanding as of December 31, 2017.

Amounts outstanding under the commercial paper programs and revolving credit facility are included in Notes Payable and classified in current liabilities on the Eversource and NSTAR Electric balance sheets as all borrowings are outstanding for no more than 364 days at one time. As a result of the Eversource parent long-term debt issuances on January 8, 2018, the net proceeds of which were used to repay short-term borrowings outstanding under its commercial paper program, \$201.2 million of commercial paper borrowings under the Eversource parent commercial paper program were reclassified as Long-Term Debt as of December 31, 2017.

*Intercompany Borrowings*: Eversource parent uses its available capital resources to provide loans to its subsidiaries to assist in meeting their short-term borrowing needs. In addition, growth in Eversource's key business initiatives requires cash infusion to those subsidiaries. Eversource parent records intercompany interest income from its loans to subsidiaries, which is eliminated in consolidation. Intercompany loans from Eversource parent to its subsidiaries are eliminated in consolidation on Eversource's balance sheets. As of December 31, 2018, there were intercompany loans from Eversource parent to PSNH of \$57.0 million. As of December 31, 2017, there were intercompany loans from Eversource parent of \$69.5 million to CL&P and \$262.9 million to PSNH. Intercompany loans from Eversource parent are included in Notes Payable to Eversource Parent and are classified in current liabilities on the respective subsidiary's balance sheets.

*Long-Term Debt:* The following table summarizes long-term debt issuances and repayments:

<i>(Millions of Dollars)</i>	<u>Issue Date</u>	<u>Issuances/(Repayments)</u>	<u>Maturity Date</u>	<u>Use of Proceeds for Issuances/ Repayment Information</u>
<b>CL&amp;P:</b>				
4.00% 2018 Series A First Mortgage Bonds	March 2018	\$ 500.0	April 2048	Repaid long-term debt that matured in 2018 and repaid short-term borrowings
5.65% 2008 Series A First Mortgage Bonds	May 2008	(300.0)	May 2018	Repaid at maturity on May 1, 2018
<b>PSNH:</b>				
6.00% 2008 Series O First Mortgage Bonds	May 2008	(110.0)	May 2018	Repaid at maturity on May 1, 2018
2001 Series A Pollution Control Revenue Bonds	December 2001	(89.3)	May 2021	Redeemed on November 28, 2018 at a redemption price of \$89.3 million
<b>Other:</b>				
Eversource Parent 2.50% Series I Senior Notes <sup>(1)</sup>	January 2018	200.0	March 2021	Repaid short-term borrowings
Eversource Parent 3.30% Series M Senior Notes	January 2018	450.0	January 2028	Repaid long-term debt that matured in 2018
Eversource Parent 3.80% Series N Senior Notes	December 2018	400.0	December 2023	Repaid short-term borrowings
Eversource Parent 4.25% Series O Senior Notes	December 2018	500.0	April 2029	Repaid short-term borrowings
Eversource Parent 1.60% Series G Senior Notes	January 2015	(150.0)	January 2018	Repaid at maturity on January 15, 2018
Eversource Parent 1.45% Series E Senior Notes	May 2013	(300.0)	May 2018	Repaid at maturity on May 1, 2018
Yankee Gas 4.13% Series O First Mortgage Bonds	September 2018	50.0	October 2048	Repaid long-term debt that matured in 2018
Yankee Gas 6.90% Series J First Mortgage Bonds	October 2008	(100.0)	October 2018	Repaid at maturity on October 1, 2018
NSTAR Gas 4.09% Series P First Mortgage Bonds	September 2018	100.0	October 2048	Repaid short-term borrowings

<sup>(1)</sup> These notes are part of the same series issued by Eversource parent in March 2016. The aggregate outstanding principal amount of these notes is now \$450 million .

*Rate Reduction Bonds:* PSNH Funding LLC 3 (PSNH Funding) is a bankruptcy remote, special purpose, wholly-owned, consolidated subsidiary of PSNH. PSNH Funding was formed solely to issue RRBs to finance PSNH's unrecovered remaining costs associated with the divestiture of its generation assets.

On May 8, 2018, PSNH Funding issued \$635.7 million of securitized RRBs in multiple tranches with a weighted average interest rate of 3.66 percent, and final maturity dates ranging from 2026 to 2035. The RRBs are expected to be repaid by February 1, 2033. RRB payments consist of principal and interest and will be paid semi-annually, beginning on February 1, 2019. The RRBs were issued pursuant to a finance order issued by the NHPUC on January 30, 2018 to recover remaining costs resulting from the divestiture of PSNH's generation assets.

*Cash Flows:* Cash flows provided by operating activities totaled \$1.78 billion in 2018 , compared with \$2.00 billion in 2017 . The decrease in operating cash flows was due primarily to cash payments made in 2018 for storm restoration costs of approximately \$252 million, an increase of \$128 million in income tax payments made in 2018, as compared to 2017, and the unfavorable impacts related to the timing of payments of our working capital items, including accounts receivable and accounts payable. In addition, in December 2018, CYAPC paid \$145 million to the DOE to partially settle its pre-1983 spent nuclear fuel obligation, as described below. Partially offsetting these unfavorable impacts were the timing of cash collected for regulatory tracking mechanisms and a decrease of \$47.9 million in 2018 of pension and PBOP contributions.

CYAPC is obligated to pay the DOE for the costs to dispose of spent nuclear fuel and high-level radioactive waste generated from its nuclear fuel facility prior to April 7, 1983. Eversource consolidates CYAPC because CL&P's, NSTAR Electric's and PSNH's combined ownership and voting interests in CYAPC is 63 percent. CYAPC's obligation to the DOE is classified as long-term debt on Eversource's consolidated balance sheet. In December 2018, CYAPC paid \$145 million to the DOE to partially settle its pre-1983 spent nuclear fuel obligation. CYAPC funded this payment from proceeds of its spent nuclear fuel trust, which is classified as marketable securities on Eversource's consolidated balance sheet. As a result of consolidating CYAPC, Eversource has reflected CYAPC's payment to the DOE within operating cash flows on its 2018 consolidated statement of cash flows.

In 2018 , we paid cash dividends of \$640.1 million , or \$2.02 per common share, compared with \$602.1 million , or \$1.90 per common share, in 2017 . Our quarterly common share dividend payment was \$0.505 per share in 2018 , as compared to \$0.475 per common share in 2017 . On February 6, 2019, our Board of Trustees approved a common share dividend payment of \$0.535 per share, payable on March 29, 2019 to shareholders of record as of March 5, 2019. The 2019 dividend represents an increase of 5.9 percent over the dividend paid in December 2018, and is the equivalent to dividends on common shares of approximately \$678 million on an annual basis.

In 2018 , CL&P, NSTAR Electric and PSNH paid \$60.0 million , \$228.0 million and \$150.0 million , respectively, in common stock dividends to Eversource parent.

Beginning in 2019, Eversource began using treasury stock to fund the payment of shares awarded under the company's incentive plan and dividend reinvestment plan and matching contributions under the Eversource 401k Plan.

Investments in Property, Plant and Equipment on the statements of cash flows do not include amounts incurred on capital projects but not yet paid, cost of removal, AFUDC related to equity funds, and the capitalized and deferred portions of pension and PBOP expense. In 2018, investments for Eversource, CL&P, NSTAR Electric and PSNH were \$2.52 billion, \$864.1 million, \$725.8 million and \$277.3 million, respectively.

Eversource, CL&P, NSTAR Electric and PSNH each uses its available capital resources to fund its respective construction expenditures, meet debt requirements, pay operating costs, including storm-related costs, pay dividends, and fund other corporate obligations, such as pension contributions. Eversource's regulated companies recover their electric, natural gas and water distribution construction expenditures as the related project costs are depreciated over the life of the assets. This impacts the timing of the revenue stream designed to fully recover the total investment plus a return on the equity and debt used to finance the investments. The current growth in Eversource's construction expenditures utilizes a significant amount of cash for projects that have a long-term return on investment and recovery period, totaling approximately \$2.52 billion in cash capital spend in 2018. In addition, growth in Eversource's key business initiatives in 2018 required cash contributions of \$205.2 million, which are recognized as long-term assets. These factors have resulted in current liabilities exceeding current assets by \$ 1.82 billion, \$ 188.7 million, \$ 430.8 million, and \$158.6 million at Eversource, CL&P, NSTAR Electric and PSNH, respectively, as of December 31, 2018.

As of December 31, 2018, \$801.1 million of Eversource's long-term debt, including \$350.0 million, \$250.0 million, \$150.0 million, \$50.0 million and \$1.1 million for Eversource parent, CL&P, PSNH, Yankee Gas and Aquarion, respectively, will mature within the next 12 months. Included in the current portion of long-term debt is \$36.2 million related to fair value adjustments from our business combinations that will be amortized within the next 12 months and have no cash flow impact. Eversource, with its strong credit ratings, has several options available in the financial markets to repay or refinance these maturities with the issuance of new long-term debt. Eversource, CL&P, NSTAR Electric and PSNH will reduce their short-term borrowings with operating cash flows or with the issuance of new long-term debt, determined by considering capital requirements and maintenance of Eversource's credit rating and profile.

We expect the future operating cash flows of Eversource, CL&P, NSTAR Electric and PSNH, along with the access to both debt and equity markets, will be sufficient to meet any future operating requirements and capital investment forecasted opportunities.

*Credit Ratings:* On February 12, 2019, S&P changed the outlook on all its credit ratings for Eversource, CL&P, NSTAR Electric and PSNH from stable to negative.

A summary of our corporate credit ratings and outlooks by Moody's, S&P and Fitch is as follows:

	Moody's		S&P		Fitch	
	Current	Outlook	Current	Outlook	Current	Outlook
Eversource Parent	Baa1	Stable	A+	Negative	BBB+	Positive
CL&P	A3	Stable	A+	Negative	A-	Stable
NSTAR Electric	A2	Positive	A+	Negative	A	Stable
PSNH	A3	Stable	A+	Negative	A-	Stable

A summary of the current credit ratings and outlooks by Moody's, S&P and Fitch for senior unsecured debt of Eversource parent and NSTAR Electric, and senior secured debt of CL&P and PSNH is as follows:

	Moody's		S&P		Fitch	
	Current	Outlook	Current	Outlook	Current	Outlook
Eversource Parent	Baa1	Stable	A	Negative	BBB+	Positive
CL&P	A1	Stable	AA-	Negative	A+	Stable
NSTAR Electric	A2	Positive	A+	Negative	A+	Stable
PSNH	A1	Stable	AA-	Negative	A+	Stable

#### Business Development and Capital Expenditures

Our consolidated capital expenditures, including amounts incurred but not paid, cost of removal, AFUDC, and the capitalized and deferred portions of pension and PBOP expense (all of which are non-cash factors), totaled \$2.86 billion in 2018, \$2.52 billion in 2017, and \$2.21 billion in 2016. These amounts included \$184.6 million in 2018, \$165.9 million in 2017, and \$137.7 million in 2016 related to information technology and facilities upgrades and enhancements, primarily at Eversource Service and The Rocky River Realty Company.

*Electric Transmission Business:* Our consolidated electric transmission business capital expenditures increased by \$91.1 million in 2018, as compared to 2017. A summary of electric transmission capital expenditures by company is as follows:

(Millions of Dollars)	For the Years Ended December 31,		
	2018	2017	2016
CL&P	\$ 465.5	\$ 431.5	\$ 338.3
NSTAR Electric	334.3	301.9	398.7
PSNH	194.2	155.6	119.0
NPT	29.4	43.3	40.9
Total Electric Transmission Segment	\$ 1,023.4	\$ 932.3	\$ 896.9

Northern Pass: Northern Pass is Eversource's planned 1,090 MW HVDC transmission line that will interconnect from the Québec-New Hampshire border to Franklin, New Hampshire and an associated alternating current radial transmission line between Franklin and Deerfield, New Hampshire.

Northern Pass has achieved several key milestones, including receiving the following major permits:

- National Energy Board of Canada permit issued, which authorizes the construction of the transmission line that will connect with Northern Pass at the Québec-New Hampshire border on March 6, 2018;
- NHPUC approval on February 12, 2018 for the proposed lease of certain land and easement rights from PSNH to NPT, concluding that the lease is in the public interest;
- U.S. Forest Service Record of Decision on January 5, 2018, which allows NPT to install approximately 11 miles of underground transmission lines along existing roads through the White Mountain National Forest;
- Province of Québec permit granted to HQ on December 21, 2017 to construct the hydroelectric transmission line that will connect at the border of New Hampshire;
- DOE Record of Decision and Presidential Permit on November 16, 2017, which will allow construction of transmission facilities at the Québec-New Hampshire border; and
- DOE final Environmental Impact Statement issued on August 10, 2017, which concluded that the proposed Northern Pass route is the preferred alternative, providing substantial benefits with only minimal impacts.

The following permits remain outstanding: the NHSEC Certificate of Site and Facility approving construction of the project in New Hampshire, the U.S. Forest Service Special Use Permit, as authorized by the January 5, 2018 Record of Decision, and the Army Corps of Engineers Permit allowing the discharge of dredging material or other fill into wetlands and other waters under Section 404 of the Clean Water Act and Section 10 of the River and Harbors Act.

On January 25, 2018, Northern Pass was selected from the 46 proposal packages submitted as the winning bidder in the Massachusetts clean energy request for proposal ("RFP"), which successfully positioned Northern Pass to provide a firm delivery of hydropower to Massachusetts. On February 1, 2018, the NHSEC voted to deny Northern Pass' siting application. On March 28, 2018, the Massachusetts EDCs, in coordination with the DOER and an independent evaluator, notified Northern Pass that the EDCs had terminated its selection and all contract negotiations.

On March 30, 2018, the NHSEC released its written decision confirming its denial. On April 27, 2018, NPT filed a motion for rehearing with the NHSEC, and on July 12, 2018, the NHSEC issued its written decision denying Northern Pass' motion for rehearing. On August 10, 2018, NPT filed an appeal to the New Hampshire Supreme Court, alleging that the NHSEC failed to follow applicable law in its review of the project. On October 12, 2018, the New Hampshire Supreme Court accepted this appeal. Subsequently, the NHSEC transmitted the record of its proceedings to the New Hampshire Supreme Court on December 11, 2018. Briefing of the appeal began on February 4, 2019. The New Hampshire Supreme Court has not set a date for oral argument. NPT intends to continue to pursue NHSEC approval to construct this project.

The March 2018 NHSEC decision denying Northern Pass' siting application caused us to review the recoverability of our Northern Pass project costs in the first quarter of 2018. In this recoverability review, we estimated undiscounted expected project cash flows and compared the result to our estimated project costs to determine whether the recorded amount was recoverable. Our undiscounted cash flows were substantially in excess of our estimated project costs. We completed this analysis and concluded that our project costs were recoverable as of March 31, 2018, based on our expectation that the Northern Pass project remains probable of being placed in service.

Consistent with Eversource's and HQ's long-term relationship to bring clean energy into New England, Eversource and HQ remain committed to Northern Pass and the many benefits this project will bring to our customers and the region. If, as a result of future events and changes in circumstances, a new recoverability review were to conclude that our project costs are not recoverable, then we would reduce Northern Pass' project costs to the estimated fair value, which could result in most of our \$307 million of capitalized project costs being impaired. Such an impairment could have a material adverse effect on our financial position and results of operations.

Greater Boston Reliability Solution: In February 2015, ISO-NE selected the Greater Boston and New Hampshire Solution (the "Solution"), proposed by Eversource and National Grid, to satisfy the requirements identified in the Greater Boston study. The Solution consists of a portfolio of electric transmission upgrades in southern New Hampshire and northern Massachusetts and continuing into the greater Boston metropolitan area, of which 28 upgrades are in Eversource's service territory. The NHSEC issued its written order approving the New Hampshire upgrades on October 4, 2016. All the New Hampshire upgrades, including the Merrimack Valley Reliability Project, have been completed and placed in

service. We are currently pursuing the necessary regulatory and siting application approvals in Massachusetts. To date, we have received approval for five of these projects from the Massachusetts Energy Facilities Siting Board and anticipate approval of two additional projects in the second quarter of 2019. Construction has also begun on numerous smaller projects, several of which have been placed in service. Most upgrades are expected to be completed by the end of 2019. Two projects are expected to be in service by the end of 2020 and another project by mid-2021. We estimate our portion of the investment in the Solution will be approximately \$560 million, of which \$357.3 million has been spent and capitalized through December 31, 2018.

**GHCC:** The Greater Hartford Central Connecticut ("GHCC") projects, which have been approved by ISO-NE, consist of 27 projects with an expected investment of approximately \$350 million that are expected to be placed in service through 2019. As of December 31, 2018, 23 projects have been placed in service, and four projects are in active construction. As of December 31, 2018, CL&P had spent and capitalized \$232.0 million in costs associated with GHCC.

**Seacoast Reliability Project:** On April 12, 2016, PSNH filed a siting application with the NHSEC for the Seacoast Reliability Project, a 13-mile, 115kV transmission line within several New Hampshire communities, which proposes to use a combination of overhead, underground and underwater line design to help meet the growing demand for electricity in the Seacoast region. On December 10, 2018, the NHSEC indicated its unanimous approval of the project, and subsequently issued its written decision on January 31, 2019. This project is scheduled to be completed by the end of 2019. We estimate the investment in this project to be approximately \$84 million, of which PSNH had spent and capitalized \$31.2 million in costs through December 31, 2018.

**Distribution Business:** A summary of distribution capital expenditures is as follows:

(Millions of Dollars)	For the Years Ended December 31,						
	CL&P	NSTAR Electric	PSNH	Total Electric	Natural Gas	Water <sup>(1)</sup>	Total
<b>2018</b>							
Basic Business	\$ 256.3	\$ 217.7	\$ 69.3	\$ 543.3	\$ 72.9	\$ 17.0	\$ 633.2
Aging Infrastructure	151.6	133.3	73.0	357.9	280.2	81.1	719.2
Load Growth and Other	79.7	94.3	15.6	189.6	51.4	3.6	244.6
Total Distribution	487.6	445.3	157.9	1,090.8	404.5	101.7	1,597.0
Solar and Generation	—	53.4	0.9	54.3	—	—	54.3
Total	\$ 487.6	\$ 498.7	\$ 158.8	\$ 1,145.1	\$ 404.5	\$ 101.7	\$ 1,651.3
<b>2017</b>							
Basic Business	\$ 214.0	\$ 166.1	\$ 67.2	\$ 447.3	\$ 67.7	N/A	\$ 515.0
Aging Infrastructure	180.7	95.4	87.8	363.9	219.9	N/A	583.8
Load Growth and Other	52.3	96.6	13.2	162.1	47.7	N/A	209.8
Total Distribution	447.0	358.1	168.2	973.3	335.3	N/A	1,308.6
Solar and Generation	—	100.1	8.5	108.6	—	N/A	108.6
Total	\$ 447.0	\$ 458.2	\$ 176.7	\$ 1,081.9	\$ 335.3	N/A	\$ 1,417.2
<b>2016</b>							
Basic Business	\$ 179.8	\$ 146.0	\$ 70.0	\$ 395.8	\$ 70.7	N/A	\$ 466.5
Aging Infrastructure	144.7	105.7	84.7	335.1	155.9	N/A	491.0
Load Growth and Other	48.6	89.2	17.3	155.1	44.2	N/A	199.3
Total Distribution	373.1	340.9	172.0	886.0	270.8	N/A	1,156.8
Generation	—	—	17.5	17.5	—	N/A	17.5
Total	\$ 373.1	\$ 340.9	\$ 189.5	\$ 903.5	\$ 270.8	N/A	\$ 1,174.3

<sup>(1)</sup> Our water distribution business was acquired on December 4, 2017. Amounts are immaterial for the year ended December 31, 2017.

For the electric distribution business, basic business includes the purchase of meters, tools, vehicles, information technology, transformer replacements, equipment facilities, and the relocation of plant. Aging infrastructure relates to reliability and the replacement of overhead lines, plant substations, underground cable replacement, and equipment failures. Load growth and other includes requests for new business and capacity additions on distribution lines and substation additions and expansions.

For the natural gas distribution business, basic business addresses daily operational needs including meters, pipe relocations due to public works projects, vehicles, and tools. Aging infrastructure projects seek to improve the reliability of the system through enhancements related to cast iron and bare steel replacement of main and services, corrosion mediation, and station upgrades. Load growth and other reflects growth in existing service territories including new developments, installation of services, and expansion.

For the water distribution business, basic business addresses daily operational needs including periodic meter replacement, water main relocation, facility maintenance, and tools. Aging infrastructure relates to reliability and the replacement of water mains, regulators, storage tanks, pumping stations, wellfields, reservoirs, and treatment facilities. Load growth and other reflects growth in our territory including improvements to acquisitions, installation of new services, and interconnections of systems.

**Projected Capital Expenditures:** A summary of the projected capital expenditures for the regulated companies' electric transmission and for the total electric distribution, natural gas distribution and water distribution for 2019 through 2023, including information technology and facilities upgrades and enhancements on behalf of the regulated companies, is as follows:

(Millions of Dollars)	Years					2019 - 2023 Total
	2019	2020	2021	2022	2023	
CL&P Transmission	\$ 392	\$ 179	\$ 148	\$ 135	\$ 124	\$ 978
NSTAR Electric Transmission	431	434	309	293	244	1,711
PSNH Transmission	164	133	116	120	123	656
<i>Total Electric Transmission</i>	\$ 987	\$ 746	\$ 573	\$ 548	\$ 491	\$ 3,345
Electric Distribution	\$ 1,217	\$ 1,131	\$ 1,132	\$ 1,143	\$ 1,109	\$ 5,732
Natural Gas Distribution	459	473	439	483	476	2,330
<i>Total Electric and Natural Gas Distribution</i>	\$ 1,676	\$ 1,604	\$ 1,571	\$ 1,626	\$ 1,585	\$ 8,062
Water Distribution	\$ 109	\$ 112	\$ 126	\$ 133	\$ 143	\$ 623
Information Technology and All Other	\$ 199	\$ 137	\$ 131	\$ 128	\$ 127	\$ 722
Total	\$ 2,971	\$ 2,599	\$ 2,401	\$ 2,435	\$ 2,346	\$ 12,752

The projections do not include investments related to NPT or offshore wind projects. Actual capital expenditures could vary from the projected amounts for the companies and years above.

**Offshore Wind Projects:**

**Bay State Wind:** Bay State Wind is an offshore wind project being jointly developed by Eversource and Denmark-based Ørsted. Bay State Wind is located in a 300-square-mile area of the Atlantic Ocean approximately 25 miles south of the coast of Massachusetts and has the ultimate potential to generate at least 2,000 MW of clean, renewable energy. Eversource and Ørsted each hold a 50 percent ownership interest in Bay State Wind. Bay State Wind expects to participate, or has submitted proposals, in the following opportunities for future solicitations for offshore wind based on each state's clean energy requirements:

- The New York State Energy Research and Development Authority ("NYSERDA") issued an RFP for 800 MW in November 2018. NYSERDA has the authority to award more than 800 MW in the first solicitation if sufficient attractive offers are received. On February 14, 2019, Bay State Wind submitted proposals, called Sunrise Wind, in response to the RFP. Contracts are expected to be awarded in 2019.
- Massachusetts' second offshore wind RFP for 400 MW to 800 MW is expected to be issued no later than mid-2019.

Bay State Wind previously participated in certain other New England RFPs during 2018, but was not selected.

**Revolution Wind and South Fork Wind:** On February 8, 2019, Eversource and Ørsted entered into a 50-50 partnership for key offshore wind assets in the Northeast. Eversource paid approximately \$225 million for a 50 percent interest in Ørsted's Revolution Wind and South Fork Wind power projects, as well as the 257-square-mile tract off the coasts of Massachusetts and Rhode Island, owned by North East Offshore LLC. Ørsted acquired all three assets in November 2018 as part of its Deepwater Wind transaction.

This transaction builds upon the Eversource and Ørsted Bay State Wind partnership, which is on a separate 300-square-mile ocean tract adjacent to the North East Offshore area. Together, the Bay State Wind and the North East Offshore lease sites jointly owned by Eversource and Ørsted could eventually host at least 4,000 MW of offshore wind. The two companies will jointly manage permitting requirements for upcoming projects and will honor all planned local investments and agreements entered prior to this partnership.

Revolution Wind is a 700 MW offshore wind power project, located approximately 15 miles south of the Rhode Island coast, that will deliver power to Rhode Island (400 MW) and Connecticut (300 MW). South Fork Wind is approximately a 130 MW offshore wind power project, located 35 miles east of Long Island, that will interconnect into eastern Long Island where it will deliver power to households under a long-term power purchase agreement with the Long Island Power Authority. Subject to permitting, finalized power purchase agreements, where applicable, further development, and final investment decisions by Ørsted and Eversource, Revolution Wind is expected to be commissioned in 2023 and South Fork Wind is expected by the end of 2022.

**Natural Gas Transmission Project:** Access Northeast is a natural gas pipeline and storage project jointly owned by Eversource, Enbridge, Inc. ("Enbridge") and National Grid plc ("National Grid"), through Algonquin Gas Transmission, LLC ("AGT"). Eversource owns a 40 percent interest in the project, which is accounted for as an equity method investment.

In 2015 and 2016, AGT sought to secure long-term natural gas pipeline capacity contracts with EDCs in Massachusetts, Connecticut, New Hampshire, Maine, and Rhode Island. Subsequently, in 2016, the Massachusetts Supreme Judicial Court and the NHPUC each ruled that state statutes precluded the state regulatory agencies from approving those contracts in Massachusetts and New Hampshire, respectively. The New Hampshire Supreme Court overruled the NHPUC decision in May 2018. Legislative changes are needed in Massachusetts to allow the DPU to approve natural gas pipeline capacity contracts. No such changes have occurred during any legislative session to date.

In September 2018, a series of non-Eversource natural gas explosions in eastern Massachusetts resulted in widespread property and system damage, personal injuries, and a fatality. As a result of these events, compounded by the failure to secure Massachusetts legislation to date, we believe there is significant uncertainty around the future timing of, and ability to secure, needed legislative change affecting the natural gas industry and pipeline expansion, which may significantly delay the completion of the Access Northeast project.

Eversource identified the September 2018 natural gas series of explosions, compounded by the adverse legislative environment, as negative evidence that indicated potential impairment. Our impairment assessment used a discounted cash flow approach, including consideration of the severity and duration of any decline in fair value of our investment in the project, and involved significant management judgment and estimation, including projections of the project's discounted cash flows and assumptions about exit price. In the third quarter of 2018, management determined that the future cash flows of the Access Northeast project were uncertain and could no longer be reasonably estimated and that the book value of our equity method investment was not recoverable. As a result, Eversource recorded an other-than-temporary impairment of \$32.9 million pre-tax within Other Income, Net on our statement of income in 2018, which represented the full carrying value of our equity method investment.

#### FERC Regulatory Matters

*FERC Transmission Rate Settlement:* On December 28, 2015, FERC initiated a proceeding to review the New England transmission owners' (NETOs) regional and local transmission rates due to a lack of transparency. The FERC also found that the formula rates generally lacked sufficient details to determine how costs are derived and recovered in rates. This proceeding was set for hearing but held in abeyance to provide time for settlement judge procedures. On August 17, 2018, a signed Settlement Agreement between twenty-eight parties, including all six New England state regulatory commissions, the NETOs (including CL&P, NSTAR Electric and PSNH) and other settling parties, was filed at the FERC. The Settlement Agreement includes, among other things, a new formula rate template, effective on January 1, 2020, in which all regional and local transmission revenue requirements will be determined through a single formula rate. The Settlement Agreement was contested by a group of municipal entities and the FERC Trial Staff. On November 5, 2018, the Settlement Administrative Law Judge reported the contested settlement to the FERC. The NETOs are awaiting an order from the FERC.

*FERC ROE Complaints :* Four separate complaints have been filed at the FERC by combinations of New England state attorneys general, state regulatory commissions, consumer advocates, consumer groups, municipal parties and other parties (collectively the "Complainants"). In each of the first three complaints, filed on October 1, 2011, December 27, 2012, and July 31, 2014, respectively, the Complainants challenged the NETOs' base ROE of 11.14 percent that had been utilized since 2005 and sought an order to reduce it prospectively from the date of the final FERC order and for the separate 15 -month complaint periods. In the fourth complaint, filed April 29, 2016, the Complainants challenged the NETOs' base ROE billed of 10.57 percent and the maximum ROE for transmission incentive ("incentive cap") of 11.74 percent , asserting that these ROEs were unjust and unreasonable.

The ROE originally billed during the period October 1, 2011 (beginning of the first complaint period) through October 15, 2014 consisted of a base ROE of 11.14 percent and incentives up to 13.1 percent . On October 16, 2014, the FERC set the base ROE at 10.57 percent and the incentive cap at 11.74 percent for the first complaint period. This was also effective for all prospective billings to customers beginning October 16, 2014. This FERC order was vacated on April 14, 2017 by the U.S. Court of Appeals for the D.C. Circuit (the "Court").

All amounts associated with the first complaint period have been refunded. Eversource has recorded a reserve of \$39.1 million (pre-tax and excluding interest) for the second complaint period as of December 31, 2018 . This reserve represents the difference between the billed rates during the second complaint period and a 10.57 percent base ROE and 11.74 percent incentive cap. The reserve consisted of \$21.4 million for CL&P, \$14.6 million for NSTAR Electric and \$3.1 million for PSNH as of December 31, 2018 .

On October 16, 2018, FERC issued an order on all four complaints describing how it intends to address the issues that were remanded by the Court. FERC proposed a new framework to determine (1) whether an existing ROE is unjust and unreasonable and, if so, (2) how to calculate a replacement ROE. The parties to these proceedings were directed to submit briefs on this new proposed framework and how they would apply the proposed framework in each of the four complaint proceedings. Initial briefs were filed by the NETOs, Complainants and FERC Trial Staff on January 11, 2019. The NETOs' brief was supportive of the overall ROE methodology determined in the October 16, 2018 order providing the FERC does not change the proposed methodology or alter its implementation in a manner that has a material impact on the results. Reply briefs will be filed on March 8, 2019.

The FERC order included illustrative calculations for the first complaint using FERC's proposed frameworks with financial data from that complaint. Those preliminary calculations indicated that for the first complaint period, for the NETOs that FERC concludes are of average financial risk, (1) a preliminary range of presumptively just and reasonable base ROEs is 9.60 percent to 10.99 percent ; (2) the pre-existing base ROE of 11.14 percent is therefore unjust and unreasonable; (3) the preliminary just and reasonable base ROE is 10.41 percent ; and (4) the preliminary incentive cap on total ROE is 13.08 percent .

If the results of these illustrative calculations were included in a final FERC order for each of the complaint periods, then a 10.41 percent base ROE and a 13.08 percent incentive cap would not have a significant impact on our financial statements for all of the complaint periods.

Although the order provided illustrative calculations, FERC stated that these calculations are merely preliminary. The FERC's preliminary calculations are not binding and do not represent what we believe to be the most likely outcome of a final FERC order, as changes to the methodology by FERC are possible as a result of the parties' arguments and calculations in the briefing process. Until FERC issues a final decision on each of these four complaints, there is significant uncertainty, and at this time, the Company cannot reasonably estimate a range of gain or loss for any of the four complaint proceedings. The October 16, 2018 FERC order or the January 11, 2019 briefs did not provide a reasonable basis for a change to the reserve or recognized ROEs for any of the complaint periods.

Eversource, CL&P, NSTAR Electric and PSNH currently record revenues at the 10.57 percent base ROE and incentive cap at 11.74 percent established in the October 16, 2014 FERC order.

The average impact of a 10 basis point change to the base ROE for each of the 15 -month complaint periods would affect Eversource's after-tax earnings by approximately \$3 million .

*U.S. Federal Corporate Income Taxes:* Effective January 1, 2018, the local transmission service rates were updated to reflect the lower U.S. federal corporate income tax rate that resulted from the Tax Cuts and Jobs Act. On June 28, 2018, FERC granted a one-time waiver of tariff provisions related to the federal corporate income tax rate so that, effective June 1, 2018, the regional transmission service rates also reflect the reduced federal corporate income tax rate of 21 percent. The local and regional transmission service rates do not currently reflect amortization of excess ADIT (EDIT) balances that resulted from the act. On November 15, 2018, FERC issued a Policy Statement and a separate Notice of Proposed Rulemaking addressing accounting and rate issues related to ADIT changes resulting from the act. After issuance of a final rule by FERC, Eversource expects to file a compliance filing and, after acceptance by FERC, begin the refund of any EDIT through local and regional transmission service rates.

#### Regulatory Developments and Rate Matters

*Electric, Natural Gas and Water Utility Base Distribution Rates:* Each Eversource utility subsidiary is subject to the regulatory jurisdiction of the state in which it operates: CL&P, Yankee Gas and Aquarion operate in Connecticut and are subject to PURA regulation; NSTAR Electric, NSTAR Gas and Aquarion operate in Massachusetts and are subject to DPU regulation; and PSNH and Aquarion operate in New Hampshire and are subject to NHPUC regulation. The regulated companies' distribution rates are set by their respective state regulatory commissions, and their tariffs include mechanisms for periodically adjusting their rates for the recovery of specific incurred costs.

In Connecticut, electric and natural gas utilities are required to file a distribution rate case, or for PURA to initiate a rate review, within four years of the last rate case. CL&P's distribution rates were established in an April 2018 PURA-approved rate case settlement agreement with rates effective May 1, 2018. Yankee Gas' distribution rates were established in a December 2018 PURA-approved rate case settlement agreement with rates effective November 15, 2018. See "Regulatory Developments and Rate Matters - Connecticut" in this *Management's Discussion and Analysis of Financial Condition and Results of Operations*, for more information. Aquarion is not required to initiate a rate review with the PURA. Aquarion rates were established in a 2013 PURA-approved rate case.

In Massachusetts, electric distribution companies are required to file at least one distribution rate case every five years, and natural gas local distribution companies to file at least one distribution rate case every 10 years, and those companies are limited to one settlement agreement in any 10-year period. NSTAR Electric's distribution rates were established in a 2017 DPU-approved rate case with rates effective February 1, 2018. See "Regulatory Developments and Rate Matters - Massachusetts" in this *Management's Discussion and Analysis of Financial Condition and Results of Operations*, for more information. NSTAR Gas' distribution rates were established in a 2015 DPU-approved rate case. Aquarion is not required to initiate a rate review with the DPU. Aquarion rates were established in an October 2018 DPU-approved rate case.

In New Hampshire, PSNH distribution rates were established in a settlement approved by the NHPUC in 2010. Prior to the expiration of that settlement, the NHPUC approved the continuation of those rates, and increased funding via rates, of PSNH's reliability enhancement program. Aquarion rates were established in a 2013 NHPUC-approved rate case, further revised in 2016.

*Electric, Natural Gas and Water Utility Retail Rates:* The Eversource electric distribution companies obtain and resell power to retail customers who choose not to buy energy from a competitive energy supplier. The natural gas distribution companies procure natural gas for firm and seasonal customers. These energy supply procurement costs are recovered from customers in energy supply rates that are approved by the respective state regulatory commission. The rates are reset periodically and are fully reconciled to their costs. Each electric and natural gas distribution company fully recovers its energy supply costs through approved regulatory rate mechanisms on a timely basis and, therefore, such costs have no impact on earnings.

The electric and natural gas distribution companies also recover certain other costs on a fully reconciling basis through regulatory commission-approved cost tracking mechanisms and, therefore, such costs have no impact on earnings. Costs recovered through cost tracking mechanisms include energy efficiency program costs, electric retail transmission charges, restructuring and stranded costs resulting from deregulation, and additionally for our Massachusetts companies, pension and PBOP benefits and net metering for distributed generation. The reconciliation filings compare the total actual costs allowed to revenue requirements related to these services and the difference between the costs incurred (or the rate recovery allowed) and the actual costs allowed is deferred and included, to be either recovered or refunded, in future customer rates. These cost tracking mechanisms also include certain incentives earned and carrying charges that are billed in rates to customers.

*U.S. Federal Corporate Income Taxes:* On December 22, 2017, the Tax Cuts and Jobs Act became law, which amended existing federal tax rules to reduce the U.S. federal corporate income tax rate from 35 percent to 21 percent effective January 1, 2018. For our regulated companies, the most significant changes are (1) the benefit of incurring a lower federal income tax expense and (2) the reduction in ADIT liabilities (now excess ADIT or EDIT), which are estimated to be approximately \$2.9 billion and included in regulatory liabilities as of December 31, 2018. The refund of these EDIT regulatory liabilities to customers will generally be made over the same period as the remaining useful lives of the underlying assets that gave rise to the ADIT liabilities.

Eversource established a regulatory liability, recorded as a reduction to revenue, to reflect the difference between the 35 percent federal corporate income tax rate included in rates charged to customers and the 21 percent federal corporate income tax rate, effective January 1, 2018 as a result of the Tax Cuts and Jobs Act, until rates billed to customers reflect the lower federal tax rate. As of December 31, 2018, this liability, net of amounts refunded to customers, was \$24.6 million.

Eversource's regulated companies are in the process of, or will, refund the decrease in the income tax rate based on orders issued by applicable state regulatory commissions. A summary of the timing of refunds related to the change in the tax rate is as follows:

Eversource Utility and Jurisdiction	EDIT Refund Timing	Effective Date of New Tax Rate Reflected in Rates	January 1, 2018 Change in Tax Rate Prior to Effective Date of New Rates
<b>Connecticut</b>			
CL&P	Refunds will be incorporated into May 1, 2019 distribution rate change	May 1, 2018	January 1, 2018 through April 30, 2018 fully refunded to customers as of December 31, 2018
Yankee Gas	Refunds began to be reflected in rates effective November 15, 2018	November 15, 2018	January 1, 2018 through November 14, 2018 began to be refunded to customers, beginning November 15, 2018
<b>Massachusetts</b>			
NSTAR Electric	Refunds began to be reflected in rates effective January 1, 2019	February 1, 2018	Refunds not required for the period January 1, 2018 to January 31, 2018
NSTAR Gas	Refunds began to be reflected in rates effective February 1, 2019	July 1, 2018	Refunds not required for the period January 1, 2018 to June 30, 2018
<b>New Hampshire</b>			
PSNH	Refunds will be addressed as part of the next distribution rate case filing Refunds for EDIT related to PSNH's divested generation assets began to be reflected in rates effective August 1, 2018	No later than July 1, 2019 for distribution	January 1, 2018 through effective date of next distribution rate change will be refunded to customers
<b>Transmission</b>			
CL&P, NSTAR Electric and PSNH	Refunds will be made based on expected guidance from FERC	January 1, 2018	Effective January 1, 2018 for local transmission service, and effective June 1, 2018 for regional transmission service, rates reflected the reduced federal corporate income tax rate

For further information on filings with regulatory commissions and the impact to customer rates, see "Connecticut," "Massachusetts," and "New Hampshire" sections below and "FERC Regulatory Matters - U.S. Federal Corporate Income Taxes" in this *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

*Connecticut:*

**CL&P Rate Case Settlement:** On April 18, 2018, PURA approved the distribution rate case settlement agreement that was reached by CL&P, the Prosecutorial Unit of PURA, and the Office of Consumer Counsel ("OCC") on December 15, 2017, as amended on March 23, 2018. The distribution rate case settlement agreement included, among other things, rate increases of \$64.3 million, \$31.1 million, and \$29.2 million, effective May 1, 2018, 2019, and 2020, respectively; an authorized regulatory ROE of 9.25 percent; 53 percent common equity in CL&P's capital structure; and a new capital tracker, effective July 1, 2018, for core capital additions in excess of \$270 million per rate year and for capital additions for system resiliency and grid modernization. The new capital tracker also included a provision to return to customers the impact of a lower federal corporate income tax rate from the Tax Cuts and Jobs Act from January through April 2018, offset by the impacts of rate base growth since the previous rate case for the same period. In addition, the base distribution rates charged to customers were adjusted to reflect the prospective impacts of a lower federal income tax rate resulting from the Tax Cuts and Jobs Act. Amounts related to the EDIT liabilities will be incorporated as refunds to customers in May 1, 2019 base distribution rates. The settlement agreement also incorporated \$18.6 million of rate base recovery for catastrophic storms occurring after December 31, 2016, subject to a storm filing. On November 16, 2018, CL&P filed for recovery of \$153 million of storm costs incurred from 2017 through 2018, with recovery incorporated into the May 1, 2019 distribution rate change. The storm filing is pending PURA approval.

Yankee Gas Rate Case Settlement : On December 12, 2018, PURA approved the distribution rate case settlement agreement that was reached by Yankee Gas, the prosecutorial division of the PURA, and the OCC on September 21, 2018. The distribution rate case settlement agreement included, among other things, rate increases of \$1.4 million, \$15.8 million and \$13.0 million, for rate years beginning November 15, 2018, January 1, 2020, and January 1, 2021, respectively, and for Yankee Gas to implement a Distribution Integrity Management Program ("DIMP") cost recovery mechanism to further invest capital to replace aging infrastructure. The DIMP mechanism allows for recovery of costs associated with capital additions of approximately \$26 million to \$37 million annually, which is incremental to the \$150 million included in base distribution rate base per year. The settlement agreement also provides Yankee Gas the opportunity to seek recovery of additional capital spending above these levels with PURA approval. PURA ordered an accelerated replacement program for Yankee Gas to fully replace its cast iron and bare steel facilities in 11 years and fully replace copper services and certain steel mains and services in 14 years. In addition, Yankee Gas was authorized to continue its ongoing natural gas system expansion program, implement a revenue decoupling rate mechanism, and recover merger costs. The settlement agreement included a regulatory ROE of 9.3 percent. In addition, the distribution rates charged to customers were adjusted to reflect the prospective impacts of the lower federal corporate income tax rate, the overcollection of the lower income tax rate from January 1, 2018, and the EDIT from the Tax Cuts and Jobs Act. Although new rates were effective January 1, 2019, the provisions of the settlement agreement took effect November 15, 2018. The settlement agreement resulted in an \$11.7 million pre-tax benefit to earnings in 2018 (\$4.0 million at the natural gas distribution segment primarily for DIMP costs allowed for recovery, and \$7.7 million at Eversource Parent and Other Companies for the allowed recovery of previously expensed merger-related costs).

Clean Energy RFP: On December 28, 2018, under Public Act 17-3, "An Act Concerning Zero Carbon Solicitation and Procurement," the DEEP selected the Millstone nuclear power generation facility, alongside smaller generation facilities, as the winner of the zero-carbon electricity-generating resource. CL&P was directed by DEEP to enter into a ten-year contract with Millstone for approximately 9 million MWh annually. DEEP requested negotiations among all parties conclude by March 31, 2019.

#### *Massachusetts:*

NSTAR Electric Distribution Rate Case Decision: On November 30, 2017, the DPU issued its decision in the NSTAR Electric distribution rate case, which approved an annual distribution rate increase of \$37 million, with rates effective February 1, 2018. On January 3, 2018, NSTAR Electric filed a motion to reflect a revenue requirement reduction of \$56 million due to the decrease in the federal corporate income tax rate, as part of the Tax Cuts and Jobs Act, resulting in an annual net decrease in rates of \$19 million. NSTAR Electric's new rates took effect on February 1, 2018, following approval of NSTAR Electric's compliance filing on February 2, 2018. The DPU also approved, in part, NSTAR Electric's request for recalculation, resulting in an increase of \$3.5 million in the approved revenue requirement, effective March 1, 2018. In addition to its decision regarding rates, the DPU approved an authorized regulatory ROE of 10 percent, the establishment of a revenue decoupling rate mechanism for the portion of the NSTAR Electric business that did not previously have a decoupling mechanism, and the implementation of an inflation-based adjustment mechanism with a five-year stay-out until January 1, 2023. As part of this inflation-based mechanism, NSTAR Electric submitted its first annual Performance Based Rate Adjustment (PBRA) filing on September 19, 2018 and the DPU approved a \$31.9 million increase to base distribution rates on December 27, 2018 for effect on January 1, 2019.

NSTAR Electric Grid Modernization Plan : On May 10, 2018, the DPU issued an order approving a grid modernization plan for NSTAR Electric. In the order, the DPU pre-authorized \$133 million in grid-facing investments over three years, adopted a regulatory review construct for pre-authorization of grid modernization investments, and allowed targeted cost recovery of eligible incremental grid-modernization capital and operations and maintenance expenses. The pre-authorized \$133 million is in addition to \$100 million associated with energy storage and electric vehicle infrastructure previously approved by the DPU in the November 30, 2017 order issued in the NSTAR Electric distribution rate case.

U.S. Federal Corporate Income Taxes : The DPU opened an investigation into the impact of the Tax Cuts and Jobs Act on Massachusetts regulated utilities. On June 29, 2018, the DPU issued a decision ordering NSTAR Gas to lower rates effective July 1, 2018 by an annualized \$7.3 million. For NSTAR Electric, lower rates due to the reduction in the federal corporate income tax rate were effective February 1, 2018.

A second phase of the investigation addressed the EDIT issue and any potential refunds for the periods January 1, 2018 to the effective dates of the rate changes that have occurred. On December 21, 2018, the DPU issued a decision ordering Massachusetts regulated utilities to refund the distribution related EDIT to customers through a new reconciling factor ("Tax Act Credit Factor"). The order also required these companies to include any EDIT that relates to existing reconciling tracking mechanisms to be refunded within those individual mechanisms. The DPU approved compliance filings for NSTAR Electric on December 27, 2018 and for NSTAR Gas on January 18, 2019 for the Tax Act Credit Factor to be included in rates effective January 1, 2019 for NSTAR Electric and effective February 1, 2019 for NSTAR Gas. Additionally, the December 21, 2018 DPU order indicated that the DPU will not require a revision to base rates for any potential refunds for the periods January 1, 2018 to the effective dates of the rate changes. Therefore, as of December 31, 2018, a reserve was not recorded for the reduction in the federal corporate income tax rate in customer billings from January 1, 2018 to the dates of the rate changes at NSTAR Electric (February 1, 2018) and NSTAR Gas (July 1, 2018).

Eversource and NSTAR Electric Boston Harbor Civil Action : On July 15, 2016, the United States Attorney on behalf of the United States Army Corps of Engineers filed a civil action in the United States District Court for the District of Massachusetts under provisions of the Rivers and Harbors Act of 1899 and the Clean Water Act against NSTAR Electric, Harbor Electric Energy Company, a wholly-owned subsidiary of NSTAR Electric ("HEEC"), and the Massachusetts Water Resources Authority (together with NSTAR Electric and HEEC, the "Defendants"). The action alleged that the Defendants failed to comply with certain permitting requirements related to the placement of the HEEC-owned electric distribution cable beneath Boston Harbor. The action sought an order to compel HEEC to comply with cable depth requirements in the United States Army Corps of Engineers' permit or alternatively to remove the electric distribution cable and cease unauthorized work in U.S. waterways. The action also sought civil penalties and other costs.

The parties reached a settlement pursuant to which HEEC agreed to install a new 115kV distribution cable across Boston Harbor to Deer Island, utilizing a different route, and remove portions of the existing cable. Upon the installation and completion of the new cable and the removal of the portions of the existing cable, all issues surrounding the current permit from the United States Army Corps of Engineers are expected to be resolved, and such litigation is expected to be dismissed with prejudice.

In 2017, as a result of the settlement, NSTAR Electric expensed \$4.9 million (pre-tax) of previously incurred capitalized costs associated with engineering work performed on the existing cable that will no longer be used. In addition, NSTAR Electric agreed to provide a rate base credit of \$17.5 million to the Massachusetts Water Resources Authority for the new cable. This negotiated credit resulted in the initial \$17.5 million of construction costs on the new cable being expensed as incurred, all of which was fully expensed in 2018. Construction of the new cable is underway and is expected to be completed in 2019.

#### *New Hampshire:*

**Generation Divestiture:** In June 2015, Eversource and PSNH entered into the 2015 Public Service Company of New Hampshire Restructuring and Rate Stabilization Agreement, pursuant to which PSNH agreed to divest its generation assets, subject to NHPUC approval. The NHPUC approved this agreement as well as the final divestiture plan and auction process in 2016. On October 11, 2017, PSNH entered into two Purchase and Sale Agreements with private investors, one to sell its thermal generation assets at a purchase price of \$175 million, subject to adjustment, (the "Thermal Agreement") and a second to sell its hydroelectric generation assets at a purchase price of \$83 million, subject to adjustment (the "Hydro Agreement"). The NHPUC approved these agreements in late November 2017, at which time the Company classified these assets as held for sale.

On January 10, 2018, PSNH completed the sale of its thermal generation assets pursuant to the Thermal Agreement. In accordance with the Thermal Agreement, the original purchase price of \$175 million was adjusted to reflect working capital adjustments, closing date adjustments and proration of taxes and fees prior to closing, totaling \$40.9 million. In the second quarter of 2018, the purchase price was further adjusted by \$17.3 million relating to the valuation of certain allowances. As a result of these adjustments, net proceeds from the sale of the thermal assets totaled \$116.8 million.

On July 16, 2018, FERC issued its order approving the transfer of PSNH's six hydroelectric licenses to private investors. On August 26, 2018, PSNH completed the sale of its hydroelectric generation assets pursuant to the Hydro Agreement. In accordance with the Hydro Agreement, the original purchase price of \$83 million was adjusted to reflect contractual adjustments totaling \$5.8 million, resulting in net proceeds of \$77.2 million. The difference between the carrying value of the hydroelectric generation assets and the sale proceeds resulted in a gain of \$17.3 million. An estimated gain from the sale of these assets was included as an offset to the total remaining costs associated with the sale of generation assets that were securitized on May 8, 2018.

On May 8, 2018, PSNH Funding issued \$635.7 million of securitized RRBs pursuant to a finance order issued by the NHPUC to recover remaining costs resulting from the divestiture of PSNH's generation assets. These RRBs are secured by a non-bypassable charge recoverable from PSNH customers. PSNH recorded regulatory assets and other deferred costs in connection with the generation asset divestiture and the securitization of remaining costs, which are probable of recovery through collection of the non-bypassable charge. For further information on the securitized RRB issuance, see "Liquidity - Rate Reduction Bonds" in this *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

**U.S. Federal Corporate Income Taxes:** On September 27, 2018, the NHPUC issued a decision on the impact of the U.S. federal corporate income tax rate reduction from the Tax Cuts and Jobs Act. The NHPUC concluded that the tax law change qualified as an exogenous event, as defined in the 2015 Public Service Company of New Hampshire Restructuring and Rate Stabilization Agreement, and that the benefit of incurring the lower federal income tax expense would be passed back to customers with carrying charges. The next PSNH distribution rate case shall address the impacts of EDIT, the lower federal income tax rate, and the overcollection of the lower income tax rate from January 1, 2018 to the rate adjustment effective date of July 1, 2019, or earlier if a rate case is filed for rates effective prior to July 1, 2019. As of December 31, 2018, PSNH has recorded a reserve of \$12.6 million to reflect the difference between the 35 percent federal corporate income tax rate included in rates charged to customers and the 21 percent federal corporate income tax rate, effective January 1, 2018. The EDIT balance related to PSNH's divested generation assets has been included as a component of the securitization of the stranded generation assets and has started to be refunded to customers via the Stranded Cost Recovery Charge effective August 1, 2018.

**2011 through 2013 Storm Costs:** On September 17, 2018, the NHPUC approved the recovery of \$49 million, plus carrying charges, in storm costs incurred from August 2011 through March 2013 and the transfer of funding from PSNH's major storm reserve to offset those costs. The costs of these storms (excluding the equity return component of the carrying charges) were deferred as regulatory assets, and the funding reserve collected from customers was accrued as a regulatory liability. The storm cost deferral is separate from the major storm funding reserve that is being collected from customers. As a result of the duration of time between incurring storm costs in August 2011 through March 2013 and final approval from the NHPUC in 2018, PSNH recognized \$8.7 million (pre-tax) for the equity return component of the carrying charges, which have been collected from customers, within Other Income, Net on our statement of income in 2018. Storm costs incurred from December 2013 through April 2016 have been audited by the NHPUC staff and are pending NHPUC approval. As of December 31, 2018, the pre-tax equity return component of the carrying charges related to storms incurred after March 2013 was \$7.9 million, which will be recognized to earnings upon NHPUC approval of those storm costs.

**Reliability Enhancement Program:** On December 28, 2018, the NHPUC approved PSNH's extension of the Reliability Enhancement Program for 2019. The extension included cost recovery associated with vegetation management costs. The vegetation management spending, which is consistent with prior years' spending, will be deferred and offset against amounts due to customers as a result of federal income tax reform.

## Legislative and Policy Matters

*New Hampshire:* On January 11, 2018, the New Hampshire Supreme Court issued a decision that affirmed the lower court's October 2016 decision that the Town of Bow, New Hampshire had over-assessed the value of the property owned by PSNH for the 2012 and 2013 property tax years. As a result of this decision, PSNH received \$7.4 million in property tax refunds and interest in 2018.

## Critical Accounting Policies

The preparation of financial statements in conformity with GAAP requires management to make estimates, assumptions and, at times, difficult, subjective or complex judgments. Changes in these estimates, assumptions and judgments, in and of themselves, could materially impact our financial position, results of operations or cash flows. Our management discusses with the Audit Committee of our Board of Trustees significant matters relating to critical accounting policies. Our critical accounting policies are discussed below. See the combined notes to our financial statements for further information concerning the accounting policies, estimates and assumptions used in the preparation of our financial statements.

*Regulatory Accounting:* Our regulated companies are subject to rate-regulation that is based on cost recovery and meets the criteria for application of accounting guidance for rate-regulated operations, which considers the effect of regulation on the timing of the recognition of certain revenues and expenses. The regulated companies' financial statements reflect the effects of the rate-making process.

The application of accounting guidance for rate-regulated enterprises results in recording regulatory assets and liabilities. Regulatory assets represent the deferral of incurred costs that are probable of future recovery in customer rates. Regulatory assets are amortized as the incurred costs are recovered through customer rates. In some cases, we record regulatory assets before approval for recovery has been received from the applicable regulatory commission. We must use judgment to conclude that costs deferred as regulatory assets are probable of future recovery. We base our conclusion on certain factors, including, but not limited to, regulatory precedent. Regulatory liabilities represent revenues received from customers to fund expected costs that have not yet been incurred or probable future refunds to customers.

We use judgment when recording regulatory assets and liabilities; however, regulatory commissions can reach different conclusions about the recovery of costs, and those conclusions could have a material impact on our financial statements. We believe it is probable that each of the regulated companies will recover the regulatory assets that have been recorded. If we determine that we can no longer apply the accounting guidance applicable to rate-regulated enterprises to our operations, or that we cannot conclude it is probable that costs will be recovered from customers in future rates, the costs would be charged to earnings in the period in which the determination is made.

*Pension, SERP and PBOP:* We sponsor Pension, SERP and PBOP Plans to provide retirement benefits to our employees. For each of these plans, several significant assumptions are used to determine the projected benefit obligation, funded status and net periodic benefit cost. These assumptions include the expected long-term rate of return on plan assets, discount rate, compensation/progression rate and mortality and retirement assumptions. We evaluate these assumptions at least annually and adjust them as necessary. Changes in these assumptions could have a material impact on our financial position, results of operations or cash flows.

*Expected Long-Term Rate of Return on Plan Assets:* In developing the expected long-term rate of return, we consider historical and expected returns, as well as input from our consultants. Our expected long-term rate of return on assets is based on assumptions regarding target asset allocations and corresponding expected rates of return for each asset class. We routinely review the actual asset allocations and periodically rebalance the investments to the targeted asset allocations when appropriate. For the year ended December 31, 2018, our expected long-term rate-of-return assumption used to determine our pension and PBOP expense was 8.25 percent for the Eversource Service plans and 7 percent for the Aquarion plans. For the forecasted 2019 pension and PBOP expense, an expected long-term rate of return of 8.25 percent for the Eversource Service plans and 7 percent for the Aquarion plans will be used reflecting our target asset allocations.

*Discount Rate:* Payment obligations related to the Pension, SERP and PBOP Plans are discounted at interest rates applicable to the expected timing of each plan's cash flows.

The discount rate that was utilized in determining the 2018 pension, SERP and PBOP obligations was based on a yield-curve approach. This approach utilizes a population of bonds with an average rating of AA based on bond ratings by Moody's, S&P and Fitch, and uses bonds with above median yields within that population. As of December 31, 2018, the discount rates used to determine the funded status were within a range of 4.22 percent to 4.45 percent for the Pension and SERP Plans, and within a range of 4.38 percent to 4.41 percent for the PBOP Plans. As of December 31, 2017, the discount rates used were within a range of 3.43 percent to 3.75 percent for the Pension and SERP Plans, and within a range of 3.55 percent to 3.70 percent for the PBOP Plans. The increase in the discount rates used to calculate the funded status resulted in a decrease to the Pension and PBOP Plans' liability of approximately \$465 million and \$88 million, respectively, as of December 31, 2018.

The Company uses the spot rate methodology for the service and interest cost components of Pension, SERP and PBOP expense for the Eversource plans because it provides a more precise measurement by matching projected cash flows to the corresponding spot rates on the yield curve. The discount rates used to estimate the 2018 expense were within a range of 3.85 percent to 4.62 percent for the Pension and SERP Plans, and within a range of 3.28 percent to 3.94 percent for the PBOP Plans.

*Mortality Assumptions:* Assumptions as to mortality of the participants in our Pension, SERP and PBOP Plans are a key estimate in measuring the expected payments a participant may receive over their lifetime and the corresponding plan liability we need to record. In 2018, a revised scale for the mortality table was released, and we utilized it in our measurements.

**Compensation/Progression Rate:** This assumption reflects the expected long-term salary growth rate, including consideration of the levels of increases built into collective bargaining agreements, and impacts the estimated benefits that Pension and SERP Plan participants receive in the future. As of December 31, 2018 and 2017, the compensation/progression rate used to determine the funded status was 3.50 percent for the Eversource Service plans and 4 percent for the Aquarion plans.

**Health Care Cost:** In August 2016, we amended the Eversource PBOP Plan to standardize benefit design and make benefit changes. As a result, this plan is no longer subject to health care cost trends. The Aquarion PBOP Plan is still subject to health care cost trends. For the Aquarion PBOP Plan, the health care trend rate is a range of 3.5 percent to 6.75 percent, with an ultimate rate of 3.5 percent to 5 percent in 2019 and 2023, for post-65 and pre-65 retirees, respectively.

**Actuarial Determination of Expense:** Pension, SERP and PBOP expense is determined by our actuaries and consists of service cost and prior service cost, interest cost based on the discounting of the obligations, and amortization of actuarial gains and losses, offset by the expected return on plan assets. Actuarial gains and losses represent the amortization of differences between assumptions and actual information or updated assumptions. Pre-tax net periodic benefit expense for the Pension and SERP Plans was \$39.6 million, \$64.9 million and \$71.9 million for the years ended December 31, 2018, 2017 and 2016, respectively. For the PBOP Plans, there was net periodic PBOP income of \$45.0 million, \$39.6 million and \$17.9 million for the years ended December 31, 2018, 2017 and 2016, respectively.

The expected return on plan assets is determined by applying the assumed long-term rate of return to the Pension and PBOP Plan asset balances. This calculated expected return is compared to the actual return or loss on plan assets at the end of each year to determine the investment gains or losses to be immediately reflected in unamortized actuarial gains and losses.

**Forecasted Expenses and Expected Contributions:** We estimate that expense in 2019 for the Pension and SERP Plans will be approximately \$72 million and income in 2019 for the PBOP Plans will be approximately \$38 million. Pension, SERP and PBOP expense for subsequent years will depend on future investment performance, changes in future discount rates and other assumptions, and various other factors related to the populations participating in the plans.

Our policy is to fund the Pension Plans annually in an amount at least equal to the amount that will satisfy all federal funding requirements. We contributed \$185.6 million to the Pension Plans in 2018. We currently estimate contributing approximately \$112 million to the Pension Plans in 2019.

For the PBOP Plans, it is our policy to fund the PBOP Plans annually through tax deductible contributions to external trusts. We contributed \$9.3 million to the PBOP Plans in 2018. We currently estimate contributing \$11 million to the PBOP Plans in 2019.

**Sensitivity Analysis:** The following represents the hypothetical increase to the Pension Plans' (excluding the SERP Plans) reported annual cost and a decrease to the PBOP Plans' reported annual income as a result of a change in the following assumptions by 50 basis points:

Assumption Change	Increase in Pension Plan Cost				Decrease in PBOP Plan Income			
	As of December 31,				As of December 31,			
	2018		2017		2018		2017	
Eversource								
Lower expected long-term rate of return	\$	23.7	\$	20.4	\$	4.5	\$	4.1
Lower discount rate		25.5		19.7		2.9		3.6
Higher compensation rate		6.8		9.3		N/A		N/A

**Goodwill:** We recorded goodwill on our balance sheet associated with previous mergers and acquisitions. On December 4, 2017, we completed the acquisition of Aquarion, resulting in the addition of \$0.9 billion of goodwill. As of December 31, 2018, a total of \$4.4 billion of goodwill is recorded on our balance sheet. We have identified our reporting units for purposes of allocating and testing goodwill as Electric Distribution, Electric Transmission, Natural Gas Distribution and Water Distribution. Electric Distribution and Electric Transmission reporting units include carrying values for the respective components of CL&P, NSTAR Electric and PSNH. The Natural Gas Distribution reporting unit includes the carrying values of NSTAR Gas and Yankee Gas. The Water Distribution reporting unit was created upon completion of the acquisition of Aquarion and includes the water utility businesses. As of December 31, 2018, goodwill was allocated to the reporting units as follows: \$2.5 billion to Electric Distribution, \$0.6 billion to Electric Transmission, \$0.4 billion to Natural Gas Distribution and \$0.9 billion to Water Distribution.

We are required to test goodwill balances for impairment at least annually by considering the fair values of the reporting units, which requires us to use estimates and judgments. We have selected October 1st of each year as the annual goodwill impairment testing date. Goodwill impairment is deemed to exist if the carrying amount of a reporting unit exceeds its estimated fair value and if the implied fair value of goodwill based on the estimated fair values of the reporting units' assets and liabilities is less than the carrying amount of the goodwill. If goodwill were deemed to be impaired, it would be written down in the current period to the extent of the impairment.

We performed an impairment test of goodwill as of October 1, 2018 for the Electric Distribution, Electric Transmission, Natural Gas Distribution and Water Distribution reporting units. This evaluation required the consideration of several factors that impact the fair value of the reporting units, including conditions and assumptions that affect the future cash flows of the reporting units. Key considerations include discount rates, utility sector market performance and merger transaction multiples, and internal estimates of future cash flows and net income.

The 2018 goodwill impairment test resulted in a conclusion that goodwill is not impaired and no reporting unit is at risk of a goodwill impairment. The fair value of the reporting units was substantially in excess of carrying value.

*Long-Lived Assets:* Impairment evaluations of long-lived assets, including property, plant and equipment and strategic, infrastructure and other investments, involve a significant degree of estimation and judgment, including identifying circumstances that indicate an impairment may exist. Impairment analysis is required when events or changes in circumstances indicate that the carrying value of a long-lived asset may not be recoverable. Indicators of potential impairment include a deteriorating business climate, unfavorable regulatory action, decline in value that is other than temporary in nature, plans to dispose of a long-lived asset significantly before the end of its useful life, and accumulation of costs that are in excess of amounts allowed for recovery. The review of long-lived assets for impairment utilizes significant assumptions about operating strategies and external developments, including assessment of current and projected market conditions that can impact future cash flows.

Access Northeast: Eversource recorded an other-than-temporary impairment of \$32.9 million within Other Income, Net on our statement of income in 2018, related to Access Northeast, an equity method investment. In September 2018, a series of non-Eversource natural gas explosions in eastern Massachusetts resulted in widespread property and system damage, personal injuries, and a fatality. Eversource identified the September 2018 natural gas series of explosions, compounded by the adverse legislative environment, as negative evidence that indicated potential impairment of our investment in Access Northeast. Our impairment assessment used a discounted cash flow approach, including consideration of the severity and duration of any decline in fair value of our investment in the project, and involved significant management judgment and estimation, including projections of the project's discounted cash flows and assumptions about exit price. In the third quarter of 2018, management determined that the future cash flows of the Access Northeast project were uncertain and could no longer be reasonably estimated and that the book value of our equity method investment was not recoverable. For further information, see Note 1K, "Investments," to the financial statements.

NPT: In March 2018, the New Hampshire Site Evaluation Committee ("NHSEC") issued a written decision denying Northern Pass' siting application after which the Massachusetts EDCs terminated the selection of, and subsequent contract negotiations with, Northern Pass under the Massachusetts Clean Energy RFP. The March 2018 NHSEC decision denying Northern Pass' siting application caused us to review the recoverability of our Northern Pass project costs in the first quarter of 2018. In this recoverability review, we estimated undiscounted expected project cash flows and compared the result to our estimated project costs to determine whether the recorded amount was recoverable. Our undiscounted cash flows were substantially in excess of our estimated project costs. We completed this analysis and concluded that our project costs were recoverable as of March 31, 2018, based on our expectation that the Northern Pass project remains probable of being placed in service. If as a result of future events and changes in circumstances a new recoverability review were to conclude that our project costs are not recoverable, then we would reduce Northern Pass' project costs to the estimated fair value, which could result in most of our \$307 million of capitalized project costs being impaired. Such an impairment could have a material adverse effect on our financial position and results of operations.

As of December 31, 2018, we did not identify any other impairment indicators for our long-lived assets. If events or changes in circumstances indicate the carrying value of a long-lived asset may not be recoverable, we would perform an impairment analysis. An impairment analysis would consist of two steps: first, the estimated undiscounted future cash flows attributable to the asset would be compared with the carrying value of the asset, and second, if the carrying value is greater than the undiscounted future cash flows, an impairment charge would be recognized equal to the amount by which the carrying value of the asset exceeds its estimated fair value.

*Income Taxes:* Income tax expense is estimated for each of the jurisdictions in which we operate and is recorded each quarter using an estimated annualized effective tax rate. This process to record income tax expense involves estimating current and deferred income tax expense or benefit and the impact of temporary differences resulting from differing treatment of items for financial reporting and income tax return reporting purposes. Such differences are the result of timing of the deduction for expenses, as well as any impact of permanent differences, non-tax deductible expenses, or other items that directly impact income tax expense as a result of regulatory activity (flow-through items). The temporary differences and flow-through items result in deferred tax assets and liabilities that are included in the balance sheets.

We also account for uncertainty in income taxes, which applies to all income tax positions previously filed in a tax return and income tax positions expected to be taken in a future tax return that have been reflected on our balance sheets. The determination of whether a tax position meets the recognition threshold under applicable accounting guidance is based on facts and circumstances available to us.

On December 22, 2017, the Tax Cuts and Jobs Act became law, which amended existing federal tax rules and included numerous provisions that impacted corporations. In particular, the act reduced the U.S. federal corporate income tax rate from 35 percent to 21 percent effective January 1, 2018. For our regulated companies, the most significant changes are (1) the benefit of incurring a lower federal income tax expense and (2) the reduction in ADIT liabilities (now excess ADIT or EDIT), which are estimated to be approximately \$2.9 billion and included in regulatory liabilities as of December 31, 2018. The refund of these regulatory liabilities to customers will generally be made over the same period as the remaining useful lives of the underlying assets that gave rise to the ADIT liabilities.

We have completed our evaluation of the impacts of the act as of December 31, 2018. The ultimate outcome was not materially different from the provisional estimates recorded as of December 31, 2017. While we have recorded the impacts of the act based on interpretation of the provisions as enacted, it is expected the U.S. Department of Treasury and the IRS will issue additional interpretative guidance in the future that could result in changes to previously finalized provisions. At this time, some of the states in which we do business have issued guidance regarding the act and the impact was not material. Amortization of the EDIT liabilities began in 2018 at our PSNH and Yankee Gas subsidiaries. The total amortization for 2018 was \$4.4 million and \$0.6 million for PSNH and Yankee Gas, respectively.

**Accounting for Environmental Reserves:** Environmental reserves are accrued when assessments indicate it is probable that a liability has been incurred and an amount can be reasonably estimated. Increases to estimates of environmental liabilities could have an adverse impact on earnings. We estimate these liabilities based on findings through various phases of the assessment, considering the most likely action plan from a variety of available remediation options (ranging from no action required to full site remediation and long-term monitoring), current site information from our site assessments, remediation estimates from third party engineering and remediation contractors, and our prior experience in remediating contaminated sites. If a most likely action plan cannot yet be determined, we estimate the liability based on the low end of a range of possible action plans. A significant portion of our environmental sites and reserve amounts relate to former MGP sites that were operated several decades ago and manufactured gas from coal and other processes, which resulted in certain by-products remaining in the environment that may pose a potential risk to human health and the environment, for which we may have potential liability. Estimates are based on the expected remediation plan. Our estimates are subject to revision in future periods based on actual costs or new information from other sources, including the level of contamination at the site, the extent of our responsibility or the extent of remediation required, recently enacted laws and regulations or a change in cost estimates due to certain economic factors.

**Fair Value Measurements:** We follow fair value measurement guidance that defines fair value as the price that would be received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). We have applied this guidance to our Company's derivative contracts that are not elected or designated as "normal purchases or normal sales" (normal), to marketable securities held in trusts, to our investments in our Pension and PBOP Plans, and to nonfinancial assets such as goodwill and AROs. This guidance was also applied in estimating the fair value of preferred stock, long-term debt and RRBs.

Changes in fair value of the derivative contracts are recorded as Regulatory Assets or Liabilities, as we recover the costs of these contracts in rates charged to customers. These valuations are sensitive to the prices of energy and energy-related products in future years for which markets have not yet developed and assumptions are made.

We use quoted market prices when available to determine the fair value of financial instruments. If quoted market prices are not available, fair value is determined using quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments that are not active and model-derived valuations. When quoted prices in active markets for the same or similar instruments are not available, we value derivative contracts using models that incorporate both observable and unobservable inputs. Significant unobservable inputs utilized in the models include energy and energy-related product prices for future years for long-dated derivative contracts and market volatilities.

Discounted cash flow valuations incorporate estimates of premiums or discounts, reflecting risk-adjusted profit that would be required by a market participant to arrive at an exit price, using available historical market transaction information. Valuations of derivative contracts also reflect our estimates of nonperformance risk, including credit risk.

#### Other Matters

**Accounting Standards:** For information regarding new accounting standards, see Note 1C, "Summary of Significant Accounting Policies - Accounting Standards," to the financial statements.

**Contractual Obligations and Commercial Commitments:** Information regarding our contractual obligations and commercial commitments as of December 31, 2018, is summarized annually through 2023 and thereafter as follows:

#### **Eversource**

<i>(Millions of Dollars)</i>	2019	2020	2021	2022	2023	Thereafter	Total
Long-term debt maturities <sup>(a)</sup>	\$ 801.1	\$ 296.1	\$ 1,033.5	\$ 1,188.9	\$ 1,665.2	\$ 7,977.7	\$ 12,962.5
Rate reduction bond maturities	52.3	43.2	43.2	43.2	43.2	410.6	635.7
Estimated interest payments on existing debt <sup>(b)</sup>	498.0	459.5	440.7	406.4	373.4	3,526.1	5,704.1
Capital leases <sup>(c)</sup>	3.4	3.4	2.9	1.5	0.7	13.9	25.8
Operating leases <sup>(d)</sup>	11.5	9.8	8.7	7.2	4.7	32.7	74.6
Funding of pension obligations <sup>(d)(e)</sup>	112.0	—	—	—	—	—	112.0
Funding of PBOP obligations <sup>(d)(e)</sup>	11.0	—	—	—	—	—	11.0
Estimated future annual long-term contractual costs <sup>(f)</sup>	609.2	607.9	528.7	494.1	461.7	2,905.9	5,607.5
<b>Total <sup>(g)</sup></b>	<b>\$ 2,098.5</b>	<b>\$ 1,419.9</b>	<b>\$ 2,057.7</b>	<b>\$ 2,141.3</b>	<b>\$ 2,548.9</b>	<b>\$ 14,866.9</b>	<b>\$ 25,133.2</b>

#### **CL&P**

<i>(Millions of Dollars)</i>	2019	2020	2021	2022	2023	Thereafter	Total
Long-term debt maturities <sup>(a)</sup>	\$ 250.0	\$ —	\$ —	\$ —	\$ 400.0	\$ 2,615.3	\$ 3,265.3
Estimated interest payments on existing debt <sup>(b)</sup>	141.7	134.8	134.8	134.8	129.8	1,843.0	2,518.9
Capital leases <sup>(c)</sup>	2.0	2.0	1.5	—	—	—	5.5
Operating leases <sup>(d)</sup>	1.5	1.4	1.2	1.1	0.5	0.2	5.9
Funding of pension obligations <sup>(d)(e)</sup>	44.0	—	—	—	—	—	44.0
Estimated future annual long-term contractual costs <sup>(f)</sup>	179.9	205.2	197.2	195.7	200.4	959.7	1,938.1
<b>Total <sup>(g)</sup></b>	<b>\$ 619.1</b>	<b>\$ 343.4</b>	<b>\$ 334.7</b>	<b>\$ 331.6</b>	<b>\$ 730.7</b>	<b>\$ 5,418.2</b>	<b>\$ 7,777.7</b>

- (a) Long-term debt maturities exclude the CYAPC pre-1983 spent nuclear fuel obligation, net unamortized premiums, discounts and debt issuance costs, and other fair value adjustments.
- (b) Estimated interest payments on fixed-rate debt are calculated by multiplying the coupon rate on the debt by its scheduled notional amount outstanding for the period of measurement.
- (c) The capital lease obligations include interest.
- (d) Amounts are not included on our balance sheets.
- (e) These amounts represent expected pension and PBOP contributions for 2019 . Future contributions will vary depending on many factors, including the performance of existing plan assets, valuation of the plans' liabilities and long-term discount rates.
- (f) Other than certain derivative contracts held by the regulated companies, these obligations are not included on our balance sheets.
- (g) Does not include other long-term liabilities recorded on our balance sheet, such as environmental reserves, employee medical insurance, workers compensation and long-term disability insurance reserves, ARO liability reserves and other reserves, as we cannot make reasonable estimates of the timing of payments. Also, does not include amounts not included on our balance sheets for future funding of Eversource's equity method investments, as we cannot make reasonable estimates of the periods or the investment contributions.

For further information regarding our contractual obligations and commercial commitments, see Note 6, "Asset Retirement Obligations," Note 7, "Short-Term Debt," Note 8, "Long-Term Debt," Note 9, "Rate Reduction Bonds and Variable Interest Entities," Note 10A, "Employee Benefits - Pension Benefits and Postretirement Benefits Other Than Pension," Note 12, "Commitments and Contingencies," and Note 14, "Leases," to the financial statements.

## RESULTS OF OPERATIONS – EVERSOURCE ENERGY AND SUBSIDIARIES

The following provides the amounts and variances in operating revenues and expense line items in the statements of income for Eversource for the years ended December 31, 2018 and 2017 included in this Annual Report on Form 10-K:

<i>(Millions of Dollars)</i>	For the Years Ended December 31,		
	2018	2017	Increase/(Decrease)
Operating Revenues	\$ 8,448.2	\$ 7,752.0	\$ 696.2
Operating Expenses:			
Purchased Power, Fuel and Transmission	3,139.0	2,535.3	603.7
Operations and Maintenance	1,335.2	1,307.0	28.2
Depreciation	819.9	773.8	46.1
Amortization	252.0	90.0	162.0
Energy Efficiency Programs	472.4	480.8	(8.4)
Taxes Other Than Income Taxes	729.8	676.8	53.0
Total Operating Expenses	6,748.3	5,863.7	884.6
Operating Income	1,699.9	1,888.3	(188.4)
Interest Expense	498.8	421.8	77.0
Other Income, Net	128.4	107.9	20.5
Income Before Income Tax Expense	1,329.5	1,574.4	(244.9)
Income Tax Expense	289.0	578.9	(289.9)
Net Income	1,040.5	995.5	45.0
Net Income Attributable to Noncontrolling Interests	7.5	7.5	—
Net Income Attributable to Common Shareholders	\$ 1,033.0	\$ 988.0	\$ 45.0

### Operating Revenues

**Sales Volumes:** A summary of our retail electric GWh sales volumes, our firm natural gas sales volumes in MMcf, and our water MG sales volumes, and percentage changes, for the years ended December 31, 2018 and 2017, is as follows:

	Electric			Firm Natural Gas			Water		
	Sales Volumes (GWh)		Percentage Increase	Sales Volumes (MMcf)		Percentage Increase/(Decrease)	Sales Volumes (MG)		Percentage Increase/(Decrease)
	2018	2017 <sup>(1)</sup>		2018	2017 <sup>(2)</sup>		2018	2017 <sup>(3)</sup>	
Traditional	9,790	9,465	3.4%	44,715	39,455	13.3 %	2,252	2,202	2.3 %
Decoupled and Special Contracts <sup>(4)</sup>	43,591	42,781	1.9%	61,242	61,571	(0.5)%	21,479	22,565	(4.8)%
Total Sales Volumes	53,381	52,246	2.2%	105,957	101,026	4.9 %	23,731	24,767	(4.2)%

<sup>(1)</sup> In 2017 and in the month of January 2018, NSTAR Electric operated under two different rate structures (traditional and decoupled) based on its service territory geography. Effective February 1, 2018, NSTAR Electric operated entirely under a decoupled rate structure. The 2017 sales volumes for NSTAR Electric have been recast to present February through December 2017 as decoupled, to conform to the current year presentation.

<sup>(2)</sup> In 2017 and until November 14, 2018, Yankee Gas operated under a traditional rate structure. Effective November 15, 2018, Yankee Gas operated under a decoupled rate structure. The 2017 sales volumes for Yankee Gas have been recast to present November 15th through December 2017 as decoupled, to conform to the current year presentation.

<sup>(3)</sup> Eversource acquired its water distribution business on December 4, 2017. Full 2017 sales volumes have been presented for comparative purposes.

<sup>(4)</sup> Special contracts are unique to Yankee Gas natural gas distribution customers who take service under such an arrangement and generally specify the amount of distribution revenue to be paid to Yankee Gas regardless of the customers' usage.

Fluctuations in retail electric sales volumes at PSNH and natural gas sales volumes at Yankee Gas prior to November 15, 2018 impacted earnings ("Traditional" in the table above). For CL&P, NSTAR Electric (effective February 1, 2018 as a result of a DPU-approved rate case decision), Yankee Gas (effective November 15, 2018 as a result of a PURA-approved rate case settlement) and NSTAR Gas, fluctuations in retail sales volumes do not impact earnings due to their respective regulatory commission-approved distribution revenue decoupling mechanisms ("Decoupled" in the table above). These distribution revenues are decoupled from their customer sales volumes, which breaks the relationship between sales volumes and revenues recognized. Fluctuations in water sales volumes largely do not impact earnings as our Connecticut water distribution business is decoupled.

**Operating Revenues:** Operating Revenues by segment increased/(decreased) in 2018, as compared to 2017, as follows (the variance in electric distribution revenues reflects intercompany transmission billings in both periods):

<i>(Millions of Dollars)</i>	<b>Increase/(Decrease)</b>	
Electric Distribution	\$	405.6
Natural Gas Distribution		74.9
Electric Transmission		(15.4)
Water Distribution		196.1
Other		5.3
Eliminations		29.7
<b>Total Operating Revenues</b>	<b>\$</b>	<b>696.2</b>

*Electric Distribution Revenues :*

- Base electric distribution revenues decreased \$49.3 million due primarily to lower base distribution rates at NSTAR Electric, as per the DPU-approved rate case decision that became effective February 1, 2018. NSTAR Electric's rates were adjusted to reflect the new lower federal corporate income tax rate and the movement of certain costs from base distribution rates to fully-reconciled cost tracking mechanisms (most of which did not impact earnings). The decrease in revenues was partially offset by CL&P's base distribution rate increase as a result of the PURA-approved rate case settlement that became effective May 1, 2018 (a portion of which did not impact earnings), and an increase in non-decoupled sales volumes primarily driven by colder weather in January 2018 at NSTAR Electric (prior to its decoupled rate structure) and warmer summer weather in 2018 at PSNH. Effective February 1, 2018, NSTAR Electric operated entirely under a decoupled rate structure.
- Electric distribution revenues also decreased \$28.9 million due to the liability established to reflect the difference between the 35 percent federal corporate income tax rate included in rates charged to customers and the 21 percent federal corporate income tax rate, effective January 1, 2018 as a result of the Tax Cuts and Jobs Act. Effective February 1, 2018 for NSTAR Electric and May 1, 2018 for CL&P, rates charged to customers have been adjusted to reflect the new federal corporate income tax rate. PSNH will refund the overcollection in rates from January 1, 2018 to customers in a future period.
- Tracked revenues consist of certain costs that are recovered from customers in retail rates through regulatory commission-approved cost tracking mechanisms and therefore, have no impact on earnings. Costs recovered through cost tracking mechanisms include energy supply procurement and other energy-related costs, retail transmission charges, energy efficiency program costs, restructuring and stranded cost recovery revenues (including securitized RRB charges), and additionally for NSTAR Electric, pension and PBOP benefits and net metering for distributed generation. In addition, tracked revenues include certain incentives earned and carrying charges that are billed in rates to customers. Tracked retail electric distribution revenues increased as a result of an increase in electric energy supply costs (\$219.1 million), an increase in stranded cost recovery revenues (\$80.5 million), an increase in retail electric transmission charges (\$39.3 million), and an increase in other distribution tracking mechanisms (\$84.0 million). Tracked revenues also include wholesale market sales transactions, such as sales of energy and energy-related products into the ISO-NE wholesale electricity market and the sale of RECs to various counterparties, which increased \$48.7 million.

*Natural Gas Distribution Revenues :*

- Base natural gas distribution revenues increased \$17.8 million due primarily to an increase in sales volumes and demand revenues driven by colder January, April, October and November weather in Connecticut in 2018, as well as growth in new customer base. Effective November 15, 2018, fluctuations in Connecticut sales volumes no longer impact earnings as a result of a decoupled rate structure at Yankee Gas approved in the 2018 rate case settlement.
- Natural gas distribution revenues decreased \$8.3 million due to the liability established to reflect the difference between the 35 percent federal corporate income tax rate included in rates charged to customers and the 21 percent federal corporate income tax rate, effective January 1, 2018 as a result of the Tax Cuts and Jobs Act. Effective July 1, 2018 for NSTAR Gas and November 15, 2018 for Yankee Gas, rates charged to customers have been adjusted to reflect the new federal corporate income tax rate.
- Tracked natural gas distribution revenues increased as a result of an increase in natural gas supply costs (\$42.8 million), an increase in energy efficiency program revenues (\$7.9 million), and an increase in wholesale sales of natural gas to third party marketers (\$14.6 million).

*Water Distribution:* Water distribution revenues increased \$196.1 million for the year ended December 31, 2018 as a result of the acquisition of Aquarion on December 4, 2017.

*Electric Transmission Revenues:* The electric transmission segment revenues decreased by \$15.4 million due primarily to lower revenue requirements primarily related to the lower federal corporate income tax rate that was reflected in 2018 transmission revenues, partially offset by an increase related to ongoing investments in our transmission infrastructure.

**Purchased Power, Fuel and Transmission** expense includes costs associated with purchasing electricity, natural gas and water, on behalf of our customers. These supply costs are recovered from customers in rates through commission-approved cost tracking mechanisms, which have no impact on earnings (tracked costs). Purchased Power, Fuel and Transmission expense increased in 2018, as compared to 2017, due primarily to the following:

<i>(Millions of Dollars)</i>	<b>Increase</b>
Electric Distribution	\$ 436.9
Natural Gas Distribution	48.8
Transmission	73.6
Water Distribution	1.6
Eliminations	42.8
Total Purchased Power, Fuel and Transmission	\$ 603.7

The variance in electric distribution reflects intercompany transmission charges in both periods. The increase in purchased power expense at the electric distribution business in 2018, as compared to 2017, was driven primarily by higher prices associated with the procurement of energy supply. As a result of the sale of PSNH's thermal generation assets on January 10, 2018, and the sale of PSNH's hydroelectric assets on August 26, 2018, PSNH purchased power in place of its self-generation output in 2018. The increase in natural gas supply costs at our natural gas distribution business was due to higher average prices and sales volumes.

The increase in transmission costs in 2018, as compared to 2017, was primarily the result of an increase in costs billed by ISO-NE that support regional grid investment and an increase in the retail transmission cost deferral, which reflects the actual costs of transmission service compared to estimated amounts billed to customers. This was partially offset by a decrease in Local Network Service charges, which reflect the cost of transmission service provided by Eversource over our local transmission network.

**Operations and Maintenance** expense includes tracked costs and costs that are part of base electric, natural gas and water distribution rates with changes impacting earnings (non-tracked costs). Operations and Maintenance expense increased in 2018, as compared to 2017, due primarily to the following:

<i>(Millions of Dollars)</i>	<b>Increase/(Decrease)</b>
Base Electric Distribution (Non-Tracked Costs):	
Employee-related expenses, including labor and benefits	\$ 8.5
Bad debt expense	11.2
HEEC Boston Harbor distribution cable costs	(12.5)
Storm restoration costs	(6.3)
Other non-tracked operations and maintenance	13.0
Total Base Electric Distribution (Non-Tracked Costs)	13.9
Base Natural Gas Distribution (Non-Tracked Costs) - Increase due primarily to higher employee-related expenses of \$4.5 million and higher bad debt expense of \$4.3 million	9.8
Water Distribution - Increase of Aquarion operations and maintenance expenses due to acquisition on December 4, 2017	73.3
Tracked Costs (Electric Distribution, Electric Transmission and Natural Gas Distribution) - Decrease due primarily to lower PSNH generation operations expenses of \$53.3 million due to the 2018 sales of thermal and hydroelectric generation assets and lower transmission expenses of \$18.5 million	(83.3)
Other and eliminations:	
Absence of merger-related costs allowed for recovery through NSTAR Electric distribution rates as a result of the 2017 DPU distribution rate case decision (absence of 2017 earnings benefit)	30.5
Merger-related costs allowed for recovery through Yankee Gas distribution rates as a result of the 2018 PURA distribution rate case settlement agreement (earnings benefit)	(7.7)
Eversource Parent and Other Companies - other operations and maintenance	0.8
Eliminations	(9.1)
Total Operations and Maintenance	\$ 28.2

**Depreciation** expense increased in 2018, as compared to 2017, due primarily to higher utility plant in service balances and new depreciation rates effective with the CL&P distribution rate case settlement agreement. Partially offsetting these increases was lower depreciation expense at PSNH as a result of the sale of the thermal and hydroelectric generation assets in 2018.

**Amortization** expense includes the deferral of energy supply and energy-related costs included in certain regulatory commission-approved cost tracking mechanisms, and the amortization of certain costs. This deferral adjusts expense to match the corresponding revenues. Amortization increased in 2018, as compared to 2017, due primarily to the deferral of energy supply and energy-related costs which can fluctuate from period to period based on the timing of costs incurred and the related rate changes to recover these costs. Energy supply and energy-related costs are recovered from customers in rates and have no impact on earnings. In addition, the increase includes amortization of PSNH's securitized regulatory asset of \$27.3 million related to the 2018 RRB issuance.

**Energy Efficiency Programs** expense decreased in 2018, as compared to 2017, due primarily to a State of Connecticut policy change requiring CL&P to remit 2018 energy efficiency funds to the State of Connecticut, which totaled \$46.8 million in 2018, as compared to \$25.4 million in 2017. These costs were collected from CL&P's customers and remitted to the State of Connecticut; as such we have classified these amounts as Taxes Other than Income Taxes. The costs for the majority of the state energy policy initiatives and expanded energy efficiency programs are recovered from customers in rates and have no impact on earnings. Partially offsetting this decrease was an increase in allowed distribution revenue at PSNH that funded a higher level of expenditures, and higher spending for our natural gas energy efficiency programs.

**Taxes Other Than Income Taxes** expense increased in 2018, as compared to 2017, due primarily to a State of Connecticut policy change requiring CL&P to remit 2018 energy efficiency funds to the State of Connecticut (which totaled \$46.8 million in 2018, as compared to \$25.4 million in 2017), as well as higher property taxes due to higher utility plant in service balances and higher gross earnings taxes (the costs of which are tracked). Partially offsetting these increases was the absence of property taxes as a result of the sale of the PSNH thermal and hydroelectric generation assets in 2018, and a 2018 refund of disputed property taxes for prior years at PSNH.

**Interest Expense** increased in 2018, as compared to 2017, due primarily to an increase in interest on long-term debt (\$30.7 million) as a result of new debt issuances, the addition of Aquarion interest expense in 2018 (\$23.0 million), interest expense on the 2018 PSNH RRB issuance (\$14.4 million), an increase in interest on notes payable (\$11.2 million) and an increase in regulatory deferrals, which increased interest expense (\$7.1 million) driven primarily by the absence in 2018 of a benefit to interest expense at NSTAR Electric due to the 2017 DPU distribution rate case decision regarding carrying charges for past storms. Partially offsetting these increases was an increase in AFUDC related to debt funds (\$7.2 million).

**Other Income, Net** increased in 2018, as compared to 2017, due primarily to an increase related to Pension, SERP and PBOP non-service income components (\$30.9 million), higher AFUDC related to equity funds (\$9.6 million), the recognition of \$8.7 million of the equity return component of carrying charges related to storms incurred from August 2011 through March 2013 at PSNH recorded in interest income, and gains on the sale of property (\$5.1 million). Partially offsetting these increases was a decrease in equity in earnings of unconsolidated affiliates related to Eversource's equity method investments (\$23.6 million), which was driven by a \$32.9 million other-than-temporary impairment to our equity method investment in the Access Northeast project, partially offset by increased unrealized gains on our investment in a renewable energy fund. Other Income, Net was further decreased by investment loss in 2018 compared to investment income in 2017 (\$11.5 million) primarily related to unrealized losses on equity marketable securities.

**Income Tax Expense** decreased in 2018, as compared to 2017, due primarily to the new federal tax law enacted December 22, 2017, the Tax Cuts and Jobs Act, reducing the federal corporate income tax rate from 35 percent to 21 percent and lower pre-tax earnings (\$265.2 million), further reduced by state taxes (\$3.6 million), which includes a valuation allowance against state tax credits. Income tax expense further decreased by the write-off of Access Northeast (\$6.9 million), an aggregate benefit relating to both federal tax reform impacts on the tax return compared to the provision estimate and remeasurement of a tax reserve (\$18 million), and partially offset by items that impact our tax rate as a result of regulatory treatment (flow-through items) and permanent differences (\$3.8 million).

**RESULTS OF OPERATIONS –  
THE CONNECTICUT LIGHT AND POWER COMPANY  
NSTAR ELECTRIC COMPANY AND SUBSIDIARY  
PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE AND SUBSIDIARIES**

The following provides the amounts and variances in operating revenues and expense line items in the statements of income for CL&P, NSTAR Electric and PSNH for the years ended December 31, 2018 and 2017 included in this Annual Report on Form 10-K:

<i>(Millions of Dollars)</i>	For the Years Ended December 31,								
	CL&P			NSTAR Electric			PSNH		
	2018	2017	Increase/(Decrease)	2018	2017	Increase/(Decrease)	2018	2017	Increase/(Decrease)
Operating Revenues	\$ 3,096.2	\$ 2,887.4	\$ 208.8	\$ 3,112.9	\$ 2,980.6	\$ 132.3	\$ 1,047.6	\$ 981.6	\$ 66.0
Operating Expenses:									
Purchased Power, Fuel and Transmission	1,095.2	930.8	164.4	1,257.1	1,025.4	231.7	370.2	237.5	132.7
Operations and Maintenance	506.4	502.2	4.2	462.1	482.9	(20.8)	210.5	263.1	(52.6)
Depreciation	278.6	249.4	29.2	276.4	274.0	2.4	92.1	128.2	(36.1)
Amortization of Regulatory Assets/ (Liabilities), Net	129.0	83.2	45.8	46.7	33.8	12.9	81.0	(16.6)	97.6
Energy Efficiency Programs	94.0	114.7	(20.7)	292.3	294.1	(1.8)	20.1	13.8	6.3
Taxes Other Than Income Taxes	357.2	323.8	33.4	194.2	182.0	12.2	77.3	89.7	(12.4)
Total Operating Expenses	2,460.4	2,204.1	256.3	2,528.8	2,292.2	236.6	851.2	715.7	135.5
Operating Income	635.8	683.3	(47.5)	584.1	688.4	(104.3)	196.4	265.9	(69.5)
Interest Expense	151.7	143.0	8.7	105.2	105.7	(0.5)	60.6	51.0	9.6
Other Income, Net	22.7	23.0	(0.3)	53.1	34.1	19.0	27.7	9.8	17.9
Income Before Income Tax Expense	506.8	563.3	(56.5)	532.0	616.8	(84.8)	163.5	224.7	(61.2)
Income Tax Expense	129.1	186.6	(57.5)	148.9	242.1	(93.2)	47.6	88.7	(41.1)
Net Income	\$ 377.7	\$ 376.7	\$ 1.0	\$ 383.1	\$ 374.7	\$ 8.4	\$ 115.9	\$ 136.0	\$ (20.1)

**Operating Revenues**

Sales Volumes: A summary of our retail electric GWh sales volumes was as follows:

	For the Years Ended December 31,			
	2018	2017	Increase	Percent
CL&P	21,467	20,950	517	2.5%
NSTAR Electric	23,999	23,538	461	2.0%
PSNH	7,915	7,758	157	2.0%

Fluctuations in retail electric sales volumes at PSNH impact earnings. For CL&P and NSTAR Electric (effective February 1, 2018, as a result of the DPU-approved rate case decision), fluctuations in retail electric sales volumes do not impact earnings due to their respective regulatory commission-approved distribution revenue decoupling mechanisms.

Operating Revenues: Operating Revenues, which consist of base distribution revenues and tracked revenues further described below, increased in 2018, as compared to 2017, as follows:

<i>(Millions of Dollars)</i>	CL&P	NSTAR Electric	PSNH
Operating Revenues	\$ 208.8	\$ 132.3	\$ 66.0

*Base Distribution Revenues:*

- CL&P's distribution revenues increased \$25.4 million due primarily to the impact of its base distribution rate increase as a result of the PURA-approved rate case settlement that became effective May 1, 2018 (a portion of which did not impact earnings).
- NSTAR Electric's distribution revenues decreased \$79.3 million due primarily to lower base distribution rates at NSTAR Electric, as per the DPU-approved rate case decision that became effective February 1, 2018. NSTAR Electric's rates were adjusted to reflect the new lower federal corporate income tax rate and the movement of certain costs from base distribution rates to fully-reconciled cost tracking mechanisms (most of which did not impact earnings). The decrease in revenues was partially offset by an increase in January 2018 sales volumes, as compared to January 2017, primarily driven by the colder weather. Effective February 1, 2018, NSTAR Electric operated entirely under a decoupled rate structure, and changes in sales volumes no longer impact earnings.
- PSNH's base distribution revenues increased \$4.6 million primarily as a result of an increase in sales volumes in 2018, partially offset by a rate change due to the completion of the full recovery of certain costs in revenues. The rate change did not impact earnings.

- Distribution revenues decreased \$16.6 million at CL&P and \$12.3 million at PSNH due to the liability established to reflect the difference between the 35 percent federal corporate income tax rate included in rates charged to customers and the 21 percent federal corporate income tax rate, effective January 1, 2018 as a result of the Tax Cuts and Jobs Act. Effective February 1, 2018 for NSTAR Electric and May 1, 2018 for CL&P, rates charged to customers have been adjusted to reflect the new federal corporate income tax rate. PSNH will refund the overcollection in rates from January 1, 2018 to customers in a future period.

*Tracked Revenues:* Tracked revenues consist of certain costs that are recovered from customers in retail rates through commission-approved cost tracking mechanisms and therefore have no impact on earnings. Costs recovered through cost tracking mechanisms include energy supply procurement and other energy-related costs, retail transmission charges, energy efficiency program costs, net metering for distributed generation and restructuring and stranded cost recovery revenues (including securitized RRB charges). In addition, tracked revenues include certain incentives earned and carrying charges that are billed in rates to customers. Tracked revenues also include wholesale market sales transactions, such as sales of energy and energy-related products into the ISO-NE wholesale electricity market and the sale of RECs to various counterparties. Tracked revenues increased/(decreased) in 2018, as compared to 2017, due primarily to the following:

<i>(Millions of Dollars)</i>	<u>CL&amp;P</u>	<u>NSTAR Electric</u>	<u>PSNH</u>
Retail Tariff Tracked Revenues:			
Energy supply procurement <sup>(1)</sup>	\$ 172.8	\$ 100.7	\$ (54.4)
Retail transmission	(26.7)	75.1	(9.1)
Stranded cost recovery	3.4	(21.5)	98.6
Other distribution tracking mechanisms	17.0	58.5	8.5
Wholesale Market Sales Revenue	24.4	(4.0)	28.3

<sup>(1)</sup> The decrease at PSNH includes the absence in 2018 of the recovery of generation rate base return due to the sales of its thermal and hydroelectric generation assets in 2018.

*Transmission Revenues:* Transmission revenues decreased \$6.4 million and \$15.3 million at CL&P and NSTAR Electric, respectively, due to lower revenue requirements primarily related to the lower federal corporate income tax rate that was reflected in 2018 transmission revenues, partially offset by an increase related to ongoing investments in our transmission infrastructure. Transmission revenues increased \$6.3 million at PSNH due to an increase related to ongoing investments in our transmission infrastructure, partially offset by the reduction in the federal corporate income tax rate.

**Purchased Power, Fuel and Transmission** expense includes costs associated with purchasing electricity on behalf of CL&P, NSTAR Electric and PSNH's customers. These energy supply costs are recovered from customers in commission-approved cost tracking mechanisms, which have no impact on earnings (tracked costs). Purchased Power, Fuel and Transmission expense increased/(decreased) in 2018, as compared to 2017, due primarily to the following:

<i>(Millions of Dollars)</i>	<u>CL&amp;P</u>	<u>NSTAR Electric</u>	<u>PSNH</u>
Purchased Power Costs	\$ 162.9	\$ 141.1	\$ 132.9
Transmission Costs	(3.7)	75.7	1.6
Eliminations	5.2	14.9	(1.8)
Total Purchased Power, Fuel and Transmission	\$ 164.4	\$ 231.7	\$ 132.7

*Purchased Power Costs :* Included in purchased power costs are the costs associated with providing electric generation service supply to all customers who have not migrated to third party suppliers.

- The increase at CL&P was due primarily to an increase in the price and volume of power procured on behalf of our customers.
- The increase at NSTAR Electric was due primarily to an increase in the price of power procured on behalf of our customers.
- The increase at PSNH was due primarily to higher purchased power energy expenses that are recovered as a component of the Energy Service tracking mechanism. As a result of the sale of its thermal generation assets on January 10, 2018 and its hydroelectric generation assets on August 26, 2018, PSNH purchased power in place of its self-generation output in 2018.

*Transmission Costs :* Included in transmission costs are charges that recover the cost of transporting electricity over high-voltage lines from generation facilities to substations, including costs allocated by ISO-NE to maintain the wholesale electric market.

- The decrease in transmission costs at CL&P was primarily a result of a decrease in the retail transmission cost deferral, which reflects the actual costs of transmission service compared to estimated amounts billed to customers, and a decrease in Local Network Service charges, which reflect the cost of transmission service provided by Eversource over our local transmission network. This was partially offset by an increase in costs billed by ISO-NE that support regional grid investment.
- The increase in transmission costs at NSTAR Electric and PSNH was primarily the result of an increase in costs billed by ISO-NE that support regional grid investment and an increase in the retail transmission cost deferral. This was partially offset by a decrease in Local Network Service charges.

**Operations and Maintenance** expense includes tracked costs and costs that are part of base distribution rates with changes impacting earnings (non-tracked costs). Operations and Maintenance expense increased/(decreased) in 2018, as compared to 2017, due primarily to the following:

(Millions of Dollars)

	CL&P	NSTAR Electric	PSNH
Base Electric Distribution (Non-Tracked Costs):			
Employee-related expenses, including labor and benefits	\$ 14.5	\$ (8.3)	\$ 2.3
Bad debt expense	6.9	4.4	(0.1)
HEEC Boston Harbor distribution cable costs	—	(12.5)	—
Storm restoration costs	(7.4)	1.4	(0.3)
Operations-related expenses, including vegetation management, vehicles, and outside services (excluding storm restoration costs)	(3.9)	3.1	(0.8)
Other non-tracked operations and maintenance	2.1	8.9	3.6
<b>Total Base Electric Distribution (Non-Tracked Costs)</b>	<b>12.2</b>	<b>(3.0)</b>	<b>4.7</b>
Tracked Costs:			
Decrease of PSNH generation operations expenses due to the 2018 sales of thermal and hydroelectric generation assets	—	—	(53.3)
Transmission expenses	(7.4)	(12.0)	0.9
Other tracked operations and maintenance	(0.6)	(5.8)	(4.9)
<b>Total Tracked Costs</b>	<b>(8.0)</b>	<b>(17.8)</b>	<b>(57.3)</b>
<b>Total Operations and Maintenance</b>	<b>\$ 4.2</b>	<b>\$ (20.8)</b>	<b>\$ (52.6)</b>

**Depreciation** increased/(decreased) at CL&P, NSTAR Electric and PSNH in 2018, as compared to 2017, due primarily to the following:

- The increase at CL&P was due primarily to higher net plant in service balances and the implementation of new depreciation rates effective with the CL&P distribution rate case settlement agreement.
- The increase at NSTAR Electric was due primarily to higher net plant in service balances, offset by lower distribution depreciation composite rates.
- The decrease at PSNH was due primarily to the sale of the thermal and hydroelectric generation assets in 2018, partially offset by higher distribution depreciation expense.

**Amortization of Regulatory Assets/(Liabilities), Net** expense includes the deferral of energy supply and energy-related costs included in certain regulatory-approved costs tracking mechanisms, and the amortization of certain costs. This deferral adjusts expense to match the corresponding revenues. Amortization of Regulatory Assets/(Liabilities), Net increased at CL&P, NSTAR Electric and PSNH in 2018, as compared to 2017, due primarily to the deferral adjustment of energy supply and energy-related costs, which can fluctuate from period to period based on the timing of costs incurred and related rate changes to recover these costs. In addition, the increase at PSNH includes amortization of its securitized regulatory asset of \$27.3 million related to the 2018 RRB issuance. Energy supply and energy-related costs, which are the primary drivers of amortization, are recovered from customers in rates and have no impact on earnings.

**Energy Efficiency Programs** expense includes costs for various state energy policy initiatives and expanded energy efficiency programs, the majority of which are recovered from customers in rates and have no impact on earnings. Energy Efficiency Programs expense increased/(decreased) in 2018, as compared to 2017, due primarily to the following:

- The decrease at CL&P was due primarily to a State of Connecticut policy change requiring CL&P to remit 2018 energy efficiency funds to the State of Connecticut (which totaled \$46.8 million in 2018, as compared to \$25.4 million in 2017). These costs were collected from CL&P's customers and remitted to the State of Connecticut; as such we have classified this amount as Taxes Other than Income Taxes.
- The increase at PSNH was primarily due to an increase in allowed distribution revenue that funded a higher level of expenditures.

**Taxes Other Than Income Taxes** increased/(decreased) in 2018, as compared to 2017, due primarily to the following:

- The increase at CL&P was due primarily to a State of Connecticut policy change requiring CL&P to remit 2018 energy efficiency funds to the State of Connecticut (which totaled \$46.8 million in 2018, as compared to \$25.4 million in 2017), as well as higher property taxes due to higher utility plant balances and higher gross earnings taxes (the costs of which are tracked).
- The increase at NSTAR Electric was due primarily to higher property taxes due to higher utility plant balances.
- The decrease at PSNH was due primarily to the absence of property taxes as a result of the sales of its thermal and hydroelectric generation assets in 2018, and a 2018 refund of disputed property taxes for prior years from the Town of Bow, New Hampshire, partially offset by higher property taxes due to higher utility distribution plant balances.

**Interest Expense** increased in 2018, as compared to 2017, due primarily to the following:

- The increase at CL&P was due primarily to higher interest on long-term debt as a result of new debt issuances (\$6.7 million) and an increase in regulatory deferrals, which increased interest expense (\$3.8 million), partially offset by an increase in AFUDC related to debt funds (\$1.2 million).
- The increase at PSNH was due primarily to interest on the 2018 RRB issuance (\$14.4 million), partially offset by lower interest on long-term debt (\$6.4 million).

**Other Income, Net** increased in 2018, as compared to 2017, due primarily to the following:

- The increase at NSTAR Electric was due to an increase related to pension, SERP and PBOP non-service income components (\$16.8 million) and higher AFUDC related to equity funds (\$5.4 million), partially offset by investment loss in 2018 compared to investment income in 2017 (\$3.1 million), primarily related to officer's life insurance policies.
- The increase at PSNH was due to the recognition of \$8.7 million of the equity return component of the carrying charges related to storms incurred from August 2011 through March 2013 recorded in interest income, a gain on the sale of property (\$4.4 million), interest income primarily related to the 2018 refund of disputed property taxes for prior years (\$2.6 million), and an increase related to pension, SERP and PBOP non-service income components (\$4.0 million).

**Income Tax Expense** decreased in 2018, as compared to 2017, due primarily to the following:

- The decrease at CL&P was due primarily to the new federal tax law enacted December 22, 2017, the Tax Cuts and Jobs Act, reducing the federal corporate income tax rate from 35 percent to 21 percent and lower pre-tax earnings (\$90.8 million), partially offset by state taxes (\$3.4 million), which includes an increase in a valuation allowance of \$2.5 million. Income tax expense increased by return to provision items (\$10.9 million), federal tax effect of state reserves and credits (\$10.6 million) and by items that impact our tax rate as a result of regulatory treatment (flow-through items) and permanent differences (\$8.4 million).
- The decrease at NSTAR Electric was due primarily to the reduction in the federal corporate income tax rate and lower pre-tax earnings (\$104.2 million), partially offset by return to provision items (\$1.2 million), state taxes (\$2.8 million), and items that impact our tax rate as a result of regulatory treatment (flow-through items) and permanent differences (\$7.0 million).
- The decrease at PSNH was due primarily to the reduction in the federal corporate income tax rate and lower pre-tax earnings (\$44.2 million), items that impact our tax rate as a result of regulatory treatment (flow-through items) and permanent differences (\$1.3 million), partially offset by state taxes (\$4.4 million).

## EARNINGS SUMMARY

CL&P's earnings increased \$1.0 million in 2018, as compared to 2017, due primarily to the impact of the CL&P base distribution rate increase effective May 1, 2018, higher non-service income from our benefit plans, and an increase in transmission earnings driven by a higher transmission rate base. Earnings were also favorably impacted by lower income tax expense, net of lower distribution revenues resulting from the Tax Cuts and Jobs Act. The earnings increase was partially offset by higher depreciation expense, higher operations and maintenance expense, higher property and other tax expense, and higher interest expense.

NSTAR Electric's earnings increased \$8.4 million in 2018, as compared to 2017, due primarily to an increase in transmission earnings driven by a higher transmission rate base, higher non-service income from our benefit plans, and lower distribution depreciation expense. Earnings were also favorably impacted by lower income tax expense, net of lower distribution revenues resulting from the Tax Cuts and Jobs Act. The earnings increase was partially offset by higher property tax expense and higher interest expense.

PSNH's earnings decreased \$20.1 million in 2018, as compared to 2017, due primarily to lower generation earnings of \$29.7 million as a result of thermal and hydroelectric generation asset sales in 2018, higher operations and maintenance expense, and higher distribution depreciation expense. The earnings decrease was partially offset by an increase in transmission earnings driven by a higher transmission rate base, the recognition of carrying charges on storm costs approved for recovery, a gain on the sale of property, lower property tax expense due to the 2018 refund of disputed property taxes for prior tax years, and higher sales volumes. Earnings were also favorably impacted by lower income tax expense, net of lower distribution revenues resulting from the Tax Cuts and Jobs Act.

## LIQUIDITY

*Cash Flows:* CL&P had cash flows provided by operating activities of \$588.1 million in 2018, as compared to \$ 806.3 million in 2017. The decrease in operating cash flows was due primarily to cash payments made in 2018 for storm restoration costs of approximately \$142 million, an increase in Pension contributions of \$38.7 million, and the timing of collections and payments related to our working capital items, including accounts receivable and accounts payable. Partially offsetting these unfavorable impacts was an increase related to the timing of cash collected for regulatory tracking mechanisms.

NSTAR Electric had cash flows provided by operating activities of \$ 780.5 million in 2018, as compared to \$ 639.3 million in 2017. The increase in operating cash flows was due primarily to the timing of cash collected for regulatory tracking mechanisms, a decrease of \$29.0 million in Pension and PBOP contributions, and the timing of payments related to our working capital items, including accounts receivable and accounts payable. Partially offsetting these favorable impacts were cash payments made for storm restoration costs of approximately \$90 million, and income tax payments of \$120.0 million made in 2018, compared to income tax payments of \$95.5 million made in 2017.

PSNH had cash flows provided by operating activities of \$ 213.3 million in 2018, as compared to \$ 300.9 million in 2017. The decrease in operating cash flows was due primarily to the absence of generation operations as a result of the generation asset sales in 2018, and the timing of payments of our working capital items, including accounts payable.

For further information on CL&P's, NSTAR Electric's and PSNH's liquidity and capital resources, see "Liquidity" and "Business Development and Capital Expenditures" included in this *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

## RESULTS OF OPERATIONS – EVERSOURCE ENERGY AND SUBSIDIARIES

The following provides the amounts and variances in operating revenues and expense line items in the statements of income for Eversource for the years ended December 31, 2017 and 2016 included in this Annual Report on Form 10-K:

<i>(Millions of Dollars)</i>	For the Years Ended December 31,		
	2017	2016	Increase/(Decrease)
Operating Revenues	\$ 7,752.0	\$ 7,639.1	\$ 112.9
Operating Expenses:			
Purchased Power, Fuel and Transmission	2,535.3	2,500.8	34.5
Operations and Maintenance	1,307.0	1,342.1	(35.1)
Depreciation	773.8	715.5	58.3
Amortization of Regulatory Assets, Net	90.0	71.7	18.3
Energy Efficiency Programs	480.8	533.7	(52.9)
Taxes Other Than Income Taxes	676.8	634.0	42.8
Total Operating Expenses	5,863.7	5,797.8	65.9
Operating Income	1,888.3	1,841.3	47.0
Interest Expense	421.8	401.0	20.8
Other Income, Net	107.9	64.5	43.4
Income Before Income Tax Expense	1,574.4	1,504.8	69.6
Income Tax Expense	578.9	555.0	23.9
Net Income	995.5	949.8	45.7
Net Income Attributable to Noncontrolling Interests	7.5	7.5	—
Net Income Attributable to Common Shareholders	\$ 988.0	\$ 942.3	\$ 45.7

### Operating Revenues

A summary of our Operating Revenues by segment was as follows:

<i>(Millions of Dollars)</i>	For the Years Ended December 31,		
	2017	2016	Increase/(Decrease)
Electric Distribution	\$ 5,542.9	\$ 5,594.3	\$ (51.4)
Natural Gas Distribution	947.3	857.7	89.6
Electric Transmission	1,301.7	1,210.0	91.7
Other and Eliminations	(39.9)	(22.9)	(17.0)
Total Operating Revenues	\$ 7,752.0	\$ 7,639.1	\$ 112.9

A summary of our retail electric GWh sales volumes and our firm natural gas sales volumes in MMcf and percentage changes was as follows:

	Electric				Firm Natural Gas			
	For the Years Ended December 31,				For the Years Ended December 31,			
	2017 <sup>(1)</sup>	2016	Decrease	Percent	2017 <sup>(1)</sup>	2016	Increase	Percent
Traditional	27,855	28,479	(624)	(2.2)%	46,957	45,314	1,643	3.6%
Decoupled and Natural Gas Special Contracts	24,391	25,163	(772)	(3.1)%	54,069	52,728	1,341	2.5%
Total Sales Volumes	52,246	53,642	(1,396)	(2.6)%	101,026	98,042	2,984	3.0%

<sup>(1)</sup> The 2017 sales volumes have not been recast in this presentation for comparability between the prior years.

Fluctuations in sales volumes at certain of the electric and natural gas utilities impact earnings ("Traditional" in the table above). Fluctuations in CL&P's, NSTAR Electric's (for a portion of its sales volumes as of December 31, 2017) and NSTAR Gas' sales volumes do not impact the level of base distribution revenue realized or earnings due to the commission-approved revenue decoupling mechanisms ("Decoupled and Natural Gas Special Contracts" in the table above). The revenue decoupling mechanisms permit recovery of a base amount of distribution revenues and breaks the relationship between sales volumes and revenues recognized. Effective February 1, 2018, all of NSTAR Electric's distribution revenues were decoupled as a result of the DPU-approved rate case decision.

Operating Revenues, which primarily consist of base electric and natural gas distribution revenues and tracked revenues further described below, increased by \$112.9 million in 2017, as compared to 2016.

*Base electric and natural gas distribution revenues* : Base electric distribution segment revenues, excluding LBR, decreased \$12.3 million in 2017, as compared to 2016, due primarily to a decrease in sales volumes driven by the mild summer weather in 2017 at our non-decoupled electric companies. LBR increased \$13.0 million in 2017, as compared to 2016. Effective February 1, 2018, NSTAR Electric no longer has an LBR recovery mechanism. Base natural gas distribution revenues increased \$2.9 million in 2017, as compared to 2016. The impact of higher firm natural gas sales volumes, which was driven by colder winter weather in the fourth quarter of 2017, was partially offset by lower demand revenues in Connecticut driven by lower peak usage in 2017, as compared to 2016.

*Tracked distribution revenues*: Tracked revenues consist of certain costs that are recovered from customers in rates through regulatory commission-approved cost tracking mechanisms and therefore, have no impact on earnings. Costs recovered through cost tracking mechanisms include energy supply procurement and other energy-related costs for our electric and natural gas customers, retail transmission charges, energy efficiency program costs, net metering for distributed generation and restructuring and stranded cost recovery revenues. In addition, certain tracked revenues include incentives earned and carrying charges that are billed in rates to customers.

Tracked natural gas distribution segment revenues increased as a result of an increase in natural gas supply costs (\$68.7 million) and an increase in energy efficiency program revenues (\$18.1 million). Tracked electric distribution revenues decreased as a result of a decrease in electric energy supply costs (\$21.7 million), driven by decreased average retail prices and lower sales volumes, a decrease in retail electric transmission charges (\$14.8 million), a decrease in transition and stranded cost recovery revenues (\$46.2 million), a decrease in pension rate adjustment mechanisms (\$21.6 million), a decrease in revenues related to the timing of the sale of PSNH's RECs (\$16.3 million), and a decrease in energy efficiency program revenues (\$10.4 million). Partially offsetting these decreases were increases in tracked electric distribution revenues related to federally-mandated congestion charges (\$30.1 million), net metering revenues (\$29.8 million) and revenues related to renewable energy requirements (\$41.9 million).

*Electric transmission revenues*: The electric transmission segment revenues increased by \$91.7 million due primarily to the recovery of higher revenue requirements associated with ongoing investments in our transmission infrastructure.

*Other*: Other revenues decreased due primarily to the sale of Eversource's unregulated telecommunication business on December 31, 2016 (\$20.0 million), partially offset by the addition of Aquarion revenues due to the acquisition on December 4, 2017 (\$15.9 million).

**Purchased Power, Fuel and Transmission** expense includes costs associated with purchasing electricity and natural gas on behalf of our customers. These energy supply costs are recovered from customers in rates through commission-approved cost tracking mechanisms, which have no impact on earnings (tracked costs). Purchased Power, Fuel and Transmission expense increased in 2017, as compared to 2016, due primarily to the following:

<i>(Millions of Dollars)</i>	<b>(Decrease)/Increase</b>	
Electric Distribution	\$	(68.9)
Natural Gas Distribution		59.5
Transmission		43.9
Total Purchased Power, Fuel and Transmission	\$	34.5

The decrease in purchased power expense at the electric distribution business in 2017, as compared to 2016, was driven primarily by lower prices associated with the procurement of energy supply and lower sales volumes. The increase in purchased power expense at the natural gas distribution business was due to higher average natural gas prices and higher sales volumes. The increase in transmission costs in 2017, as compared to 2016, was primarily the result of an increase in costs billed by ISO-NE that support regional grid investment, and Local Network Service charges, which reflect the cost of transmission service provided by Eversource over our local transmission network. This was partially offset by a decrease in the retail transmission cost deferral, which reflects the actual costs of transmission service compared to estimated amounts billed to customers.

**Operations and Maintenance** expense includes tracked costs and costs that are part of base electric and natural gas distribution rates with changes impacting earnings (non-tracked costs). Operations and Maintenance expense decreased in 2017, as compared to 2016, due primarily to the following:

<i>(Millions of Dollars)</i>	<b>Increase/(Decrease)</b>
<b>Base Electric Distribution:</b>	
Employee-related expenses, including labor and benefits	\$ (46.8)
Bad debt expense	(14.5)
Shared corporate costs (including computer software depreciation at Eversource Service)	24.2
HEEC Boston Harbor distribution cable costs	16.0
Other non-tracked operations and maintenance	7.4
<b>Total Base Electric Distribution</b>	<b>(13.7)</b>
<b>Base Natural Gas Distribution</b>	
	4.3
<b>Tracked costs (Electric Distribution, Electric Transmission and Natural Gas Distribution):</b>	
Absence in 2017 of earnings benefit related to merger-related costs allowed for recovery through transmission rates	27.5
Other tracked operations and maintenance	(4.4)
<b>Total Tracked costs (Electric Distribution, Electric Transmission and Natural Gas Distribution)</b>	<b>23.1</b>
<b>Other and eliminations:</b>	
Merger-related costs allowed for recovery through NSTAR Electric distribution rates as a result of the November 30, 2017 DPU distribution rate case decision (earnings benefit)	(30.5)
Addition of Aquarion operations and maintenance expenses due to acquisition on December 4, 2017	6.9
Eversource Parent and Other Companies - other operations and maintenance	7.6
Eliminations	(32.8)
<b>Total Operations and Maintenance</b>	<b>\$ (35.1)</b>

**Depreciation** expense increased in 2017, as compared to 2016, due primarily to higher utility plant in service balances.

**Amortization of Regulatory Assets, Net** expense includes the deferral of energy supply and energy-related costs included in certain regulatory-approved tracking mechanisms, and the amortization of certain costs. The deferral adjusts expense to match the corresponding revenues. Amortization of Regulatory Assets, Net increased in 2017, as compared to 2016, due primarily to the deferral of energy supply and energy-related costs which can fluctuate from period to period based on the timing of costs incurred and the related rate changes to recover these costs. Energy supply and energy-related costs at the electric and natural gas companies are recovered from customers in rates and have no impact on earnings.

**Energy Efficiency Programs** expense decreased in 2017, as compared to 2016, due primarily to a State of Connecticut policy change impacting CL&P requiring the remittance of \$25.4 million of 2017 energy efficiency funds to the State (resulting in these costs being classified as Taxes Other than Income Taxes), and the deferral adjustment at NSTAR Electric. The deferral adjustment reflects the actual costs of energy efficiency programs compared to the estimated amounts billed to customers. The deferral adjusts costs incurred to match energy efficiency revenue billed to customers and the timing of the recovery of energy efficiency costs. The costs for various state energy policy initiatives and expanded energy efficiency programs are recovered from customers in rates and have no impact on earnings.

**Taxes Other Than Income Taxes** expense increased in 2017, as compared to 2016, due primarily to a State of Connecticut policy change requiring \$25.4 million of 2017 CL&P energy efficiency costs to be remitted to the State of Connecticut that is included in Taxes Other than Income Taxes, an increase in property taxes as a result of higher utility plant balances, partially offset by a decrease in gross earnings taxes. Gross earnings taxes are recovered from customers in rates and have no impact on earnings.

**Interest Expense** increased in 2017, as compared to 2016, due primarily to an increase in interest on long-term debt (\$30.3 million) as a result of new debt issuances and an increase in interest on notes payable (\$5.1 million), partially offset by a decrease in regulatory deferrals, primarily at NSTAR Electric, which decreased interest expense (\$14.7 million) due primarily to the November 30, 2017 NSTAR Electric DPU distribution rate case decision which allowed for a higher rate on carrying charges for past storm costs.

**Other Income, Net** increased in 2017, as compared to 2016, due primarily to increased gains on investments (\$27.2 million), primarily related to Eversource's investment in a renewable energy fund, an increase related to pension, SERP and PBOP non-service income components (\$11.3 million), changes in the market value related to deferred compensation plans (\$8.3 million) and higher AFUDC related to equity funds (\$8.2 million). Partially offsetting these favorable impacts was the absence in 2017 of a gain on the sale of an unregulated business in 2016 (\$11.8 million) and lower interest income (\$3.3 million).

**Income Tax Expense** increased in 2017, as compared to 2016, due primarily to higher pre-tax earnings (\$29.1 million), lower excess tax benefit (\$16.2 million), the absence of tax credits in 2017 (\$3.5 million), and the impact from federal tax rate change (\$0.5 million), partially offset by items that impact our tax rate as a result of regulatory treatment (flow-through items) and permanent differences (\$11.4 million), the sale of an unregulated business in 2016 (\$10.2 million), and lower state taxes (\$3.8 million).

## EARNINGS SUMMARY

*Regulated Companies:* Our electric distribution segment earnings increased \$34.6 million in 2017, as compared to 2016, due primarily to a lower effective tax rate, lower non-tracked operations and maintenance expense, higher lost base revenues at NSTAR Electric and higher distribution revenues at CL&P due in part to a higher rate base for the system resiliency program, partially offset by higher depreciation expense, lower sales volumes primarily driven by the mild summer weather in 2017, as compared to 2016 (primarily at NSTAR Electric), and higher property tax expense.

Our electric transmission segment earnings increased \$21.1 million in 2017, as compared to 2016, due primarily to a higher transmission rate base as a result of our continued investment in our transmission infrastructure, partially offset by the absence in 2017 of the FERC-allowed recovery of certain previously expensed merger-related costs in 2016, and a lower benefit in the second quarter of 2017 related to the annual billing and cost reconciliation filing with the FERC.

Our natural gas distribution segment earnings decreased \$3.1 million in 2017, as compared to 2016, due primarily to higher depreciation expense, lower demand revenues in Connecticut driven by lower peak usage in 2017, as compared to 2016, higher non-tracked operations and maintenance expense, and higher property tax expense, partially offset by higher sales volumes driven by colder winter weather in the fourth quarter of 2017, as compared to 2016.

*Eversource Parent and Other Companies:* Eversource parent and other companies, including our water business, earned \$25.3 million in 2017, compared with \$31.0 million in 2016. The decrease in earnings was due primarily to a higher effective tax rate, higher interest expense and the absence in 2017 of the earnings and gain on the sale of an unregulated business in 2016. These decreases were partially offset by the 2017 DPU-allowed recovery of certain previously expensed merger-related costs in NSTAR Electric's distribution rates, and increased gains on investments recorded in 2017.

## LIQUIDITY

Cash flows provided by operating activities totaled \$2.0 billion in 2017, compared with \$2.2 billion in 2016. The decrease in operating cash flows was due primarily to the \$166.3 million net unfavorable impact as a result of the change in income tax payments made, or refunds received, in 2017 when compared to 2016. This unfavorable impact was primarily the result of the December 2015 legislation, which extended the accelerated deduction of depreciation from 2015 to 2019. The legislation resulted in a significant refund of approximately \$275 million, which we received in the first quarter of 2016. Additionally, there was an increase of \$84.1 million in Pension and PBOP Plan cash contributions made in 2017, as compared to 2016, a decrease of \$59.8 million related to the absence in 2017 of the Yankee Companies' DOE Damages received in 2016, and the unfavorable impact related to the timing of regulatory recoveries, which were significantly impacted by NSTAR Electric's timing of collections of purchased power and transmission costs. Partially offsetting these unfavorable impacts was the benefit related to the timing of collections and payments of our working capital items, including accounts payable.

**RESULTS OF OPERATIONS –  
THE CONNECTICUT LIGHT AND POWER COMPANY  
NSTAR ELECTRIC COMPANY AND SUBSIDIARY  
PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE AND SUBSIDIARIES**

The following provides the amounts and variances in operating revenues and expense line items in the statements of income for CL&P, NSTAR Electric and PSNH for the years ended December 31, 2017 and 2016 included in this Annual Report on Form 10-K:

<i>(Millions of Dollars)</i>	For the Years Ended December 31,								
	CL&P			NSTAR Electric			PSNH		
	2017	2016	Increase/(Decrease)	2017	2016	Increase/(Decrease)	2017	2016	Increase/(Decrease)
Operating Revenues	\$ 2,887.4	\$ 2,806.0	\$ 81.4	\$ 2,980.6	\$ 3,041.6	\$ (61.0)	\$ 981.6	\$ 959.5	\$ 22.1
Operating Expenses:									
Purchased Power, Fuel and Transmission	930.8	919.7	11.1	1,025.4	1,084.3	(58.9)	237.5	210.8	26.7
Operations and Maintenance	502.2	490.8	11.4	482.9	500.4	(17.5)	263.1	267.1	(4.0)
Depreciation	249.4	230.5	18.9	274.0	259.3	14.7	128.2	116.5	11.7
Amortization of Regulatory Assets/ (Liabilities), Net	83.2	38.8	44.4	33.8	34.3	(0.5)	(16.6)	11.2	(27.8)
Energy Efficiency Programs	114.7	154.0	(39.3)	294.1	321.8	(27.7)	13.8	14.2	(0.4)
Taxes Other Than Income Taxes	323.8	299.7	24.1	182.0	177.8	4.2	89.7	82.9	6.8
Total Operating Expenses	2,204.1	2,133.5	70.6	2,292.2	2,377.9	(85.7)	715.7	702.7	13.0
Operating Income	683.3	672.5	10.8	688.4	663.7	24.7	265.9	256.8	9.1
Interest Expense	143.0	144.1	(1.1)	105.7	108.4	(2.7)	51.0	50.0	1.0
Other Income, Net	23.0	14.2	8.8	34.1	21.3	12.8	9.8	7.5	2.3
Income Before Income Tax Expense	563.3	542.6	20.7	616.8	576.6	40.2	224.7	214.3	10.4
Income Tax Expense	186.6	208.3	(21.7)	242.1	225.8	16.3	88.7	82.3	6.4
Net Income	\$ 376.7	\$ 334.3	\$ 42.4	\$ 374.7	\$ 350.8	\$ 23.9	\$ 136.0	\$ 132.0	\$ 4.0

**Operating Revenues**

A summary of our retail electric GWh sales volumes was as follows:

	Rate Structure	For the Years Ended December 31,			
		2017	2016	Decrease	Percent
CL&P	Decoupled	20,950	21,617	(667)	(3.1)%
NSTAR Electric (eastern Massachusetts)	Traditional	20,097	20,619	(522)	(2.5)%
NSTAR Electric (western Massachusetts)	Decoupled	3,441	3,546	(105)	(3.0)%
PSNH	Traditional	7,758	7,860	(102)	(1.3)%

Fluctuations in retail electric sales volumes at certain of the electric utilities impact earnings ("Traditional" in the table above). For others, fluctuations in retail electric sales volumes do not impact earnings due to their regulatory commission-approved distribution revenue decoupling mechanisms ("Decoupled" in the table above). These distribution revenues are decoupled from their customer sales volumes, which breaks the relationship between sales volumes and revenues recognized.

In 2017 and 2016, NSTAR Electric operated under two different rate structures based on its service territory geography. For customers that were served in eastern Massachusetts, including metropolitan Boston, Cape Cod and Martha's Vineyard, NSTAR Electric operated using traditional rates. For customers that were served in western Massachusetts, including the metropolitan Springfield region, NSTAR Electric operated using decoupled rates. Effective February 1, 2018, all of NSTAR Electric's distribution revenues were decoupled as a result of the DPU-approved rate decision. See "Regulatory Developments and Rate Matters - Massachusetts - NSTAR Electric Distribution Rate Case Decision" in this *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

CL&P and NSTAR Electric (for its western Massachusetts customer rates) reconcile their annual base distribution rate recovery amounts to their pre-established levels of baseline distribution delivery service revenues of \$1.059 billion and \$132.4 million, respectively, through December 31, 2017. Effective February 1, 2018, NSTAR Electric, operating entirely under decoupled rates, will reconcile its annual base distribution rate recovery to its new baseline of \$974.8 million. Any difference between the allowed level of distribution revenue and the actual amount realized during a 12-month period is adjusted through rates in the following period.

Operating Revenues, which consist of base distribution revenues and tracked revenues further described below, increased/(decreased) in 2017, as compared to 2016 as follows:

<i>(Millions of Dollars)</i>	CL&P	NSTAR Electric	PSNH
Operating Revenues	\$ 81.4	\$ (61.0)	\$ 22.1

*Base Distribution Revenues, with changes that impact earnings:*

- NSTAR Electric's base distribution revenues, excluding LBR, decreased \$10.8 million in 2017, as compared to 2016, as a result of lower sales volumes driven by the mild summer weather in 2017. LBR increased \$13.0 million in 2017, as compared to 2016. Effective February 1, 2018, NSTAR Electric no longer has an LBR mechanism.
- PSNH's base distribution revenues decreased \$1.5 million in 2017, as compared to 2016, as a result of lower sales volumes driven by the mild summer weather in 2017.

*Tracked Revenues:* Fluctuations in the overall level of operating revenues are primarily related to tracked revenues. Tracked revenues consist of certain costs that are recovered from customers in rates through commission-approved cost tracking mechanisms and therefore have no impact on earnings. Costs recovered through cost tracking mechanisms include energy supply procurement and other energy-related costs, retail transmission charges, energy efficiency program costs, net metering for distributed generation and restructuring and stranded cost recovery revenues. In addition, tracked revenues include certain incentives earned and carrying charges. Tracked revenues increased/(decreased) in 2017, as compared to 2016, due primarily to the following:

<i>(Millions of Dollars)</i>	CL&P	NSTAR Electric	PSNH
Energy supply procurement	\$ 18.8	\$ (50.8)	\$ 10.3
All other distribution tracking mechanisms	35.0	(33.7)	(12.7)

*Transmission Revenues:* Transmission revenues increased by \$34.2 million, \$31.0 million and \$26.5 million at CL&P, NSTAR Electric and PSNH, respectively, due primarily to higher revenue requirements associated with ongoing investments in our transmission infrastructure.

**Purchased Power, Fuel and Transmission** expense includes costs associated with purchasing electricity on behalf of CL&P, NSTAR Electric and PSNH's customers. For PSNH, these costs also include PSNH's generation of electricity. These energy supply costs are recovered from customers in commission-approved cost tracking mechanisms, which have no impact on earnings (tracked costs). Purchased Power, Fuel and Transmission expense increased/(decreased) in 2017, as compared to 2016, due primarily to the following:

<i>(Millions of Dollars)</i>	CL&P	NSTAR Electric	PSNH
Purchased Power Costs	\$ (41.4)	\$ (27.9)	\$ 3.7
Transmission Costs	52.5	(31.0)	23.0
Total Purchased Power, Fuel and Transmission	\$ 11.1	\$ (58.9)	\$ 26.7

*Purchased Power Costs :* Included in purchased power costs are the costs associated with certain energy supply tracking mechanisms and deferred energy supply costs. Energy supply tracking mechanisms recover energy-related costs incurred as a result of providing electric generation service supply to all customers who have not migrated to third party suppliers. In order to meet the demand of customers who have not migrated to third party suppliers, PSNH procures power through power supply contracts and spot purchases in the competitive New England wholesale power market and/or produces power through its own generation. The increase/(decrease) in purchased power costs in 2017, as compared to 2016, was due primarily to the following:

- The decrease at CL&P was due primarily to a decrease in the price of standard offer supply associated with the GSC.
- The decrease at NSTAR Electric was due primarily to lower prices associated with the procurement of energy supply, lower sales volumes and the expiration of certain purchase power agreements.
- The increase at PSNH was due primarily to higher purchased power energy expenses that are recovered as a component of the Energy Service rate, and Regional Greenhouse Gas Initiative related expenses recovered in the SCRC.

*Transmission Costs :* Included in transmission costs are charges that recover the cost of transporting electricity over high-voltage lines from generating plants to substations, including costs allocated by ISO-NE to maintain the wholesale electric market. The increase/(decrease) in transmission costs in 2017, as compared to 2016, was due primarily to the following:

- The increase at CL&P was primarily the result of an increase in costs billed by ISO-NE that support regional grid investment, Local Network Service charges, which reflect the cost of transmission service, and the retail transmission cost deferral, which reflects the actual costs of transmission service compared to estimated amounts billed to customers.
- The decrease at NSTAR Electric was primarily the result of a decrease in the retail transmission cost deferral. This was partially offset by an increase in costs billed by ISO-NE.
- The increase at PSNH was primarily the result of increases in costs billed by ISO-NE, Local Network Service charges, and the retail transmission cost deferral.

**Operations and Maintenance** expense includes tracked costs and costs that are part of base distribution rates with changes impacting earnings (non-tracked costs). Operations and Maintenance expense increased/(decreased) in 2017, as compared to 2016, due primarily to the following:

(Millions of Dollars)

	CL&P	NSTAR Electric	PSNH
Base Electric Distribution (Non-Tracked Costs):			
Employee-related expenses, including labor and benefits	\$ (4.0)	\$ (36.6)	\$ (6.2)
Bad debt expense	(6.8)	(7.5)	(0.2)
Shared corporate costs (including computer software depreciation at Eversource Service)	7.8	12.6	3.8
HEEC Boston Harbor distribution cable costs	—	16.0	—
Other non-tracked operations and maintenance	8.8	0.6	(2.0)
Total Base Electric Distribution (Non-Tracked Costs)	5.8	(14.9)	(4.6)
Tracked Costs:			
Employee-related expenses, including labor and benefits	1.9	(7.5)	(1.0)
Other tracked operations and maintenance	3.7	4.9	1.6
Total Tracked Costs	5.6	(2.6)	0.6
Total Operations and Maintenance	\$ 11.4	\$ (17.5)	\$ (4.0)

**Depreciation** increased at CL&P, NSTAR Electric and PSNH in 2017, as compared to 2016, due primarily to higher utility plant in service balances.

**Amortization of Regulatory Assets/(Liabilities), Net** expense includes the deferral of energy supply and energy-related costs and the amortization of storm and other costs. Amortization of Regulatory Assets/(Liabilities), Net increased at CL&P and decreased for both NSTAR Electric and PSNH in 2017, as compared to 2016, due primarily to the deferral adjustment of energy supply and energy-related costs, which can fluctuate from period to period based on the timing of costs incurred and related rate changes to recover these costs. The deferral adjusts expense to match the corresponding revenues. Energy supply and energy-related costs, which are the primary drivers of amortization, are recovered from customers in rates and have no impact on earnings.

**Energy Efficiency Programs** expense includes costs for various state policy initiatives and are recovered from customers in rates and have no impact on earnings. Energy Efficiency Programs expense decreased in 2017, as compared to 2016, due primarily to the following:

- The decrease at CL&P is due primarily to a State of Connecticut policy change requiring the remittance of \$25.4 million of 2017 energy efficiency funds to the State. These amounts collected from customers were reclassified to Taxes Other than Income Taxes.
- The decrease at NSTAR Electric is due to the deferral adjustment, which reflects the actual cost of energy efficiency programs compared to the estimated amounts billed to customers and the timing of the recovery of energy efficiency costs. The deferral adjusts costs to match energy efficiency revenue billed to customers.

**Taxes Other Than Income Taxes** increased in 2017, as compared to 2016, due primarily to the following:

- The increase at CL&P is due primarily to a State of Connecticut policy change requiring the remittance of \$25.4 million of 2017 energy efficiency funds to the State and higher utility plant balances, partially offset by a decrease in gross earnings taxes. Gross earnings taxes are recovered from customers in rates and have no impact on earnings.
- The increase at NSTAR Electric is due primarily to higher property taxes resulting from disallowed costs in the November 30, 2017 NSTAR Electric DPU distribution rate case decision and higher employee-related payroll taxes, partially offset by a decrease in property tax rates in Boston.
- The increase at PSNH is due to an increase in property taxes as a result of higher utility plant balances.

**Interest Expense** at NSTAR Electric decreased in 2017, as compared to 2016, due primarily to lower deferred regulatory interest expense (\$14.0 million), primarily as a result of the November 30, 2017 NSTAR Electric DPU distribution rate case decision, which allowed for a higher interest rate on carrying charges for past storm costs, partially offset by an increase in interest on long-term debt (\$9.6 million).

**Other Income, Net** increased in 2017, as compared to 2016, due primarily to the following:

- The increase at CL&P is due to higher AFUDC related to equity funds (\$5.9 million) and market value changes related to the deferred compensation plans (\$6.3 million), partially offset by lower interest income (\$4.4 million).
- The increase at NSTAR Electric is due to an increase related to pension, SERP and PBOP non-service income components (\$8.7 million), market value changes related to the deferred compensation plans (\$1.6 million), an increase in amounts related to officer life insurance policies (\$1.3 million) and an increase in interest income (\$1.2 million).
- The increase at PSNH is due to market value changes related to the deferred compensation plans (\$1.5 million).

**Income Tax Expense** increased/(decreased) in 2017, as compared to 2016, due primarily to the following:

- The decrease at CL&P is due primarily to the tax reform impacts on the federal tax effect of state reserves and credits (\$10.7 million), items that impact our tax rate as a result of regulatory treatment (flow-through items) and permanent differences (\$10.1 million), the true up of the return to provision impacts (\$2.6 million), and lower state taxes (\$5.5 million), partially offset by higher pre-tax earnings (\$7.2 million).
- The increase at NSTAR Electric is due primarily to higher pre-tax earnings (\$14.5 million), higher state taxes (\$2.4 million), partially offset by items that impact our tax rate as a result of flow-through items and permanent differences (\$0.6 million).
- The increase at PSNH is due primarily to higher pre-tax earnings (\$3.6 million) and the absence of tax credits in 2017 (\$3.5 million), partially offset by items that impact our tax rate as a result of flow-through items and permanent differences (\$0.7 million).

## **EARNINGS SUMMARY**

CL&P's earnings increased \$42.4 million in 2017, as compared to 2016, due primarily to a lower effective tax rate, an increase in transmission earnings driven by a higher transmission rate base, and higher distribution revenues due in part to a higher rate base for the system resiliency program. These favorable earnings impacts were partially offset by higher depreciation expense, higher operations and maintenance expense, and higher property tax expense.

NSTAR Electric's earnings increased \$23.9 million in 2017, as compared to 2016, due primarily to higher distribution revenues related to lost base revenues, net metering and the PAM, lower operations and maintenance expense, lower interest expense as a result of the November 30, 2017 NSTAR Electric distribution rate case decision, and an increase in transmission earnings driven by a higher transmission rate base. These favorable earnings impacts were partially offset by lower sales volumes driven by the mild summer weather in 2017, higher depreciation expense, and higher property tax expense.

PSNH's earnings increased \$4.0 million in 2017, as compared to 2016, due primarily to an increase in transmission earnings driven by a higher transmission rate base and lower operations and maintenance expense. These favorable earnings impacts were partially offset by lower generation earnings, higher depreciation expense, higher property tax expense, lower sales volumes driven by the mild summer weather in 2017, and a higher effective tax rate.

## **LIQUIDITY**

*Cash Flows:* CL&P had cash flows provided by operating activities of \$806.3 million in 2017, compared with \$812.2 million in 2016. The decrease in operating cash flows was due primarily to income tax payments of \$68.8 million made in 2017, compared to the income tax refunds of \$73.9 million received in 2016. Partially offsetting this decrease was the timing of regulatory recoveries, an increase in distribution rates due to higher rate base, and the timing of collections and payments related to our working capital items.

NSTAR Electric had cash flows provided by operating activities of \$639.3 million in 2017, as compared to \$812.1 million in 2016. The decrease in operating cash flows was due primarily to a decrease in regulatory recoveries, which were significantly impacted by the timing of collections of purchased power and transmission costs, an increase of \$53.4 million in Pension and PBOP Plan cash contributions and an increase of \$29.5 million in income tax payments made in 2017, compared to 2016. Also contributing to the decrease was the timing of working capital items, including accounts payable and inventory.

PSNH had cash flows provided by operating activities of \$300.9 million in 2017, as compared to \$360.7 million in 2016. The decrease in operating cash flows was due primarily to the income tax payments of \$26.1 million made in 2017, compared to the income tax refunds of \$36.0 million received in 2016 and the unfavorable impacts related to the timing of regulatory recoveries. Partially offsetting these decreases were the timing of collections and payments of our working capital items, including accounts payable and inventory, and a \$16.3 million decrease in Pension Plan cash contributions.

## Item 7A. Quantitative and Qualitative Disclosures about Market Risk

### Market Risk Information

*Commodity Price Risk Management:* Our regulated companies enter into energy contracts to serve our customers and the economic impacts of those contracts are passed on to our customers. Accordingly, the regulated companies have no exposure to loss of future earnings or fair values due to these market risk-sensitive instruments. Eversource's Energy Supply Risk Committee, comprised of senior officers, reviews and approves all large-scale energy related transactions entered into by its regulated companies.

### Other Risk Management Activities

We have an Enterprise Risk Management (ERM) program for identifying the principal risks of the Company. Our ERM program involves the application of a well-defined, enterprise-wide methodology designed to allow our Risk Committee, comprised of our senior officers and directors of the Company, to identify, categorize, prioritize, and mitigate the principal risks to the Company. The ERM program is integrated with other assurance functions throughout the Company including Compliance, Auditing, and Insurance to ensure appropriate coverage of risks that could impact the Company. In addition to known risks, ERM identifies emerging risks to the Company, through participation in industry groups, discussions with management and in consultation with outside advisers. Our management then analyzes risks to determine materiality, likelihood and impact, and develops mitigation strategies. Management broadly considers our business model, the utility industry, the global economy and the current environment to identify risks. The Finance Committee of the Board of Trustees is responsible for oversight of the Company's ERM program and enterprise-wide risks as well as specific risks associated with insurance, credit, financing, investments, pensions and overall system security including cyber security. The findings of the ERM process are periodically discussed with the Finance Committee of our Board of Trustees, as well as with other Board Committees or the full Board of Trustees, as appropriate, including reporting on how these issues are being measured and managed. However, there can be no assurances that the ERM process will identify or manage every risk or event that could impact our financial position, results of operations or cash flows.

*Interest Rate Risk Management:* We manage our interest rate risk exposure in accordance with our written policies and procedures by maintaining a mix of fixed and variable rate long-term debt. As of December 31, 2018, all of our long-term debt except for \$ 39.5 million of fees and interest due for CYAPC's spent nuclear fuel disposal costs, was at a fixed interest rate.

*Credit Risk Management:* Credit risk relates to the risk of loss that we would incur as a result of non-performance by counterparties pursuant to the terms of our contractual obligations. We serve a wide variety of customers and transact with suppliers that include IPPs, industrial companies, natural gas and electric utilities, oil and gas producers, financial institutions, and other energy marketers. Margin accounts exist within this diverse group, and we realize interest receipts and payments related to balances outstanding in these margin accounts. This wide customer and supplier mix generates a need for a variety of contractual structures, products and terms that, in turn, require us to manage the portfolio of market risk inherent in those transactions in a manner consistent with the parameters established by our risk management process.

Our regulated companies are subject to credit risk from certain long-term or high-volume supply contracts with energy marketing companies. Our regulated companies manage the credit risk with these counterparties in accordance with established credit risk practices and monitor contracting risks, including credit risk. As of December 31, 2018, our regulated companies did not hold collateral (letters of credit) from counterparties related to our standard service contracts. As of December 31, 2018, Eversource had \$24.8 million of cash posted with ISO-NE related to energy transactions.

For further information on cash collateral deposited and posted with counterparties, see Note 1P, "Summary of Significant Accounting Policies - Supplemental Cash Flow Information," to the financial statements.

If the respective unsecured debt ratings of Eversource or its subsidiaries were reduced to below investment grade by either Moody's or S&P, certain of Eversource's contracts would require additional collateral in the form of cash to be provided to counterparties and independent system operators. Eversource would have been and remains able to provide that collateral.

**Item 8. Financial Statements and Supplementary Data**

Eversource

Company Report on Internal Controls Over Financial Reporting  
Report of Independent Registered Public Accounting Firm  
Consolidated Financial Statements

CL&P

Company Report on Internal Controls Over Financial Reporting  
Report of Independent Registered Public Accounting Firm  
Financial Statements

NSTAR Electric

Company Report on Internal Controls Over Financial Reporting  
Report of Independent Registered Public Accounting Firm  
Consolidated Financial Statements

PSNH

Company Report on Internal Controls Over Financial Reporting  
Report of Independent Registered Public Accounting Firm  
Consolidated Financial Statements

## **Company Report on Internal Controls Over Financial Reporting**

### **Eversource Energy**

Management is responsible for the preparation, integrity, and fair presentation of the accompanying consolidated financial statements of Eversource Energy and subsidiaries (Eversource or the Company) and of other sections of this annual report. Eversource's internal controls over financial reporting were audited by Deloitte & Touche LLP.

Management is responsible for establishing and maintaining adequate internal controls over financial reporting. The Company's internal control framework and processes have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. There are inherent limitations of internal controls over financial reporting that could allow material misstatements due to error or fraud to occur and not be prevented or detected on a timely basis by employees during the normal course of business. Additionally, internal controls over financial reporting may become inadequate in the future due to changes in the business environment.

Under the supervision and with the participation of the principal executive officer and principal financial officer, Eversource conducted an evaluation of the effectiveness of internal controls over financial reporting based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation under the framework in COSO, management concluded that internal controls over financial reporting were effective as of December 31, 2018 .

February 26, 2019

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Trustees and Shareholders of Eversource Energy:

### Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Eversource Energy and subsidiaries (the “Company”) as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, common shareholders’ equity, and cash flows, for each of the three years in the period ended December 31, 2018, and the related notes and the schedules listed in the Index at Item 15 of Part IV (collectively referred to as the “financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

### Basis for Opinions

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

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

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

### Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

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

/s/ Deloitte & Touche LLP

Hartford, Connecticut  
February 26, 2019

We have served as the Company’s auditor since 2002.

EVERSOURCE ENERGY AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

(Thousands of Dollars)	As of December 31,	
	2018	2017
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 108,068	\$ 38,165
Receivables, Net	994,055	925,083
Unbilled Revenues	176,285	201,361
Fuel, Materials, Supplies and Inventory	238,042	223,063
Regulatory Assets	514,779	741,868
Prepayments and Other Current Assets	260,995	138,009
Assets Held for Sale	—	219,550
<b>Total Current Assets</b>	<b>2,292,224</b>	<b>2,487,099</b>
Property, Plant and Equipment, Net	25,610,428	23,617,463
Deferred Debits and Other Assets:		
Regulatory Assets	4,631,137	4,497,447
Goodwill	4,427,266	4,427,266
Marketable Securities	417,508	585,419
Other Long-Term Assets	862,693	605,692
<b>Total Deferred Debits and Other Assets</b>	<b>10,338,604</b>	<b>10,115,824</b>
<b>Total Assets</b>	<b>\$ 38,241,256</b>	<b>\$ 36,220,386</b>
<b>LIABILITIES AND CAPITALIZATION</b>		
Current Liabilities:		
Notes Payable	\$ 910,000	\$ 1,088,087
Long-Term Debt – Current Portion	837,319	549,631
Rate Reduction Bonds – Current Portion	52,332	—
Accounts Payable	1,119,995	1,085,034
Regulatory Liabilities	370,230	128,071
Other Current Liabilities	823,006	738,222
<b>Total Current Liabilities</b>	<b>4,112,882</b>	<b>3,589,045</b>
Deferred Credits and Other Liabilities:		
Accumulated Deferred Income Taxes	3,506,030	3,297,518
Regulatory Liabilities	3,609,475	3,637,273
Derivative Liabilities	379,562	377,257
Accrued Pension, SERP and PBOP	962,510	1,228,091
Other Long-Term Liabilities	1,196,336	1,073,501
<b>Total Deferred Credits and Other Liabilities</b>	<b>9,653,913</b>	<b>9,613,640</b>
Long-Term Debt	12,248,743	11,775,889
Rate Reduction Bonds	583,331	—
Noncontrolling Interest - Preferred Stock of Subsidiaries	155,570	155,570
Common Shareholders' Equity:		
Common Shares	1,669,392	1,669,392
Capital Surplus, Paid In	6,241,222	6,239,940
Retained Earnings	3,953,974	3,561,084

Accumulated Other Comprehensive Loss	(60,000)	(66,403)
Treasury Stock	(317,771)	(317,771)
Common Shareholders' Equity	<u>11,486,817</u>	<u>11,086,242</u>
Commitments and Contingencies (Note 12)		
Total Liabilities and Capitalization	<u>\$ 38,241,256</u>	<u>\$ 36,220,386</u>

The accompanying notes are an integral part of these consolidated financial statements.

EVERSOURCE ENERGY AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31,

(Thousands of Dollars, Except Share Information)

	2018	2017	2016
Operating Revenues	\$ 8,448,201	\$ 7,751,952	\$ 7,639,129
Operating Expenses:			
Purchased Power, Fuel and Transmission	3,138,969	2,535,271	2,500,828
Operations and Maintenance	1,335,213	1,307,052	1,342,134
Depreciation	819,930	773,802	715,466
Amortization	252,026	89,986	71,696
Energy Efficiency Programs	472,380	480,835	533,659
Taxes Other Than Income Taxes	729,753	676,757	634,072
Total Operating Expenses	6,748,271	5,863,703	5,797,855
Operating Income	1,699,930	1,888,249	1,841,274
Interest Expense	498,805	421,755	400,961
Other Income, Net	128,366	107,913	64,505
Income Before Income Tax Expense	1,329,491	1,574,407	1,504,818
Income Tax Expense	288,972	578,892	554,997
Net Income	1,040,519	995,515	949,821
Net Income Attributable to Noncontrolling Interests	7,519	7,519	7,519
Net Income Attributable to Common Shareholders	\$ 1,033,000	\$ 987,996	\$ 942,302
Basic Earnings Per Common Share	\$ 3.25	\$ 3.11	\$ 2.97
Diluted Earnings Per Common Share	\$ 3.25	\$ 3.11	\$ 2.96
Weighted Average Common Shares Outstanding:			
Basic	317,370,369	317,411,097	317,650,180
Diluted	317,993,934	318,031,580	318,454,239

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31,

(Thousands of Dollars, Except Share Information)

	2018	2017	2016
Net Income	\$ 1,040,519	\$ 995,515	\$ 949,821
Other Comprehensive Income/(Loss), Net of Tax:			
Qualified Cash Flow Hedging Instruments	1,756	1,974	2,137
Changes in Unrealized (Losses)/Gains on Marketable Securities	(547)	(350)	2,294
Changes in Funded Status of Pension, SERP and PBOP Benefit Plans	5,194	(2,745)	(2,869)
Other Comprehensive Income/(Loss), Net of Tax	6,403	(1,121)	1,562
Comprehensive Income Attributable to Noncontrolling Interests	(7,519)	(7,519)	(7,519)
Comprehensive Income Attributable to Common Shareholders	\$ 1,039,403	\$ 986,875	\$ 943,864

The accompanying notes are an integral part of these consolidated financial statements.

EVERSOURCE ENERGY AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMMON SHAREHOLDERS' EQUITY

(Thousands of Dollars, Except Share Information)	Common Shares		Capital Surplus, Paid In	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Common Shareholders' Equity
	Shares	Amount					
Balance as of January 1, 2016	317,191,249	\$ 1,669,313	\$ 6,262,368	\$ 2,797,355	\$ (66,844)	\$ (309,977)	\$ 10,352,215
Net Income				949,821			949,821
Dividends on Common Shares - \$1.78 Per Share				(564,486)			(564,486)
Dividends on Preferred Stock				(7,519)			(7,519)
Issuance of Common Shares, \$5 Par Value	15,787	79	(5,639)				(5,560)
Long-Term Incentive Plan Activity			(6,056)				(6,056)
Increase in Treasury Shares	(321,228)					(7,794)	(7,794)
Other Changes in Shareholders' Equity			(449)				(449)
Other Comprehensive Income					1,562		1,562
Balance as of December 31, 2016	316,885,808	1,669,392	6,250,224	3,175,171	(65,282)	(317,771)	10,711,734
Net Income				995,515			995,515
Dividends on Common Shares - \$1.90 Per Share				(602,083)			(602,083)
Dividends on Preferred Stock				(7,519)			(7,519)
Long-Term Incentive Plan Activity			(10,834)				(10,834)
Other Changes in Shareholders' Equity			550				550
Other Comprehensive Loss					(1,121)		(1,121)
Balance as of December 31, 2017	316,885,808	1,669,392	6,239,940	3,561,084	(66,403)	(317,771)	11,086,242
Net Income				1,040,519			1,040,519
Dividends on Common Shares - \$2.02 Per Share				(640,110)			(640,110)
Dividends on Preferred Stock				(7,519)			(7,519)
Long-Term Incentive Plan Activity			(543)				(543)
Other Changes in Shareholders' Equity			1,825				1,825
Other Comprehensive Income					6,403		6,403
Balance as of December 31, 2018	316,885,808	\$ 1,669,392	\$ 6,241,222	\$ 3,953,974	\$ (60,000)	\$ (317,771)	\$ 11,486,817

The accompanying notes are an integral part of these consolidated financial statements.

EVERSOURCE ENERGY AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31,

(Thousands of Dollars)

2018

2017

2016

Operating Activities:

Net Income	\$	1,040,519	\$	995,515	\$	949,821
Adjustments to Reconcile Net Income to Net Cash Flows Provided by Operating Activities:						
Depreciation		819,930		773,802		715,466
Deferred Income Taxes		174,812		491,630		466,463
Bad Debt Expense		61,337		44,453		69,466
Pension, SERP and PBOP Expense, Net		5,498		22,454		39,912
Pension and PBOP Contributions		(194,947)		(242,800)		(158,741)
Regulatory Over/(Under) Recoveries, Net		34,920		(47,935)		13,340
Amortization		252,026		89,986		71,696
(Payments)/Refunds Related to Spent Nuclear Fuel, Net		(145,000)		—		59,804
Other		(111,225)		(204,421)		(118,195)
Changes in Current Assets and Liabilities:						
Receivables and Unbilled Revenues, Net		(141,433)		(117,155)		(142,699)
Fuel, Materials, Supplies and Inventory		(831)		(9,223)		7,755
Taxes Receivable/Accrued, Net		(67,770)		52,284		234,543
Accounts Payable		(22,084)		56,067		(14,126)
Other Current Assets and Liabilities, Net		78,226		91,545		13,737
Net Cash Flows Provided by Operating Activities		1,783,978		1,996,202		2,208,242

Investing Activities:

Investments in Property, Plant and Equipment		(2,523,371)		(2,348,105)		(1,976,867)
Proceeds from Sales of Marketable Securities		900,749		832,903		659,338
Proceeds from Sales of Marketable Securities Used to Pay Spent Nuclear Fuel Obligation		145,000		—		—
Purchases of Marketable Securities		(908,387)		(810,507)		(681,272)
Acquisition of Aquarion		—		(877,652)		—
Payments to Acquire Investments		(205,150)		(32,634)		(188,958)
Proceeds from the Sale of PSNH Generation Assets		193,924		—		—
Other Investing Activities		6,754		5,479		36,211
Net Cash Flows Used in Investing Activities		(2,390,481)		(3,230,516)		(2,151,548)

Financing Activities:

Cash Dividends on Common Shares		(640,110)		(602,083)		(564,486)
Cash Dividends on Preferred Stock		(7,519)		(7,519)		(7,519)
(Decrease)/Increase in Notes Payable		(379,310)		72,810		(12,453)
Issuance of Rate Reduction Bonds		635,663		—		—
Issuance of Long-Term Debt		2,200,000		2,500,000		800,000
Retirements of Long-Term Debt		(1,050,330)		(745,000)		(200,000)
Other Financing Activities		(28,457)		(4,754)		(33,482)
Net Cash Flows Provided by/(Used in) Financing Activities		729,937		1,213,454		(17,940)
Net Increase/(Decrease) in Cash, Cash Equivalents and Restricted Cash		123,434		(20,860)		38,754
Cash, Cash Equivalents and Restricted Cash - Beginning of Year		85,890		106,750		67,996
Cash, Cash Equivalents and Restricted Cash - End of Year	\$	209,324	\$	85,890	\$	106,750

The accompanying notes are an integral part of these consolidated financial statements.

## **Company Report on Internal Controls Over Financial Reporting**

### **The Connecticut Light and Power Company**

Management is responsible for the preparation, integrity, and fair presentation of the accompanying financial statements of The Connecticut Light and Power Company (CL&P or the Company) and of other sections of this annual report.

Management is responsible for establishing and maintaining adequate internal controls over financial reporting. The Company's internal control framework and processes have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. There are inherent limitations of internal controls over financial reporting that could allow material misstatements due to error or fraud to occur and not be prevented or detected on a timely basis by employees during the normal course of business. Additionally, internal controls over financial reporting may become inadequate in the future due to changes in the business environment.

Under the supervision and with the participation of the principal executive officer and principal financial officer, CL&P conducted an evaluation of the effectiveness of internal controls over financial reporting based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation under the framework in COSO, management concluded that internal controls over financial reporting were effective as of December 31, 2018 .

February 26, 2019

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholder of The Connecticut Light and Power Company:

### Opinion on the Financial Statements

We have audited the accompanying balance sheets of The Connecticut Light and Power Company (the “Company”) as of December 31, 2018 and 2017, the related statements of income, comprehensive income, common stockholder’s equity, and cash flows, for each of the three years in the period ended December 31, 2018, and the related notes and the schedule listed in the Index at Item 15 of Part IV (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

### Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Hartford, Connecticut  
February 26, 2019

We have served as the Company’s auditor since 2002.

THE CONNECTICUT LIGHT AND POWER COMPANY  
BALANCE SHEETS

As of December 31,

(Thousands of Dollars)

2018 2017

ASSETS

Current Assets:

Cash	\$ 87,721	\$ 6,028
Receivables, Net	397,026	370,676
Accounts Receivable from Affiliated Companies	23,082	28,181
Unbilled Revenues	56,971	54,154
Materials, Supplies and Inventory	44,529	48,438
Regulatory Assets	125,155	200,281
Prepayments and Other Current Assets	60,279	46,926
<b>Total Current Assets</b>	<b>794,763</b>	<b>754,684</b>

Property, Plant and Equipment, Net	8,909,701	8,271,030
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Deferred Debits and Other Assets:

Regulatory Assets	1,505,488	1,444,935
Other Long-Term Assets	199,767	159,597
<b>Total Deferred Debits and Other Assets</b>	<b>1,705,255</b>	<b>1,604,532</b>

<b>Total Assets</b>	<b>\$ 11,409,719</b>	<b>\$ 10,630,246</b>
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LIABILITIES AND CAPITALIZATION

Current Liabilities:

Notes Payable to Eversource Parent	\$ —	\$ 69,500
Long-Term Debt – Current Portion	250,000	300,000
Accounts Payable	324,983	367,605
Accounts Payable to Affiliated Companies	26,452	82,201
Obligations to Third Party Suppliers	56,248	52,860
Regulatory Liabilities	109,614	38,967
Derivative Liabilities	55,058	54,392
Other Current Liabilities	161,088	127,234
<b>Total Current Liabilities</b>	<b>983,443</b>	<b>1,092,759</b>

Deferred Credits and Other Liabilities:

Accumulated Deferred Income Taxes	1,166,784	1,103,367
Regulatory Liabilities	1,122,157	1,112,136
Derivative Liabilities	379,536	376,918
Accrued Pension, SERP and PBOP	282,771	354,469
Other Long-Term Liabilities	155,495	128,135
<b>Total Deferred Credits and Other Liabilities</b>	<b>3,106,743</b>	<b>3,075,025</b>

Long-Term Debt	3,004,016	2,759,135
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Preferred Stock Not Subject to Mandatory Redemption	116,200	116,200
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Common Stockholder's Equity:

Common Stock	60,352	60,352
Capital Surplus, Paid In	2,410,765	2,110,765
Retained Earnings	1,727,899	1,415,741
Accumulated Other Comprehensive Income	301	269

Common Stockholder's Equity	<u>4,199,317</u>	<u>3,587,127</u>
Commitments and Contingencies (Note 12)		
Total Liabilities and Capitalization	<u>\$ 11,409,719</u>	<u>\$ 10,630,246</u>

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

THE CONNECTICUT LIGHT AND POWER COMPANY  
STATEMENTS OF INCOME

(Thousands of Dollars)	For the Years Ended December 31,		
	2018	2017	2016
Operating Revenues	\$ 3,096,174	\$ 2,887,359	\$ 2,805,955
Operating Expenses:			
Purchased Power and Transmission	1,095,187	930,780	919,723
Operations and Maintenance	506,448	502,107	490,810
Depreciation	278,557	249,352	230,489
Amortization of Regulatory Assets, Net	129,021	83,166	38,765
Energy Efficiency Programs	93,977	114,713	154,015
Taxes Other Than Income Taxes	357,147	323,887	299,719
Total Operating Expenses	2,460,337	2,204,005	2,133,521
Operating Income	635,837	683,354	672,434
Interest Expense	151,727	142,973	144,110
Other Income, Net	22,663	22,991	14,238
Income Before Income Tax Expense	506,773	563,372	542,562
Income Tax Expense	129,056	186,646	208,308
Net Income	\$ 377,717	\$ 376,726	\$ 334,254

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

STATEMENTS OF COMPREHENSIVE INCOME

(Thousands of Dollars)	For the Years Ended December 31,		
	2018	2017	2016
Net Income	\$ 377,717	\$ 376,726	\$ 334,254
Other Comprehensive Income, Net of Tax:			
Qualified Cash Flow Hedging Instruments	51	334	444
Changes in Unrealized (Losses)/Gains on Marketable Securities	(19)	(12)	79
Other Comprehensive Income, Net of Tax	32	322	523
Comprehensive Income	\$ 377,749	\$ 377,048	\$ 334,777

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

THE CONNECTICUT LIGHT AND POWER COMPANY  
STATEMENTS OF COMMON STOCKHOLDER'S EQUITY

(Thousands of Dollars, Except Stock Information)	Common Stock		Capital Surplus, Paid In	Retained Earnings	Accumulated Other Comprehensive (Loss)/Income	Total Common Stockholder's Equity
	Stock	Amount				
Balance as of January 1, 2016	6,035,205	\$ 60,352	\$ 1,910,663	\$ 1,170,278	\$ (576)	\$ 3,140,717
Net Income				334,254		334,254
Dividends on Preferred Stock				(5,559)		(5,559)
Dividends on Common Stock				(199,599)		(199,599)
Capital Stock Expenses, Net			51			51
Capital Contributions from Eversource Parent			200,000			200,000
Other Comprehensive Income					523	523
Balance as of December 31, 2016	6,035,205	60,352	2,110,714	1,299,374	(53)	3,470,387
Net Income				376,726		376,726
Dividends on Preferred Stock				(5,559)		(5,559)
Dividends on Common Stock				(254,800)		(254,800)
Capital Stock Expenses, Net			51			51
Other Comprehensive Income					322	322
Balance as of December 31, 2017	6,035,205	60,352	2,110,765	1,415,741	269	3,587,127
Net Income				377,717		377,717
Dividends on Preferred Stock				(5,559)		(5,559)
Dividends on Common Stock				(60,000)		(60,000)
Capital Contributions from Eversource Parent			300,000			300,000
Other Comprehensive Income					32	32
Balance as of December 31, 2018	6,035,205	\$ 60,352	\$ 2,410,765	\$ 1,727,899	\$ 301	\$ 4,199,317

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

THE CONNECTICUT LIGHT AND POWER COMPANY  
STATEMENTS OF CASH FLOWS

For the Years Ended December 31,

(Thousands of Dollars)

2018

2017

2016

Operating Activities:

Net Income	\$	377,717	\$	376,726	\$	334,254
Adjustments to Reconcile Net Income to Net Cash Flows Provided by Operating Activities:						
Depreciation		278,557		249,352		230,489
Deferred Income Taxes		54,859		119,295		168,919
Bad Debt Expense		15,831		5,312		17,572
Pension, SERP and PBOP Expense		8,943		9,909		7,328
Pension Contributions		(41,150)		(2,500)		(380)
Regulatory Underrecoveries, Net		(53,372)		(8,017)		(68,730)
Amortization of Regulatory Assets, Net		129,021		83,166		38,765
Other		(69,786)		(42,973)		(36,245)
Changes in Current Assets and Liabilities:						
Receivables and Unbilled Revenues, Net		(67,334)		(47,768)		3,229
Materials, Supplies and Inventory		3,909		3,612		(8,926)
Taxes Receivable/Accrued, Net		8,954		(9,688)		123,692
Accounts Payable		(76,924)		48,032		3,252
Other Current Assets and Liabilities, Net		18,846		21,860		(1,065)
Net Cash Flows Provided by Operating Activities		<u>588,071</u>		<u>806,318</u>		<u>812,154</u>

Investing Activities:

Investments in Property, Plant and Equipment		(864,136)		(824,383)		(611,984)
Proceeds from the Sale of Property, Plant and Equipment		—		—		9,047
Other Investing Activities		209		236		296
Net Cash Flows Used in Investing Activities		<u>(863,927)</u>		<u>(824,147)</u>		<u>(602,641)</u>

Financing Activities:

Cash Dividends on Common Stock		(60,000)		(254,800)		(199,599)
Cash Dividends on Preferred Stock		(5,559)		(5,559)		(5,559)
Decrease in Notes Payable to Eversource Parent		(69,500)		(10,600)		(197,300)
Issuance of Long-Term Debt		500,000		525,000		—
Retirements of Long-Term Debt		(300,000)		(250,000)		—
Capital Contributions from Eversource Parent		300,000		—		200,000
Other Financing Activities		(7,091)		15,004		(857)
Net Cash Flows Provided by/(Used in) Financing Activities		<u>357,850</u>		<u>19,045</u>		<u>(203,315)</u>
Net Increase in Cash and Restricted Cash		81,994		1,216		6,198
Cash and Restricted Cash - Beginning of Year		9,619		8,403		2,205
Cash and Restricted Cash - End of Year	\$	<u>91,613</u>	\$	<u>9,619</u>	\$	<u>8,403</u>

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

## **Company Report on Internal Controls Over Financial Reporting**

### **NSTAR Electric Company**

Management is responsible for the preparation, integrity, and fair presentation of the accompanying consolidated financial statements of NSTAR Electric Company and subsidiary (NSTAR Electric or the Company) and of other sections of this annual report.

Management is responsible for establishing and maintaining adequate internal controls over financial reporting. The Company's internal control framework and processes have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. There are inherent limitations of internal controls over financial reporting that could allow material misstatements due to error or fraud to occur and not be prevented or detected on a timely basis by employees during the normal course of business. Additionally, internal controls over financial reporting may become inadequate in the future due to changes in the business environment.

Under the supervision and with the participation of the principal executive officer and principal financial officer, NSTAR Electric conducted an evaluation of the effectiveness of internal controls over financial reporting based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation under the framework in COSO, management concluded that internal controls over financial reporting were effective as of December 31, 2018 .

February 26, 2019

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholder of NSTAR Electric Company:

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of NSTAR Electric Company and subsidiary (the “Company”) as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, common stockholder’s equity, and cash flows, for each of the three years in the period ended December 31, 2018, and the related notes and the schedule listed in the Index at Item 15 of Part IV (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

### Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Hartford, Connecticut  
February 26, 2019

We have served as the Company’s auditor since 2012.

NSTAR ELECTRIC COMPANY AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS

As of December 31,

(Thousands of Dollars)

2018

2017

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 1,606	\$ 1,763
Receivables, Net	361,296	341,341
Accounts Receivable from Affiliated Companies	31,344	40,723
Unbilled Revenues	34,518	49,865
Materials, Supplies and Inventory	114,202	95,517
Regulatory Assets	241,747	333,882
Prepayments and Other Current Assets	51,960	24,499

Total Current Assets	836,673	887,590
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Property, Plant and Equipment, Net	8,794,700	8,246,494
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Deferred Debits and Other Assets:

Regulatory Assets	1,196,512	1,190,575
Prepaid PBOP	132,810	126,948
Other Long-Term Assets	109,764	84,766

Total Deferred Debits and Other Assets	1,439,086	1,402,289
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Total Assets	\$ 11,070,459	\$ 10,536,373
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**LIABILITIES AND CAPITALIZATION**

Current Liabilities:

Notes Payable	\$ 278,500	\$ 234,000
Accounts Payable	384,398	340,115
Accounts Payable to Affiliated Companies	89,636	91,260
Obligations to Third Party Suppliers	109,547	88,721
Renewable Portfolio Standards Compliance Obligations	139,898	111,524
Regulatory Liabilities	190,620	79,562
Other Current Liabilities	74,872	79,916

Total Current Liabilities	1,267,471	1,025,098
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Deferred Credits and Other Liabilities:

Accumulated Deferred Income Taxes	1,294,467	1,275,814
Regulatory Liabilities	1,513,279	1,514,451
Accrued Pension and SERP	14,145	89,995
Other Long-Term Liabilities	263,096	198,176

Total Deferred Credits and Other Liabilities	3,084,987	3,078,436
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Long-Term Debt	2,944,846	2,943,759
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Preferred Stock Not Subject to Mandatory Redemption	43,000	43,000
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Common Stockholder's Equity:

Common Stock	—	—
Capital Surplus, Paid In	1,633,442	1,502,942
Retained Earnings	2,098,091	1,944,961
Accumulated Other Comprehensive Loss	(1,378)	(1,823)

Common Stockholder's Equity	3,730,155	3,446,080
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Commitments and Contingencies (Note 12)

Total Liabilities and Capitalization	\$	<u>11,070,459</u>	\$	<u>10,536,373</u>
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The accompanying notes are an integral part of these consolidated financial statements.

NSTAR ELECTRIC COMPANY AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31,

(Thousands of Dollars)	2018	2017	2016
Operating Revenues	\$ 3,112,926	\$ 2,980,629	\$ 3,041,588
Operating Expenses:			
Purchased Power and Transmission	1,257,073	1,025,414	1,084,324
Operations and Maintenance	462,100	482,924	500,315
Depreciation	276,372	274,008	259,262
Amortization of Regulatory Assets, Net	46,654	33,831	34,332
Energy Efficiency Programs	292,288	294,053	321,787
Taxes Other Than Income Taxes	194,316	181,959	177,837
Total Operating Expenses	<u>2,528,803</u>	<u>2,292,189</u>	<u>2,377,857</u>
Operating Income	584,123	688,440	663,731
Interest Expense	105,193	105,729	108,428
Other Income, Net	<u>53,066</u>	<u>34,100</u>	<u>21,263</u>
Income Before Income Tax Expense	531,996	616,811	576,566
Income Tax Expense	<u>148,906</u>	<u>242,085</u>	<u>225,789</u>
Net Income	<u>\$ 383,090</u>	<u>\$ 374,726</u>	<u>\$ 350,777</u>

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31,

(Thousands of Dollars)	2018	2017	2016
Net Income	\$ 383,090	\$ 374,726	\$ 350,777
Other Comprehensive Income, Net of Tax:			
Changes in Funded Status of SERP Benefit Plan	13	(264)	(177)
Qualified Cash Flow Hedging Instruments	437	438	437
Changes in Unrealized (Losses)/Gains on Marketable Securities	<u>(5)</u>	<u>(3)</u>	<u>22</u>
Other Comprehensive Income, Net of Tax	445	171	282
Comprehensive Income	<u>\$ 383,535</u>	<u>\$ 374,897</u>	<u>\$ 351,059</u>

The accompanying notes are an integral part of these consolidated financial statements.

NSTAR ELECTRIC COMPANY AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDER'S EQUITY

(Thousands of Dollars, Except Stock Information)	Common Stock		Capital Surplus, Paid In	Retained Earnings	Accumulated Other Comprehensive Loss	Total Common Stockholder's Equity
	Stock	Amount				
Balance as of January 1, 2016	200	\$ —	\$ 1,397,642	\$ 1,811,678	\$ (2,276)	\$ 3,207,044
Net Income				350,777		350,777
Dividends on Preferred Stock				(1,960)		(1,960)
Dividends on Common Stock				(316,300)		(316,300)
Capital Contributions from Eversource Parent			103,000			103,000
Other Comprehensive Income					282	282
Balance as of December 31, 2016	200	—	1,500,642	1,844,195	(1,994)	3,342,843
Net Income				374,726		374,726
Dividends on Preferred Stock				(1,960)		(1,960)
Dividends on Common Stock				(272,000)		(272,000)
Capital Contributions from Eversource Parent			2,300			2,300
Other Comprehensive Income					171	171
Balance as of December 31, 2017	200	—	1,502,942	1,944,961	(1,823)	3,446,080
Net Income				383,090		383,090
Dividends on Preferred Stock				(1,960)		(1,960)
Dividends on Common Stock				(228,000)		(228,000)
Capital Contributions from Eversource Parent			130,500			130,500
Other Comprehensive Income					445	445
Balance as of December 31, 2018	200	\$ —	\$ 1,633,442	\$ 2,098,091	\$ (1,378)	\$ 3,730,155

The accompanying notes are an integral part of these consolidated financial statements.

NSTAR ELECTRIC COMPANY AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31,

(Thousands of Dollars)	2018	2017	2016
<b>Operating Activities:</b>			
Net Income	\$ 383,090	\$ 374,726	\$ 350,777
Adjustments to Reconcile Net Income to Net Cash Flows Provided by Operating Activities:			
Depreciation	276,372	274,008	259,262
Deferred Income Taxes	41,438	110,499	101,698
Pension, SERP and PBOP Income	(21,521)	(9,509)	(771)
Pension and PBOP Contributions	(61,751)	(90,721)	(37,305)
Regulatory Over/(Under) Recoveries, Net	149,647	(20,009)	118,385
Amortization of Regulatory Assets, Net	46,654	33,831	34,332
Bad Debt Expense	22,279	21,252	31,728
Other	(65,523)	(24,872)	(50,831)
Changes in Current Assets and Liabilities:			
Receivables and Unbilled Revenues, Net	(26,403)	(50,896)	(70,302)
Materials, Supplies and Inventory	(18,685)	(24,610)	10,571
Taxes Receivable/Accrued, Net	(33,900)	39,205	60,774
Accounts Payable	37,140	(20,421)	18,000
Other Current Assets and Liabilities, Net	51,674	26,849	(14,227)
<b>Net Cash Flows Provided by Operating Activities</b>	<b>780,511</b>	<b>639,332</b>	<b>812,091</b>
<b>Investing Activities:</b>			
Investments in Property, Plant and Equipment	(725,766)	(719,623)	(664,932)
Other Investing Activities	58	(3,552)	53
<b>Net Cash Flows Used in Investing Activities</b>	<b>(725,708)</b>	<b>(723,175)</b>	<b>(664,879)</b>
<b>Financing Activities:</b>			
Cash Dividends on Common Stock	(228,000)	(272,000)	(316,300)
Cash Dividends on Preferred Stock	(1,960)	(1,960)	(1,960)
Increase/(Decrease) in Short-Term Debt	44,500	56,500	(28,400)
Capital Contributions from Eversource Parent	130,500	2,300	103,000
Issuance of Long-Term Debt	—	700,000	300,000
Retirements of Long-Term Debt	—	(400,000)	(200,000)
Other Financing Activities	108	(1,796)	(866)
<b>Net Cash Flows (Used in)/Provided by Financing Activities</b>	<b>(54,852)</b>	<b>83,044</b>	<b>(144,526)</b>
<b>Net (Decrease)/Increase in Cash, Cash Equivalents and Restricted Cash</b>	<b>(49)</b>	<b>(799)</b>	<b>2,686</b>
Cash, Cash Equivalents and Restricted Cash - Beginning of Year	14,708	15,507	12,821
<b>Cash, Cash Equivalents and Restricted Cash - End of Year</b>	<b>\$ 14,659</b>	<b>\$ 14,708</b>	<b>\$ 15,507</b>

The accompanying notes are an integral part of these consolidated financial statements.

## **Company Report on Internal Controls Over Financial Reporting**

### **Public Service Company of New Hampshire**

Management is responsible for the preparation, integrity, and fair presentation of the accompanying consolidated financial statements of Public Service Company of New Hampshire and subsidiaries (PSNH or the Company) and of other sections of this annual report.

Management is responsible for establishing and maintaining adequate internal controls over financial reporting. The Company's internal control framework and processes have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. There are inherent limitations of internal controls over financial reporting that could allow material misstatements due to error or fraud to occur and not be prevented or detected on a timely basis by employees during the normal course of business. Additionally, internal controls over financial reporting may become inadequate in the future due to changes in the business environment.

Under the supervision and with the participation of the principal executive officer and principal financial officer, PSNH conducted an evaluation of the effectiveness of internal controls over financial reporting based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation under the framework in COSO, management concluded that internal controls over financial reporting were effective as of December 31, 2018 .

February 26, 2019

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholder of Public Service Company of New Hampshire:

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Public Service Company of New Hampshire and subsidiaries (the “Company”) as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, common stockholder’s equity, and cash flows, for each of the three years in the period ended December 31, 2018, and the related notes and the schedule listed in the Index at Item 15 of Part IV (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

### Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Hartford, Connecticut  
February 26, 2019

We have served as the Company’s auditor since 2002.

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

As of December 31,

(Thousands of Dollars)

2018 2017

**ASSETS**

Current Assets:

Cash	\$ 1,439	\$ 900
Receivables, Net	104,854	92,774
Accounts Receivable from Affiliated Companies	8,444	5,297
Unbilled Revenues	47,145	49,448
Taxes Receivable	25,913	5,838
Materials, Supplies and Inventory	37,504	40,285
Regulatory Assets	67,228	130,134
Special Deposits	47,498	728
Prepayments and Other Current Assets	17,564	22,365
Assets Held for Sale	—	219,550
<b>Total Current Assets</b>	<b>357,589</b>	<b>567,319</b>

Property, Plant and Equipment, Net	2,880,073	2,642,274
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Deferred Debits and Other Assets:

Regulatory Assets	862,288	810,677
Other Long-Term Assets	27,406	42,391
<b>Total Deferred Debits and Other Assets</b>	<b>889,694</b>	<b>853,068</b>

<b>Total Assets</b>	<b>\$ 4,127,356</b>	<b>\$ 4,062,661</b>
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**LIABILITIES AND CAPITALIZATION**

Current Liabilities:

Notes Payable to Eversource Parent	\$ 57,000	\$ 262,900
Long-Term Debt – Current Portion	150,000	110,000
Rate Reduction Bonds – Current Portion	52,332	—
Accounts Payable	111,292	128,685
Accounts Payable to Affiliated Companies	26,029	24,676
Dividends Payable to Eversource Parent	—	150,000
Regulatory Liabilities	55,526	6,251
Other Current Liabilities	64,046	67,924
<b>Total Current Liabilities</b>	<b>516,225</b>	<b>750,436</b>

Deferred Credits and Other Liabilities:

Accumulated Deferred Income Taxes	481,221	443,468
Regulatory Liabilities	428,069	444,397
Accrued Pension, SERP and PBOP	124,457	124,639
Other Long-Term Liabilities	36,339	56,689
<b>Total Deferred Credits and Other Liabilities</b>	<b>1,070,086</b>	<b>1,069,193</b>

Long-Term Debt	655,173	892,438
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Rate Reduction Bonds	583,331	—
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Common Stockholder's Equity:

Common Stock	—	—
Capital Surplus, Paid In	678,134	843,134
Retained Earnings	627,258	511,382

Accumulated Other Comprehensive Loss	(2,851)	(3,922)
Common Stockholder's Equity	<u>1,302,541</u>	<u>1,350,594</u>
Commitments and Contingencies (Note 12)		
Total Liabilities and Capitalization	<u>\$ 4,127,356</u>	<u>\$ 4,062,661</u>

The accompanying notes are an integral part of these consolidated financial statements.

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31,

(Thousands of Dollars)	2018	2017	2016
Operating Revenues	\$ 1,047,619	\$ 981,624	\$ 959,482
Operating Expenses:			
Purchased Power, Fuel and Transmission	370,246	237,478	210,786
Operations and Maintenance	210,541	263,110	267,013
Depreciation	92,055	128,192	116,519
Amortization of Regulatory Assets/(Liabilities), Net	80,978	(16,577)	11,170
Energy Efficiency Programs	20,105	13,788	14,204
Taxes Other Than Income Taxes	77,280	89,760	82,964
Total Operating Expenses	851,205	715,751	702,656
Operating Income	196,414	265,873	256,826
Interest Expense	60,634	51,007	50,040
Other Income, Net	27,672	9,805	7,563
Income Before Income Tax Expense	163,452	224,671	214,349
Income Tax Expense	47,576	88,675	82,364
Net Income	\$ 115,876	\$ 135,996	\$ 131,985

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31,

(Thousands of Dollars)	2018	2017	2016
Net Income	\$ 115,876	\$ 135,996	\$ 131,985
Other Comprehensive Income, Net of Tax:			
Qualified Cash Flow Hedging Instruments	1,104	1,162	1,162
Changes in Unrealized (Losses)/Gains on Marketable Securities	(33)	(21)	136
Other Comprehensive Income, Net of Tax	1,071	1,141	1,298
Comprehensive Income	\$ 116,947	\$ 137,137	\$ 133,283

The accompanying notes are an integral part of these consolidated financial statements.

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDER'S EQUITY

(Thousands of Dollars, Except Stock Information)	Common Stock		Capital Surplus, Paid In	Retained Earnings	Accumulated Other Comprehensive Loss	Total Common Stockholder's Equity
	Stock	Amount				
Balance as of January 1, 2016	301	\$ —	\$ 748,634	\$ 494,901	\$ (6,361)	\$ 1,237,174
Net Income				131,985		131,985
Dividends on Common Stock				(77,600)		(77,600)
Capital Contributions from Eversource Parent			94,500			94,500
Other Comprehensive Income					1,298	1,298
Balance as of December 31, 2016	301	—	843,134	549,286	(5,063)	1,387,357
Net Income				135,996		135,996
Dividends on Common Stock				(173,900)		(173,900)
Other Comprehensive Income					1,141	1,141
Balance as of December 31, 2017	301	—	843,134	511,382	(3,922)	1,350,594
Net Income				115,876		115,876
Return of Capital			(530,000)			(530,000)
Capital Contributions from Eversource Parent			365,000			365,000
Other Comprehensive Income					1,071	1,071
Balance as of December 31, 2018	301	\$ —	\$ 678,134	\$ 627,258	\$ (2,851)	\$ 1,302,541

The accompanying notes are an integral part of these consolidated financial statements.

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31,

(Thousands of Dollars)

	2018	2017	2016
<b>Operating Activities:</b>			
Net Income	\$ 115,876	\$ 135,996	\$ 131,985
Adjustments to Reconcile Net Income to Net Cash Flows Provided by Operating Activities:			
Depreciation	92,055	128,192	116,519
Deferred Income Taxes	35,924	63,883	87,345
Bad Debt Expense	6,383	6,704	7,288
Pension, SERP and PBOP Expense	754	1,368	875
Pension Contributions	—	(800)	(17,078)
Regulatory Underrecoveries, Net	(27,264)	(30,788)	(4,491)
Amortization of Regulatory Assets/(Liabilities), Net	80,978	(16,577)	11,170
Other	(15,363)	(16,813)	3,108
Changes in Current Assets and Liabilities:			
Receivables and Unbilled Revenues, Net	(19,307)	(22,055)	(18,822)
Fuel, Materials, Supplies and Inventory	16,928	5,519	(5,485)
Taxes Receivable/Accrued, Net	(19,970)	339	32,303
Accounts Payable	(56,712)	29,453	11,353
Other Current Assets and Liabilities, Net	3,028	16,463	4,654
<b>Net Cash Flows Provided by Operating Activities</b>	<b>213,310</b>	<b>300,884</b>	<b>360,724</b>
<b>Investing Activities:</b>			
Investments in Property, Plant and Equipment	(277,345)	(312,720)	(305,430)
Proceeds from the Sale of Generation Assets	193,924	—	—
Proceeds from the Sale of Property	4,782	—	—
Other Investing Activities	437	199	326
<b>Net Cash Flows Used in Investing Activities</b>	<b>(78,202)</b>	<b>(312,521)</b>	<b>(305,104)</b>
<b>Financing Activities:</b>			
Cash Dividends on Common Stock	(150,000)	(23,900)	(77,600)
(Decrease)/Increase in Notes Payable to Eversource Parent	(205,900)	102,000	(70,400)
Retirements of Long-Term Debt	(199,250)	(70,000)	—
Issuance of Rate Reduction Bonds	635,663	—	—
Return of Capital	(530,000)	—	—
Capital Contributions from Eversource Parent	365,000	—	94,500
Other Financing Activities	(89)	(225)	(255)
<b>Net Cash Flows (Used in)/Provided by Financing Activities</b>	<b>(84,576)</b>	<b>7,875</b>	<b>(53,755)</b>
<b>Net Increase/(Decrease) in Cash and Restricted Cash</b>	<b>50,532</b>	<b>(3,762)</b>	<b>1,865</b>
Cash and Restricted Cash - Beginning of Year	2,191	5,953	4,088
<b>Cash and Restricted Cash - End of Year</b>	<b>\$ 52,723</b>	<b>\$ 2,191</b>	<b>\$ 5,953</b>

The accompanying notes are an integral part of these consolidated financial statements.

**EVERSOURCE ENERGY AND SUBSIDIARIES  
THE CONNECTICUT LIGHT AND POWER COMPANY  
NSTAR ELECTRIC COMPANY AND SUBSIDIARY  
PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE AND SUBSIDIARIES**

**COMBINED NOTES TO FINANCIAL STATEMENTS**

Refer to the Glossary of Terms included in this combined Annual Report on Form 10-K for abbreviations and acronyms used throughout the combined notes to the financial statements.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. About Eversource, CL&P, NSTAR Electric and PSNH**

Eversource Energy is a public utility holding company primarily engaged, through its wholly-owned regulated utility subsidiaries, in the energy delivery business. Eversource Energy's wholly-owned regulated utility subsidiaries consist of CL&P, NSTAR Electric and PSNH (electric utilities), Yankee Gas and NSTAR Gas (natural gas utilities) and Aquarion (water utilities). Eversource provides energy delivery and/or water service to approximately four million electric, natural gas and water customers through eight regulated utilities in Connecticut, Massachusetts and New Hampshire.

Eversource, CL&P, NSTAR Electric and PSNH are reporting companies under the Securities Exchange Act of 1934. Eversource Energy is a public utility holding company under the Public Utility Holding Company Act of 2005. Arrangements among the regulated electric companies and other Eversource companies, outside agencies and other utilities covering interconnections, interchange of electric power and sales of utility property are subject to regulation by the FERC. Eversource's regulated companies are subject to regulation of rates, accounting and other matters by the FERC and/or applicable state regulatory commissions (the PURA for CL&P, Yankee Gas and Aquarion, the DPU for NSTAR Electric, NSTAR Gas and Aquarion, and the NHPUC for PSNH and Aquarion).

CL&P, NSTAR Electric and PSNH furnish franchised retail electric service in Connecticut, Massachusetts and New Hampshire. Yankee Gas and NSTAR Gas are engaged in the distribution and sale of natural gas to customers within Connecticut and Massachusetts, respectively. Aquarion is engaged in the collection, treatment and distribution of water in Connecticut, Massachusetts and New Hampshire. CL&P, NSTAR Electric and PSNH's results include the operations of their respective distribution and transmission businesses. The distribution business also includes the results of NSTAR Electric's solar power facilities and PSNH's generation facilities prior to sale in 2018. PSNH completed the sales of its thermal generation assets on January 10, 2018 and its hydroelectric generation assets on August 26, 2018. As of December 31, 2018, PSNH does not own any electric generation facilities. See Note 13, "Generation Asset Sale," for further information.

Eversource also has a regulated subsidiary, NPT, which was formed to construct, own and operate the Northern Pass line, a HVDC transmission line from Québec to New Hampshire under development that will interconnect with a new HVDC transmission line being developed by a transmission subsidiary of HQ.

Eversource Service, Eversource's service company, and several wholly-owned real estate subsidiaries of Eversource, provide support services to Eversource, including its regulated companies. Eversource holds several equity ownership interests, which are accounted for under the equity method. Eversource also consolidates the operations of CYAPC and YAEC, both of which are inactive regional nuclear generation companies engaged in the long-term storage of their spent nuclear fuel.

**B. Basis of Presentation**

The consolidated financial statements of Eversource, NSTAR Electric and PSNH include the accounts of each of their respective subsidiaries. Intercompany transactions have been eliminated in consolidation. The accompanying consolidated financial statements of Eversource, NSTAR Electric and PSNH and the financial statements of CL&P are herein collectively referred to as the "financial statements."

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Eversource consolidates CYAPC and YAEC because CL&P's, NSTAR Electric's and PSNH's combined ownership and voting interests in each of these entities is greater than 50 percent. Intercompany transactions between CL&P, NSTAR Electric, PSNH and the CYAPC and YAEC companies have been eliminated in consolidation of the Eversource financial statements.

Eversource's utility subsidiaries' electric, natural gas and water distribution and transmission businesses, are subject to rate-regulation that is based on cost recovery and meets the criteria for application of accounting guidance for entities with rate-regulated operations, which considers the effect of regulation on the differences in the timing of the recognition of certain revenues and expenses from those of other businesses and industries. See Note 2, "Regulatory Accounting," for further information.

Eversource's consolidated financial information includes the results of Aquarion and its subsidiaries beginning from the date of the acquisition on December 4, 2017.

Certain reclassifications of prior year data were made in the accompanying financial statements to conform to the current year presentation.

In accordance with accounting guidance on noncontrolling interests in consolidated financial statements, the Preferred Stock of CL&P and the Preferred Stock of NSTAR Electric, which are not owned by Eversource or its consolidated subsidiaries and are not subject to mandatory redemption, have been presented as noncontrolling interests in the financial statements of Eversource. The Preferred Stock of CL&P and the Preferred Stock of NSTAR Electric are considered to be temporary equity and have been classified between liabilities and permanent shareholders' equity on the balance sheets of Eversource, CL&P and NSTAR Electric due to a provision in the preferred stock agreements of both CL&P and NSTAR Electric that grant preferred stockholders the right to elect a majority of the CL&P and NSTAR Electric Boards of Directors, respectively, should certain conditions exist, such as if preferred dividends are in arrears for a specified amount of time. The Net Income reported in the statements of income and cash flows represents net income prior to apportionment to noncontrolling interests, which is represented by dividends on preferred stock of CL&P and NSTAR Electric.

As of both December 31, 2018 and 2017, Eversource's carrying amount of goodwill was approximately \$ 4.4 billion. Eversource performs an assessment for possible impairment of its goodwill at least annually. Eversource completed its annual goodwill impairment test for each of its reporting units as of October 1, 2018 and determined that no impairment exists. See Note 24B, "Acquisition of Aquarion and Goodwill - Goodwill," for further information.

### C. Accounting Standards

*Accounting Standards Issued but Not Yet Effective:* In February 2016, the FASB issued Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)*, which changes existing lease accounting guidance and is required to be applied in the first quarter of 2019. The requirements of the new leases standard include balance sheet recognition of leases deemed to be operating leases and additional disclosure requirements. The recognition, measurement and presentation of expenses and cash flows are not significantly changed. The Company implemented the new leases standard in the first quarter of 2019 and applied the Topic 842 lease criteria to new leases and lease renewals entered into effective on or after January 1, 2019.

In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842) - Targeted Improvements*, allowing a transition method to adopt the new leases standard on a prospective basis as of the adoption date, with prior periods presented in the financial statements continuing to follow existing lease accounting guidance under Topic 840 (Leases) in the accounting literature. The Company adopted the prospective transition method allowed in ASU 2018-11.

The Company has decided to elect the practical expedient package whereby it does not need to reassess whether or not an existing contract is or contains a lease or whether a lease is an operating or capital lease, and it does not need to reassess initial direct costs for leases. The Company has also elected the practical expedient to not reevaluate land easements existing at adoption if they were not previously accounted for as leases.

The Company determined the impact the ASUs will have on its financial statements by reviewing its lease population and identifying lease data needed for the disclosure requirements. The Company implemented a new lease accounting system in 2019 to ensure ongoing compliance with the ASU's requirements. Eversource recognized approximately \$60 million, which includes approximately \$25 million at NSTAR Electric, approximately \$1 million at CL&P and approximately \$1 million at PSNH, of operating lease liabilities and right-of-use assets on their respective balance sheets upon transition at January 1, 2019. Implementation of the new guidance will not have an impact on each company's results of operations and cash flows.

*Accounting Standards Recently Adopted:* On January 1, 2018, Eversource, CL&P, NSTAR Electric and PSNH adopted ASU 2014-09, *Revenue from Contracts with Customers*, which amended existing revenue recognition guidance, using the modified retrospective method (cumulatively at the date of initial application) applying it only to contracts that were not complete at January 1, 2018. Under this method of adoption, prior year reported results were not restated. Implementation of the ASU did not have a material effect on the results of operations, financial position or cash flows of Eversource, CL&P, NSTAR Electric or PSNH. See Note 22, "Revenues," for further information.

The Company identified an item that was accounted for differently under the new revenue guidance, as compared to the previously existing guidance. As a result of applying guidance on the unit of account under the new standard, purchases of power from and sales of power to ISO-New England are now accounted for net by the hour, rather than net by the month. This change increased Operating Revenues and Purchased Power, Fuel and Transmission by \$22.8 million for the year ended December 31, 2018, with no impact on net income.

On January 1, 2018, Eversource adopted ASU 2016-01, *Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Liabilities*. The ASU removed the available-for-sale designation for equity securities, whereby changes in fair value were previously recorded in accumulated other comprehensive income within shareholders' equity, and required changes in fair value of all equity securities to be recorded in earnings effective January 1, 2018. There was no cumulative effect of adoption. Unrealized losses recorded in Other Income, Net were \$4.3 million for the year ended December 31, 2018. For further information, see Note 5, "Marketable Securities," to the financial statements.

On January 1, 2018, Eversource, CL&P, NSTAR Electric and PSNH adopted ASU 2017-07, *Compensation - Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The ASU required separate presentation of service cost from other components of net pension, SERP and PBOP costs, with the other components presented as non-operating income and not subject to capitalization. The ASU has been applied retrospectively for the separate presentation in the income statement of service costs and other components and prospectively in the balance sheet for the capitalization of only the service cost component. As of December 31, 2018, the non-service cost components of net pension, SERP and PBOP costs that were not capitalized in plant were recorded as an increase to regulatory liabilities of \$39.8 million, as these amounts continue to be included in rates. See Note 1N, "Summary of Significant Accounting Policies - Other Income, Net," to the financial statements for the portion of pension, SERP and PBOP costs that are presented as non-operating income for the years

ended December 31, 2018, 2017 and 2016. For the year ended December 31, 2017, the amounts, which were previously presented within Operations and Maintenance expense on the statements of income, totaled \$29.9 million at Eversource, \$1.8 million at CL&P, \$19.2 million at NSTAR Electric and \$5.9 million at PSNH, and have been retrospectively presented within Other Income, Net. For the year ended December 31, 2016, these amounts were \$18.6 million at Eversource, \$0.7 million at CL&P, \$10.5 million at NSTAR Electric and \$6.2 million at PSNH.

On January 1, 2018, Eversource, CL&P, NSTAR Electric and PSNH adopted two accounting standards relating to the statement of cash flows; ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments*, and ASU 2016-18, *Restricted Cash*. As a result of implementing ASU 2016-15, dividends from equity method investments of \$19.1 million, \$20.0 million, and \$0.7 million for the years ended December 31, 2018, 2017, and 2016, respectively, are presented in operating activities at Eversource, for which the 2017 and 2016 amounts were previously classified in investing activities. ASU 2016-18 required that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash and restricted cash equivalents. Both standards were applied retrospectively, as required, and neither had a material impact on Eversource's, CL&P's, NSTAR Electric's or PSNH's statements of cash flows. See Note 1P, "Summary of Significant Accounting Policies - Supplemental Cash Flow Information," to the financial statements for a reconciliation of cash and cash equivalents as reported on the balance sheet to the statement of cash flows, which includes amounts described as restricted cash and restricted cash equivalents.

#### **D. Northern Pass**

Northern Pass is Eversource's planned 1,090 MW HVDC transmission line that will interconnect from the Québec-New Hampshire border to Franklin, New Hampshire and an associated alternating current radial transmission line between Franklin and Deerfield, New Hampshire. As of December 31, 2018, our capitalized Northern Pass project costs were approximately \$307 million.

In March 2018, the New Hampshire Site Evaluation Committee ("NHSEC") issued a written decision denying Northern Pass' siting application after which the Massachusetts EDCs terminated the selection of, and subsequent contract negotiations with, Northern Pass under the Massachusetts Clean Energy RFP. On April 27, 2018, NPT filed a motion for rehearing with the NHSEC, and on July 12, 2018, the NHSEC issued its written decision denying Northern Pass' motion for rehearing. On August 10, 2018, NPT filed an appeal to the New Hampshire Supreme Court, alleging that the NHSEC failed to follow applicable law in its review of the project. On October 12, 2018, the New Hampshire Supreme Court accepted this appeal. Subsequently, the NHSEC transmitted the record of its proceedings to the New Hampshire Supreme Court on December 11, 2018. Briefing of the appeal began on February 4, 2019. The New Hampshire Supreme Court has not set a date for oral argument. NPT intends to continue to pursue NHSEC approval to construct this project.

The March 2018 NHSEC decision denying Northern Pass' siting application caused us to review the recoverability of our Northern Pass project costs in the first quarter of 2018. In this recoverability review, we estimated undiscounted expected project cash flows and compared the result to our estimated project costs to determine whether the recorded amount was recoverable. Our undiscounted cash flows were substantially in excess of our estimated project costs. We completed this analysis and concluded that our project costs were recoverable as of March 31, 2018, based on our expectation that the Northern Pass project remains probable of being placed in service.

Consistent with Eversource's and HQ's long-term relationship to bring clean energy into New England, Eversource and HQ remain committed to Northern Pass and the many benefits this project will bring to our customers and the region. If as a result of future events and changes in circumstances a new recoverability review were to conclude that our project costs are not recoverable, then we would reduce Northern Pass' project costs to the estimated fair value, which could result in most of our \$307 million of capitalized project costs being impaired. Such an impairment could have a material adverse effect on our financial position and results of operations.

#### **E. Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand and short-term cash investments that are highly liquid in nature and have original maturities of three months or less. At the end of each reporting period, any overdraft amounts are reclassified from Cash and Cash Equivalents to Accounts Payable on the balance sheets.

#### **F. Provision for Uncollectible Accounts**

Eversource, including CL&P, NSTAR Electric and PSNH, presents its receivables at estimated net realizable value by maintaining a provision for uncollectible accounts. This provision is determined based upon a variety of judgments and factors, including the application of an estimated uncollectible percentage to each receivable aging category. The estimate is based upon historical collection and write-off experience and management's assessment of collectability from customers. Management continuously assesses the collectability of receivables and adjusts collectability estimates based on actual experience. Receivable balances are written off against the provision for uncollectible accounts when the customer accounts are terminated and these balances are deemed to be uncollectible.

The PURA allows CL&P and Yankee Gas to accelerate the recovery of accounts receivable balances attributable to qualified customers under financial or medical duress (uncollectible hardship accounts receivable) outstanding for greater than 180 days and 90 days, respectively. The DPU allows NSTAR Electric and NSTAR Gas to recover in rates, amounts associated with certain uncollectible hardship accounts receivable. These uncollectible hardship customer account balances are included in Regulatory Assets or Other Long-Term Assets on the balance sheets.

The total provision for both uncollectible accounts and for uncollectible hardship accounts (the uncollectible hardship balance is included in the total provision) is included in Receivables, Net on the balance sheets, and is as follows:

(Millions of Dollars)	Total Provision for Uncollectible Accounts		Uncollectible Hardship	
	As of December 31,		As of December 31,	
	2018	2017	2018	2017
Eversource	\$ 212.7	\$ 195.7	\$ 131.5	\$ 122.5
CL&P	88.0	78.9	71.9	65.5
NSTAR Electric	74.5	69.7	42.5	40.3
PSNH	11.1	10.5	—	—

In accordance with new revenue accounting guidance, uncollectible expense associated with customers' accounts receivable included in Operations and Maintenance expense on the statements of income is as follows:

(Millions of Dollars)	For the Years Ended December 31,		
	2018	2017	2016
Eversource	\$ 61.3	\$ 44.5	\$ 69.5
CL&P	15.8	5.3	17.6
NSTAR Electric	22.3	21.3	31.7
PSNH	6.4	6.7	7.3

### G. CL&P Energy Efficiency Loans

In December 2018, CL&P transferred \$41.3 million of its energy efficiency customer loan portfolio to two outside lenders in order to make additional loans to customers. CL&P remains the servicer of the loans and will transmit customer payments to the lenders. Under a three-year agreement with the lenders, additional energy efficiency loans will also be transferred with a maximum amount outstanding under this program of \$55 million. The transaction did not qualify as a sale for accounting purposes, and the amounts of the loans (\$18.5 million and \$22.8 million as of December 31, 2018 in current and long-term, respectively), included in Accounts Receivable, Net and Other Long-Term Assets, are offset by Other Current Liabilities and Other Long-Term Liabilities on CL&P's balance sheet.

### H. Fuel, Materials, Supplies and Inventory

Fuel, Materials, Supplies and Inventory include natural gas inventory, materials and supplies purchased primarily for construction or operation and maintenance purposes, and RECs. Inventory is valued at the lower of cost or net realizable value. RECs are purchased from suppliers of renewable sources of generation and are used to meet state mandated Renewable Portfolio Standards requirements. The carrying amounts of fuel, materials and supplies, and RECs, which are included in Current Assets on the balance sheets, were as follows:

(Millions of Dollars)	As of December 31,							
	2018				2017			
	Eversource	CL&P	NSTAR Electric	PSNH	Eversource	CL&P	NSTAR Electric	PSNH
Fuel	\$ 33.1	\$ —	\$ —	\$ —	\$ 29.7	\$ —	\$ —	\$ —
Materials and Supplies	126.1	44.5	48.6	24.3	117.1	44.4	45.1	18.5
RECs	78.8	—	65.6	13.2	76.3	4.0	50.4	21.8
Total - Current	\$ 238.0	\$ 44.5	\$ 114.2	\$ 37.5	\$ 223.1	\$ 48.4	\$ 95.5	\$ 40.3

### I. Fair Value Measurements

Fair value measurement guidance is applied to derivative contracts that are not elected or designated as "normal purchases" or "normal sales" ("normal") and to the marketable securities held in trusts. Fair value measurement guidance is also applied to valuations of the investments used to calculate the funded status of pension and PBOP plans, the nonrecurring fair value measurements of nonfinancial assets such as goodwill and AROs, and the estimated fair value of preferred stock, long-term debt and RRBs.

*Fair Value Hierarchy:* In measuring fair value, Eversource uses observable market data when available in order to minimize the use of unobservable inputs. Inputs used in fair value measurements are categorized into three fair value hierarchy levels for disclosure purposes. The entire fair value measurement is categorized based on the lowest level of input that is significant to the fair value measurement. Eversource evaluates the classification of assets and liabilities measured at fair value on a quarterly basis, and Eversource's policy is to recognize transfers between levels of the fair value hierarchy as of the end of the reporting period. The three levels of the fair value hierarchy are described below:

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - Inputs are quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which all significant inputs are observable.

Level 3 - Quoted market prices are not available. Fair value is derived from valuation techniques in which one or more significant inputs or assumptions are unobservable. Where possible, valuation techniques incorporate observable market inputs that can be validated to external sources such as industry exchanges, including prices of energy and energy-related products.

Uncategorized - Investments that are measured at net asset value are not categorized within the fair value hierarchy.

*Determination of Fair Value:* The valuation techniques and inputs used in Eversource's fair value measurements are described in Note 4, "Derivative Instruments," Note 5, "Marketable Securities," Note 6, "Asset Retirement Obligations," Note 10A, "Employee Benefits – Pension Benefits and Postretirement Benefits Other Than Pension," Note 15, "Fair Value of Financial Instruments" and Note 24B, "Acquisition of Aquarion and Goodwill - Goodwill" to the financial statements.

#### **J. Derivative Accounting**

Many of the electric and natural gas companies' contracts for the purchase and sale of energy or energy-related products are derivatives. The accounting treatment for energy contracts entered into varies and depends on the intended use of the particular contract and on whether or not the contract is a derivative. For the regulated companies, regulatory assets or regulatory liabilities are recorded to offset the fair values of derivative contracts related to energy and energy-related products, as contract settlements are recovered from, or refunded to, customers in future rates.

The application of derivative accounting is complex and requires management judgment in the following respects: identification of derivatives and embedded derivatives, election and designation of a contract as normal, and determination of the fair value of derivative contracts. All of these judgments can have a significant impact on the financial statements.

The judgment applied in the election of a contract as normal (and resulting accrual accounting) includes the conclusion that it is probable at the inception of the contract and throughout its term that it will result in physical delivery of the underlying product and that the quantities will be used or sold by the business in the normal course of business. If facts and circumstances change and management can no longer support this conclusion, then a contract cannot be considered normal, accrual accounting is terminated, and fair value accounting is applied prospectively.

The fair value of derivative contracts is based upon the contract terms and conditions and the underlying market price or fair value per unit. When quantities are not specified in the contract, the Company determines whether the contract has a determinable quantity by using amounts referenced in default provisions and other relevant sections of the contract. The fair value of derivative assets and liabilities with the same counterparty are offset and recorded as a net derivative asset or liability on the balance sheets.

All changes in the fair value of derivative contracts are recorded as regulatory assets or liabilities and do not impact net income.

For further information regarding derivative contracts, see Note 4, "Derivative Instruments," to the financial statements.

#### **K. Investments**

Investments are included in Other Long-Term Assets on the balance sheets and earnings impacts from these equity investments are included in Other Income, Net on the statements of income.

*Strategic, Infrastructure and Other Investments:* As of December 31, 2018 and 2017, Eversource had investments totaling \$463.7 million and \$277.6 million, respectively. As of December 31, 2018 and 2017, Eversource's investments included a 50 percent ownership in Bay State Wind, an offshore wind project of \$234.3 million and \$30.2 million, respectively, a 15 percent ownership interest in a FERC-regulated natural gas transmission business of \$155.0 million and \$159.6 million, respectively, a 37.2 percent (14.5 percent of which related to NSTAR Electric) ownership interest in two companies that transmit hydro-electricity imported from the Hydro-Quebec system in Canada of \$19.5 million and \$17.7 million, respectively, other investments totaling \$54.9 million and \$38.8 million, respectively, and a 40 percent ownership interest in Access Northeast of \$31.3 million as of December 31, 2017. NSTAR Electric's investments totaled \$7.6 million and \$6.9 million, respectively, as of December 31, 2018 and 2017.

Impairment of Access Northeast: Access Northeast is a natural gas pipeline and storage project jointly owned by Eversource, Enbridge, Inc. ("Enbridge") and National Grid plc ("National Grid"), through Algonquin Gas Transmission, LLC ("AGT"). Equity method investments are assessed for impairment when conditions exist that indicate that the fair value of the investment is less than book value. If the decline in value is considered to be other-than-temporary, the investment is written down to its estimated fair value, which establishes a new cost basis in the investment. Impairment evaluations involve a significant degree of judgment and estimation, including identifying circumstances that indicate an impairment may exist and developing undiscounted future cash flows.

In 2015 and 2016, AGT sought to secure long-term natural gas pipeline capacity contracts with EDCs in Massachusetts, Connecticut, New Hampshire, Maine, and Rhode Island. Subsequently, in 2016, the Massachusetts Supreme Judicial Court and the NHPUC each ruled that state statutes precluded the state regulatory agencies from approving those contracts in Massachusetts and New Hampshire, respectively. The New Hampshire Supreme Court overruled the NHPUC decision in May 2018. Legislative changes are needed in Massachusetts to allow the DPU to approve natural gas pipeline capacity contracts. No such changes have occurred during any legislative session to date.

In September 2018, a series of non-Eversource natural gas explosions in eastern Massachusetts resulted in widespread property and system damage, personal injuries, and a fatality. As a result of these events, compounded by the failure to secure Massachusetts legislation to date, we believe there is significant uncertainty around the future timing of, and ability to secure, needed legislative change affecting the natural gas industry and pipeline expansion, which may significantly delay the completion of the Access Northeast project.

Eversource identified the September 2018 natural gas series of explosions, compounded by the adverse legislative environment, as negative evidence that indicated potential impairment. Our impairment assessment used a discounted cash flow approach, including consideration of the severity and duration of any decline in fair value of our investment in the project, and involved significant management judgment and estimation, including projections of the project's discounted cash flows and assumptions about exit price. In the third quarter of 2018, management determined that the future cash flows of the Access Northeast project were uncertain and could no longer be reasonably estimated and that the book value of our equity method investment was not recoverable. As a result, Eversource recorded an other-than-temporary impairment of \$32.9 million within Other Income, Net on our statement of income in 2018, which represented the full carrying value of our equity method investment.

*Regional Decommissioned Nuclear Companies* : CL&P, NSTAR Electric and PSNH own common stock in three regional nuclear generation companies (CYAPC, YAEC and MYAPC, collectively referred to as the "Yankee Companies"), each of which owned a single nuclear generating facility that has been decommissioned. For CL&P, NSTAR Electric and PSNH, the respective investments in CYAPC, YAEC and MYAPC are accounted for under the equity method and are included in Other Long-Term Assets on their respective balance sheets. For CL&P, NSTAR Electric and PSNH, these investments totaled \$1.3 million, \$0.9 million and \$0.3 million as of both December 31, 2018 and 2017. Eversource consolidates CYAPC and YAEC because CL&P's, NSTAR Electric's and PSNH's combined ownership and voting interests in each of these entities is greater than 50 percent. For further information on the Yankee Companies, see Note 12C, "Commitments and Contingencies – Spent Nuclear Fuel Obligations – Yankee Companies," to the financial statements.

*Equity in Earnings and Dividends from Equity Method Investments*: For the years ended December 31, 2018, 2017 and 2016, Eversource had equity in earnings, net of impairment, of unconsolidated affiliates of \$3.8 million, \$27.4 million, and \$0.2 million, respectively. Eversource received dividends from its equity method investees of \$22.3 million, \$20.0 million and \$0.1 million, respectively, for the years ended December 31, 2018, 2017 and 2016.

*2019 Investment - Revolution Wind and South Fork Wind*: On February 8, 2019, Eversource and Ørsted entered into a 50-50 partnership for key offshore wind assets in the Northeast. Eversource paid approximately \$ 225 million for a 50 percent interest in Ørsted's Revolution Wind and South Fork Wind power projects, as well as the 257-square-mile tract off the coasts of Massachusetts and Rhode Island, owned by North East Offshore LLC. Upon execution of the transaction, Eversource parent issued a guaranty on behalf of its subsidiary, Eversource Investment LLC. Eversource parent will guarantee, as a primary obligor, the financial obligations, primarily all post-Closing payment obligations of Eversource Investment LLC, under the Sale and Purchase Agreement and an Irrevocable Equity Commitment Letter with Ørsted in an amount not to exceed \$ 127.6 million. Eversource parent's obligations under the guaranty expire upon the full, final and indefeasible payment of the guaranteed obligations.

#### L. Operating Expenses

Costs related to fuel and natural gas included in Purchased Power, Fuel and Transmission on the statements of income were as follows:

(Millions of Dollars)	For the Years Ended December 31,		
	2018	2017	2016
Eversource - Natural Gas and Fuel	\$ 442.6	\$ 432.5	\$ 372.2
PSNH - Fuel	7.9	43.4	45.0

PSNH completed the sale of its generation assets in 2018.

#### M. Allowance for Funds Used During Construction

AFUDC represents the cost of borrowed and equity funds used to finance construction and is included in the cost of the electric, natural gas and water companies' utility plant on the balance sheet. The portion of AFUDC attributable to borrowed funds is recorded as a reduction of Interest Expense, and the AFUDC related to equity funds is recorded as Other Income, Net on the statements of income. AFUDC costs are recovered from customers over the service life of the related plant in the form of increased revenue collected as a result of higher depreciation expense.

The average AFUDC rate is based on a FERC-prescribed formula using the cost of a company's short-term financings and capitalization (preferred stock, long-term debt and common equity), as appropriate. The average rate is applied to average eligible CWIP amounts to calculate AFUDC.

AFUDC costs and the weighted-average AFUDC rates were as follows:

Eversource	For the Years Ended December 31,		
	2018	2017	2016
(Millions of Dollars, except percentages)			
Borrowed Funds	\$ 19.7	\$ 12.5	\$ 10.8
Equity Funds	44.0	34.4	26.2
Total AFUDC	\$ 63.7	\$ 46.9	\$ 37.0
Average AFUDC Rate	4.9%	5.1%	4.4%

<i>(Millions of Dollars, except percentages)</i>	For the Years Ended December 31,								
	2018			2017			2016		
	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH
Borrowed Funds	\$ 6.3	\$ 7.8	\$ 1.3	\$ 5.1	\$ 4.8	\$ 0.7	\$ 3.3	\$ 5.3	\$ 0.8
Equity Funds	12.2	15.6	—	12.1	10.2	—	6.3	10.2	0.3
Total AFUDC	\$ 18.5	\$ 23.4	\$ 1.3	\$ 17.2	\$ 15.0	\$ 0.7	\$ 9.6	\$ 15.5	\$ 1.1
Average AFUDC Rate	5.8%	5.0%	0.7%	6.2%	5.0%	0.7%	4.7%	3.2%	1.0%

## N. Other Income, Net

The components of Other Income, Net on the statements of income were as follows:

<i>(Millions of Dollars)</i>	For the Years Ended December 31,		
	2018	2017	2016
Pension, SERP and PBOP Non-Service Income Components <sup>(1)</sup>	\$ 60.8	\$ 29.9	\$ 18.6
AFUDC Equity	44.0	34.4	26.2
Equity in Earnings, Net of Impairment <sup>(2)</sup>	3.8	27.4	0.2
Investment Income/(Loss)	(4.0)	7.5	8.5
Interest Income <sup>(3)</sup>	18.1	8.3	11.0
Gains on Sales of Property	5.1	—	—
Other	0.6	0.4	—
Total Other Income, Net <sup>(1)</sup>	\$ 128.4	\$ 107.9	\$ 64.5

<i>(Millions of Dollars)</i>	For the Years Ended December 31,								
	2018			2017			2016		
	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH
Pension, SERP and PBOP Non-Service Income Components <sup>(1)</sup>	\$ 9.5	\$ 36.0	\$ 9.9	\$ 1.8	\$ 19.2	\$ 5.9	\$ 0.7	\$ 10.5	\$ 6.2
AFUDC Equity	12.2	15.6	—	12.1	10.2	—	6.3	10.2	0.3
Equity in Earnings	0.1	0.7	—	—	0.3	—	0.1	0.3	—
Investment Income/(Loss)	(3.0)	(0.5)	(0.8)	4.5	2.6	1.6	(1.5)	(0.3)	(0.7)
Interest Income <sup>(3)</sup>	3.7	0.8	14.1	4.6	1.8	2.2	8.6	0.6	1.8
Gain on Sale of Property	—	0.5	4.4	—	—	—	—	—	—
Other	0.2	—	0.1	—	—	0.1	—	—	—
Total Other Income, Net <sup>(1)</sup>	\$ 22.7	\$ 53.1	\$ 27.7	\$ 23.0	\$ 34.1	\$ 9.8	\$ 14.2	\$ 21.3	\$ 7.6

<sup>(1)</sup> As a result of the adoption of new accounting guidance, the non-service related components of pension, SERP and PBOP benefit costs are presented as non-operating income and recorded in Other Income, Net on the statements of income. The 2017 and 2016 amounts, which were previously presented within Operations and Maintenance expense on the statements of income, have been retrospectively presented within Other Income, Net for the years ended December 31, 2017 and 2016. Eversource elected the practical expedient in the accounting guidance that allows the Company to use the amounts disclosed in its Pension Benefits and Postretirement Benefits Other Than Pension footnote for the prior period presentations as the estimation basis for applying the retrospective presentation requirements.

<sup>(2)</sup> For the year ended December 31, 2018, equity in earnings, net of impairment, of unconsolidated affiliates includes an other-than-temporary impairment of \$32.9 million in the Access Northeast project investment. See Note 1K, "Summary of Significant Accounting Policies - Investments," for further information. Equity in earnings includes \$17.6 million and \$9.7 million of unrealized gains in 2018 and 2017, respectively, and \$1.7 million of unrealized losses in 2016 associated with an equity method investment in a renewable energy fund.

<sup>(3)</sup> See Note 2, "Regulatory Accounting," for interest income recognized in 2018 for the equity return component of carrying charges on storm costs at PSNH.

## O. Other Taxes

Eversource's companies that serve customers in Connecticut collect gross receipts taxes levied by the state of Connecticut from their customers. These gross receipts taxes are recorded separately with collections in Operating Revenues and with payments in Taxes Other Than Income Taxes on the statements of income as follows:

<i>(Millions of Dollars)</i>	For the Years Ended December 31,		
	2018	2017	2016
Eversource	\$ 161.9	\$ 157.4	\$ 162.7
CL&P	141.4	137.5	145.2

As agents for state and local governments, Eversource's companies that serve customers in Connecticut and Massachusetts collect certain sales taxes that are recorded on a net basis with no impact on the statements of income.

Separate from the amounts above are \$46.8 million and \$25.4 million of amounts recorded as Taxes Other than Income Taxes in 2018 and 2017, respectively, related to the future remittance to the State of Connecticut of energy efficiency funds collected from customers in Operating Revenues. These amounts are recorded separately with collections in Operating Revenues and expenses in Taxes Other than Income Taxes on the Eversource and CL&P statements of income.

## P. Supplemental Cash Flow Information

Eversource (Millions of Dollars)	As of and For the Years Ended December 31,		
	2018	2017	2016
Cash Paid/(Received) During the Year for:			
Interest, Net of Amounts Capitalized	\$ 503.2	\$ 419.1	\$ 398.1
Income Taxes	158.8	30.8	(135.5)
Non-Cash Investing Activities:			
Plant Additions Included in Accounts Payable (As of)	435.9	379.5	301.5

(Millions of Dollars)	As of and For the Years Ended December 31,								
	2018			2017			2016		
	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH
Cash Paid/(Received) During the Year for:									
Interest, Net of Amounts Capitalized	\$ 149.7	\$ 122.1	\$ 40.5	\$ 144.6	\$ 124.6	\$ 45.9	\$ 143.3	\$ 112.9	\$ 46.5
Income Taxes	66.1	120.0	27.3	68.8	95.5	26.1	(73.9)	66.0	(36.0)
Non-Cash Investing Activities:									
Plant Additions Included in Accounts Payable (As of)	106.1	116.5	81.7	132.5	116.5	44.4	116.2	87.0	37.9

In December 2018, CYAPC paid \$145 million to the DOE to partially settle its pre-1983 spent nuclear fuel obligation. In 2016, as a result of damages awarded to the Yankee Companies for spent nuclear fuel lawsuits against the DOE described in Note 12C, "Commitments and Contingencies – Spent Nuclear Fuel Obligations – Yankee Companies," CYAPC and YAEC received total proceeds of \$52.2 million, which were classified as operating activities on the Eversource consolidated statements of cash flows. CYAPC returned \$6.8 million of these proceeds to its non-affiliated member companies. In addition, CL&P, NSTAR Electric and PSNH received a total distribution of \$14.4 million from MYAPC as a result of DOE Phase III proceeds and a distribution from its spent nuclear fuel trust.

The following table reconciles cash and cash equivalents as reported on the balance sheets to the cash, cash equivalents, and restricted cash as reported on the statements of cash flows:

(Millions of Dollars)	As of December 31,							
	2018				2017			
	Eversource	CL&P	NSTAR Electric	PSNH	Eversource	CL&P	NSTAR Electric	PSNH
Cash and Cash Equivalents as reported on the Balance Sheets	\$ 108.1	\$ 87.7	\$ 1.6	\$ 1.4	\$ 38.2	\$ 6.0	\$ 1.8	\$ 0.9
Restricted cash included in:								
Prepayments and Other Current Assets	72.1	3.5	13.0	47.5	24.4	3.1	12.8	0.5
Marketable Securities	25.9	0.4	0.1	0.6	23.3	0.5	0.1	0.8
Other Long-Term Assets	3.2	—	—	3.2	—	—	—	—
Cash, Cash Equivalents, and Restricted Cash reported on the Statements of Cash Flows	\$ 209.3	\$ 91.6	\$ 14.7	\$ 52.7	\$ 85.9	\$ 9.6	\$ 14.7	\$ 2.2

Restricted cash included in Prepayments and Other Current Assets and Other Long-Term Assets, shown above, primarily represents cash collections related to the PSNH RRB customer charges that are held in trust and required ISO-NE cash deposits. Restricted cash included in Marketable Securities, shown above, represents money market funds held in trusts to fund certain non-qualified executive benefits and restricted trusts to fund CYAPC and YAEC's spent nuclear fuel storage facilities obligations.

As a result of implementing new accounting guidance for the statement of cash flows, the reclassification of the change in restricted cash balances, which was previously classified as operating activities, resulted in a decrease of \$28.8 million in the total cash and restricted cash change for the year ended December 31, 2017 and an increase of \$32.4 million in the total cash and restricted cash change for the year ended December 31, 2016.

## Q. Related Parties

Eversource Service, Eversource's service company, provides centralized accounting, administrative, engineering, financial, information technology, legal, operational, planning, purchasing, and other services to Eversource's companies. The Rocky River Realty Company, Renewable Properties, Inc. and Properties, Inc., three other Eversource subsidiaries, construct, acquire or lease some of the property and facilities used by Eversource's companies.

As of both December 31, 2018 and 2017, CL&P, NSTAR Electric and PSNH had long-term receivables from Eversource Service in the amounts of \$25.0 million, \$5.5 million and \$3.8 million, respectively, which were included in Other Long-Term Assets on the balance sheets. These amounts related to the funding of investments held in trust by Eversource Service in connection with certain postretirement benefits for CL&P, NSTAR Electric and PSNH employees and have been eliminated in consolidation on the Eversource financial statements.

Included in the CL&P, NSTAR Electric and PSNH balance sheets as of December 31, 2018 and 2017 were Accounts Receivable from Affiliated Companies and Accounts Payable to Affiliated Companies relating to transactions between CL&P, NSTAR Electric and PSNH and other subsidiaries that are wholly-owned by Eversource. These amounts have been eliminated in consolidation on the Eversource financial statements.

## 2. REGULATORY ACCOUNTING

Eversource's utility companies are subject to rate regulation that is based on cost recovery and meets the criteria for application of accounting guidance for rate-regulated operations, which considers the effect of regulation on the timing of the recognition of certain revenues and expenses. The regulated companies' financial statements reflect the effects of the rate-making process. The rates charged to the customers of Eversource's regulated companies are designed to collect each company's costs to provide service, including a return on investment.

Management believes it is probable that each of the regulated companies will recover its respective investments in long-lived assets, including regulatory assets. If management were to determine that it could no longer apply the accounting guidance applicable to rate-regulated enterprises to any of the regulated companies' operations, or if management could not conclude it is probable that costs would be recovered from customers in future rates, the costs would be charged to net income in the period in which the determination is made.

*Regulatory Assets:* The components of regulatory assets were as follows:

(Millions of Dollars)	As of December 31,							
	2018				2017			
	Eversource	CL&P	NSTAR Electric	PSNH	Eversource	CL&P	NSTAR Electric	PSNH
Benefit Costs	\$ 1,914.8	\$ 424.7	\$ 544.4	\$ 169.6	\$ 2,068.8	\$ 469.2	\$ 560.7	\$ 212.3
Income Taxes, Net	728.6	454.4	105.9	8.3	768.9	453.8	113.2	21.7
Securitized Stranded Costs	608.4	—	—	608.4	—	—	—	—
Deferred Costs from Generation Asset Sale	—	—	—	—	516.1	—	—	516.1
Storm Restoration Costs, Net	576.0	302.6	212.9	60.5	404.8	216.7	146.6	41.5
Regulatory Tracker Mechanisms	316.0	33.2	169.1	67.3	509.9	85.3	273.0	116.4
Derivative Liabilities	356.5	356.5	—	—	367.2	362.3	—	—
Goodwill-related	348.4	—	299.1	—	365.2	—	313.6	—
Asset Retirement Obligations	89.2	32.3	42.2	3.3	101.0	30.3	39.0	17.0
Other Regulatory Assets	208.0	27.0	64.6	12.1	137.4	27.6	78.4	15.8
<b>Total Regulatory Assets</b>	<b>5,145.9</b>	<b>1,630.7</b>	<b>1,438.2</b>	<b>929.5</b>	<b>5,239.3</b>	<b>1,645.2</b>	<b>1,524.5</b>	<b>940.8</b>
Less: Current Portion	514.8	125.2	241.7	67.2	741.9	200.3	333.9	130.1
<b>Total Long-Term Regulatory Assets</b>	<b>\$ 4,631.1</b>	<b>\$ 1,505.5</b>	<b>\$ 1,196.5</b>	<b>\$ 862.3</b>	<b>\$ 4,497.4</b>	<b>\$ 1,444.9</b>	<b>\$ 1,190.6</b>	<b>\$ 810.7</b>

**Benefit Costs:** Eversource's Pension, SERP and PBOP Plans are accounted for in accordance with accounting guidance on defined benefit pension and other PBOP plans. The liability (or asset) recorded by the regulated companies to recognize the funded status of their retiree benefit plans is offset by a regulatory asset (or offset by a regulatory liability in the case of a benefit plan asset) in lieu of a charge to Accumulated Other Comprehensive Income/(Loss), reflecting ultimate recovery from customers through rates. The regulatory asset (or regulatory liability) is amortized as the actuarial gains and losses and prior service cost are amortized to net periodic benefit cost for the pension and PBOP plans. All amounts are remeasured annually. Regulatory accounting is also applied to the portions of Eversource's service company costs that support the regulated companies, as these amounts are also recoverable. As these regulatory assets or regulatory liabilities do not represent a cash outlay for the regulated companies, no carrying charge is recovered from customers. The decrease in the regulatory asset balance at PSNH as of December 31, 2018 was due in part to the generation divestiture and the securitization of remaining generation costs.

CL&P, NSTAR Electric and PSNH recover benefit costs related to their distribution and transmission operations from customers in rates as allowed by their applicable regulatory commissions. NSTAR Electric recovers qualified pension and PBOP expenses related to its distribution operations through a rate reconciling mechanism that fully tracks the change in net pension and PBOP expenses each year.

**Income Taxes, Net:** The tax effect of temporary book-tax differences (differences between the periods in which transactions affect income in the financial statements and the periods in which they affect the determination of taxable income, including those differences relating to uncertain tax positions) is accounted for in accordance with the rate-making treatment of the applicable regulatory commissions and accounting guidance for income taxes. Differences in income taxes between the accounting guidance and the rate-making treatment of the applicable regulatory commissions are recorded as regulatory assets. As these assets are offset by deferred income tax liabilities, no carrying charge is collected. The amortization period of these assets varies depending on the nature and/or remaining life of the underlying assets and liabilities. For further information regarding income taxes, see Note 11, "Income Taxes," to the financial statements.

**Securitized Stranded Costs and Deferred Costs from Generation Asset Sale:** On May 8, 2018, a subsidiary of PSNH issued \$635.7 million of securitized RRBs to finance PSNH's unrecovered remaining costs associated with the divestiture of its generation assets. Securitized regulatory assets, which are not earning an equity return, are being recovered over the amortization period of the associated RRBs. The PSNH RRBs are expected to be repaid by February 1, 2033. The unrecovered costs related to the difference between the carrying value and the fair value less costs to sell PSNH's thermal generation assets, and were reflected as Deferred Costs from Generation Asset Sale in the table above as of December 31, 2017. As of December 31, 2018, these costs are reflected in the Securitized Stranded Costs balance. For further information, see Note 13, "Generation Asset Sale."

**Storm Restoration Costs, Net:** The storm restoration cost deferrals relate to costs incurred for storm events at CL&P, NSTAR Electric and PSNH that each company expects to recover from customers. A storm must meet certain criteria to qualify for deferral and recovery with the criteria specific to each state jurisdiction and utility company. Once a storm qualifies for recovery, all qualifying expenses incurred during storm restoration efforts are deferred and recovered from customers. Costs for storms that do not meet the specific criteria are expensed as incurred. In addition to storm restoration costs, CL&P and PSNH are each allowed to recover pre-staging storm costs. Management believes storm restoration costs deferred were prudently incurred and meet the criteria for specific cost recovery in Connecticut, Massachusetts and New Hampshire, and that recovery from customers is probable through the applicable regulatory recovery processes. Each electric utility company either recovers a carrying charge on its deferred storm restoration cost regulatory asset balance or the regulatory asset balance is included in rate base.

In 2018, several significant storms caused extensive damage to our electric distribution systems and significant customer outages across all three states. These storms resulted in deferred storm restoration costs of approximately \$266 million ( \$148 million for CL&P, \$94 million for NSTAR Electric, and \$24 million for PSNH), which were reflected in Storm Restoration Costs, Net in the table above as of December 31, 2018 .

On September 17, 2018, the NHPUC approved the recovery of \$49 million , plus carrying charges, in storm costs incurred from August 2011 through March 2013 and the transfer of funding from PSNH's major storm reserve to offset those costs. The costs of these storms (excluding the equity return component of the carrying charges) were deferred as regulatory assets, and the funding reserve collected from customers was accrued as a regulatory liability. The storm cost deferral is separate from the major storm funding reserve that is being collected from customers. As a result of the duration of time between incurring storm costs in August 2011 through March 2013 and final approval from the NHPUC in 2018, PSNH recognized \$8.7 million (pre-tax) for the equity return component of the carrying charges, which have been collected from customers, within Other Income, Net on our statement of income in 2018. Storm costs incurred from December 2013 through April 2016 have been audited by the NHPUC staff and are pending NHPUC approval.

**Regulatory Tracker Mechanisms:** The regulated companies' approved rates are designed to recover costs incurred to provide service to customers. The regulated companies recover certain of their costs on a fully-reconciling basis through regulatory commission-approved tracking mechanisms. The differences between the costs incurred (or the rate recovery allowed) and the actual revenues are recorded as regulatory assets (for undercollections) or as regulatory liabilities (for overcollections) to be included in future customer rates each year. Carrying charges are recovered in rates on all material regulatory tracker mechanisms.

CL&P, NSTAR Electric and PSNH each recover, on a fully reconciling basis, the costs associated with the procurement of energy, transmission related costs from FERC-approved transmission tariffs, energy efficiency programs, low income assistance programs, certain uncollectible accounts receivable for hardship customers, and restructuring and stranded costs as a result of deregulation, and additionally for the Massachusetts utilities, pension and PBOP benefits and net metering for distributed generation. Energy procurement costs at NSTAR Electric include the costs related to its solar power facilities.

CL&P, NSTAR Electric (effective February 1, 2018 as a result of a DPU-approved rate case decision), Yankee Gas (effective November 15, 2018 as a result of a PURA-approved rate case settlement agreement) and NSTAR Gas each have a regulatory commission approved revenue decoupling mechanism. Distribution revenues are decoupled from customer sales volumes, where applicable, which breaks the relationship between sales volumes and revenues recognized. Each company reconciles its annual base distribution rate recovery amount to the pre-established levels of baseline distribution delivery service revenues. Any difference between the allowed level of distribution revenue and the actual amount realized during a 12-month period is adjusted through rates in the following period.

**Derivative Liabilities:** Regulatory assets are recorded as an offset to derivative liabilities and relate to the fair value of contracts used to purchase energy and energy-related products that will be recovered from customers in future rates. These assets are excluded from rate base and are being recovered as the actual settlements occur over the duration of the contracts. See Note 4, "Derivative Instruments," to the financial statements for further information on these contracts.

**Goodwill-related:** The goodwill regulatory asset originated from a 1999 transaction, and the DPU allowed its recovery in NSTAR Electric and NSTAR Gas rates. This regulatory asset is currently being amortized and recovered from customers in rates without a carrying charge over a 40 -year period, and as of December 31, 2018 , there were 21 years of amortization remaining.

**Asset Retirement Obligations:** The costs associated with the depreciation of the regulated companies' ARO assets and accretion of the ARO liabilities are recorded as regulatory assets in accordance with regulatory accounting guidance. The regulated companies' ARO assets, regulatory assets and liabilities offset and are excluded from rate base. These costs are being recovered over the life of the underlying property, plant and equipment.

**Other Regulatory Assets:** Other Regulatory Assets primarily include contractual obligations associated with the remaining nuclear fuel storage costs of the CYAPC, YAEC and MYAPC nuclear facilities, environmental remediation costs, losses associated with the reacquisition or redemption of long-term debt, certain uncollectible accounts receivable for hardship customers, certain merger-related costs allowed for recovery, water tank painting costs, and various other items.

**Regulatory Costs in Long-Term Assets:** Eversource's regulated companies had \$122.9 million (including \$42.1 million for CL&P, \$49.3 million for NSTAR Electric and \$12.2 million for PSNH) and \$105.8 million (including \$18.2 million for CL&P, \$42.7 million for NSTAR Electric and \$27.2 million for PSNH) of additional regulatory costs as of December 31, 2018 and 2017, respectively, that were included in long-term assets on the balance sheets. These amounts represent incurred costs for which recovery has not yet been specifically approved by the applicable regulatory agency. However, based on regulatory policies or past precedent on similar costs, management believes it is probable that these costs will ultimately be approved and recovered from customers in rates.

**Equity Return on Regulatory Assets:** For rate-making purposes, the regulated companies recover the carrying costs related to their regulatory assets. For certain regulatory assets, the carrying cost recovered includes an equity return component. This equity return, which is not recorded on the balance sheets, totaled \$0.7 million and \$1.0 million for CL&P as of December 31, 2018 and 2017, respectively. These carrying costs will be recovered from customers in future rates. As of December 31, 2018 and 2017, this equity return, which is not recorded on the balance sheets, totaled \$12.0 million and \$42.0 million, respectively, for PSNH. The 2017 amount included \$25 million of equity return on the Clean Air Project costs that PSNH had agreed not to bill customers as part of the generation divestiture settlement agreement. PSNH sold its generation assets in 2018.

**Regulatory Liabilities:** The components of regulatory liabilities were as follows:

(Millions of Dollars)	As of December 31,							
	2018				2017			
	Eversource	CL&P	NSTAR Electric	PSNH	Eversource	CL&P	NSTAR Electric	PSNH
EDIT due to Tax Cuts and Jobs Act	\$ 2,883.0	\$ 1,031.0	\$ 1,103.7	\$ 396.4	\$ 2,882.0	\$ 1,031.6	\$ 1,087.9	\$ 405.1
Cost of Removal	521.0	39.9	307.1	22.1	502.1	23.2	293.8	37.9
Benefit Costs	91.2	—	76.9	—	132.3	—	112.6	—
Regulatory Tracker Mechanisms	309.0	89.5	163.7	48.3	136.7	34.6	77.8	5.0
AFUDC - Transmission	70.7	47.4	23.3	—	67.1	48.8	18.3	—
Revenue Subject to Refund due to Tax Cuts and Jobs Act	24.6	—	—	12.6	—	—	—	—
Other Regulatory Liabilities	80.2	24.0	29.2	4.2	45.2	12.9	3.7	2.7
Total Regulatory Liabilities	3,979.7	1,231.8	1,703.9	483.6	3,765.4	1,151.1	1,594.1	450.7
Less: Current Portion	370.2	109.6	190.6	55.5	128.1	39.0	79.6	6.3
Total Long-Term Regulatory Liabilities	\$ 3,609.5	\$ 1,122.2	\$ 1,513.3	\$ 428.1	\$ 3,637.3	\$ 1,112.1	\$ 1,514.5	\$ 444.4

**EDIT due to Tax Cuts and Jobs Act:** Pursuant to the "Tax Cuts and Jobs Act" (the "Act"), which became law on December 22, 2017, Eversource remeasured its existing deferred federal income tax balances as of December 31, 2017 to reflect the decrease in the U.S. federal corporate income tax rate from 35 percent to 21 percent. The remeasurement resulted in provisional regulated excess accumulated deferred income tax (excess ADIT or EDIT) liabilities that will benefit our customers in future periods and were recognized as regulatory liabilities on the balance sheet. We estimate that approximately 85 percent of the provisional regulated EDIT liabilities relate to property, plant, and equipment with remaining useful lives estimated to be in excess of 35 years. These amounts are subject to IRS normalization rules and will be returned to customers using the same timing as the remaining useful lives of the underlying assets that gave rise to the ADIT liabilities.

Eversource's regulated companies are in the process of, or will be, refunding the EDIT liabilities to customers based on orders issued by applicable state regulatory commissions. For CL&P, amounts related to the EDIT liabilities will be incorporated as refunds to customers in May 1, 2019 base distribution rates. For NSTAR Electric (effective January 1, 2019) and NSTAR Gas (effective February 1, 2019), refunds related to EDIT will occur in rates through a new reconciling factor. Effective November 15, 2018, Yankee Gas' distribution rates charged to customers began to reflect the refund of EDIT. For PSNH, EDIT refunds will be addressed as part of the next distribution rate case filing. The EDIT balance related to PSNH's divested generation assets has been included as a component of the securitization of the stranded generation assets and has started to be refunded to customers via the Stranded Cost Recovery Charge effective August 1, 2018. For our transmission companies, the refund of excess ADIT to customers will be made based on future guidance from FERC.

**Cost of Removal:** Eversource's regulated companies currently recover amounts in rates for future costs of removal of plant assets over the lives of the assets. The estimated cost to remove utility assets from service is recognized as a component of depreciation expense, and the cumulative amount collected from customers but not yet expended is recognized as a regulatory liability.

**AFUDC - Transmission:** Regulatory liabilities were recorded by CL&P and NSTAR Electric for AFUDC accrued on certain reliability-related transmission projects to reflect local rate base recovery. These regulatory liabilities will be amortized over the depreciable life of the related transmission assets.

**Revenue Subject to Refund due to Tax Cuts and Jobs Act:** Eversource established a regulatory liability, recorded as a reduction to revenue, to reflect the difference between the 35 percent federal corporate income tax rate included in rates charged to customers and the 21 percent federal corporate income tax rate, effective January 1, 2018 as a result of the Tax Cuts and Jobs Act, until rates billed to customers reflect the lower federal tax rate. Effective May 1, 2018, CL&P adjusted rates billed to customers to reflect the lower federal income tax rate prospectively and, as of December 31, 2018, fully refunded its regulatory liability associated with the higher federal corporate income tax rate billed to customers in the period between January 1, 2018 through April 30, 2018. Effective November 15, 2018, Yankee Gas adjusted distribution rates to reflect the lower federal income tax rate prospectively and to refund its regulatory liability associated with the higher federal corporate income tax rate billed to customers in the period between January 1, 2018 through November 14, 2018. Although Yankee Gas' new rates were effective January 1, 2019, the provisions of the settlement agreement took effect November 15, 2018. For NSTAR Electric and NSTAR Gas, a December 2018 DPU order indicated that the DPU will not require a revision to base rates for any potential refunds associated with the higher federal corporate income tax rate billed to customers in the period between January 1, 2018 to the effective dates of each company's rate changes (effective February 1, 2018 for NSTAR Electric and July 1, 2018 for NSTAR Gas). PSNH and Aquarion will refund the overcollection in distribution rates from January 1, 2018 to customers in a future period. PSNH will adjust distribution rates to reflect the prospective lower federal income tax rate effective July 1, 2019, or earlier if a rate case is filed for rates effective prior to July 1, 2019.

Effective January 1, 2018, local transmission service rates were updated to reflect the lower U.S. federal corporate income tax rate that resulted from the act. On June 28, 2018, FERC granted a one-time tariff waiver related to the federal corporate income tax rate so that effective June 1, 2018, the regional transmission service rates reflect the reduced federal corporate income tax rate at 21 percent. The refund of excess ADIT to customers will be made based on future guidance from FERC.

**FERC ROE Complaints:** As of December 31, 2018, Eversource has a reserve established for the second ROE complaint in the pending FERC ROE complaint proceedings, which was recorded as a regulatory liability and is reflected within Regulatory Tracker Mechanisms in the table above. The cumulative pre-tax reserve (excluding interest) as of December 31, 2018 totaled \$39.1 million for Eversource (including \$21.4 million for CL&P, \$14.6 million for NSTAR Electric and \$3.1 million for PSNH). See Note 12E, "Commitments and Contingencies – FERC ROE Complaints," for further information on developments in the pending ROE complaint proceedings.

### 3. PROPERTY, PLANT AND EQUIPMENT AND ACCUMULATED DEPRECIATION

Utility property, plant and equipment is recorded at original cost. Original cost includes materials, labor, construction overheads and AFUDC for regulated property. The cost of repairs and maintenance is charged to Operations and Maintenance expense as incurred.

The following tables summarize property, plant and equipment by asset category:

Eversource (Millions of Dollars)	As of December 31,	
	2018	2017
Distribution - Electric	\$ 15,071.1	\$ 14,410.5
Distribution - Natural Gas	3,546.2	3,244.2
Transmission - Electric	10,153.9	9,270.9
Distribution - Water	1,639.8	1,558.4
Solar	164.1	36.2
Utility	30,575.1	28,520.2
Other <sup>(1)</sup>	778.6	693.7
Property, Plant and Equipment, Gross	31,353.7	29,213.9
Less: Accumulated Depreciation		
Utility	(7,126.2)	(6,846.9)
Other	(336.7)	(286.9)
Total Accumulated Depreciation	(7,462.9)	(7,133.8)
Property, Plant and Equipment, Net	23,890.8	22,080.1
Construction Work in Progress	1,719.6	1,537.4
Total Property, Plant and Equipment, Net	\$ 25,610.4	\$ 23,617.5

As of December 31,

(Millions of Dollars)	2018			2017		
	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH
Distribution - Electric	\$ 6,176.4	\$ 6,756.4	\$ 2,178.6	\$ 5,888.3	\$ 6,479.0	\$ 2,083.4
Transmission - Electric	4,700.5	4,065.9	1,338.7	4,239.9	3,821.2	1,161.3
Solar	—	164.1	—	—	36.2	—
Property, Plant and Equipment, Gross	10,876.9	10,986.4	3,517.3	10,128.2	10,336.4	3,244.7
Less: Accumulated Depreciation	(2,302.6)	(2,702.0)	(772.9)	(2,239.0)	(2,550.2)	(751.8)
Property, Plant and Equipment, Net	8,574.3	8,284.4	2,744.4	7,889.2	7,786.2	2,492.9
Construction Work in Progress	335.4	510.3	135.7	381.8	460.3	149.4
Total Property, Plant and Equipment, Net	\$ 8,909.7	\$ 8,794.7	\$ 2,880.1	\$ 8,271.0	\$ 8,246.5	\$ 2,642.3

<sup>(1)</sup> These assets are primarily comprised of building improvements, computer software, hardware and equipment at Eversource Service.

Depreciation of utility assets is calculated on a straight-line basis using composite rates based on the estimated remaining useful lives of the various classes of property (estimated useful life for PSNH distribution and the water utilities). The composite rates, which are subject to approval by the appropriate state regulatory agency, include a cost of removal component, which is collected from customers over the lives of the plant assets and is recognized as a regulatory liability. Depreciation rates are applied to property from the time it is placed in service.

Upon retirement from service, the cost of the utility asset is charged to the accumulated provision for depreciation. The actual incurred removal costs are applied against the related regulatory liability.

The depreciation rates for the various classes of utility property, plant and equipment aggregate to composite rates as follows:

(Percent)	2018	2017	2016
Eversource	2.9%	3.0%	3.0%
CL&P	2.8%	2.8%	2.7%
NSTAR Electric	2.8%	2.9%	2.9%
PSNH	2.8%	3.1%	3.1%

The following table summarizes average remaining useful lives of depreciable assets:

(Years)	As of December 31, 2018			
	Eversource	CL&P	NSTAR Electric	PSNH
Distribution - Electric	34.1	35.4	33.7	32.3
Distribution - Natural Gas	43.8	—	—	—
Transmission - Electric	41.3	38.0	45.3	42.9
Distribution - Water	33.3	—	—	—
Solar	24.9	—	24.9	—
Other	12.9	—	—	—

#### 4. DERIVATIVE INSTRUMENTS

The electric and natural gas companies purchase and procure energy and energy-related products, which are subject to price volatility, for their customers. The costs associated with supplying energy to customers are recoverable from customers in future rates. These regulated companies manage the risks associated with the price volatility of energy and energy-related products through the use of derivative and non-derivative contracts.

Many of the derivative contracts meet the definition of, and are designated as, normal and qualify for accrual accounting under the applicable accounting guidance. The costs and benefits of derivative contracts that meet the definition of normal are recognized in Operating Expenses on the statements of income, as applicable, as electricity or natural gas is delivered.

Derivative contracts that are not designated as normal are recorded at fair value as current or long-term Derivative Assets or Derivative Liabilities on the balance sheets. For the electric and natural gas companies, regulatory assets or regulatory liabilities are recorded to offset the fair values of derivatives, as contract settlement amounts are recovered from, or refunded to, customers in their respective energy supply rates.

The gross fair values of derivative assets and liabilities with the same counterparty are offset and reported as net Derivative Assets or Derivative Liabilities, with current and long-term portions, on the balance sheets. The following table presents the gross fair values of contracts, categorized by risk type, and the net amounts recorded as current or long-term derivative assets or liabilities:

		As of December 31,						
		2018			2017			
(Millions of Dollars)	Fair Value Hierarchy	Commodity Supply and Price Risk Management	Netting <sup>(1)</sup>	Net Amount Recorded as a Derivative	Commodity Supply and Price Risk Management	Netting <sup>(1)</sup>	Net Amount Recorded as a Derivative	
<b>Current Derivative Assets:</b>								
	CL&P	Level 3	9.6	(3.4)	6.2	9.5	(7.1)	2.4
	Other	Level 2	\$ 1.5	\$ (0.9)	\$ 0.6	\$ —	\$ —	\$ —
<b>Long-Term Derivative Assets:</b>								
	CL&P	Level 3	74.2	(2.3)	71.9	71.9	(5.3)	66.6
<b>Current Derivative Liabilities:</b>								
	CL&P	Level 3	(55.1)	—	(55.1)	(54.4)	—	(54.4)
	Other	Level 2	—	—	—	(4.5)	—	(4.5)
<b>Long-Term Derivative Liabilities:</b>								
	CL&P	Level 3	(379.5)	—	(379.5)	(376.9)	—	(376.9)
	Other	Level 2	—	—	—	(0.4)	—	(0.4)

<sup>(1)</sup> Amounts represent derivative assets and liabilities that Eversource elected to record net on the balance sheets. These amounts are subject to master netting agreements or similar agreements for which the right of offset exists.

The business activities that result in the recognition of derivative assets also create exposure to various counterparties. As of December 31, 2018, Eversource's and CL&P's derivative assets were exposed to counterparty credit risk and contracted with investment grade entities.

For further information on the fair value of derivative contracts, see Note 11, "Summary of Significant Accounting Policies – Fair Value Measurements," and Note 1J, "Summary of Significant Accounting Policies – Derivative Accounting," to the financial statements.

#### Derivative Contracts at Fair Value with Offsetting Regulatory Amounts

*Commodity Supply and Price Risk Management* : As required by regulation, CL&P, along with UI, has capacity-related contracts with generation facilities. CL&P has a sharing agreement with UI, with 80 percent of the costs or benefits of each contract borne by or allocated to CL&P and 20 percent borne by or allocated to UI. The combined capacity of these contracts is 787 MW. The capacity contracts extend through 2026 and obligate both CL&P and UI to make or receive payments on a monthly basis to or from the generation facilities based on the difference between a set capacity price and the capacity market price received in the ISO-NE capacity markets. In addition, CL&P has a contract to purchase 0.1 million MWh of energy per year through 2020.

As of December 31, 2018 and 2017, Eversource had New York Mercantile Exchange ("NYMEX") financial contracts for natural gas futures in order to reduce variability associated with the price of 12.5 million and 9.5 million MMBtu of natural gas, respectively.

For the years ended December 31, 2018, 2017 and 2016, there were losses of \$25.0 million, \$29.0 million and \$125.5 million, respectively, deferred as regulatory costs, which reflect the change in fair value associated with Eversource's derivative contracts.

#### Fair Value Measurements of Derivative Instruments

Derivative contracts classified as Level 2 in the fair value hierarchy relate to the financial contracts for natural gas futures. Prices are obtained from broker quotes and are based on actual market activity. The contracts are valued using NYMEX natural gas prices. Valuations of these contracts also incorporate discount rates using the yield curve approach.

The fair value of derivative contracts classified as Level 3 utilizes significant unobservable inputs. The fair value is modeled using income techniques, such as discounted cash flow valuations adjusted for assumptions related to exit price. Significant observable inputs for valuations of these contracts include energy and energy-related product prices in future years for which quoted prices in an active market exist. Fair value measurements categorized in Level 3 of the fair value hierarchy are prepared by individuals with expertise in valuation techniques, pricing of energy and energy-related products, and accounting requirements. The future power and capacity prices for periods that are not quoted in an active market or established at auction are based on available market data and are escalated based on estimates of inflation in order to address the full term of the contract.

Valuations of derivative contracts using a discounted cash flow methodology include assumptions regarding the timing and likelihood of scheduled payments and also reflect non-performance risk, including credit, using the default probability approach based on the counterparty's credit rating for assets and the Company's credit rating for liabilities. Valuations incorporate estimates of premiums or discounts that would be required by a market participant to arrive at an exit price, using historical market transactions adjusted for the terms of the contract.

The following is a summary of CL&P's Level 3 derivative contracts and the range of the significant unobservable inputs utilized in the valuations over the duration of the contracts:

CL&P	As of December 31,											
	2018					2017						
	Range			Period Covered		Range			Period Covered			
Capacity Prices	\$	4.30	—	7.44	per kW-Month	2022 - 2026	\$	5.00	—	8.70	per kW-Month	2021 - 2026
Forward Reserve		0.75	—	1.78	per kW-Month	2019 - 2024		1.00	—	2.00	per kW-Month	2018 - 2024

Exit price premiums of 4.2 percent through 15.7 percent are also applied to these contracts and reflect the uncertainty and illiquidity premiums that would be required based on the most recent market activity available for similar type contracts.

Significant increases or decreases in future capacity or forward reserve prices in isolation would decrease or increase, respectively, the fair value of the derivative liability. Any increases in risk premiums would increase the fair value of the derivative liability. Changes in these fair values are recorded as a regulatory asset or liability and do not impact net income.

*Valuations using significant unobservable inputs:* The following table presents changes in the Level 3 category of derivative assets and derivative liabilities measured at fair value on a recurring basis. The derivative assets and liabilities are presented on a net basis.

CL&P (Millions of Dollars)	For the Years Ended December 31,	
	2018	2017
<u>Derivatives, Net:</u>		
Fair Value as of Beginning of Period	\$ (362.3)	\$ (420.5)
Net Realized/Unrealized Losses Included in Regulatory Assets and Liabilities	(32.0)	(9.5)
Settlements	37.8	67.7
Fair Value as of End of Period	\$ (356.5)	\$ (362.3)

## 5. MARKETABLE SECURITIES

Eversource holds marketable securities that are primarily used to fund certain non-qualified executive benefits. The trusts that hold marketable securities are not subject to regulatory oversight by state or federal agencies. CYAPC and YAEC maintain legally restricted trusts, each of which holds marketable securities, to fund the spent nuclear fuel removal obligations of their nuclear fuel storage facilities. In December 2018, CYAPC paid \$145 million from its trust to the DOE to partially settle the pre-1983 spent nuclear fuel obligation.

*Equity Securities:* In accordance with new accounting guidance, unrealized gains and losses on equity securities are recorded in Other Income, Net on the statements of income. The fair value of equity securities subject to this guidance as of December 31, 2018 and 2017 was \$ 44.0 million and \$52.5 million, respectively. For the year ended December 31, 2018, there were unrealized losses of \$4.3 million recorded in Other Income, Net related to these equity securities. For the year ended December 31, 2017, the unrealized gains and losses on these equity securities were recorded in Accumulated Other Comprehensive Income on the balance sheet. Dividend income is recorded in Other Income, Net when dividends are declared.

Eversource's equity securities also include CYAPC's and YAEC's marketable securities held in spent nuclear fuel trusts, which had fair values of \$ 200.0 million and \$261.3 million as of December 31, 2018 and 2017, respectively. Unrealized gains and losses for these spent nuclear fuel trusts are subject to regulatory accounting treatment and are recorded in Marketable Securities with the corresponding offset to Other Long-Term Liabilities on the balance sheets, with no impact on the statements of income.

*Available-for-Sale Debt Securities:* The following is a summary of the available-for-sale debt securities, which are recorded at fair value and are included in current and long-term Marketable Securities on the balance sheets.

Eversource (Millions of Dollars)	As of December 31,							
	2018				2017			
	Amortized Cost	Pre-Tax Unrealized Gains	Pre-Tax Unrealized Losses	Fair Value	Amortized Cost	Pre-Tax Unrealized Gains	Pre-Tax Unrealized Losses	Fair Value
Debt Securities	\$ 190.0	\$ 0.4	\$ (4.0)	\$ 186.4	\$ 284.9	\$ 3.2	\$ (1.1)	\$ 287.0

Eversource's debt securities include CYAPC's and YAEC's marketable securities held in spent nuclear fuel trusts in the amounts of \$143.9 million and \$242.3 million as of December 31, 2018 and 2017, respectively.

Unrealized gains and losses on available-for-sale debt securities held in Eversource's non-qualified benefit trust are recorded in Accumulated Other Comprehensive Income. There have been no significant unrealized losses, other-than-temporary impairments, or credit losses for the years ended December 31, 2018 or 2017. Factors considered in determining whether a credit loss exists include the duration and severity of the impairment, adverse conditions specifically affecting the issuer, and the payment history, ratings and rating changes of the security. For asset-backed debt securities, underlying collateral and expected future cash flows are also evaluated.

As of December 31, 2018, the contractual maturities of available-for-sale debt securities were as follows:

Eversource (Millions of Dollars)	Amortized Cost	Fair Value
Less than one year <sup>(1)</sup>	\$ 30.5	\$ 30.3
One to five years	29.2	28.9
Six to ten years	43.6	42.9
Greater than ten years	86.7	84.3
<b>Total Debt Securities</b>	<b>\$ 190.0</b>	<b>\$ 186.4</b>

<sup>(1)</sup> Amounts in the Less than one year category include securities in the CYAPC and YAEC spent nuclear fuel trusts, which are restricted and are classified in long-term Marketable Securities on the balance sheets.

**Realized Gains and Losses:** Realized gains and losses are recorded in Other Income, Net for Eversource's benefit trust and are offset in Other Long-Term Liabilities for CYAPC and YAEC. Eversource utilizes the specific identification basis method for the Eversource non-qualified benefit trust, and the average cost basis method for the CYAPC and YAEC spent nuclear fuel trusts to compute the realized gains and losses on the sale of marketable securities. For the year ended December 31, 2017, Eversource recognized net realized gains of \$9.8 million on the sales of available-for-sale securities held in the benefit trust. The proceeds of the sales were re-invested in the Eversource benefit trust. There were no similar sales for the year ended December 31, 2018.

**Fair Value Measurements:** The following table presents the marketable securities recorded at fair value on a recurring basis by the level in which they are classified within the fair value hierarchy:

Eversource (Millions of Dollars)	As of December 31,	
	2018	2017
<b>Level 1:</b>		
Mutual Funds and Equities	\$ 244.0	\$ 313.8
Money Market Funds	25.9	23.3
<b>Total Level 1</b>	<b>\$ 269.9</b>	<b>\$ 337.1</b>
<b>Level 2:</b>		
U.S. Government Issued Debt Securities (Agency and Treasury)	\$ 79.6	\$ 70.2
Corporate Debt Securities	39.5	50.9
Asset-Backed Debt Securities	14.0	21.2
Municipal Bonds	19.2	110.7
Other Fixed Income Securities	8.2	10.7
<b>Total Level 2</b>	<b>\$ 160.5</b>	<b>\$ 263.7</b>
<b>Total Marketable Securities</b>	<b>\$ 430.4</b>	<b>\$ 600.8</b>

U.S. government issued debt securities are valued using market approaches that incorporate transactions for the same or similar bonds and adjustments for yields and maturity dates. Corporate debt securities are valued using a market approach, utilizing recent trades of the same or similar instruments and also incorporating yield curves, credit spreads and specific bond terms and conditions. Asset-backed debt securities include collateralized mortgage obligations, commercial mortgage backed securities, and securities collateralized by auto loans, credit card loans or receivables. Asset-backed debt securities are valued using recent trades of similar instruments, prepayment assumptions, yield curves, issuance and maturity dates, and tranche information. Municipal bonds are valued using a market approach that incorporates reported trades and benchmark yields. Other fixed income securities are valued using pricing models, quoted prices of securities with similar characteristics, and discounted cash flows.

## 6. ASSET RETIREMENT OBLIGATIONS

Eversource, including CL&P, NSTAR Electric and PSNH, recognizes a liability for the fair value of an ARO on the obligation date if the liability's fair value can be reasonably estimated, even if it is conditional on a future event. Settlement dates and future costs are reasonably estimated when sufficient information becomes available. Management has identified various categories of AROs, primarily CYAPC's and YAEC's obligation to dispose of spent nuclear fuel and high level waste, and also certain assets containing asbestos and hazardous contamination. Management has performed fair value calculations reflecting expected probabilities for settlement scenarios.

The fair value of an ARO is recorded as a liability in Other Long-Term Liabilities with a corresponding amount included in Property, Plant and Equipment, Net on the balance sheets. The ARO assets are depreciated, and the ARO liabilities are accreted over the estimated life of the obligation and the corresponding credits are recorded as accumulated depreciation and ARO liabilities, respectively. As the electric and natural gas companies are rate-regulated on a cost-of-service basis, these companies apply regulatory accounting guidance and both the depreciation and accretion costs associated with these companies' AROs are recorded as increases to Regulatory Assets on the balance sheets.

A reconciliation of the beginning and ending carrying amounts of ARO liabilities is as follows:

(Millions of Dollars)	As of December 31,							
	2018				2017			
	Eversource	CL&P	NSTAR Electric	PSNH	Eversource	CL&P	NSTAR Electric	PSNH
Balance as of Beginning of Year	\$ 419.1	\$ 31.5	\$ 44.6	\$ 25.0	\$ 426.4	\$ 36.0	\$ 42.6	\$ 23.5
Liabilities Incurred During the Year	11.3	—	11.3	—	0.2	0.1	0.1	—
Liabilities Settled During the Year	(36.6)	—	—	(21.5)	(19.3)	(1.0)	(0.2)	—
Accretion	25.5	2.0	2.2	0.5	26.3	2.3	2.1	1.5
Revisions in Estimated Cash Flows	46.9	—	14.3	—	(14.5)	(5.9)	—	—
Balance as of End of Year	\$ 466.2	\$ 33.5	\$ 72.4	\$ 4.0	\$ 419.1	\$ 31.5	\$ 44.6	\$ 25.0

Eversource's amounts include CYAPC and YAEC's AROs of \$339.9 million and \$301.5 million as of December 31, 2018 and 2017, respectively. The fair value of the ARO for CYAPC and YAEC includes uncertainties of the fuel off-load dates related to the DOE's timing of performance regarding its obligation to dispose of the spent nuclear fuel and high level waste and other assumptions, including discount rates. The incremental asset recorded as an offset to the ARO liability was fully depreciated since the plants have no remaining useful life. Any changes in the ARO liability are recorded with a corresponding offset to the related regulatory asset. The assets held in the CYAPC and YAEC spent nuclear fuel trusts are restricted for settling the ARO and all other nuclear fuel storage obligations. For further information on the assets held in the spent nuclear fuel trusts, see Note 5, "Marketable Securities," to the financial statements.

The increase in the ARO balance at NSTAR Electric for the year ended December 31, 2018 was due to the recording of new liabilities associated with new solar sites placed into service and the replacement of certain distribution cables, and revised remediation costs for existing AROs related to asbestos and hazardous contamination. The decrease in the ARO balance at PSNH for the year ended December 31, 2018 was a result of the generation divestiture and the securitization of remaining generation costs. See Note 13, "Generation Asset Sale," to the financial statements for further information on the PSNH generation divestiture.

## 7. SHORT-TERM DEBT

*Short-Term Debt Borrowing Limits:* The amount of short-term borrowings that may be incurred by CL&P, NSTAR Electric and NPT is subject to periodic approval by the FERC. Because the NHPUC has jurisdiction over PSNH's short-term debt, PSNH is not currently required to obtain FERC approval for its short-term borrowings. On November 30, 2017, the FERC granted authorization that allows CL&P to issue total short-term borrowings in an aggregate principal amount not to exceed \$600 million outstanding at any one time, through December 31, 2019. On November 30, 2017, the FERC granted authorization that allows NSTAR Electric to issue total short-term borrowings in an aggregate principal amount not to exceed \$655 million outstanding at any one time, through December 30, 2019. On December 3, 2018, FERC authorized NPT to issue up to an aggregate of \$800 million in short-term debt and long-term debt through December 31, 2020.

PSNH is authorized by regulation of the NHPUC to incur short-term borrowings up to 10 percent of net fixed plant plus an additional \$60 million until further ordered by the NHPUC. As of December 31, 2018, PSNH's short-term debt authorization under the 10 percent of net fixed plant test plus \$60 million totaled approximately \$331 million.

CL&P's certificate of incorporation contains preferred stock provisions restricting the amount of unsecured debt that CL&P may incur, including limiting unsecured indebtedness with a maturity of less than 10 years to 10 percent of total capitalization. As of December 31, 2018, CL&P had \$758.1 million of unsecured debt capacity available under this authorization.

Yankee Gas and NSTAR Gas are not required to obtain approval from any state or federal authority to incur short-term debt.

*Commercial Paper Programs and Credit Agreements:* Eversource parent has a \$1.45 billion commercial paper program allowing Eversource parent to issue commercial paper as a form of short-term debt. Eversource parent, CL&P, PSNH, NSTAR Gas and Yankee Gas are also parties to a five-year \$1.45 billion revolving credit facility. Effective December 10, 2018, the revolving credit facility's termination date was extended for one additional year to December 8, 2023. The revolving credit facility serves to backstop Eversource parent's \$1.45 billion commercial paper program.

NSTAR Electric has a \$650 million commercial paper program allowing NSTAR Electric to issue commercial paper as a form of short-term debt. NSTAR Electric is also a party to a five-year \$650 million revolving credit facility. Effective December 10, 2018, the revolving credit facility's termination date was extended for one additional year to December 8, 2023. The revolving credit facility serves to backstop NSTAR Electric's \$650 million commercial paper program.

The amount of borrowings outstanding and available under the commercial paper programs were as follows:

(Millions of Dollars)	Borrowings Outstanding as of December 31,		Available Borrowing Capacity as of December 31,		Weighted-Average Interest Rate as of December 31,	
	2018	2017	2018	2017	2018	2017
	Eversource Parent Commercial Paper Program	\$ 631.5	\$ 979.3	\$ 818.5	\$ 470.7	2.77%
NSTAR Electric Commercial Paper Program	278.5	234.0	371.5	416.0	2.50%	1.55%

There were no borrowings outstanding on either the Eversource parent or NSTAR Electric revolving credit facilities as of December 31, 2018 or 2017. Eversource's water distribution segment has a \$100.0 million revolving credit facility, which expires on August 19, 2019, and there were no amounts outstanding as of December 31, 2018 and \$76.0 million outstanding as of December 31, 2017.

Amounts outstanding under the commercial paper programs and revolving credit facility are included in Notes Payable and classified in current liabilities on the Eversource and NSTAR Electric balance sheets as all borrowings are outstanding for no more than 364 days at one time. As a result of the Eversource parent long-term debt issuances on January 8, 2018, the net proceeds of which were used to repay short-term borrowings outstanding under its commercial paper program, \$201.2 million of commercial paper borrowings under the Eversource parent commercial paper program were reclassified as Long-Term Debt as of December 31, 2017.

Under the credit facilities described above, Eversource and its subsidiaries must comply with certain financial and non-financial covenants, including a consolidated debt to total capitalization ratio. As of December 31, 2018 and 2017, Eversource and its subsidiaries were in compliance with these covenants. If Eversource or its subsidiaries were not in compliance with these covenants, an event of default would occur requiring all outstanding borrowings by such borrower to be repaid, and additional borrowings by such borrower would not be permitted under its respective credit facility.

We believe the future operating cash flows of Eversource, CL&P, NSTAR Electric and PSNH, along with our existing borrowing availability and access to financial markets for the issuance of new long-term debt, will be sufficient to meet any working capital and future operating requirements, and capital investment forecast opportunities.

*Intercompany Borrowings:* Eversource parent uses its available capital resources to provide loans to its subsidiaries to assist in meeting their short-term borrowing needs. In addition, growth in Eversource's key business initiatives requires cash infusion to those subsidiaries. Eversource parent records intercompany interest income from its loans to subsidiaries, which is eliminated in consolidation. Intercompany loans from Eversource parent to its subsidiaries are eliminated in consolidation on Eversource's balance sheets. As of December 31, 2018, there were intercompany loans from Eversource parent to PSNH of \$57.0 million. As of December 31, 2017, there were intercompany loans from Eversource parent of \$69.5 million to CL&P and \$262.9 million to PSNH. Intercompany loans from Eversource parent are included in Notes Payable to Eversource Parent and are classified in current liabilities on the respective subsidiary's balance sheets.

## 8. LONG-TERM DEBT

Details of long-term debt outstanding are as follows:

CL&P (Millions of Dollars)	As of December 31,	
	2018	2017
First Mortgage Bonds:		
7.875% 1994 Series D due 2024	\$ 139.8	\$ 139.8
5.750% 2004 Series B due 2034	130.0	130.0
5.625% 2005 Series B due 2035	100.0	100.0
6.350% 2006 Series A due 2036	250.0	250.0
5.750% 2007 Series B due 2037	150.0	150.0
6.375% 2007 Series D due 2037	100.0	100.0
5.650% 2008 Series A due 2018	—	300.0
5.500% 2009 Series A due 2019	250.0	250.0
2.500% 2013 Series A due 2023	400.0	400.0
4.300% 2014 Series A due 2044	475.0	475.0
4.150% 2015 Series A due 2045	350.0	350.0
3.200% 2017 Series A due 2027	300.0	300.0
4.000% 2018 Series A due 2048	500.0	—
Total First Mortgage Bonds	3,144.8	2,944.8
Pollution Control Revenue Bonds:		
4.375% Fixed Rate Tax Exempt due 2028	120.5	120.5
Less Amounts due Within One Year	(250.0)	(300.0)
Unamortized Premiums and Discounts, Net	10.2	11.5
Unamortized Debt Issuance Costs	(21.5)	(17.7)
CL&P Long-Term Debt	\$ 3,004.0	\$ 2,759.1

NSTAR Electric (Millions of Dollars)	As of December 31,	
	2018	2017
Debtures:		
5.750% due 2036	\$ 200.0	\$ 200.0
5.500% due 2040	300.0	300.0
2.375% due 2022	400.0	400.0
4.400% due 2044	300.0	300.0
3.250% due 2025	250.0	250.0
2.700% due 2026	250.0	250.0
3.200% due 2027	700.0	700.0
Total Debtures	2,400.0	2,400.0
Notes:		
5.900% Senior Notes Series B due 2034	50.0	50.0
6.700% Senior Notes Series D due 2037	40.0	40.0
5.100% Senior Notes Series E due 2020	95.0	95.0
3.500% Senior Notes Series F due 2021	250.0	250.0
3.880% Senior Notes Series G due 2023	80.0	80.0
2.750% Senior Notes Series H due 2026	50.0	50.0
Total Notes	565.0	565.0
Less Amounts due Within One Year	—	—
Unamortized Premiums and Discounts, Net	(2.5)	(1.8)
Unamortized Debt Issuance Costs	(17.7)	(19.4)
NSTAR Electric Long-Term Debt	\$ 2,944.8	\$ 2,943.8
PSNH		
(Millions of Dollars)		
As of December 31,		
2018 2017		
First Mortgage Bonds:		
5.600% Series M due 2035	\$ 50.0	\$ 50.0
6.000% Series O due 2018	—	110.0
4.500% Series P due 2019	150.0	150.0
4.050% Series Q due 2021	122.0	122.0
3.200% Series R due 2021	160.0	160.0
3.500% Series S due 2023	325.0	325.0
Total First Mortgage Bonds	807.0	917.0
Pollution Control Revenue Bonds:		
Adjustable Rate Tax Exempt Series A due 2021	—	89.3
Less Amounts due Within One Year	(150.0)	(110.0)
Unamortized Premiums and Discounts, Net	—	0.2
Unamortized Debt Issuance Costs	(1.8)	(4.1)
PSNH Long-Term Debt	\$ 655.2	\$ 892.4
OTHER		
(Millions of Dollars)		
As of December 31,		
2018 2017		
Yankee Gas - First Mortgage Bonds: 3.020% - 8.480% due 2019 - 2048	\$ 470.0	\$ 520.0
NSTAR Gas - First Mortgage Bonds: 4.09% - 9.950% due 2020 - 2048	385.0	285.0
Eversource Parent and Other - Notes and Debtures:		
4.500% Debtures due 2019	350.0	350.0
2.500% - 4.250% Senior Notes due 2021 - 2029	4,360.0	3,260.0
Unsecured Notes 3.570% - 6.430% due 2021 - 2037	289.5	290.9
Secured Debt 4.100% - 9.640% due 2021 - 2035	70.7	70.4
Pre-1983 Spent Nuclear Fuel Obligation (CYAPC)	39.5	181.4
Fair Value Adjustment <sup>(1)</sup>	144.7	172.6
Less Fair Value Adjustment - Current Portion <sup>(1)</sup>	(36.2)	(35.4)
Less Amounts due in One Year	(401.1)	(104.2)
Commercial Paper Classified as Long-Term Debt	—	201.2

Unamortized Premiums and Discounts, Net	(4.2)	1.5
Unamortized Debt Issuance Costs	(23.2)	(12.8)
Total Other Long-Term Debt	<u>\$ 5,644.7</u>	<u>\$ 5,180.6</u>
Total Eversource Long-Term Debt	<u>\$ 12,248.7</u>	<u>\$ 11,775.9</u>

- <sup>(1)</sup> The fair value adjustment amount is the purchase price adjustments, net of amortization, required to record the NSTAR long-term debt at fair value on the date of the 2012 merger and to record the Aquarion long-term debt at fair value on the date of the 2017 acquisition.

*Long-Term Debt Issuances and Repayments:* The following table summarizes long-term debt issuances and repayments:

<i>(Millions of Dollars)</i>	<u>Issue Date</u>	<u>Issuances/(Repayments)</u>	<u>Maturity Date</u>	<u>Use of Proceeds for Issuances/ Repayment Information</u>
<b>CL&amp;P:</b>				
4.00% 2018 Series A First Mortgage Bonds	March 2018	\$ 500.0	April 2048	Repaid long-term debt that matured in 2018 and repaid short-term borrowings
5.65% 2008 Series A First Mortgage Bonds	May 2008	(300.0)	May 2018	Repaid at maturity on May 1, 2018
<b>PSNH:</b>				
6.00% 2008 Series O First Mortgage Bonds	May 2008	(110.0)	May 2018	Repaid at maturity on May 1, 2018
2001 Series A Pollution Control Revenue Bonds	December 2001	(89.3)	May 2021	Redeemed on November 28, 2018 at a redemption price of \$89.3 million
<b>Other:</b>				
Eversource Parent 2.50% Series I Senior Notes <sup>(1)</sup>	January 2018	200.0	March 2021	Repaid short-term borrowings
Eversource Parent 3.30% Series M Senior Notes	January 2018	450.0	January 2028	Repaid long-term debt that matured in 2018
Eversource Parent 3.80% Series N Senior Notes	December 2018	400.0	December 2023	Repaid short-term borrowings
Eversource Parent 4.25% Series O Senior Notes	December 2018	500.0	April 2029	Repaid short-term borrowings
Eversource Parent 1.60% Series G Senior Notes	January 2015	(150.0)	January 2018	Repaid at maturity on January 15, 2018
Eversource Parent 1.45% Series E Senior Notes	May 2013	(300.0)	May 2018	Repaid at maturity on May 1, 2018
Yankee Gas 4.13% Series O First Mortgage Bonds	September 2018	50.0	October 2048	Repaid long-term debt that matured in 2018
Yankee Gas 6.90% Series J First Mortgage Bonds	October 2008	(100.0)	October 2018	Repaid at maturity on October 1, 2018
NSTAR Gas 4.09% Series P First Mortgage Bonds	September 2018	100.0	October 2048	Repaid short-term borrowings

- <sup>(1)</sup> These notes are part of the same series issued by Eversource parent in March 2016. The aggregate outstanding principal amount of these notes is now \$450 million .

As a result of the Eversource parent debt issuances in January 2018, \$446.8 million of current portion of long-term debt related to two Eversource parent issuances maturing in 2018 and \$201.2 million of commercial paper borrowings were reclassified to Long-Term Debt as of December 31, 2017.

*Long-Term Debt Issuance Authorizations:* On August 1, 2018, the DPU approved NSTAR Gas' request for authorization to issue up to \$200 million in long-term debt through December 31, 2019. On December 3, 2018, FERC authorized NPT to issue up to an aggregate of \$800 million in short-term debt and long-term debt through December 31, 2020.

*Long-Term Debt Provisions:* The utility plant of CL&P, PSNH, Yankee Gas, NSTAR Gas and a portion of Aquarion is subject to the lien of each company's respective first mortgage bond indenture. The Eversource parent, NSTAR Electric and certain Aquarion debt is unsecured. Additionally, the long-term debt agreements provide that Eversource and certain of its subsidiaries must comply with certain covenants as are customarily included in such agreements, including equity requirements for NSTAR Electric and NSTAR Gas. Under the equity requirements, NSTAR Electric's and Aquarion's senior notes must maintain a certain consolidated indebtedness to capitalization ratio as of the end of any fiscal quarter and NSTAR Gas' outstanding long-term debt must not exceed equity.

CL&P's obligation to repay the PCRBs is secured by first mortgage bonds. The first mortgage bonds contain similar terms and provisions as the applicable series of PCRBs. If CL&P fails to meet its obligations under the first mortgage bonds, then the holder of the first mortgage bonds (the issuer of the PCRBs) would have rights under the first mortgage bonds. CL&P's tax-exempt PCRBs will be subject to redemption at par on or after September 1, 2021.

Certain secured and unsecured long-term debt securities are callable at redemption price or are subject to make-whole provisions.

Eversource, NSTAR Electric, Yankee Gas and Aquarion have certain long-term debt agreements that contain cross-default provisions. No other debt issuances contain cross-default provisions as of December 31, 2018 .

*Pre-1983 Spent Nuclear Fuel Obligation:* Under the Nuclear Waste Policy Act of 1982, the DOE is responsible for the selection and development of repositories for, and the disposal of, spent nuclear fuel and high-level radioactive waste. CYAPC is obligated to pay the DOE for the costs to dispose of spent nuclear fuel and high-level radioactive waste generated prior to April 7, 1983 (pre-1983 Spent Nuclear Fuel) and recorded an accrual for the full liability thereof to the DOE. This liability accrues interest costs at the 3-month Treasury bill yield rate. For nuclear fuel used to generate electricity prior to April 7, 1983, payment may be made any time prior to the first delivery of spent fuel to the DOE. Fees for disposal of nuclear fuel burned on or after April 7, 1983 were billed to member companies and paid to the DOE.

As of December 31, 2018 and 2017, as a result of consolidating CYAPC, Eversource has consolidated \$ 39.5 million and \$181.4 million, respectively, in pre-1983 spent nuclear fuel obligations to the DOE. In December 2018, CYAPC paid \$145 million to the DOE to partially settle this obligation. The obligation includes accumulated interest costs of \$29.0 million and \$132.6 million as of December 31, 2018 and 2017, respectively. CYAPC maintains a trust to fund amounts due to the DOE for the disposal of pre-1983 spent nuclear fuel. For further information, see Note 5, "Marketable Securities," to the financial statements.

*Long-Term Debt Maturities:* Long-term debt maturities on debt outstanding for the years 2019 through 2023 and thereafter are shown below. These amounts exclude the CYAPC pre-1983 spent nuclear fuel obligation, net unamortized premiums, discounts and debt issuance costs, and other fair value adjustments as of December 31, 2018:

(Millions of Dollars)	Eversource	CL&P	NSTAR Electric	PSNH
2019	\$ 801.1	\$ 250.0	\$ —	\$ 150.0
2020	296.1	—	95.0	—
2021	1,033.5	—	250.0	282.0
2022	1,188.9	—	400.0	—
2023	1,665.2	400.0	80.0	325.0
Thereafter	7,977.7	2,615.3	2,140.0	50.0
Total	\$ 12,962.5	\$ 3,265.3	\$ 2,965.0	\$ 807.0

## 9. RATE REDUCTION BONDS AND VARIABLE INTEREST ENTITIES

*Rate Reduction Bonds:* PSNH Funding LLC 3 (PSNH Funding) is a bankruptcy remote, special purpose, wholly-owned subsidiary of PSNH. PSNH Funding was formed solely to issue rate reduction bonds (RRBs) to finance PSNH's unrecovered remaining costs associated with the divestiture of its generation assets.

On May 8, 2018, PSNH Funding issued \$635.7 million of securitized RRBs in multiple tranches with a weighted average interest rate of 3.66 percent, and final maturity dates ranging from 2026 to 2035. The RRBs are expected to be repaid by February 1, 2033. RRB payments consist of principal and interest and will be paid semi-annually, beginning on February 1, 2019. The RRBs were issued pursuant to a finance order issued by the NHPUC on January 30, 2018 to recover remaining costs resulting from the divestiture of PSNH's generation assets.

The proceeds were used by PSNH Funding to purchase PSNH's stranded cost asset-recovery property, including its vested property right to bill, collect and adjust a non-bypassable stranded cost recovery charge from PSNH's retail customers. The collections will be used to pay principal, interest and other costs in connection with the RRBs. The RRBs are secured by the stranded cost asset-recovery property. Cash collections from the stranded cost recovery charges and funds on deposit in trust accounts are the sole source of funds to satisfy the debt obligation. PSNH is not the owner of the RRBs, and PSNH Funding's assets and revenues are not available to pay PSNH's creditors. The RRBs are non-recourse senior secured obligations of PSNH Funding and are not insured or guaranteed by PSNH or Eversource Energy.

PSNH Funding is considered a variable interest entity (VIE) primarily because the equity capitalization is insufficient to support its operations. PSNH has the power to direct the significant activities of the VIE and is most closely associated with the VIE as compared to other interest holders. Therefore, PSNH is considered the primary beneficiary and consolidates PSNH Funding in its consolidated financial statements. The following tables summarize the impact of PSNH Funding on PSNH's balance sheet and income statement:

(Millions of Dollars)	As of December 31, 2018	
<b>Balance Sheet:</b>		
Restricted Cash - Current Portion (included in Prepayments and Other Current Assets)	\$	47.5
Restricted Cash - Long-Term Portion (included in Other Long-Term Assets)		3.2
Securitized Stranded Cost (included in Regulatory Assets)		608.4
Other Regulatory Liabilities (included in Regulatory Liabilities)		5.8
Accrued Interest (included in Other Current Liabilities)		14.4
Rate Reduction Bonds - Current Portion		52.3
Rate Reduction Bonds - Long-Term Portion		583.3
<b>Income Statement:</b>		
For the Year Ended December 31, 2018		
Amortization of RRB Principal (included in Amortization of Regulatory Assets, Net)	\$	27.3
Interest Expense on RRB Principal (included in Interest Expense)		14.4

*Variable Interest Entities - Other:* The Company's variable interests outside of the consolidated group include contracts that are required by regulation and provide for regulatory recovery of contract costs and benefits through customer rates. Eversource, CL&P and NSTAR Electric hold variable interests in VIEs through agreements with certain entities that own single renewable energy or peaking generation power plants, with other independent power producers and with transmission businesses. Eversource, CL&P and NSTAR Electric do not control the activities that are economically significant to these VIEs or provide financial or other support to these VIEs. Therefore, Eversource, CL&P and NSTAR Electric do not consolidate these VIEs.

## 10. EMPLOYEE BENEFITS

### A. Pension Benefits and Postretirement Benefits Other Than Pension

Eversource provides defined benefit retirement plans ("Pension Plans") that cover eligible employees and are subject to the provisions of ERISA, as amended by the PPA of 2006. Eversource's policy is to annually fund the Pension Plans in an amount at least equal to an amount that will satisfy all federal funding requirements. In addition to the Pension Plans, Eversource maintains non-qualified defined benefit retirement plans ("SERP Plans") which provide benefits in excess of Internal Revenue Code limitations to eligible participants consisting of current and retired employees.

Eversource also provides defined benefit postretirement plans ("PBOP Plans") that provide life insurance and a health reimbursement arrangement created for the purpose of reimbursing retirees and dependents for health insurance premiums and certain medical expenses to eligible employees that met certain age and service eligibility requirements. The benefits provided under the PBOP Plans are not vested, and the Company has the right to modify any benefit provision subject to applicable laws at that time. Eversource annually funds postretirement costs through tax deductible contributions to external trusts.

The Pension, SERP and PBOP Plans cover eligible employees, including, among others, employees of the regulated companies. Because the regulated companies recover retiree benefit costs from customers through rates, regulatory assets are recorded in lieu of recording an adjustment to Accumulated Other Comprehensive Income/(Loss) for the funded status of the Pension, SERP and PBOP Plans. Regulatory accounting is also applied to the portions of the Eversource Service retiree benefit costs that support the regulated companies, as these costs are also recovered from customers. Adjustments to the Pension and PBOP Plans funded status for the unregulated companies are recorded on an after-tax basis to Accumulated Other Comprehensive Income/(Loss). For further information, see Note 2, "Regulatory Accounting," and Note 16, "Accumulated Other Comprehensive Income/(Loss)," to the financial statements.

The difference between the actual return and calculated expected return on plan assets for the Pension and PBOP Plans is reflected as a component of unamortized actuarial gains or losses, which are recorded in Regulatory Assets or Accumulated Other Comprehensive Income/(Loss). Unamortized actuarial gains or losses are amortized as a component of pension and PBOP expense over the estimated average future employee service period.

*Pension and SERP Plans:* The Pension and SERP Plans are accounted for under the multiple-employer approach, with each operating company's balance sheet reflecting its share of the funded status of the plans. Although Eversource maintains marketable securities in a benefit trust, the SERP Plans do not contain any assets. For further information, see Note 5, "Marketable Securities," to the financial statements. The following table provides information on the Pension and SERP Plan benefit obligations, fair values of Pension Plan assets, and funded status:

	Pension and SERP							
	As of December 31, 2018				As of December 31, 2017			
	Eversource	CL&P	NSTAR Electric	PSNH	Eversource	CL&P	NSTAR Electric	PSNH
<i>(Millions of Dollars)</i>								
<b>Change in Benefit Obligation:</b>								
Benefit Obligation as of Beginning of Year	\$ (5,936.5)	\$ (1,275.2)	\$ (1,351.0)	\$ (642.2)	\$ (5,242.3)	\$ (1,170.2)	\$ (1,217.3)	\$ (572.2)
Service Cost	(84.8)	(21.4)	(17.4)	(11.2)	(71.3)	(18.5)	(15.5)	(9.7)
Interest Cost	(196.4)	(41.8)	(43.5)	(22.0)	(188.0)	(41.6)	(42.7)	(21.2)
Actuarial Gain/(Loss)	414.9	106.1	98.6	39.2	(548.7)	(116.9)	(143.5)	(65.1)
Benefits Paid - Pension	261.8	59.6	66.9	26.2	243.7	63.5	55.4	26.4
Benefits Paid - Lump Sum	14.2	—	7.1	—	18.4	—	6.8	—
Benefits Paid - SERP	6.8	0.3	0.3	0.2	20.4	0.3	0.3	0.3
Employee Transfers	—	12.0	2.5	(0.9)	—	8.2	5.5	(0.7)
Increase due to acquisition of Aquarion	—	—	—	—	(168.7)	—	—	—
Benefit Obligation as of End of Year	\$ (5,520.0)	\$ (1,160.4)	\$ (1,236.5)	\$ (610.7)	\$ (5,936.5)	\$ (1,275.2)	\$ (1,351.0)	\$ (642.2)
<b>Change in Pension Plan Assets:</b>								
Fair Value of Pension Plan Assets as of Beginning of Year	\$ 4,739.5	\$ 963.0	\$ 1,260.8	\$ 539.5	\$ 4,076.0	\$ 905.5	\$ 1,088.3	\$ 494.0
Employer Contributions	185.6	41.2	56.5	—	235.2	2.5	85.4	0.8
Actual Return on Pension Plan Assets	(75.2)	(14.2)	(18.7)	(7.6)	589.7	126.7	154.8	70.4
Benefits Paid - Pension	(261.8)	(59.6)	(66.9)	(26.2)	(243.7)	(63.5)	(55.4)	(26.4)
Benefits Paid - Lump Sum	(14.2)	—	(7.1)	—	(18.4)	—	(6.8)	—
Employee Transfers	—	(12.0)	(2.5)	0.9	—	(8.2)	(5.5)	0.7
Increase due to acquisition of Aquarion	—	—	—	—	100.7	—	—	—
Fair Value of Pension Plan Assets as of End of Year	\$ 4,573.9	\$ 918.4	\$ 1,222.1	\$ 506.6	\$ 4,739.5	\$ 963.0	\$ 1,260.8	\$ 539.5
Funded Status as of December 31st	\$ (946.1)	\$ (242.0)	\$ (14.4)	\$ (104.1)	\$ (1,197.0)	\$ (312.2)	\$ (90.2)	\$ (102.7)

In 2018, there was an increase to the discount rate used to calculate the funded status of the Eversource pension liability, which resulted in a decrease to Eversource's pension liability of approximately \$465 million as of December 31, 2018, which was partially offset by changes in actual plan experience and changes in other assumptions.

In 2017, there was a decrease to the discount rate used to calculate the funded status of the Eversource pension liability, which resulted in an increase to Eversource's pension liability of approximately \$390 million as of December 31, 2017.

The pension and SERP Plans' funded status includes the current portion of the SERP liability totaling \$8.9 million and \$8.4 million as of December 31, 2018 and 2017, respectively, which is included in Other Current Liabilities on the balance sheets.

As of December 31, 2018 and 2017, the accumulated benefit obligation for the Pension and SERP Plans is as follows:

(Millions of Dollars)	Eversource	CL&P	NSTAR Electric	PSNH
2018	\$ 5,070.8	\$ 1,031.0	\$ 1,144.7	\$ 543.1
2017	5,583.6	1,179.2	1,260.1	597.2

The following actuarial assumptions were used in calculating the Pension and SERP Plans' year end funded status:

	Pension and SERP			
	As of December 31,			
	2018		2017	
Discount Rate	4.22%	— 4.45%	3.43%	— 3.75%
Compensation/Progression Rate	3.50%		3.50%	

The compensation rate for the Aquarion Plans was 4 percent as of December 31, 2018 and 2017.

*Pension and SERP Expense:* Eversource charges net periodic pension expense to its subsidiaries based on the actual participant demographic data for each subsidiary's participants. The actual investment return in the trust is allocated to each of the subsidiaries annually in proportion to the investment return expected to be earned during the year. The Company utilizes the spot rate methodology to estimate the discount rate for the service and interest cost components of pension expense, which provides a more precise measurement by matching projected cash flows to the corresponding spot rates on the yield curve.

The components of net periodic benefit expense for the Pension and SERP Plans, prior to amounts capitalized as Property, Plant and Equipment or deferred as regulatory assets for future recovery, are shown below. The service cost component of net periodic benefit expense and the intercompany allocations, less the capitalized portions, are included in Operations and Maintenance expense on the statements of income. The remaining components of net periodic benefit costs are included in Other Income, Net on the statements of income. Pension and SERP expense reflected in the statements of cash flows for CL&P, NSTAR Electric and PSNH does not include the intercompany allocations or the corresponding capitalized and deferred portion, as these amounts are cash settled on a short-term basis.

(Millions of Dollars)	Pension and SERP			
	For the Year Ended December 31, 2018			
	Eversource	CL&P	NSTAR Electric	PSNH
Service Cost	\$ 84.8	\$ 21.4	\$ 17.4	\$ 11.2
Interest Cost	196.4	41.8	43.5	22.0
Expected Return on Pension Plan Assets	(391.6)	(79.1)	(104.9)	(43.6)
Actuarial Loss	145.7	29.1	41.1	11.6
Prior Service Cost	4.3	1.1	0.2	0.4
Total Net Periodic Benefit Expense/(Income)	\$ 39.6	\$ 14.3	\$ (2.7)	\$ 1.6
Intercompany Allocations	N/A	\$ 6.1	\$ 6.5	\$ 1.9

(Millions of Dollars)	Pension and SERP			
	For the Year Ended December 31, 2017			
	Eversource	CL&P	NSTAR Electric	PSNH
Service Cost	\$ 71.3	\$ 18.5	\$ 15.5	\$ 9.7
Interest Cost	188.0	41.6	42.7	21.2
Expected Return on Pension Plan Assets	(334.1)	(71.7)	(87.6)	(40.0)
Actuarial Loss	135.2	27.7	41.1	11.6
Prior Service Cost	4.5	1.5	0.6	0.5
Total Net Periodic Benefit Expense	\$ 64.9	\$ 17.6	\$ 12.3	\$ 3.0
Intercompany Allocations	N/A	\$ 9.8	\$ 9.1	\$ 3.3

<i>(Millions of Dollars)</i>	<b>Pension and SERP</b>			
	<b>For the Year Ended December 31, 2016</b>			
	<b>Eversource</b>	<b>CL&amp;P</b>	<b>NSTAR Electric</b>	<b>PSNH</b>
Service Cost	\$ 75.0	\$ 18.8	\$ 16.3	\$ 9.9
Interest Cost	185.5	41.6	42.2	20.7
Expected Return on Pension Plan Assets	(317.9)	(72.1)	(85.1)	(38.6)
Actuarial Loss	125.7	25.4	39.9	9.9
Prior Service Cost	3.6	1.5	0.3	0.5
Total Net Periodic Benefit Expense	\$ 71.9	\$ 15.2	\$ 13.6	\$ 2.4
Intercompany Allocations	N/A	\$ 13.8	\$ 11.4	\$ 4.0

The following actuarial assumptions were used to calculate Pension and SERP expense amounts:

	<b>Pension and SERP</b>								
	<b>For the Years Ended December 31,</b>								
	<b>2018</b>			<b>2017</b>			<b>2016</b>		
Discount Rate	3.85%	—	4.62%	3.20%	—	3.90%	3.27%	—	4.89%
Expected Long-Term Rate of Return	8.25%			8.25%			8.25%		
Compensation/Progression Rate	3.50%			3.50%			3.50%		

For the Aquarion Plans, the long-term expected rate of return was 7 percent and the compensation rate was 4 percent for the year ended December 31, 2018.

The following is a summary of the changes in plan assets and benefit obligations recognized in Regulatory Assets and Other Comprehensive Income ("OCI") as well as amounts in Regulatory Assets and OCI that were reclassified as net periodic benefit expense during the years presented:

<i>(Millions of Dollars)</i>	<b>Regulatory Assets</b>				<b>OCI</b>	
	<b>For the Years Ended December 31,</b>				<b>For the Years Ended December 31,</b>	
	<b>2018</b>		<b>2017</b>		<b>2018</b>	<b>2017</b>
Actuarial Losses Arising During the Year	\$ 48.6	\$ 333.0	\$ 0.7	\$ 9.3		
Actuarial Losses Reclassified as Net Periodic Benefit Expense	(140.1)	(129.5)	(5.6)	(5.7)		
Actuarial Losses Securitized as Stranded Costs <sup>(1)</sup>	(36.7)	—	—	—		
Prior Service Cost/(Credit) Arising During the Year	—	1.0	—	(0.4)		
Prior Service Cost Reclassified as Net Periodic Benefit Expense	(3.9)	(4.1)	(0.4)	(0.4)		
Prior Service Cost Securitized as Stranded Costs <sup>(1)</sup>	(0.1)	—	—	—		

<sup>(1)</sup> These amounts were reclassified to securitized regulatory assets in connection with the divestiture of PSNH's generation business. For further information see Note 2, "Regulatory Accounting" to the financial statements.

The following is a summary of the remaining Regulatory Assets and Accumulated Other Comprehensive Income amounts that have not been recognized as components of net periodic benefit expense as of December 31, 2018 and 2017, as well as the amounts that are expected to be recognized as components in 2019:

<i>(Millions of Dollars)</i>	<b>Regulatory Assets as of December 31,</b>			<b>AOCI as of December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>Expected 2019 Expense</b>	<b>2018</b>	<b>2017</b>	<b>Expected 2019 Expense</b>
Actuarial Loss	\$ 1,807.6	\$ 1,935.8	\$ 140.6	\$ 80.8	\$ 85.7	\$ 5.6
Prior Service Cost	6.3	10.3	0.9	1.1	1.5	0.2

*PBOP Plans:* The PBOP Plans are accounted for under the multiple-employer approach, with each operating company's balance sheet reflecting its share of the funded status of the plans. The following table provides information on the PBOP Plan benefit obligations, fair values of plan assets, and funded status:

	<b>PBOP</b>							
	<b>As of December 31,</b>							
	<b>2018</b>				<b>2017</b>			
<i>(Millions of Dollars)</i>	<b>Eversource</b>	<b>CL&amp;P</b>	<b>NSTAR Electric</b>	<b>PSNH</b>	<b>Eversource</b>	<b>CL&amp;P</b>	<b>NSTAR Electric</b>	<b>PSNH</b>
<b>Change in Benefit Obligation:</b>								
Benefit Obligation as of Beginning of Year	\$ (948.6)	\$ (178.4)	\$ (278.6)	\$ (101.1)	\$ (810.0)	\$ (165.0)	\$ (270.0)	\$ (89.7)
Service Cost	(10.0)	(1.9)	(2.0)	(1.1)	(9.5)	(1.9)	(1.7)	(1.3)
Interest Cost	(30.7)	(5.8)	(8.7)	(3.4)	(27.1)	(5.3)	(8.7)	(3.0)
Actuarial Gain/(Loss)	102.5	14.4	28.4	8.6	(81.8)	(18.5)	(13.2)	(11.9)
Benefits Paid	45.3	10.1	14.5	4.9	41.5	9.9	13.5	4.6
Employee Transfers	—	(0.1)	0.1	0.2	—	2.4	1.5	0.2
Increase due to acquisition of Aquarion	—	—	—	—	(61.7)	—	—	—
Benefit Obligation as of End of Year	\$ (841.5)	\$ (161.7)	\$ (246.3)	\$ (91.9)	\$ (948.6)	\$ (178.4)	\$ (278.6)	\$ (101.1)
<b>Change in Plan Assets:</b>								
Fair Value of Plan Assets as of Beginning of Year	\$ 922.2	\$ 135.9	\$ 405.5	\$ 79.0	\$ 815.8	\$ 129.2	\$ 361.6	\$ 73.2
Actual Return on Plan Assets	(36.6)	(5.2)	(17.4)	(2.9)	118.0	18.1	52.9	10.4
Employer Contributions	9.3	—	5.2	—	7.6	—	5.3	—
Benefits Paid	(45.3)	(10.1)	(14.5)	(4.9)	(41.5)	(9.9)	(13.5)	(4.6)
Employee Transfers	—	—	0.3	—	—	(1.5)	(0.8)	—
Increase due to acquisition of Aquarion	—	—	—	—	22.3	—	—	—
Fair Value of Plan Assets as of End of Year	\$ 849.6	\$ 120.6	\$ 379.1	\$ 71.2	\$ 922.2	\$ 135.9	\$ 405.5	\$ 79.0
Funded Status as of December 31st	\$ 8.1	\$ (41.1)	\$ 132.8	\$ (20.7)	\$ (26.4)	\$ (42.5)	\$ 126.9	\$ (22.1)

The Eversource funded status includes prepaid assets of \$33.4 million and \$13.1 million recorded in Other Long-Term Assets and liabilities of \$25.3 million and \$39.5 million included in Accrued Pension, SERP and PBOP on the balance sheets as of December 31, 2018 and 2017, respectively.

As of December 31, 2018, there was an increase in the discount rate used to calculate the funded status, resulting in a decrease in the Eversource PBOP liability of approximately \$88 million .

As of December 31, 2017, there was a decrease in the discount rate used to calculate the funded status, as compared to the discount rate as of December 31, 2016, resulting in an increase to the Eversource PBOP liability of approximately \$64 million .

The following actuarial assumptions were used in calculating the PBOP Plans' year end funded status:

	<b>PBOP</b>					
	<b>As of December 31,</b>					
	<b>2018</b>			<b>2017</b>		
Discount Rate	4.38%	—	4.41%	3.55%	—	3.70%

For the Eversource Service PBOP Plan, effective with the plan amendment that standardized plan designs and made benefit changes in August 2016, the health care cost trend rate is no longer applicable. For the Aquarion PBOP Plan, the health care trend rate is a range of 3.5 percent to 6.75 percent, with an ultimate rate of 3.5 percent to 5 percent in 2019 and 2023, for post-65 and pre-65 retirees, respectively.

*PBOP Expense:* Eversource charges net periodic postretirement benefits expense to its subsidiaries based on the actual participant demographic data for each subsidiary's participants. The actual investment return in the trust each year is allocated to each of the subsidiaries annually in proportion to the investment return expected to be earned during the year. The Company utilizes the spot rate methodology to estimate the discount rate for the service and interest cost components of PBOP expense, which provides a more precise measurement by matching projected cash flows to the corresponding spot rates on the yield curve.

The components of net periodic benefit expense for the PBOP Plans, prior to amounts capitalized as Property, Plant and Equipment or deferred as regulatory assets on the balance sheets, are shown below. The service cost component of net periodic benefit expense and the intercompany allocations, less the capitalized portions, are included in Operations and Maintenance expense on the statements of income. The remaining components of net periodic benefit costs are included in Other Income, Net on the statements of income. PBOP expense reflected in the statements of cash flows for CL&P, NSTAR Electric and PSNH does not include the intercompany allocations or the corresponding capitalized portion, as these amounts are cash settled on a short-term basis.

<i>(Millions of Dollars)</i>	<b>PBOP</b>			
	<b>For the Year Ended December 31, 2018</b>			
	<b>Eversource</b>	<b>CL&amp;P</b>	<b>NSTAR Electric</b>	<b>PSNH</b>
Service Cost	\$ 10.0	\$ 1.9	\$ 2.0	\$ 1.1
Interest Cost	30.7	5.8	8.7	3.4
Expected Return on Plan Assets	(72.4)	(10.4)	(32.5)	(6.0)
Actuarial Loss	10.3	1.6	2.3	0.7
Prior Service (Credit)/Cost	(23.6)	1.1	(16.9)	0.5
Total Net Periodic Benefit Income	\$ (45.0)	\$ —	\$ (36.4)	\$ (0.3)
Intercompany Allocations	N/A	\$ (1.0)	\$ (1.3)	\$ (0.4)

<i>(Millions of Dollars)</i>	<b>PBOP</b>			
	<b>For the Year Ended December 31, 2017</b>			
	<b>Eversource</b>	<b>CL&amp;P</b>	<b>NSTAR Electric</b>	<b>PSNH</b>
Service Cost	\$ 9.5	\$ 1.9	\$ 1.7	\$ 1.3
Interest Cost	27.1	5.3	8.7	3.0
Expected Return on Plan Assets	(63.7)	(9.7)	(28.6)	(5.5)
Actuarial Loss	9.1	1.0	3.4	0.6
Prior Service (Credit)/Cost	(21.6)	1.1	(17.0)	0.6
Total Net Periodic Benefit Income	\$ (39.6)	\$ (0.4)	\$ (31.8)	\$ —
Intercompany Allocations	N/A	\$ (0.7)	\$ (1.1)	\$ (0.5)

<i>(Millions of Dollars)</i>	<b>PBOP</b>			
	<b>For the Year Ended December 31, 2016</b>			
	<b>Eversource</b>	<b>CL&amp;P</b>	<b>NSTAR Electric</b>	<b>PSNH</b>
Service Cost	\$ 12.2	\$ 2.0	\$ 3.4	\$ 1.3
Interest Cost	32.9	5.3	13.3	2.9
Expected Return on Plan Assets	(62.9)	(10.1)	(28.1)	(5.5)
Actuarial Loss	9.0	1.5	3.3	0.7
Prior Service (Credit)/Cost	(9.1)	0.5	(7.1)	0.2
Total Net Periodic Benefit Income	\$ (17.9)	\$ (0.8)	\$ (15.2)	\$ (0.4)
Intercompany Allocations	N/A	\$ 0.3	\$ (0.1)	\$ (0.1)

The following actuarial assumptions were used to calculate PBOP expense amounts:

	<b>PBOP</b>								
	<b>For the Years Ended December 31,</b>								
	<b>2018</b>		<b>2017</b>		<b>2016</b>				
Discount Rate	3.28%	—	3.94%	3.48%	—	4.64%	2.88%	—	4.09%
Expected Long-Term Rate of Return	8.25%		8.25%		8.25%				

For the Aquarion Plan, the expected long-term rate of return was 7 percent and the health care trend rate was 7 percent for the year ended December 31, 2018.

The following is a summary of the changes in plan assets and benefit obligations recognized in Regulatory Assets and OCI as well as amounts recognized in Regulatory Assets and OCI that were reclassified as net periodic benefit (expense)/income during the years presented:

(Millions of Dollars)	Regulatory Assets		OCI	
	For the Years Ended December 31,		For the Years Ended December 31,	
	2018	2017	2018	2017
Actuarial Losses/(Gains) Arising During the Year	\$ 6.4	\$ 44.8	\$ (1.2)	\$ 2.6
Actuarial Losses Reclassified as Net Periodic Benefit Expense	(9.9)	(8.6)	(0.4)	(0.5)
Actuarial Losses Securitized as Stranded Costs <sup>(1)</sup>	(0.8)	—	—	—
Prior Service (Credit)/Cost Arising During the Year	1.3	(4.0)	—	(0.1)
Prior Service Credit/(Cost) Reclassified as Net Periodic Benefit Income/(Expense)	23.6	22.3	—	(0.7)
Prior Service Cost Securitized as Stranded Costs <sup>(1)</sup>	(1.3)	—	—	—

<sup>(1)</sup> These amounts were reclassified to securitized regulatory assets in connection with the divestiture of PSNH's generation business. For further information see Note 2, "Regulatory Accounting" to the financial statements.

The following is a summary of the remaining Regulatory Assets and Accumulated Other Comprehensive Income amounts that have not been recognized as components of net periodic benefit expense as of December 31, 2018 and 2017, as well as the amounts that are expected to be recognized as components in 2019:

(Millions of Dollars)	Regulatory Assets as of December 31,			AOCI as of December 31,		
	2018	2017	Expected 2019 Expense	2018	2017	Expected 2019 Expense
Actuarial Loss	\$ 207.3	\$ 211.6	\$ 9.9	\$ 5.0	\$ 6.6	\$ 0.3
Prior Service (Credit)/Cost	(197.6)	(221.2)	(23.6)	2.6	2.6	0.2

*Estimated Future Benefit Payments:* The following benefit payments, which reflect expected future service, are expected to be paid by the Pension, SERP and PBOP Plans:

(Millions of Dollars)	2019	2020	2021	2022	2023	2024 - 2028
Pension and SERP	\$ 308.5	\$ 310.4	\$ 318.8	\$ 326.6	\$ 335.6	\$ 1,764.1
PBOP	58.4	58.5	58.6	58.3	57.8	277.4

*Eversource Contributions:* Based on the current status of the Pension Plans and federal pension funding requirements, Eversource currently expects to make contributions of approximately \$112 million in 2019, of which approximately \$44 million and \$10 million will be contributed by CL&P and PSNH, respectively. The remaining \$46 million is expected to be contributed by other Eversource subsidiaries, primarily Eversource Service. Eversource expects to make approximately \$11 million in contributions to the PBOP Plan in 2019, of which approximately \$6 million will be contributed by NSTAR Electric.

*Fair Value of Pension and PBOP Plan Assets:* Pension and PBOP funds are held in external trusts. Trust assets, including accumulated earnings, must be used exclusively for Pension and PBOP payments. Eversource's investment strategy for its Pension and PBOP Plans is to maximize the long-term rates of return on these plans' assets within an acceptable level of risk. The investment strategy for each asset category includes a diversification of asset types, fund strategies and fund managers and it establishes target asset allocations that are routinely reviewed and periodically rebalanced. PBOP assets are comprised of assets held in the PBOP Plan trust, as well as specific assets within the Pension Plan trust (401(h) assets). The investment policy and strategy of the 401(h) assets is consistent with that of the defined benefit pension plan. Eversource's expected long-term rates of return on Pension and PBOP Plan assets are based on target asset allocation assumptions and related expected long-term rates of return. In developing its expected long-term rate of return assumptions for the Pension and PBOP Plans, Eversource evaluated input from consultants, as well as long-term inflation assumptions and historical returns. For the year ended December 31, 2018, management has assumed long-term rates of return of 8.25 percent for the Eversource Service Pension and PBOP Plan assets. Management has assumed a 7 percent long-term rate of return for the Aquarion Plans.

These long-term rates of return are based on the assumed rates of return for the target asset allocations as follows:

	As of December 31,			
	2018		2017	
	Eversource Pension Plan and Tax-Exempt Assets Within PBOP Plan		Eversource Pension Plan and Tax-Exempt Assets Within PBOP Plan	
	Target Asset Allocation	Assumed Rate of Return	Target Asset Allocation	Assumed Rate of Return
Equity Securities:				
United States	15.0%	8.5%	21.5%	8.5%
Global	10.0%	8.75%	—%	—%
Non-United States	8.0%	8.5%	11.0%	8.5%
Emerging Markets	4.0%	10.0%	4.5%	10.0%
Debt Securities:				
Fixed Income	13.0%	4.0%	11.0%	4.0%
Public High Yield Fixed Income	4.0%	6.5%	4.0%	6.5%
Private Debt	15.0%	9.0%	15.0%	9.0%
Emerging Markets Debt	—%	—%	2.0%	6.5%
Private Equity	15.0%	12.0%	15.0%	12.0%
Real Assets	16.0%	7.5%	12.0%	7.5%
Hedge Funds	—%	—%	4.0%	6.0%

The taxable assets within the Eversource PBOP Plan have a target asset allocation of 70 percent equity securities and 30 percent fixed income securities. The target asset allocation for the Aquarion Pension Plans is 59 percent equity, 36 percent debt and 5 percent other. The target asset allocation for the Aquarion PBOP Plan is 59 percent equity and 41 percent debt.

The following table presents, by asset category, the Pension and PBOP Plan assets recorded at fair value on a recurring basis by the level in which they are classified within the fair value hierarchy:

(Millions of Dollars)	Pension Plan							
	Fair Value Measurements as of December 31,							
	2018				2017			
Asset Category:	Level 1	Level 2	Uncategorized	Total	Level 1	Level 2	Uncategorized	Total
Equity Securities <sup>(1)</sup>	\$ 443.4	\$ —	\$ 1,377.8	\$ 1,821.2	\$ 535.4	\$ —	\$ 1,653.3	\$ 2,188.7
Fixed Income <sup>(2)</sup>	85.5	160.8	1,265.5	1,511.8	56.6	215.9	1,218.3	1,490.8
Private Equity	6.1	—	834.0	840.1	11.2	—	641.8	653.0
Real Assets <sup>(3)</sup>	62.9	—	569.1	632.0	101.6	—	539.9	641.5
Total	\$ 597.9	\$ 160.8	\$ 4,046.4	\$ 4,805.1	\$ 704.8	\$ 215.9	\$ 4,053.3	\$ 4,974.0
Less: 401(h) PBOP Assets <sup>(4)</sup>				(231.2)				(234.5)
Total Pension Assets				\$ 4,573.9				\$ 4,739.5

(Millions of Dollars)	PBOP Plan							
	Fair Value Measurements as of December 31,							
	2018				2017			
Asset Category:	Level 1	Level 2	Uncategorized	Total	Level 1	Level 2	Uncategorized	Total
Equity Securities <sup>(1)</sup>	\$ 91.9	\$ —	\$ 210.5	\$ 302.4	\$ 115.3	\$ —	\$ 241.9	\$ 357.2
Fixed Income <sup>(2)</sup>	22.0	40.3	123.0	185.3	23.4	44.0	133.9	201.3
Private Equity	—	—	32.7	32.7	—	—	31.3	31.3
Real Assets <sup>(3)</sup>	27.5	—	70.5	98.0	22.4	—	75.5	97.9
Total	\$ 141.4	\$ 40.3	\$ 436.7	\$ 618.4	\$ 161.1	\$ 44.0	\$ 482.6	\$ 687.7
Add: 401(h) PBOP Assets <sup>(4)</sup>				231.2				234.5
Total PBOP Assets				\$ 849.6				\$ 922.2

<sup>(1)</sup> United States, Global, Non-United States and Emerging Markets equity securities that are uncategorized include investments in commingled funds and hedge funds that are overlaid with equity index swaps and futures contracts.

<sup>(2)</sup> Fixed Income investments that are uncategorized include investments in commingled funds, fixed income funds that invest in a variety of opportunistic and fixed income strategies, and hedge funds that are overlaid with fixed income futures.

<sup>(3)</sup> Real assets include real estate funds and hedge funds.



(4) The assets of the Pension Plan include a 401(h) account that has been allocated to provide health and welfare postretirement benefits under the PBOP Plan.

The Company values assets based on observable inputs when available. Equity securities, exchange traded funds and futures contracts classified as Level 1 in the fair value hierarchy are priced based on the closing price on the primary exchange as of the balance sheet date.

Fixed income securities, such as government issued securities, corporate bonds and high yield bond funds, are included in Level 2 and are valued using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. The pricing models utilize observable inputs such as recent trades for the same or similar instruments, yield curves, discount margins and bond structures. Swaps are valued using pricing models that incorporate interest rates and equity and fixed income index closing prices to determine a net present value of the cash flows.

Certain investments, such as commingled funds, private equity investments, real estate funds and hedge funds are valued using the NAV as a practical expedient. These investments are structured as investment companies offering shares or units to multiple investors for the purpose of providing a return. Commingled funds are recorded at NAV provided by the asset manager, which is based on the market prices of the underlying equity securities. Private Equity investments, Fixed Income partnership funds and Real Assets are valued using the NAV provided by the partnerships, which are based on discounted cash flows of the underlying investments, real estate appraisals or public market comparables of the underlying investments, or the NAV of underlying assets held in hedge funds. Assets valued at NAV are uncategorized in the fair value hierarchy.

## B. Defined Contribution Plans

Eversource maintains defined contribution plans on behalf of eligible participants. The Eversource 401k Plan provides for employee and employer contributions up to statutory limits. For eligible employees, the Eversource 401k Plan provides employer matching contributions of either 100 percent up to a maximum of three percent of eligible compensation or 50 percent up to a maximum of eight percent of eligible compensation. The Eversource 401k Plan also contains a K-Vantage feature for the benefit of eligible participants, which provides an additional annual employer contribution based on age and years of service. K-Vantage participants are not eligible to actively participate in the Eversource Pension Plan.

The total Eversource 401k Plan employer matching contributions, including the K-Vantage contributions, were as follows:

<i>(Millions of Dollars)</i>	Eversource		CL&P		NSTAR Electric		PSNH	
2018	\$	38.4	\$	5.0	\$	9.7	\$	3.3
2017		34.5		4.6		8.5		3.7
2016		31.8		4.5		8.1		3.4

## C. Share-Based Payments

Share-based compensation awards are recorded using a fair-value based method at the date of grant. Eversource, CL&P, NSTAR Electric and PSNH record compensation expense related to these awards, as applicable, for shares issued or sold to their respective employees and officers, as well as for the allocation of costs associated with shares issued or sold to Eversource's service company employees and officers that support CL&P, NSTAR Electric and PSNH.

*Eversource Incentive Plans:* Eversource maintains long-term equity-based incentive plans in which Eversource, CL&P, NSTAR Electric and PSNH employees, officers and board members are eligible to participate. The incentive plans authorize Eversource to grant up to 6,700,000 new shares for various types of awards, including RSUs and performance shares, to eligible employees, officers, and board members. As of December 31, 2018 and 2017, Eversource had 3,720,650 and 2,445,110 common shares, respectively, available for issuance under these plans.

Eversource accounts for its various share-based plans as follows:

- RSUs - Eversource records compensation expense, net of estimated forfeitures, on a straight-line basis over the requisite service period based upon the fair value of Eversource's common shares at the date of grant. The par value of RSUs is reclassified to Common Stock from APIC as RSUs become issued as common shares.
- Performance Shares - Eversource records compensation expense, net of estimated forfeitures, on a straight-line basis over the requisite service period. Performance shares vest based upon the extent to which Company goals are achieved. Vesting of outstanding performance shares is based upon both the Company's EPS growth over the requisite service period and the total shareholder return as compared to the Edison Electric Institute ("EEI") Index during the requisite service period. The fair value of performance shares is determined at the date of grant using a lattice model.

RSUs: Eversource granted RSUs under the annual long-term incentive programs that are subject to three -year graded vesting schedules for employees, and one -year graded vesting schedules, or immediate vesting, for board members. RSUs are paid in shares, reduced by amounts sufficient to satisfy withholdings for income taxes, subsequent to vesting. A summary of RSU transactions is as follows:

	RSUs (Units)	Weighted Average Grant-Date Fair Value
Outstanding as of December 31, 2017	717,039	\$ 49.29
Granted	286,315	\$ 56.69
Shares Issued	(201,386)	\$ 55.35
Forfeited	(19,603)	\$ 56.78
Outstanding as of December 31, 2018	782,365	\$ 50.25

The weighted average grant-date fair value of RSUs granted for the years ended December 31, 2018, 2017 and 2016 was \$56.69, \$55.97 and \$54.67, respectively. As of December 31, 2018 and 2017, the number and weighted average grant-date fair value of unvested RSUs was 424,119 and \$56.57 per share, and 388,269 and \$56.15 per share, respectively. During 2018, there were 216,572 RSUs at a weighted average grant-date fair value of \$56.72 per share that vested during the year and were either paid or deferred. As of December 31, 2018, 358,246 RSUs were fully vested and deferred and an additional 402,913 are expected to vest.

Performance Shares: Eversource granted performance shares under the annual long-term incentive programs that vest based upon the extent to which Company goals are achieved at the end of three-year performance measurement periods. Performance shares are paid in shares, after the performance measurement period. A summary of performance share transactions is as follows:

	Performance Shares (Units)	Weighted Average Grant-Date Fair Value
Outstanding as of December 31, 2017	510,565	\$ 55.45
Granted	184,355	\$ 56.77
Shares Issued	(178,258)	\$ 54.98
Forfeited	(17,098)	\$ 56.18
Outstanding as of December 31, 2018	499,564	\$ 56.08

The weighted average grant-date fair value of performance shares granted for the years ended December 31, 2018, 2017 and 2016 was \$56.77, \$55.70 and \$53.64, respectively. As of December 31, 2018 and 2017, the number and weighted average grant-date fair value of unvested performance shares was 366,995 and \$56.17 per share, and 331,207 and \$55.79 per share, respectively. During 2018, there were 131,349 performance shares at a weighted average grant-date fair value of \$56.08 per share that vested during the year and were either paid or deferred. As of December 31, 2018, 132,569 performance shares were fully vested and deferred.

Compensation Expense: The total compensation expense and associated future income tax benefits recognized by Eversource, CL&P, NSTAR Electric and PSNH for share-based compensation awards were as follows:

Eversource (Millions of Dollars)	For the Years Ended December 31,		
	2018	2017	2016
Compensation Expense	\$ 21.4	\$ 19.7	\$ 23.6
Future Income Tax Benefit	5.4	8.0	9.6

	For the Years Ended December 31,								
	2018			2017			2016		
(Millions of Dollars)	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH
Compensation Expense	\$ 7.8	\$ 7.7	\$ 2.9	\$ 7.0	\$ 7.0	\$ 3.2	\$ 9.1	\$ 8.2	\$ 3.5
Future Income Tax Benefit	2.0	1.9	0.7	2.9	2.8	1.3	3.7	3.3	1.4

As of December 31, 2018, there was \$22.3 million of total unrecognized compensation expense related to nonvested share-based awards for Eversource, including \$8.1 million for CL&P, \$8.0 million for NSTAR Electric and \$2.8 million for PSNH. This cost is expected to be recognized ratably over a weighted-average period of 1.73 years for Eversource and CL&P, and 1.72 years for NSTAR Electric and PSNH.

An income tax rate of 25 percent was used to estimate the tax effect on total share-based payments determined under the fair-value based method for all awards. During both 2018 and 2017, the Company generally settled fully vested RSUs and performance shares with the issuance of common shares purchased in the open market.

For the years ended December 31, 2018, 2017 and 2016, excess tax benefits associated with the distribution of stock compensation awards reduced income tax expense by \$1.5 million, \$2.9 million, and \$19.1 million, respectively, which increased cash flows from operating activities on the statements of cash flows.

## D. Other Retirement Benefits

Eversource provides retirement and other benefits for certain current and past company officers. These benefits are accounted for on an accrual basis and expensed over a period equal to the service lives of the employees. The actuarially-determined liability for these benefits, which is included in Other Long-Term Liabilities on the balance sheets, as well as the related expense included in Operations and Maintenance Expense on the income statements, are as follows:

Eversource (Millions of Dollars)	As of and For the Years Ended December 31,		
	2018	2017	2016
Actuarially-Determined Liability	\$ 49.1	\$ 53.4	\$ 54.2
Other Retirement Benefits Expense	2.7	2.8	2.9

(Millions of Dollars)	As of and For the Years Ended December 31,								
	2018			2017			2016		
	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH
Actuarially-Determined Liability	\$ 0.3	\$ 0.1	\$ 1.7	\$ 0.3	\$ 0.1	\$ 1.9	\$ 0.3	\$ 0.1	\$ 2.0
Other Retirement Benefits Expense	1.1	1.1	0.4	1.0	1.0	0.5	1.1	0.9	0.6

## 11. INCOME TAXES

The components of income tax expense are as follows:

Eversource (Millions of Dollars)	For the Years Ended December 31,		
	2018	2017	2016
Current Income Taxes:			
Federal	\$ 106.5	\$ 58.9	\$ 38.9
State	10.6	31.6	53.0
Total Current	117.1	90.5	91.9
Deferred Income Taxes, Net:			
Federal	122.6	433.0	427.9
State	52.2	58.6	38.6
Total Deferred	174.8	491.6	466.5
Investment Tax Credits, Net	(2.9)	(3.2)	(3.4)
Income Tax Expense	\$ 289.0	\$ 578.9	\$ 555.0

(Millions of Dollars)	For the Years Ended December 31,								
	2018			2017			2016		
	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH
Current Income Taxes:									
Federal	\$ 54.2	\$ 79.3	\$ 12.2	\$ 50.9	\$ 107.8	\$ 18.6	\$ 27.3	\$ 86.4	\$ (13.7)
State	20.9	30.0	(0.5)	17.4	25.6	6.2	13.3	39.5	8.8
Total Current	75.1	109.3	11.7	68.3	133.4	24.8	40.6	125.9	(4.9)
Deferred Income Taxes, Net:									
Federal	48.5	27.9	15.4	123.9	88.1	52.7	157.6	96.6	79.5
State	6.4	13.5	20.5	(4.6)	22.4	11.2	11.3	5.1	7.8
Total Deferred	54.9	41.4	35.9	119.3	110.5	63.9	168.9	101.7	87.3
Investment Tax Credits, Net	(0.9)	(1.8)	—	(1.0)	(1.8)	—	(1.2)	(1.8)	—
Income Tax Expense	\$ 129.1	\$ 148.9	\$ 47.6	\$ 186.6	\$ 242.1	\$ 88.7	\$ 208.3	\$ 225.8	\$ 82.4

A reconciliation between income tax expense and the expected tax expense at the statutory rate is as follows:

Eversource (Millions of Dollars, except percentages)	For the Years Ended December 31,		
	2018	2017	2016
Income Before Income Tax Expense	\$ 1,329.5	\$ 1,574.4	\$ 1,504.8
Statutory Federal Income Tax Expense at 21% in 2018 and 35% in 2017 and 2016	279.2	551.0	526.7
Tax Effect of Differences:			
Depreciation	(30.8)	(10.8)	(3.4)
Investment Tax Credit Amortization	(2.9)	(3.2)	(3.4)
Other Federal Tax Credits	—	—	(3.5)
State Income Taxes, Net of Federal Impact	44.4	47.7	56.2
Dividends on ESOP	(5.1)	(8.4)	(8.4)
Tax Asset Valuation Allowance/Reserve Adjustments	5.2	7.0	3.3
Excess Stock Benefit	(1.5)	(2.9)	(19.1)
Other, Net	0.5	(1.5)	6.6
Income Tax Expense	\$ 289.0	\$ 578.9	\$ 555.0
Effective Tax Rate	21.7%	36.8%	36.9%

(Millions of Dollars, except percentages)	For the Years Ended December 31,								
	2018			2017			2016		
	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH
Income Before Income Tax Expense	\$ 506.8	\$ 532.0	\$ 163.5	\$ 563.4	\$ 616.8	\$ 224.7	\$ 542.6	\$ 576.6	\$ 214.3
Statutory Federal Income Tax Expense at 21% in 2018 and 35% in 2017 and 2016	106.4	111.7	34.3	197.2	215.9	78.6	189.9	201.8	75.0
Tax Effect of Differences:									
Depreciation	(1.2)	(2.8)	0.1	(5.2)	(3.0)	1.1	1.6	(3.1)	1.0
Investment Tax Credit Amortization	(0.9)	(1.8)	—	(1.0)	(1.8)	—	(1.2)	(1.8)	—
Other Federal Tax Credits	—	—	—	—	—	—	—	—	(3.5)
State Income Taxes, Net of Federal Impact	14.5	33.2	15.8	4.5	31.2	11.3	14.5	29.0	10.8
Tax Asset Valuation Allowance/Reserve Adjustments	7.1	1.2	—	(9.5)	—	—	1.5	—	—
Excess Stock Benefit	(0.1)	(0.1)	(0.1)	(0.7)	(0.7)	(0.3)	(0.9)	(1.2)	(0.4)
Other, Net	3.3	7.5	(2.5)	1.3	0.5	(2.0)	2.9	1.1	(0.5)
Income Tax Expense	\$ 129.1	\$ 148.9	\$ 47.6	\$ 186.6	\$ 242.1	\$ 88.7	\$ 208.3	\$ 225.8	\$ 82.4
Effective Tax Rate	25.5%	28.0%	29.1%	33.1%	39.2%	39.5%	38.4%	39.2%	38.4%

Eversource, CL&P, NSTAR Electric and PSNH file a consolidated federal income tax return and unitary, combined and separate state income tax returns. These entities are also parties to a tax allocation agreement under which taxable subsidiaries do not pay any more taxes than they would have otherwise paid had they filed a separate company tax return, and subsidiaries generating tax losses, if any, are paid for their losses when utilized.

Deferred tax assets and liabilities are recognized for the future tax effects of temporary differences between the carrying amounts and the tax basis of assets and liabilities. The tax effect of temporary differences is accounted for in accordance with the rate-making treatment of the applicable regulatory commissions and relevant accounting authoritative literature. The tax effects of temporary differences that give rise to the net accumulated deferred income tax obligations are as follows:

(Millions of Dollars)	As of December 31,							
	2018				2017			
	Eversource	CL&P	NSTAR Electric	PSNH	Eversource	CL&P	NSTAR Electric	PSNH
<b>Deferred Tax Assets:</b>								
Employee Benefits	\$ 388.2	\$ 94.5	\$ 35.0	\$ 31.1	\$ 442.1	\$ 112.3	\$ 34.0	\$ 38.0
Derivative Liabilities	111.4	111.4	—	—	111.8	110.5	0.3	—
Regulatory Deferrals - Liabilities	299.3	38.6	195.5	16.1	205.6	12.0	139.8	17.9
Allowance for Uncollectible Accounts	54.0	23.1	17.8	3.0	50.1	20.6	17.3	2.9
Tax Effect - Tax Regulatory Liabilities	830.3	336.8	288.9	111.7	832.6	337.2	281.2	116.8
Net Operating Loss Carryforwards	28.5	—	—	0.6	47.8	—	—	—
Purchase Accounting Adjustment	64.2	—	—	—	69.9	—	—	—
Other	166.2	81.1	15.6	33.4	149.5	70.7	4.9	49.6
<b>Total Deferred Tax Assets</b>	<b>1,942.1</b>	<b>685.5</b>	<b>552.8</b>	<b>195.9</b>	<b>1,909.4</b>	<b>663.3</b>	<b>477.5</b>	<b>225.2</b>
Less: Valuation Allowance	19.5	10.7	—	—	14.6	6.3	—	—
<b>Net Deferred Tax Assets</b>	<b>\$ 1,922.6</b>	<b>\$ 674.8</b>	<b>\$ 552.8</b>	<b>\$ 195.9</b>	<b>\$ 1,894.8</b>	<b>\$ 657.0</b>	<b>\$ 477.5</b>	<b>\$ 225.2</b>
<b>Deferred Tax Liabilities:</b>								
Accelerated Depreciation and Other Plant-Related Differences	\$ 3,724.2	\$ 1,293.3	\$ 1,342.4	\$ 410.6	\$ 3,562.0	\$ 1,224.9	\$ 1,229.2	\$ 502.5
Property Tax Accruals	73.2	35.4	26.3	5.2	56.7	20.7	24.2	5.5
<b>Regulatory Amounts:</b>								
Regulatory Deferrals - Assets	1,025.9	320.1	277.4	213.8	924.9	310.6	267.1	103.6
Tax Effect - Tax Regulatory Assets	238.9	167.0	9.7	8.1	243.1	173.1	9.8	11.4
Goodwill Regulatory Asset - 1999 Merger	95.2	—	81.7	—	99.8	—	85.7	—
Derivative Assets	20.1	19.9	—	—	17.4	17.4	—	—
Other	251.1	5.9	109.8	39.4	288.4	13.7	137.3	45.7
<b>Total Deferred Tax Liabilities</b>	<b>\$ 5,428.6</b>	<b>\$ 1,841.6</b>	<b>\$ 1,847.3</b>	<b>\$ 677.1</b>	<b>\$ 5,192.3</b>	<b>\$ 1,760.4</b>	<b>\$ 1,753.3</b>	<b>\$ 668.7</b>

**2017 Federal Legislation:** On December 22, 2017, the Tax Cuts and Jobs Act became law, which amended existing federal tax rules and included numerous provisions that impacted corporations. In particular, the act reduced the U.S. federal corporate income tax rate from 35 percent to 21 percent effective January 1, 2018. For our regulated companies, the most significant changes are (1) the benefit of incurring a lower federal income tax expense and (2) the reduction in ADIT liabilities (now excess ADIT or EDIT), which were estimated to be approximately \$2.9 billion and included in regulatory liabilities as of December 31, 2018. In 2018, Eversource refunded \$ 5.0 million (\$ 4.4 million at PSNH and \$ 0.6 million at Yankee Gas) to customers. See Note 2, "Regulatory Accounting," to the financial statements for further information.

The Company assessed the applicable provisions in the act and recorded the associated impacts as of December 31, 2017. The Company recorded the provisional income tax amounts as of December 31, 2017 in accordance with SEC Staff Accounting Bulletin No. 118 ("SAB 118") issued by the SEC in December 2017, for changes pursuant to the act because the impacts could not be finalized upon issuance of the financial statements, but for which reasonable estimates could be determined. The Company has completed its evaluation of the impacts of the act as of December 31, 2018. The ultimate outcome was not materially different from the provisional estimates recorded as of December 31, 2017. While the Company has recorded the impacts of the act based on interpretation of the provisions as enacted, it is expected the U.S. Department of Treasury and the IRS will issue additional interpretative guidance in the future that could result in changes to previously finalized provisions. At this time, some of the states in which the Company does business have issued guidance regarding the act and the impact was not material.

*Carryforwards:* The following tables provide the amounts and expiration dates of state tax credit and loss carryforwards and federal tax credit and net operating loss carryforwards:

(Millions of Dollars)	As of December 31,									
	2018					2017				
	Eversource	CL&P	NSTAR Electric	PSNH	Expiration Range	Eversource	CL&P	NSTAR Electric	PSNH	Expiration Range
Federal Net Operating Loss	\$ 103.6	\$ —	\$ —	\$ —	2033 - 2037	\$ 197.3	\$ —	\$ —	\$ —	2027 - 2037
Federal Charitable Contribution	2.2	—	—	—	2020 - 2022	18.7	—	—	—	2017 - 2022
State Net Operating Loss	80.7	—	—	—	2019 - 2038	82.8	—	—	—	2028 - 2037
State Tax Credit	148.9	107.0	—	—	2018 - 2023	139.0	94.5	—	—	2017 - 2022
State Charitable Contribution	9.6	—	—	—	2019 - 2023	31.4	—	—	—	2017 - 2022

In 2018, the company increased its valuation allowance reserve for state credits by \$5.2 million ( \$4.4 million for CL&P), net of tax, to reflect an update for expired tax credits. In 2017, the Company increased its valuation allowance reserve for state credits by \$9.9 million ( \$1.8 million for CL&P), net of tax, to reflect an update for expired tax credits.

For 2018 and 2017, state credit and state loss carryforwards have been partially reserved by a valuation allowance of \$19.5 million and \$14.4 million (net of tax), respectively.

*Unrecognized Tax Benefits:* A reconciliation of the activity in unrecognized tax benefits, all of which would impact the effective tax rate if recognized, is as follows:

(Millions of Dollars)	Eversource	CL&P
Balance as of January 1, 2016	\$ 48.0	\$ 13.5
Gross Increases - Current Year	9.9	3.9
Gross Increases - Prior Year	0.2	0.2
Lapse of Statute of Limitations	(9.7)	(2.3)
Balance as of December 31, 2016	48.4	15.3
Gross Increases - Current Year	11.4	4.7
Gross Decreases - Prior Year	(0.9)	(0.5)
Lapse of Statute of Limitations	(7.2)	(1.4)
Balance as of December 31, 2017	51.7	18.1
Gross Increases - Current Year	9.2	3.2
Gross Decreases - Prior Year	(6.5)	(0.9)
Lapse of Statute of Limitations	(8.5)	(2.2)
Balance as of December 31, 2018	\$ 45.9	\$ 18.2

*Interest and Penalties:* Interest on uncertain tax positions is recorded and generally classified as a component of Other Interest Expense on the statements of income. However, when resolution of uncertainties results in the Company receiving interest income, any related interest benefit is recorded in Other Income, Net on the statements of income. No penalties have been recorded. The amount of interest expense/(income) on uncertain tax positions recognized and the related accrued interest payable/(receivable) are as follows:

(Millions of Dollars)	Other Interest Expense/(Income)			Accrued Interest Expense	
	For the Years Ended December 31,			As of December 31,	
	2018	2017	2016	2018	2017
Eversource	\$ (1.7)	\$ —	\$ (0.2)	\$ 0.1	\$ 1.8

*Tax Positions:* During 2018 and 2017, Eversource did not resolve any of its uncertain tax positions.

*Open Tax Years:* The following table summarizes Eversource, CL&P, NSTAR Electric and PSNH's tax years that remain subject to examination by major tax jurisdictions as of December 31, 2018 :

Description	Tax Years
Federal	2018
Connecticut	2015 - 2018
Massachusetts	2015 - 2018
New Hampshire	2016 - 2018

Eversource does not estimate to have an earnings impact related to unrecognized tax benefits during the next twelve months.

## 12. COMMITMENTS AND CONTINGENCIES

### A. Environmental Matters

*General:* Eversource, CL&P, NSTAR Electric and PSNH are subject to environmental laws and regulations intended to mitigate or remove the effect of past operations and improve or maintain the quality of the environment. These laws and regulations require the removal or the remedy of the effect on the environment of the disposal or release of certain specified hazardous substances at current and former operating sites. Eversource, CL&P, NSTAR Electric and PSNH have an active environmental auditing and training program and each believes it is substantially in compliance with all enacted laws and regulations.

Environmental reserves are accrued when assessments indicate it is probable that a liability has been incurred and an amount can be reasonably estimated. The approach used estimates the liability based on the most likely action plan from a variety of available remediation options, including no action required or several different remedies ranging from establishing institutional controls to full site remediation and monitoring. These liabilities are estimated on an undiscounted basis and do not assume that the amounts are recoverable from insurance companies or other third parties. The environmental reserves include sites at different stages of discovery and remediation and do not include any unasserted claims.

These reserve estimates are subjective in nature as they take into consideration several different remediation options at each specific site. The reliability and precision of these estimates can be affected by several factors, including new information concerning either the level of contamination at the site, the extent of Eversource's, CL&P's, NSTAR Electric's and PSNH's responsibility for remediation or the extent of remediation required, recently enacted laws and regulations or changes in cost estimates due to certain economic factors. It is possible that new information or future developments could require a reassessment of the potential exposure to required environmental remediation. As this information becomes available, management will continue to assess the potential exposure and adjust the reserves accordingly.

The amounts recorded as environmental reserves are included in Other Current Liabilities and Other Long-Term Liabilities on the balance sheets and represent management's best estimate of the liability for environmental costs, and take into consideration site assessment, remediation and long-term monitoring costs. The environmental reserves also take into account recurring costs of managing hazardous substances and pollutants, mandated expenditures to remediate contaminated sites and any other infrequent and non-recurring clean-up costs. A reconciliation of the activity in the environmental reserves is as follows:

<i>(Millions of Dollars)</i>	Eversource	CL&P	NSTAR Electric	PSNH
Balance as of January 1, 2017	\$ 65.8	\$ 4.9	\$ 3.8	\$ 5.3
Additions	6.2	0.5	1.8	1.0
Payments/Reductions	(17.1)	(0.7)	(2.9)	(0.6)
Balance as of December 31, 2017	54.9	4.7	2.7	5.7
Additions	23.5	1.9	9.7	—
Payments/Reductions	(13.7)	(1.2)	(1.5)	(0.3)
Balance as of December 31, 2018	\$ 64.7	\$ 5.4	\$ 10.9	\$ 5.4

The number of environmental sites for which remediation or long-term monitoring, preliminary site work or site assessment is being performed are as follows:

	Eversource	CL&P	NSTAR Electric	PSNH
2018	60	15	16	9
2017	59	14	15	10

The increase in the reserve balance was due primarily to the addition of environmental sites at NSTAR Electric and changes in cost estimates at certain MGP sites at our natural gas companies under investigation for which additional remediation will be required.

Included in the Eversource number of sites and reserve amounts above are former MGP sites that were operated several decades ago and manufactured gas from coal and other processes, which resulted in certain by-products remaining in the environment that may pose a potential risk to human health and the environment, for which Eversource may have potential liability. The reserve balances related to these former MGP sites were \$50.1 million and \$49.0 million as of December 31, 2018 and 2017, respectively, and related primarily to the natural gas business segment.

As of December 31, 2018, for 7 environmental sites (2 for CL&P) that are included in the Company's reserve for environmental costs, the information known and the nature of the remediation options allow for the Company to estimate the range of losses for environmental costs. As of December 31, 2018, \$23.8 million (including \$0.7 million for CL&P) had been accrued as a liability for these sites, which represents the low end of the range of the liabilities for environmental costs. Management believes that additional losses of up to approximately \$20 million (\$1 million at CL&P) may be incurred in executing current remediation plans for these sites.

As of December 31, 2018, for 12 environmental sites (4 for CL&P and 3 for NSTAR Electric) that are included in the Company's reserve for environmental costs, management cannot reasonably estimate the exposure to loss in excess of the reserve, or range of loss, as these sites are under investigation and/or there is significant uncertainty as to what remedial actions, if any, the Company may be required to undertake. As of December 31, 2018, \$11.1 million (including \$1.9 million for CL&P and \$1.9 million for NSTAR Electric) had been accrued as a liability for these sites. As of December 31, 2018, for the remaining 41 environmental sites (including 9 for CL&P, 13 for NSTAR Electric and 9 for PSNH) that are included in the Company's reserve for environmental costs, the \$29.8 million accrual (including \$2.8 million for CL&P, \$9.0 million for NSTAR Electric and \$5.4 million for PSNH) represents management's best estimate of the probable liability and no additional loss is anticipated at this time.

*Environmental Rate Recovery:* PSNH, NSTAR Gas and Yankee Gas have rate recovery mechanisms for MGP related environmental costs, therefore, changes in their respective environmental reserves do not impact Net Income. Effective with the May 2018 distribution rate case settlement, CL&P is allowed to defer certain environmental costs for future recovery. NSTAR Electric does not have a separate environmental cost recovery regulatory mechanism.

## B. Long-Term Contractual Arrangements

*Estimated Future Annual Costs:* The estimated future annual costs of significant executed, non-cancelable, long-term contractual arrangements in effect as of December 31, 2018 are as follows:

### Eversource

(Millions of Dollars)	2019	2020	2021	2022	2023	Thereafter	Total
Purchased Power and Capacity	\$ 68.3	\$ 73.5	\$ 69.1	\$ 72.9	\$ 74.1	\$ 142.9	\$ 500.8
Renewable Energy	262.4	261.0	238.9	240.5	217.2	1,662.0	2,882.0
Peaker CfDs	11.9	22.6	21.9	15.3	17.5	43.5	132.7
Natural Gas Procurement	243.8	227.7	183.6	149.2	135.1	1,039.7	1,979.1
Transmission Support Commitments	22.8	23.1	15.2	16.2	17.8	17.8	112.9
Total	\$ 609.2	\$ 607.9	\$ 528.7	\$ 494.1	\$ 461.7	\$ 2,905.9	\$ 5,607.5

### CL&P

(Millions of Dollars)	2019	2020	2021	2022	2023	Thereafter	Total
Purchased Power and Capacity	\$ 57.0	\$ 69.7	\$ 65.3	\$ 69.1	\$ 70.4	\$ 123.9	\$ 455.4
Renewable Energy	102.0	103.8	104.0	104.9	105.5	785.3	1,305.5
Peaker CfDs	11.9	22.6	21.9	15.3	17.5	43.5	132.7
Transmission Support Commitments	9.0	9.1	6.0	6.4	7.0	7.0	44.5
Total	\$ 179.9	\$ 205.2	\$ 197.2	\$ 195.7	\$ 200.4	\$ 959.7	\$ 1,938.1

### NSTAR Electric

(Millions of Dollars)	2019	2020	2021	2022	2023	Thereafter	Total
Purchased Power and Capacity	\$ 5.5	\$ 3.1	\$ 3.1	\$ 3.1	\$ 3.0	\$ 19.0	\$ 36.8
Renewable Energy	94.7	93.1	88.6	88.8	63.9	435.1	864.2
Transmission Support Commitments	9.0	9.1	6.0	6.3	7.0	7.0	44.4
Total	\$ 109.2	\$ 105.3	\$ 97.7	\$ 98.2	\$ 73.9	\$ 461.1	\$ 945.4

### PSNH

(Millions of Dollars)	2019	2020	2021	2022	2023	Thereafter	Total
Purchased Power and Capacity	\$ 5.8	\$ 0.7	\$ 0.7	\$ 0.7	\$ 0.7	\$ —	\$ 8.6
Renewable Energy	65.7	64.1	46.3	46.8	47.8	441.6	712.3
Transmission Support Commitments	4.8	4.9	3.2	3.5	3.8	3.8	24.0
Total	\$ 76.3	\$ 69.7	\$ 50.2	\$ 51.0	\$ 52.3	\$ 445.4	\$ 744.9

*Purchased Power and Capacity:* CL&P, NSTAR Electric and PSNH have various IPP contracts or purchase obligations for electricity. Such contracts extend through 2024 for CL&P, 2031 for NSTAR Electric and 2023 for PSNH.

In addition, CL&P, along with UI, has four capacity CfDs for a total of approximately 787 MW of capacity consisting of three generation units and one demand response project. The capacity CfDs extend through 2026 and obligate both CL&P and UI to make or receive payments on a monthly basis to or from the generation facilities based on the difference between a set contractual capacity price and the capacity market prices received by the generation facilities in the ISO-NE capacity markets. CL&P has a sharing agreement with UI, whereby UI shares 20 percent of the costs and benefits of these contracts. CL&P's portion of the costs and benefits of these contracts will be paid by, or refunded to, CL&P's customers.

The contractual obligations table above does not include CL&P's, NSTAR Electric's or PSNH's standard/basic service contracts, the amounts of which vary with customers' energy needs.

*Renewable Energy:* Renewable energy contracts include non-cancellable commitments under contracts of CL&P, NSTAR Electric and PSNH for the purchase of energy and capacity from renewable energy facilities. Such contracts extend through 2039 for CL&P, 2038 for NSTAR Electric and 2033 for PSNH.

The contractual obligations table above does not include long-term commitments signed by CL&P and NSTAR Electric, as required by the PURA and DPU, respectively, for the purchase of renewable energy and related products that are contingent on the future construction of energy facilities. The table also excludes certain CL&P long-term commitments required by regulation that have not yet been executed such as the selection of certain nuclear power-generating facilities awarded under the Act Concerning Zero Carbon Solicitation and Procurement.

**Peaker CfDs:** In 2008, CL&P entered into three CfDs with developers of peaking generation units approved by PURA (Peaker CfDs). These units have a total of approximately 500 MW of peaking capacity. As directed by PURA, CL&P and UI have entered into a sharing agreement, whereby CL&P is responsible for 80 percent and UI for 20 percent of the net costs or benefits of these CfDs. The Peaker CfDs pay the generation facility owner the difference between capacity, forward reserve and energy market revenues and a cost-of-service payment stream for 30 years. The ultimate cost or benefit to CL&P under these contracts will depend on the costs of plant operation and the prices that the projects receive for capacity and other products in the ISO-NE markets. CL&P's portion of the amounts paid or received under the Peaker CfDs will be recoverable from, or refunded to, CL&P's customers.

**Natural Gas Procurement:** In the normal course of business, Eversource's natural gas distribution businesses have long-term contracts for the purchase, transportation and storage of natural gas as part of its portfolio of supplies. These contracts extend through 2034.

**Transmission Support Commitments:** Along with other New England utilities, CL&P, NSTAR Electric and PSNH entered into agreements in 1985 to support transmission and terminal facilities that were built to import electricity from the Hydro-Québec system in Canada. CL&P, NSTAR Electric and PSNH are obligated to pay, over a 30-year period ending in 2020, their proportionate shares of the annual operation and maintenance expenses and capital costs of those facilities.

The total costs incurred under these agreements were as follows:

Eversource (Millions of Dollars)	For the Years Ended December 31,		
	2018	2017	2016
Purchased Power and Capacity	\$ 72.0	\$ 103.9	\$ 152.5
Renewable Energy	218.5	235.5	210.9
Peaker CfDs	20.9	38.7	47.7
Natural Gas Procurement	432.4	377.0	323.9
Transmission Support Commitments	23.4	19.8	15.9
Coal, Wood and Other <sup>(1)</sup>	—	47.7	55.7

(Millions of Dollars)	For the Years Ended December 31,								
	2018			2017			2016		
	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH
Purchased Power and Capacity	\$ 49.4	\$ 4.4	\$ 18.2	\$ 81.0	\$ 4.0	\$ 18.9	\$ 132.7	\$ 0.7	\$ 19.1
Renewable Energy	63.2	89.8	65.5	51.0	123.7	60.8	42.1	101.1	67.7
Peaker CfDs	20.9	—	—	38.7	—	—	47.7	—	—
Transmission Support Commitments	9.2	9.2	5.0	7.8	7.8	4.2	6.3	6.2	3.4
Coal, Wood and Other <sup>(1)</sup>	—	—	—	—	—	47.7	—	—	55.7

<sup>(1)</sup> PSNH previously entered into various arrangements for the purchase of coal, wood and the transportation services for fuel supply for its electric generating assets. On January 10, 2018, Eversource and PSNH completed the sale of PSNH's thermal generation assets. On August 26, 2018, Eversource and PSNH completed the sale of PSNH's hydroelectric generation assets. Upon sale, the remaining future contractual obligations were transferred to the respective buyers. See Note 13, "Generation Asset Sale," for further information.

### C. Spent Nuclear Fuel Obligations - Yankee Companies

CL&P, NSTAR Electric and PSNH have plant closure and fuel storage cost obligations to the Yankee Companies, which have each completed the physical decommissioning of their respective nuclear facilities and are now engaged in the long-term storage of their spent fuel. The Yankee Companies have collected these costs through wholesale, FERC-approved rates charged under power purchase agreements with several New England utilities, including CL&P, NSTAR Electric and PSNH. These companies in turn recover these costs from their customers through state regulatory commission-approved retail rates. The Yankee Companies have collected amounts that management believes are adequate to recover the remaining plant closure and fuel storage cost estimates for the respective plants. Management believes CL&P and NSTAR Electric will recover their shares of these obligations from their customers. PSNH has recovered its total share of these costs from its customers.

#### Spent Nuclear Fuel Litigation:

The Yankee Companies have filed complaints against the DOE in the Court of Federal Claims seeking monetary damages resulting from the DOE's failure to provide for a permanent facility to store spent nuclear fuel pursuant to the terms of the 1983 spent fuel and high level waste disposal contracts between the Yankee Companies and the DOE. The court had previously awarded the Yankee Companies damages for Phase I, II and III of litigation resulting from the DOE's failure to meet its contractual obligations. These Phases covered damages incurred in the years 1998 through 2012, and the awarded damages have been received by the Yankee Companies with certain amounts of the damages refunded to their customers.

*DOE Phase III Damages* - In August 2013, the Yankee Companies each filed subsequent lawsuits against the DOE seeking recovery of actual damages incurred in the years 2009 through 2012 ("DOE Phase III"). On March 25, 2016, the court issued its decision and awarded CYAPC, YAEC and MYAPC damages of \$32.6 million, \$19.6 million and \$24.6 million, respectively. The decision became final on July 18, 2016, and the Yankee Companies received the awards from the DOE on October 14, 2016. The Yankee Companies received FERC approval of their proposed distribution of certain amounts of the awarded damages proceeds to member companies, including CL&P, NSTAR Electric and PSNH, which CYAPC and MYAPC made in December 2016. MYAPC also refunded \$56.5 million from its spent nuclear fuel trust, a portion of which was also refunded to the Eversource utility subsidiaries. In total, Eversource received \$26.1 million, of which CL&P, NSTAR Electric and PSNH received \$13.6 million, \$8.6 million and \$3.9 million, respectively. These amounts have been refunded to the customers of the respective Eversource utility subsidiaries.

*DOE Phase IV Damages* - On May 22, 2017, each of the Yankee Companies filed subsequent lawsuits against the DOE in the Court of Federal Claims seeking monetary damages totaling approximately \$100 million for CYAPC, YAEC and MYAPC, resulting from the DOE's failure to begin accepting spent nuclear fuel for disposal covering the years from 2013 to 2016 ("DOE Phase IV"). On February 21, 2019, the Yankee Companies received a partial summary judgment and partial final judgment in their favor for the undisputed amount of monetary damages, which is the vast majority of the damages being sought. The DOE Phase IV trial for the remaining amount of damages is expected to begin in 2019.

#### D. Guarantees and Indemnifications

In the normal course of business, Eversource parent provides credit assurances on behalf of its subsidiaries, including CL&P, NSTAR Electric and PSNH, in the form of guarantees.

Eversource parent issued a guaranty on behalf of its subsidiary, NPT, under which, beginning at the time the Northern Pass Transmission line goes into commercial operation, Eversource parent will guarantee the financial obligations of NPT under the TSA with HQ in an amount not to exceed \$25 million. Eversource parent's obligations under the guaranty expire upon the full, final and indefeasible payment of the guaranteed obligations. Eversource parent has also entered into a guaranty on behalf of NPT under which Eversource parent will guarantee NPT's obligations under a facility with a financial institution pursuant to which NPT may request letters of credit in an aggregate amount of up to approximately \$14 million.

Management does not anticipate a material impact to net income or cash flows as a result of these various guarantees and indemnifications. The following table summarizes Eversource parent's exposure to guarantees and indemnifications of its subsidiaries to external parties, as of December 31, 2018:

Company	Description	Maximum Exposure (in millions)	Expiration Dates
<u>On behalf of subsidiaries:</u>			
Eversource Gas Transmission LLC	Access Northeast Project Capital Contributions Guaranty <sup>(1)</sup>	\$ 184.9	2021
Various	Surety Bonds <sup>(2)</sup>	41.9	2019 - 2021
Rocky River Realty Company and Eversource Service	Lease Payments for Real Estate	6.3	2019 - 2024
Bay State Wind LLC	Real Estate Purchase	2.5	2019

<sup>(1)</sup> Eversource parent issued a declining balance guaranty on behalf of its subsidiary, Eversource Gas Transmission LLC, to guarantee the payment of the subsidiary's authorized capital contributions for its investment in the Access Northeast project. The guaranty decreases as authorized capital contributions are made. The guaranty will expire upon the earlier of the full performance of the guaranteed obligations or December 31, 2021.

<sup>(2)</sup> Surety bond expiration dates reflect termination dates, the majority of which will be renewed or extended. Certain surety bonds contain credit ratings triggers that would require Eversource parent to post collateral in the event that the unsecured debt credit ratings of Eversource parent are downgraded.

As described in Note 1K, "Investments," Eversource parent issued a guaranty on behalf of its subsidiary, Eversource Investment LLC. Eversource parent will guarantee, as a primary obligor, the financial obligations, primarily all post-Closing payment obligations of Eversource Investment LLC, under the Sale and Purchase Agreement and an Irrevocable Equity Commitment Letter with Ørsted in an amount not to exceed \$ 127.6 million. Eversource parent's obligations under the guaranty expire upon the full, final and indefeasible payment of the guaranteed obligations.

#### E. FERC ROE Complaints

Four separate complaints have been filed at the FERC by combinations of New England state attorneys general, state regulatory commissions, consumer advocates, consumer groups, municipal parties and other parties (collectively the "Complainants"). In each of the first three complaints, filed on October 1, 2011, December 27, 2012, and July 31, 2014, respectively, the Complainants challenged the NETOs' base ROE of 11.14 percent that had been utilized since 2005 and sought an order to reduce it prospectively from the date of the final FERC order and for the separate 15 -month complaint periods. In the fourth complaint, filed April 29, 2016, the Complainants challenged the NETOs' base ROE billed of 10.57 percent and the maximum ROE for transmission incentive ("incentive cap") of 11.74 percent, asserting that these ROEs were unjust and unreasonable.

The ROE originally billed during the period October 1, 2011 (beginning of the first complaint period) through October 15, 2014 consisted of a base ROE of 11.14 percent and incentives up to 13.1 percent . On October 16, 2014, the FERC set the base ROE at 10.57 percent and the incentive cap at 11.74 percent for the first complaint period. This was also effective for all prospective billings to customers beginning October 16, 2014. This FERC order was vacated on April 14, 2017 by the U.S. Court of Appeals for the D.C. Circuit (the "Court").

All amounts associated with the first complaint period have been refunded, which totaled \$38.9 million (pre-tax and excluding interest) at Eversource and reflected both the base ROE and incentive cap prescribed by the FERC order. The refund consisted of \$22.4 million for CL&P, \$13.7 million for NSTAR Electric and \$2.8 million for PSNH.

Eversource has recorded a reserve of \$39.1 million (pre-tax and excluding interest) for the second complaint period as of December 31, 2018 . This reserve represents the difference between the billed rates during the second complaint period and a 10.57 percent base ROE and 11.74 percent incentive cap. The reserve consisted of \$21.4 million for CL&P, \$14.6 million for NSTAR Electric and \$3.1 million for PSNH as of December 31, 2018 .

On October 16, 2018, FERC issued an order on all four complaints describing how it intends to address the issues that were remanded by the Court. FERC proposed a new framework to determine (1) whether an existing ROE is unjust and unreasonable and, if so, (2) how to calculate a replacement ROE. The parties to these proceedings were directed to submit briefs on this new proposed framework and how they would apply the proposed framework in each of the four complaint proceedings. Initial briefs were filed by the NETOs, Complainants and FERC Trial Staff on January 11, 2019. The NETOs' brief was supportive of the overall ROE methodology determined in the October 16, 2018 order providing the FERC does not change the proposed methodology or alter its implementation in a manner that has a material impact on the results. Reply briefs will be filed on March 8, 2019.

The FERC order included illustrative calculations for the first complaint using FERC's proposed frameworks with financial data from that complaint. Those preliminary calculations indicated that for the first complaint period, for the NETOs that FERC concludes are of average financial risk, (1) a preliminary range of presumptively just and reasonable base ROEs is 9.60 percent to 10.99 percent ; (2) the pre-existing base ROE of 11.14 percent is therefore unjust and unreasonable; (3) the preliminary just and reasonable base ROE is 10.41 percent ; and (4) the preliminary incentive cap on total ROE is 13.08 percent .

If the results of these illustrative calculations were included in a final FERC order for each of the complaint periods, then a 10.41 percent base ROE and a 13.08 percent incentive cap would not have a significant impact on our financial statements for all of the complaint periods.

Although the order provided illustrative calculations, FERC stated that these calculations are merely preliminary. The FERC's preliminary calculations are not binding and do not represent what we believe to be the most likely outcome of a final FERC order, as changes to the methodology by FERC are possible as a result of the parties' arguments and calculations in the briefing process. Until FERC issues a final decision on each of these four complaints, there is significant uncertainty, and at this time, the Company cannot reasonably estimate a range of gain or loss for any of the four complaint proceedings. The October 16, 2018 FERC order or the January 11, 2019 briefs did not provide a reasonable basis for a change to the reserve or recognized ROEs for any of the complaint periods.

Eversource, CL&P, NSTAR Electric and PSNH currently record revenues at the 10.57 percent base ROE and incentive cap at 11.74 percent established in the October 16, 2014 FERC order.

The average impact of a 10 basis point change to the base ROE for each of the 15 -month complaint periods would affect Eversource's after-tax earnings by approximately \$3 million .

#### **F. Eversource and NSTAR Electric Boston Harbor Civil Action**

On July 15, 2016, the United States Attorney on behalf of the United States Army Corps of Engineers filed a civil action in the United States District Court for the District of Massachusetts under provisions of the Rivers and Harbors Act of 1899 and the Clean Water Act against NSTAR Electric, Harbor Electric Energy Company, a wholly-owned subsidiary of NSTAR Electric ("HEEC"), and the Massachusetts Water Resources Authority (together with NSTAR Electric and HEEC, the "Defendants"). The action alleged that the Defendants failed to comply with certain permitting requirements related to the placement of the HEEC-owned electric distribution cable beneath Boston Harbor. The action sought an order to compel HEEC to comply with cable depth requirements in the United States Army Corps of Engineers' permit or alternatively to remove the electric distribution cable and cease unauthorized work in U.S. waterways. The action also sought civil penalties and other costs.

The parties reached a settlement pursuant to which HEEC agreed to install a new 115kV distribution cable across Boston Harbor to Deer Island, utilizing a different route, and remove portions of the existing cable. Upon the installation and completion of the new cable and the removal of the portions of the existing cable, all issues surrounding the current permit from the United States Army Corps of Engineers are expected to be resolved, and such litigation is expected to be dismissed with prejudice.

In 2017, as a result of the settlement, NSTAR Electric expensed \$4.9 million (pre-tax) of previously incurred capitalized costs associated with engineering work performed on the existing cable that will no longer be used. In addition, NSTAR Electric agreed to provide a rate base credit of \$17.5 million to the Massachusetts Water Resources Authority for the new cable. This negotiated credit resulted in the initial \$17.5 million of construction costs on the new cable being expensed as incurred, all of which was fully expensed by the end of 2018. Construction of the new cable is underway and is expected to be completed in 2019.

### G. Litigation and Legal Proceedings

Eversource, including CL&P, NSTAR Electric and PSNH, are involved in legal, tax and regulatory proceedings regarding matters arising in the ordinary course of business, which involve management's assessment to determine the probability of whether a loss will occur and, if probable, its best estimate of probable loss. The Company records and discloses losses when these losses are probable and reasonably estimable, and discloses matters when losses are probable but not estimable or when losses are reasonably possible. Legal costs related to the defense of loss contingencies are expensed as incurred.

### 13. GENERATION ASSET SALE

In June 2015, Eversource and PSNH entered into the 2015 Public Service Company of New Hampshire Restructuring and Rate Stabilization Agreement, pursuant to which PSNH agreed to divest its generation assets, subject to NHPUC approval. The NHPUC approved this agreement as well as the final divestiture plan and auction process in 2016. On October 11, 2017, PSNH entered into two Purchase and Sale Agreements with private investors, one to sell its thermal generation assets at a purchase price of \$175 million, subject to adjustment, (the "Thermal Agreement") and a second to sell its hydroelectric generation assets at a purchase price of \$83 million, subject to adjustment (the "Hydro Agreement"). The NHPUC approved these agreements in late November 2017, at which time the Company classified these assets as held for sale.

On January 10, 2018, PSNH completed the sale of its thermal generation assets pursuant to the Thermal Agreement. In accordance with the Thermal Agreement, the original purchase price of \$175 million was adjusted to reflect working capital adjustments, closing date adjustments and proration of taxes and fees prior to closing, totaling \$40.9 million. In the second quarter of 2018, the purchase price was further adjusted by \$17.3 million relating to the valuation of certain allowances. As a result of these adjustments, net proceeds from the sale of the thermal assets totaled \$116.8 million.

On July 16, 2018, FERC issued its order approving the transfer of PSNH's six hydroelectric licenses to private investors. On August 26, 2018, PSNH completed the sale of its hydroelectric generation assets pursuant to the Hydro Agreement. In accordance with the Hydro Agreement, the original purchase price of \$83 million was adjusted to reflect contractual adjustments totaling \$5.8 million, resulting in net proceeds of \$77.2 million. The difference between the carrying value of the hydroelectric generation assets and the sale proceeds resulted in a gain of \$17.3 million. An estimated gain from the sale of these assets was included as an offset to the total remaining costs associated with the sale of generation assets that were securitized on May 8, 2018.

On May 8, 2018, PSNH Funding issued \$635.7 million of securitized RRBs to finance PSNH's unrecovered remaining costs associated with the divestiture of its generation assets, which included the deferred costs resulting from the sale of the thermal generation assets. These RRBs are secured by a non-bypassable charge recoverable from PSNH customers. As of December 31, 2018, unamortized securitized stranded costs totaled \$608.4 million and are included in Regulatory Assets on the Eversource and PSNH balance sheets. As of December 31, 2017, the deferred costs resulting from the thermal generation asset sale of \$516.1 million represented the difference between the carrying value and the fair value less cost to sell the thermal generation assets. For further information on the securitized RRB issuance, see Note 9, "Rate Reduction Bonds and Variable Interest Entities."

For the year ended December 31, 2018, pre-tax income associated with the hydroelectric assets prior to the sale on August 26, 2018 was \$9.9 million. For the years ended December 31, 2017 and 2016, pre-tax income associated with PSNH's generation assets was \$60.0 million, and \$65.3 million, respectively.

As of December 31, 2018, all generation assets had been sold and as a result, no generation assets were classified as held for sale. As of December 31, 2017, PSNH's generation assets held for sale, which were included in current assets on the Eversource and PSNH balance sheets, and were part of the Electric Distribution reportable segment, were as follows:

<i>(Millions of Dollars)</i>	<b>As of December 31, 2017</b>
Thermal Gross Plant	\$ 1,091.4
Hydroelectric Gross Plant	83.0
Accumulated Depreciation	<u>(575.4)</u>
Net Plant	599.0
Fuel and Inventory	87.7
Materials and Supplies	27.3
Emission Allowances	19.1
Other Assets	2.6
Deferred Costs from Thermal Generation Asset Sale	<u>(516.1)</u>
Total Generation Assets Held for Sale	<u>\$ 219.6</u>

#### 14. LEASES

Eversource, including CL&P, NSTAR Electric and PSNH, has entered into lease agreements, some of which are capital leases, for the use of land, office space, service centers, vehicles, information technology, and office equipment. In addition, CL&P, NSTAR Electric and PSNH incur costs associated with leases entered into by affiliated Eversource subsidiaries, including Eversource Service and Rocky River Realty Company, and are included below in their respective operating lease rental expenses and future minimum rental payments. These intercompany lease amounts are eliminated on an Eversource consolidated basis. The provisions of the Eversource, CL&P, NSTAR Electric and PSNH lease agreements generally contain renewal options. One lease agreement contains payments impacted by the consumer price index.

Operating lease rental payments charged to expense are as follows:

<i>(Millions of Dollars)</i>	<b>Eversource</b>	<b>CL&amp;P</b>	<b>NSTAR Electric</b>	<b>PSNH</b>
2018	\$ 10.8	\$ 10.9	\$ 11.8	\$ 2.5
2017	10.5	11.7	11.3	3.3
2016	12.1	12.5	11.4	2.9

Future minimum rental payments, excluding executory costs, such as property taxes, state use taxes, insurance, and maintenance, under long-term non-cancelable leases, as of December 31, 2018 are as follows:

<b>Operating Leases</b> <i>(Millions of Dollars)</i>	<b>Eversource</b>	<b>CL&amp;P</b>	<b>NSTAR Electric</b>	<b>PSNH</b>
2019	\$ 11.5	\$ 1.5	\$ 7.2	\$ 0.5
2020	9.8	1.4	6.0	0.4
2021	8.7	1.2	5.3	0.4
2022	7.2	1.1	4.4	0.4
2023	4.7	0.5	3.1	0.2
Thereafter	32.7	0.2	29.5	0.3
Future minimum lease payments	\$ 74.6	\$ 5.9	\$ 55.5	\$ 2.2

<b>Capital Leases</b> <i>(Millions of Dollars)</i>	<b>Eversource</b>	<b>CL&amp;P</b>	<b>NSTAR Electric</b>	<b>PSNH</b>
2019	\$ 3.4	\$ 2.0	\$ 0.5	\$ 0.1
2020	3.4	2.0	0.5	0.1
2021	2.9	1.5	0.5	0.1
2022	1.5	—	0.6	0.1
2023	0.7	—	0.6	0.1
Thereafter	13.9	—	13.4	0.5
Future minimum lease payments	25.8	5.5	16.1	1.0
Less amount to arrive at present value	13.8	1.0	12.4	0.1
Present value of future minimum lease payments	\$ 12.0	\$ 4.5	\$ 3.7	\$ 0.9

CL&P and PSNH entered into certain contracts for the purchase of energy that qualify as leases. These contracts do not have minimum lease payments and therefore are not included in the tables above. However, such contracts and corresponding expense have been included in the contractual obligations tables in Note 12B, "Commitments and Contingencies - Long-Term Contractual Arrangements," to the financial statements.

## 15. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each of the following financial instruments:

*Preferred Stock, Long-Term Debt and Rate Reduction Bonds:* The fair value of CL&P's and NSTAR Electric's preferred stock is based upon pricing models that incorporate interest rates and other market factors, valuations or trades of similar securities and cash flow projections. The fair value of long-term debt and RRB debt securities is based upon pricing models that incorporate quoted market prices for those issues or similar issues adjusted for market conditions, credit ratings of the respective companies and treasury benchmark yields. The fair values provided in the table below are classified as Level 2 within the fair value hierarchy. Carrying amounts and estimated fair values are as follows:

(Millions of Dollars)	Eversource		CL&P		NSTAR Electric		PSNH	
	Carrying Amount	Fair Value						
<b>As of December 31, 2018:</b>								
Preferred Stock Not Subject to Mandatory Redemption	\$ 155.6	\$ 156.8	\$ 116.2	\$ 113.8	\$ 43.0	\$ 43.0	\$ —	\$ —
Long-Term Debt	13,086.1	13,154.9	3,254.0	3,429.2	2,944.8	3,024.1	805.2	819.5
Rate Reduction Bonds	635.7	645.8	—	—	—	—	635.7	645.8
<b>As of December 31, 2017:</b>								
Preferred Stock Not Subject to Mandatory Redemption	\$ 155.6	\$ 160.8	\$ 116.2	\$ 116.5	\$ 43.0	\$ 44.3	\$ —	\$ —
Long-Term Debt	12,325.5	12,877.1	3,059.1	3,430.5	2,943.8	3,156.5	1,002.4	1,038.2

*Derivative Instruments and Marketable Securities:* Derivative instruments and investments in marketable securities are carried at fair value. For further information, see Note 4, "Derivative Instruments," and Note 5, "Marketable Securities," to the financial statements.

See Note 11, "Summary of Significant Accounting Policies – Fair Value Measurements," for the fair value measurement policy and the fair value hierarchy.

## 16. ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)

The changes in accumulated other comprehensive income/(loss) by component, net of tax, are as follows:

Eversource (Millions of Dollars)	For the Year Ended December 31, 2018				For the Year Ended December 31, 2017			
	Qualified Cash Flow Hedging Instruments	Unrealized Losses on Marketable Securities	Defined Benefit Plans	Total	Qualified Cash Flow Hedging Instruments	Unrealized Gains/(Losses) on Marketable Securities	Defined Benefit Plans	Total
Balance as of January 1st	\$ (6.2)	\$ —	\$ (60.2)	\$ (66.4)	\$ (8.2)	\$ 0.4	\$ (57.5)	\$ (65.3)
OCI Before Reclassifications	—	(0.5)	0.3	(0.2)	—	(0.4)	(7.2)	(7.6)
Amounts Reclassified from AOCI	1.8	—	4.8	6.6	2.0	—	4.5	6.5
Net OCI	1.8	(0.5)	5.1	6.4	2.0	(0.4)	(2.7)	(1.1)
Balance as of December 31st	\$ (4.4)	\$ (0.5)	\$ (55.1)	\$ (60.0)	\$ (6.2)	\$ —	\$ (60.2)	\$ (66.4)

Eversource's qualified cash flow hedging instruments represent interest rate swap agreements on debt issuances that were settled in prior years. The settlement amount was recorded in AOCI and is being amortized into Net Income over the term of the underlying debt instrument. CL&P, NSTAR Electric and PSNH continue to amortize interest rate swaps settled in prior years from AOCI into Interest Expense over the remaining life of the associated long-term debt. Such interest rate swaps are not material to their respective financial statements.

Defined benefit plan OCI amounts before reclassifications relate to actuarial gains and losses that arose during the year and were recognized in AOCI. The unamortized actuarial gains and losses and prior service costs on the defined benefit plans are amortized from AOCI into Other Income, Net over the average future employee service period, and are reflected in amounts reclassified from AOCI. The related tax effects recognized in AOCI were net deferred tax liabilities of \$0.2 million in 2018, and deferred tax assets of \$4.1 million and \$ 4.0 million in 2017 and 2016, respectively.

The following table sets forth the amounts reclassified from AOCI by component and the impacted line item on the statements of income:

Eversource (Millions of Dollars)	Amounts Reclassified from AOCI			Statements of Income Line Item Impacted
	For the Years Ended December 31,			
	2018	2017	2016	
Qualified Cash Flow Hedging Instruments	\$ (2.8)	\$ (3.3)	\$ (3.5)	Interest Expense
Tax Effect	1.0	1.3	1.4	Income Tax Expense
Qualified Cash Flow Hedging Instruments, Net of Tax	\$ (1.8)	\$ (2.0)	\$ (2.1)	
Defined Benefit Plan Costs:				
Amortization of Actuarial Losses	\$ (6.0)	\$ (6.2)	\$ (5.6)	Other Income, Net <sup>(1)</sup>
Amortization of Prior Service Cost	(0.4)	(1.1)	(0.8)	Other Income, Net <sup>(1)</sup>
Total Defined Benefit Plan Costs	(6.4)	(7.3)	(6.4)	
Tax Effect	1.6	2.8	2.5	Income Tax Expense
Defined Benefit Plan Costs, Net of Tax	\$ (4.8)	\$ (4.5)	\$ (3.9)	
Total Amounts Reclassified from AOCI, Net of Tax	\$ (6.6)	\$ (6.5)	\$ (6.0)	

<sup>(1)</sup> These amounts are included in the computation of net periodic Pension, SERP and PBOP costs. See Note 1N, "Summary of Significant Accounting Policies – Other Income, Net" and Note 10A, "Employee Benefits – Pension Benefits and Postretirement Benefits Other Than Pension," for further information.

As of December 31, 2018, it is estimated that a pre-tax amount of \$2.5 million (\$0.7 million for NSTAR Electric and \$1.8 million for PSNH) will be reclassified from AOCI as a decrease to Net Income over the next 12 months as a result of the amortization of the interest rate swap agreements which have been settled. In addition, it is estimated that a pre-tax amount of \$6.3 million will be reclassified from AOCI as a decrease to Net Income over the next 12 months as a result of the amortization of Pension, SERP and PBOP costs.

## 17. DIVIDEND RESTRICTIONS

Eversource parent's ability to pay dividends may be affected by certain state statutes, the ability of its subsidiaries to pay common dividends and the leverage restriction tied to its consolidated total debt to total capitalization ratio requirement in its revolving credit agreement. Pursuant to the joint revolving credit agreement of Eversource, CL&P, PSNH, Yankee Gas and NSTAR Gas, and to the NSTAR Electric revolving credit agreement, each company is required to maintain consolidated total indebtedness to total capitalization ratio of no greater than 65 percent at the end of each fiscal quarter. As of December 31, 2018, all companies were in compliance with such covenant. Eversource, CL&P, NSTAR Electric, PSNH, Yankee Gas and NSTAR Gas were in compliance with all such provisions of the revolving credit agreements that may restrict the payment of dividends as of December 31, 2018.

The Retained Earnings balances subject to dividend restrictions were \$4.0 billion for Eversource, \$1.7 billion for CL&P, \$2.1 billion for NSTAR Electric and \$627.3 million for PSNH as of December 31, 2018.

CL&P, NSTAR Electric and PSNH are subject to Section 305 of the Federal Power Act that makes it unlawful for a public utility to make or pay a dividend from any funds "properly included in its capital account." Management believes that this Federal Power Act restriction, as applied to CL&P, NSTAR Electric and PSNH, would not be construed or applied by the FERC to prohibit the payment of dividends from retained earnings for lawful and legitimate business purposes. In addition, certain state statutes may impose additional limitations on such companies and on Yankee Gas and NSTAR Gas. Such state law restrictions do not restrict the payment of dividends from retained earnings or net income.

## 18. COMMON SHARES

The following table sets forth the Eversource parent common shares and the shares of common stock of CL&P, NSTAR Electric and PSNH that were authorized and issued, as well as the respective per share par values:

	Par Value	Shares		
		Authorized as of December 31, 2018 and 2017	Issued as of December 31,	
			2018	2017
Eversource	\$ 5	380,000,000	333,878,402	333,878,402
CL&P	\$ 10	24,500,000	6,035,205	6,035,205
NSTAR Electric	\$ 1	100,000,000	200	200
PSNH	\$ 1	100,000,000	301	301

As of both December 31, 2018 and 2017, there were 16,992,594 Eversource common shares held as treasury shares. As of both December 31, 2018 and 2017, there were 316,885,808 Eversource common shares outstanding.

## 19. PREFERRED STOCK NOT SUBJECT TO MANDATORY REDEMPTION

The CL&P and NSTAR Electric preferred stock is not subject to mandatory redemption and is presented as a noncontrolling interest of a subsidiary in Eversource's financial statements.

CL&P is authorized to issue up to 9,000,000 shares of preferred stock, par value \$50 per share, and NSTAR Electric is authorized to issue 2,890,000 shares of preferred stock, par value \$100 per share. Holders of preferred stock of CL&P and NSTAR Electric are entitled to receive cumulative dividends in preference to any payment of dividends on the common stock. Upon liquidation, holders of preferred stock of CL&P and NSTAR Electric are entitled to receive a liquidation preference before any distribution to holders of common stock in an amount equal to the par value of the preferred stock plus accrued and unpaid dividends. If the net assets were to be insufficient to pay the liquidation preference in full, then the net assets would be distributed ratably to all holders of preferred stock. The preferred stock of CL&P and NSTAR Electric is subject to optional redemption by the CL&P and NSTAR Electric Board of Directors at any time.

Details of preferred stock not subject to mandatory redemption are as follows (in millions, except in redemption price and shares):

Series	Redemption Price Per Share	Shares Outstanding as of December 31,		As of December 31,	
		2018	2017	2018	2017
<b>CL&amp;P</b>					
\$1.90 Series of 1947	\$ 52.50	163,912	163,912	\$ 8.2	\$ 8.2
\$2.00 Series of 1947	\$ 54.00	336,088	336,088	16.8	16.8
\$2.04 Series of 1949	\$ 52.00	100,000	100,000	5.0	5.0
\$2.20 Series of 1949	\$ 52.50	200,000	200,000	10.0	10.0
3.90% Series of 1949	\$ 50.50	160,000	160,000	8.0	8.0
\$2.06 Series E of 1954	\$ 51.00	200,000	200,000	10.0	10.0
\$2.09 Series F of 1955	\$ 51.00	100,000	100,000	5.0	5.0
4.50% Series of 1956	\$ 50.75	104,000	104,000	5.2	5.2
4.96% Series of 1958	\$ 50.50	100,000	100,000	5.0	5.0
4.50% Series of 1963	\$ 50.50	160,000	160,000	8.0	8.0
5.28% Series of 1967	\$ 51.43	200,000	200,000	10.0	10.0
\$3.24 Series G of 1968	\$ 51.84	300,000	300,000	15.0	15.0
6.56% Series of 1968	\$ 51.44	200,000	200,000	10.0	10.0
Total CL&P		2,324,000	2,324,000	\$ 116.2	\$ 116.2
<b>NSTAR Electric</b>					
4.25% Series of 1956	\$ 103.625	180,000	180,000	\$ 18.0	\$ 18.0
4.78% Series of 1958	\$ 102.80	250,000	250,000	25.0	25.0
Total NSTAR Electric		430,000	430,000	\$ 43.0	\$ 43.0
Fair Value Adjustment due to Merger with NSTAR				(3.6)	(3.6)
<b>Other</b>					
6.00% Series of 1958	\$ 100.00	23	23	\$ —	\$ —
<b>Total Eversource - Preferred Stock of Subsidiaries</b>				<b>\$ 155.6</b>	<b>\$ 155.6</b>

## 20. COMMON SHAREHOLDERS' EQUITY AND NONCONTROLLING INTERESTS

Dividends on the preferred stock of CL&P and NSTAR Electric totaled \$7.5 million for each of the years ended December 31, 2018, 2017 and 2016. These dividends were presented as Net Income Attributable to Noncontrolling Interests on the Eversource statements of income. Noncontrolling Interest – Preferred Stock of Subsidiaries on the Eversource balance sheets totaled \$155.6 million as of December 31, 2018 and 2017. On the Eversource balance sheets, Common Shareholders' Equity was fully attributable to Eversource parent and Noncontrolling Interest – Preferred Stock of Subsidiaries was fully attributable to the noncontrolling interest.

For the years ended December 31, 2018, 2017 and 2016, there was no change in ownership of the common equity of CL&P and NSTAR Electric.

## 21. EARNINGS PER SHARE

Basic EPS is computed based upon the weighted average number of common shares outstanding during each period. Diluted EPS is computed on the basis of the weighted average number of common shares outstanding plus the potential dilutive effect of certain share-based compensation awards as if they were converted into common shares. The dilutive effect of unvested RSU and performance share awards is calculated using the treasury stock method. RSU and performance share awards are included in basic weighted average common shares outstanding as of the date that all necessary vesting conditions have been satisfied.

The following table sets forth the components of basic and diluted EPS:

Eversource (Millions of Dollars, except share information)	For the Years Ended December 31,		
	2018	2017	2016
Net Income Attributable to Common Shareholders	\$ 1,033.0	\$ 988.0	\$ 942.3
Weighted Average Common Shares Outstanding:			
Basic	317,370,369	317,411,097	317,650,180
Dilutive Effect	623,565	620,483	804,059
Diluted	317,993,934	318,031,580	318,454,239
Basic EPS	\$ 3.25	\$ 3.11	\$ 2.97
Diluted EPS	\$ 3.25	\$ 3.11	\$ 2.96

## 22. REVENUES

On January 1, 2018, Eversource, including CL&P, NSTAR Electric and PSNH, adopted ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)" using the modified retrospective approach. The core principle of this accounting guidance is that revenue is recognized when promised goods or services (referred to as performance obligations) are transferred to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard uses a five-step model for recognizing and measuring revenue from contracts with customers, which includes identifying the contract with the customer, identifying the performance obligations promised within the contract, determining the transaction price (the amount of consideration to which the company expects to be entitled), allocating the transaction price to the performance obligations and recognizing revenue when (or as) the performance obligation is satisfied.

The following table presents operating revenues disaggregated by revenue source:

Eversource (Millions of Dollars)	For the Year Ended December 31, 2018						
	Electric Distribution	Natural Gas Distribution	Electric Transmission	Water Distribution	Other	Eliminations	Total
Revenue from Contracts with Customers							
Retail Tariff Sales							
Residential	\$ 3,766.6	\$ 542.5	\$ —	\$ 130.7	\$ —	\$ —	\$ 4,439.8
Commercial	2,634.7	334.8	—	63.3	—	(4.5)	3,028.3
Industrial	351.9	96.0	—	4.4	—	(10.0)	442.3
Total Retail Tariff Sales Revenue	6,753.2	973.3	—	198.4	—	(14.5)	7,910.4
Wholesale Transmission Revenue	—	—	1,308.9	—	47.3	(1,092.2)	264.0
Wholesale Market Sales Revenue	179.5	57.5	—	4.1	—	—	241.1
Other Revenue from Contracts with Customers	65.9	(2.2)	12.6	7.2	889.0	(891.0)	81.5
Reserve for Revenue Subject to Refund	(12.3)	(8.3)	—	(3.7)	—	—	(24.3)
Total Revenue from Contracts with Customers	6,986.3	1,020.3	1,321.5	206.0	936.3	(1,997.7)	8,472.7
Alternative Revenue Programs	(47.0)	(1.2)	(35.2)	5.4	—	31.9	(46.1)
Other Revenue	17.9	3.1	—	0.6	—	—	21.6
Total Operating Revenues	\$ 6,957.2	\$ 1,022.2	\$ 1,286.3	\$ 212.0	\$ 936.3	\$ (1,965.8)	\$ 8,448.2

	For the Year Ended December 31, 2018		
(Millions of Dollars)	CL&P	NSTAR Electric	PSNH
Revenue from Contracts with Customers			
Retail Tariff Sales			
Residential	\$ 1,828.2	\$ 1,380.9	\$ 557.5
Commercial	928.1	1,391.5	316.9
Industrial	147.7	124.9	79.3
Total Retail Tariff Sales Revenue	2,904.0	2,897.3	953.7
Wholesale Transmission Revenue	620.6	488.8	199.5
Wholesale Market Sales Revenue	48.3	76.1	56.6
Other Revenue from Contracts with Customers	35.0	28.9	15.5
Reserve for Revenue Subject to Refund	—	—	(12.3)
Total Revenue from Contracts with Customers	3,607.9	3,491.1	1,213.0
Alternative Revenue Programs	(65.9)	0.9	(17.3)
Other Revenue	8.5	8.3	1.1
Eliminations	(454.3)	(387.4)	(149.2)
Total Operating Revenues	\$ 3,096.2	\$ 3,112.9	\$ 1,047.6

*Retail Tariff Sales:* Regulated utilities provide products and services to their regulated customers under rates, pricing, payment terms and conditions of service, regulated by each state regulatory agency. The arrangement whereby a utility provides commodity service to a customer for a price approved by the respective state regulatory commission is referred to as a tariff sale contract, and the tariff governs all aspects of the provision of regulated services by utilities. The majority of revenue for Eversource, CL&P, NSTAR Electric and PSNH is derived from regulated retail tariff sales for the sale and distribution of electricity, natural gas and water to residential, commercial and industrial retail customers.

The utility's performance obligation for the regulated tariff sales is to provide electricity, natural gas or water to the customer as demanded. The promise to provide the commodity represents a single performance obligation, as it is a promise to transfer a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer. Revenue is recognized over time as the customer simultaneously receives and consumes the benefits provided by the utility, and the utility satisfies its performance obligation. Revenue is recognized based on the output method as there is a directly observable output to the customer (electricity, natural gas or water units delivered to the customer and immediately consumed). Each Eversource utility is entitled to be compensated for performance completed to date (service taken by the customer) until service is terminated.

In regulated tariff sales, the transaction prices are the rates approved by the respective state regulatory commissions. In general, rates can only be changed through formal proceedings with the state regulatory commissions. These rates are designed to recover the costs to provide service to customers and include a return on investment. Regulatory commission-approved tracking mechanisms are included in these rates and are also used to recover, on a fully-reconciling basis, certain costs, such as the procurement of energy supply, retail transmission charges, energy efficiency program costs, net metering for distributed generation, and restructuring and stranded costs. These tracking mechanisms result in rates being changed periodically to ensure recovery of actual costs incurred.

Customers may elect to purchase electricity from each Eversource electric utility or may contract separately with a competitive third party supplier. Revenue is not recorded for the sale of the electricity commodity to customers who have contracted separately with these suppliers, only the delivery to a customer, as the utility is acting as an agent on behalf of the third party supplier.

*Wholesale Transmission Revenues:* The Eversource electric transmission-owning companies (CL&P, NSTAR Electric and PSNH) each own and maintain transmission facilities that are part of an interstate power transmission grid over which electricity is transmitted throughout New England. CL&P, NSTAR Electric and PSNH, as well as most other New England utilities, are parties to a series of agreements that provide for coordinated planning and operation of the region's transmission facilities and the rules by which they acquire transmission services. The Eversource electric transmission-owning companies have a combination of FERC-approved regional and local formula rates that work in tandem to recover all their transmission costs. These rates are part of the ISO-NE Tariff. Regional rates recover the costs of higher voltage transmission facilities that benefit the region and are collected from all New England transmission customers, including the Eversource distribution businesses. Eversource's local rates recover the companies' total transmission revenue requirements, less revenues received from regional rates and other sources, and are collected from Eversource's distribution businesses and other transmission customers. The distribution businesses of Eversource, in turn, recover the FERC approved charges from retail customers through annual or semiannual tracking mechanisms, which are retail tariff sales.

The utility's performance obligation for regulated wholesale transmission sales is to provide transmission services to the customer as demanded. The promise to provide transmission service represents a single performance obligation. The transaction prices are the transmission rate formulas as defined by the ISO-NE Tariff and are regulated and established by FERC. Wholesale transmission revenue is recognized over time as the performance obligation is completed, which occurs as transmission services are provided to customers. The revenue is recognized based on the output method. Each Eversource utility is entitled to be compensated for performance completed to date (e.g., use of the transmission system by the customer).

*Wholesale Market Sales Revenues:* Wholesale market sales transactions include sales of energy and energy-related products into the ISO-NE wholesale electricity market, sales of natural gas to third party marketers, and also the sale of RECs to various counterparties. ISO-NE oversees the region's wholesale electricity market and administers the transactions and terms and conditions, including payment terms, which are established in the ISO-NE tariff, between the buyers and sellers in the market. Pricing is set by the wholesale market. The wholesale transactions in the ISO-NE market occur on a day-ahead basis or a real-time basis (daily) and are, therefore, short-term. Transactions are tracked and reported by ISO-NE net by the hour, which is the net hourly position of energy sales and purchases by each market participant. Beginning in the first quarter of 2018, the performance obligation for ISO-NE energy transactions is defined to be the net by hour transaction. Revenue is recognized when the performance obligation for these energy sales transactions is satisfied, when the sale occurs and the energy is transferred to the customer. For sales of natural gas, transportation, and natural gas pipeline capacity to third party marketers, revenue is recognized when the performance obligation is satisfied at the point in time the sale occurs and the natural gas or related product is transferred to the marketer. RECs are sold to various counterparties, and revenue is recognized when the performance obligation is satisfied upon transfer of title to the customer through the New England Power Pool Generation Information System.

*Other Revenue from Contracts with Customers:* Other revenue from contracts with customers primarily includes property rentals that are not deemed leases. These revenues are generally recognized on a straight-line basis over time as the service is provided to the customer.

*Reserve for Revenue Subject to Refund:* Current base rates include an estimate of income taxes, which was based on the U.S. federal corporate income tax rate in effect at the time of the rate proceeding. Eversource established a regulatory liability, recorded as a reduction to revenue, to reflect the difference between the 35 percent federal corporate income tax rate included in rates charged to customers and the 21 percent federal corporate income tax rate, effective January 1, 2018 as a result of the Tax Cuts and Jobs Act, until rates billed to customers reflect the lower federal tax rate. Effective May 1, 2018, CL&P adjusted rates billed to customers to reflect the lower federal income tax rate prospectively and, as of December 31, 2018, fully refunded its regulatory liability associated with the higher federal corporate income tax rate billed to customers in the period between January 1, 2018 through April 30, 2018. Effective November 15, 2018, Yankee Gas adjusted distribution rates to reflect the lower federal income tax rate prospectively and to refund its regulatory liability associated with the higher federal corporate income tax rate billed to customers in the period between January 1, 2018 through November 14, 2018. Although Yankee Gas' new rates were effective January 1, 2019, the provisions of the settlement agreement took effect November 15, 2018. For NSTAR Electric and NSTAR Gas, a December 2018 DPU order indicated that the DPU will not require a revision to base rates for any potential refunds associated with the higher federal corporate income tax rate billed to customers in the period between January 1, 2018 to the effective dates of each company's rate changes (effective February 1, 2018 for NSTAR Electric and July 1, 2018 for NSTAR Gas). PSNH and Aquarion will refund the overcollection in distribution rates from January 1, 2018 to customers in a future period. PSNH will adjust distribution rates to reflect the prospective lower federal income tax rate effective July 1, 2019, or earlier if a rate case is filed for rates effective prior to July 1, 2019.

*Alternative Revenue Programs:* In accordance with accounting guidance for rate-regulated operations, certain of Eversource's utilities' rate making mechanisms qualify as alternative revenue programs ("ARPs") if they meet specified criteria, in which case revenues may be recognized prior to billing based on allowed levels of collection in rates. Eversource's utility companies recognize revenue and record a regulatory asset or liability once the condition or event allowing for the automatic adjustment of future rates occurs. ARP revenues include both the recognition of the deferral adjustment to ARP revenues, when the regulator-specified condition or event allowing for additional billing or refund has occurred, and an equal and offsetting reversal of the ARP deferral to revenues as those amounts are reflected in the price of service in subsequent periods.

Eversource's ARPs include the revenue decoupling mechanism and the annual reconciliation adjustment to transmission formula rates, described below.

- Certain Eversource electric, natural gas and water companies, including CL&P and NSTAR Electric, have revenue decoupling mechanisms approved by a regulatory commission ("decoupled companies"). Decoupled companies' distribution revenues are not directly based on sales volumes. The decoupled companies reconcile their annual base distribution rate recovery to pre-established levels of baseline distribution delivery service revenues, with any difference between the allowed level of distribution revenue and the actual amount realized adjusted through subsequent rates.
- The transmission formula rates provide for the annual reconciliation and recovery or refund of estimated costs to actual costs. The financial impacts of differences between actual and estimated costs are deferred for future recovery from, or refund to, transmission customers. This transmission deferral reconciles billed transmission revenues to the revenue requirement for our transmission businesses.

*Other Revenues:* Other Revenues include certain fees charged to customers and lease revenue that are not considered revenue from contracts with customers.

*Intercompany Eliminations:* Intercompany eliminations are primarily related to the Eversource electric transmission revenues that are derived from ISO-NE regional transmission charges to the distribution businesses of CL&P, NSTAR Electric and PSNH that recover the costs of the wholesale transmission business, and revenues from Eversource's service company. Intercompany revenues and expenses between the Eversource wholesale transmission businesses and the Eversource distribution businesses and from Eversource's service company are eliminated in consolidation and included in "Eliminations" in the table above.

*Receivables:* Receivables, Net on the balance sheet include trade receivables from our retail customers and receivables arising from ISO-NE billing related to wholesale transmission contracts and wholesale market transactions, sales of natural gas and capacity to marketers, sales of RECs, and property rentals. In general, retail tariff customers and wholesale transmission customers are billed monthly and the payment terms are generally due and payable upon receipt of the bill.

*Unbilled Revenues:* Unbilled Revenues on the balance sheet represent estimated amounts due from retail customers for electricity, natural gas or water delivered to customers but not yet billed. The utility company has satisfied its performance obligation and the customer has received and consumed the commodity as of the balance sheet date, and therefore, the utility company records revenue for those services in the period the services were provided. Only the passage of time is required before the company is entitled to payment for the satisfaction of the performance obligation. Payment from customers is due monthly as services are rendered and amounts are billed. Actual amounts billed to customers when meter readings become available may vary from the estimated amount.

Unbilled revenues are recognized by allocating estimated unbilled sales volumes to the respective customer classes, and then applying an estimated rate by customer class to those sales volumes. Unbilled revenue estimates reflect seasonality, weather, customer usage patterns, customer rates in effect for customer classes, and the timing of customer billing. The companies that have a decoupling mechanism record a regulatory deferral to reflect the actual allowed amount of revenue associated with their respective decoupled distribution rate design.

*Practical Expedients:* Eversource has elected practical expedients in the accounting guidance that allow the company to record revenue in the amount that the company has a right to invoice, if that amount corresponds directly with the value to the customer of the company's performance to date, and not to disclose related unsatisfied performance obligations. Retail and wholesale transmission tariff sales fall into this category, as these sales are recognized as revenue in the period the utility provides the service and completes the performance obligation, which is the same as the monthly amount billed to customers. There are no other material revenue streams for which Eversource has unsatisfied performance obligations.

### **23. SEGMENT INFORMATION**

Eversource is organized among the Electric Distribution, Electric Transmission, Natural Gas Distribution and Water Distribution reportable segments and Other based on a combination of factors, including the characteristics of each segments' services, the sources of operating revenues and expenses and the regulatory environment in which each segment operates. These reportable segments represent substantially all of Eversource's total consolidated revenues. Revenues from the sale of electricity, natural gas and water primarily are derived from residential, commercial and industrial customers and are not dependent on any single customer. The Electric Distribution reportable segment includes the results of PSNH's generation facilities prior to sales in January and August 2018, and NSTAR Electric's solar power facilities. Eversource's reportable segments are determined based upon the level at which Eversource's chief operating decision maker assesses performance and makes decisions about the allocation of company resources. On December 4, 2017, Eversource acquired Aquarion, which was considered to be a new operating segment, Water Distribution. Though the water distribution segment does not meet quantitative thresholds under the segment reporting accounting guidance, based on qualitative factors including the nature of the water distribution business, Water Distribution was deemed a reportable segment beginning in 2018.

The remainder of Eversource's operations is presented as Other in the tables below and primarily consists of 1) the equity in earnings of Eversource parent from its subsidiaries and intercompany interest income, both of which are eliminated in consolidation, and interest expense related to the debt of Eversource parent, 2) the revenues and expenses of Eversource Service, most of which are eliminated in consolidation, 3) the operations of CYAPC and YAEC, 4) Eversource Water Ventures, Inc., parent company of Aquarion, and 5) the results of other unregulated subsidiaries, which are not part of its core business. In addition, Other in the tables below includes Eversource parent's equity ownership interests in certain natural gas pipeline projects owned by Enbridge, Inc., the Bay State Wind project, a renewable energy investment fund, and two companies that transmit hydroelectricity imported from the Hydro-Quebec system in Canada. In the ordinary course of business, Yankee Gas and NSTAR Gas purchase natural gas transmission services from the Enbridge, Inc. natural gas pipeline projects described above. These affiliate transaction costs total approximately \$62.5 million annually and are classified as Purchased Power, Fuel and Transmission on the Eversource statements of income.

Each of Eversource's subsidiaries, including CL&P, NSTAR Electric and PSNH, has one reportable segment.

The Electric Transmission segment includes a reduction to Operations and Maintenance expense of \$27.5 million in 2016 for costs incurred in previous years that was recovered in transmission rates over the period June 1, 2016 through May 31, 2017. These costs were associated with the merger of Northeast Utilities and NSTAR.

Cash flows used for investments in plant included in the segment information below are cash capital expenditures that do not include amounts incurred but not paid, cost of removal, AFUDC related to equity funds, and the capitalized portions of pension and PBOP expense.

Eversource's segment information is as follows:

For the Year Ended December 31, 2018 <sup>(1)</sup>							
Eversource (Millions of Dollars)	Electric Distribution	Natural Gas Distribution	Electric Transmission	Water Distribution	Other	Eliminations	Total
Operating Revenues	\$ 6,957.2	\$ 1,022.2	\$ 1,286.3	\$ 212.0	\$ 936.3	\$ (1,965.8)	\$ 8,448.2
Depreciation and Amortization	(671.8)	(75.0)	(231.8)	(46.5)	(49.1)	2.2	(1,072.0)
Other Operating Expenses	(5,548.6)	(787.6)	(375.5)	(99.8)	(831.5)	1,966.7	(5,676.3)
Operating Income	736.8	159.6	679.0	65.7	55.7	3.1	1,699.9
Interest Expense	(202.8)	(44.1)	(120.6)	(34.3)	(129.3)	32.3	(498.8)
Interest Income	18.7	—	2.4	—	30.3	(33.3)	18.1
Other Income/(Loss), Net	67.5	7.1	31.1	(0.4)	1,185.3	(1,180.3)	110.3
Income Tax (Expense)/Benefit	(160.2)	(29.4)	(161.8)	(0.1)	62.5	—	(289.0)
Net Income	460.0	93.2	430.1	30.9	1,204.5	(1,178.2)	1,040.5
Net Income Attributable to Noncontrolling Interests	(4.6)	—	(2.9)	—	—	—	(7.5)
Net Income Attributable to Common Shareholders	\$ 455.4	\$ 93.2	\$ 427.2	\$ 30.9	\$ 1,204.5	\$ (1,178.2)	\$ 1,033.0
Total Assets (as of)	\$ 21,389.1	\$ 3,904.9	\$ 10,285.0	\$ 2,253.0	\$ 17,874.2	\$ (17,464.9)	\$ 38,241.3
Cash Flows Used for Investments in Plant	\$ 961.3	\$ 351.5	\$ 929.7	\$ 102.3	\$ 178.6	\$ —	\$ 2,523.4

For the Year Ended December 31, 2017 <sup>(2)</sup>							
Eversource (Millions of Dollars)	Electric Distribution	Natural Gas Distribution	Electric Transmission	Water Distribution (3)	Other	Eliminations	Total
Operating Revenues	\$ 5,542.9	\$ 947.3	\$ 1,301.7	\$ 15.9	\$ 931.0	\$ (986.8)	\$ 7,752.0
Depreciation and Amortization	(542.6)	(72.9)	(209.4)	(3.7)	(37.4)	2.2	(863.8)
Other Operating Expenses	(4,072.6)	(716.4)	(382.8)	(8.3)	(806.6)	986.7	(5,000.0)
Operating Income	927.7	158.0	709.5	3.9	87.0	2.1	1,888.2
Interest Expense	(186.3)	(43.1)	(115.1)	(3.1)	(90.0)	15.8	(421.8)
Interest Income	7.3	0.1	1.8	0.1	15.7	(16.7)	8.3
Other Income/(Loss), Net	41.6	3.8	27.3	—	1,113.0	(1,086.0)	99.7
Income Tax Expense	(288.3)	(44.2)	(228.7)	(2.1)	(15.5)	(0.1)	(578.9)
Net Income/(Loss)	502.0	74.6	394.8	(1.2)	1,110.2	(1,084.9)	995.5
Net Income Attributable to Noncontrolling Interests	(4.6)	—	(2.9)	—	—	—	(7.5)
Net Income/(Loss) Attributable to Common Shareholders	\$ 497.4	\$ 74.6	\$ 391.9	\$ (1.2)	\$ 1,110.2	\$ (1,084.9)	\$ 988.0
Total Assets (as of)	\$ 19,250.4	\$ 3,595.2	\$ 9,401.2	\$ 2,182.9	\$ 16,220.9	\$ (14,430.2)	\$ 36,220.4
Cash Flows Used for Investments in Plant	\$ 1,020.7	\$ 298.2	\$ 867.6	\$ 16.0	\$ 145.6	\$ —	\$ 2,348.1

For the Year Ended December 31, 2016 <sup>(2)</sup>							
Eversource (Millions of Dollars)	Electric Distribution	Natural Gas Distribution	Electric Transmission	Water Distribution	Other	Eliminations	Total
Operating Revenues	\$ 5,594.3	\$ 857.7	\$ 1,210.0	\$ —	\$ 870.4	\$ (893.3)	\$ 7,639.1
Depreciation and Amortization	(504.7)	(65.3)	(185.8)	—	(33.5)	2.2	(787.1)
Other Operating Expenses	(4,173.0)	(629.0)	(321.3)	—	(779.2)	891.8	(5,010.7)
Operating Income	916.6	163.4	702.9	—	57.7	0.7	1,841.3
Interest Expense	(193.1)	(41.3)	(110.0)	—	(63.5)	6.9	(401.0)
Interest Income	10.0	0.1	1.2	—	7.0	(7.3)	11.0
Other Income, Net	22.7	0.7	17.8	—	1,021.2	(1,008.9)	53.5
Income Tax (Expense)/Benefit	(288.8)	(45.2)	(238.2)	—	16.5	0.7	(555.0)
Net Income	467.4	77.7	373.7	—	1,038.9	(1,007.9)	949.8
Net Income Attributable to Noncontrolling Interests	(4.6)	—	(2.9)	—	—	—	(7.5)
Net Income Attributable to Common Shareholders	\$ 462.8	\$ 77.7	\$ 370.8	\$ —	\$ 1,038.9	\$ (1,007.9)	\$ 942.3
Cash Flows Used for Investments in Plant	\$ 812.6	\$ 255.3	\$ 801.0	\$ —	\$ 108.0	\$ —	\$ 1,976.9

- (1) Effective January 1, 2018, upon implementation of the new revenue accounting guidance, the electric distribution segment is presented gross and intercompany transmission billings are presented in the eliminations column, as Eversource believes that the electric distribution segment acts as a principal, rather than an agent, in its contracts with retail customers. Retail customers contract directly with the electric distribution utility and do not differentiate between distribution and transmission services. Therefore, the electric distribution segment revenues, which are derived from retail customer billings, are presented gross of the eliminations. Prior to 2018, the electric distribution segment presented intercompany electric transmission billings net, based on indicators of net presentation prior to the new revenue guidance. See Note 22 "Revenues," to the financial statements regarding accounting for revenues.
- (2) As a result of the adoption of new accounting guidance, the non-service related components of pension, SERP and PBOP benefit costs are presented as non-operating income and recorded in Other Income, Net on the statements of income. The 2017 and 2016 amounts, which were previously presented within Operations and Maintenance expense on the statements of income, have been retrospectively presented within Other Income, Net for the years ended December 31, 2017 and 2016. See Note 1C, "Summary of Significant Accounting Policies - Accounting Standards" and Note 1N, "Summary of Significant Accounting Policies - Other Income, Net," to the financial statements for further information.
- (3) The water distribution business was determined to be a reportable segment beginning in 2018. The 2017 segment information has been recast to conform to the current segment reporting structure.

## 24. ACQUISITION OF AQUARION AND GOODWILL

### A. Acquisition of Aquarion

On December 4, 2017, Eversource acquired Aquarion for a purchase price of \$1.675 billion, consisting of approximately \$880 million in cash and \$795 million of assumed Aquarion debt. Aquarion is a holding company that owns three separate regulated water utility subsidiaries engaged in the water collection, treatment and distribution business that operate in Connecticut, Massachusetts and New Hampshire. These regulated utilities collect, treat and distribute water to residential, commercial and industrial customers, to other utilities for resale, and for private and municipal fire protection. Aquarion and its subsidiaries became wholly-owned subsidiaries of Eversource, and Eversource's consolidated financial information includes Aquarion and its subsidiaries' activity beginning December 4, 2017. The approximate \$880 million cash purchase price included the \$745 million equity purchase price plus a \$135 million shareholder loan that was repaid at closing.

*Purchase Price Allocation*: The purchase price allocation reflects a measurement period adjustment recorded in the first quarter of 2018 to revise the fair value of Aquarion's regulated debt. The \$7.9 million increase to the fair value of Long-Term Debt (including the current portion) and corresponding increase to Regulatory Assets, included within Other Noncurrent Assets, excluding Goodwill in the table below, will be amortized over the life of the related debt. The allocation of the cash purchase price was as follows:

(Millions of Dollars)

Current Assets	\$	41.2
PP&E		1,034.9
Goodwill		907.9
Other Noncurrent Assets, excluding Goodwill		215.5
Current Liabilities		(121.9)
Noncurrent Liabilities		(421.6)
Long-Term Debt		(778.3)
Total Cash Purchase Price	\$	877.7

*Pro Forma Financial Information*: The following unaudited pro forma financial information reflects the pro forma combined results of operations of Eversource and Aquarion and reflects the amortization of purchase price adjustments assuming the acquisition had taken place on January 1, 2016. The unaudited pro forma financial information has been presented for illustrative purposes only and is not necessarily indicative of the consolidated results of operations that would have been achieved or the future consolidated results of operations of Eversource.

	For the Years Ended December 31,			
	2017		2016	
(Pro forma amounts in millions, except share amounts)				
Operating Revenues	\$	7,947.7	\$	7,849.0
Net Income Attributable to Common Shareholders		1,019.1		969.3
Basic EPS		3.21		3.05
Diluted EPS		3.20		3.04

*Aquarion Revenues and Pre-Tax Income*: The impact of Aquarion on Eversource's accompanying consolidated statement of income included operating revenues of \$15.9 million and pre-tax income of \$1.1 million for the year ended December 31, 2017.

## B. Goodwill

In a business combination, the excess of the purchase price over the estimated fair values of the assets acquired and liabilities assumed is recognized as goodwill. Goodwill is evaluated for impairment at least annually and more frequently if indicators of impairment arise. In accordance with the accounting standards, if the fair value of a reporting unit is less than its carrying value (including goodwill), the goodwill is tested for impairment. Goodwill is not subject to amortization, however is subject to a fair value based assessment for impairment at least annually and whenever facts or circumstances indicate that there may be an impairment. A resulting write-down, if any, would be charged to Operating Expenses.

Eversource completed the acquisition of Aquarion on December 4, 2017, resulting in the addition of \$0.9 billion of goodwill. Upon completion of the acquisition, Eversource determined that the reporting units for the purpose of testing goodwill are Electric Distribution, Electric Transmission, Natural Gas Distribution and Water Distribution. The goodwill resulting from the Aquarion acquisition has been entirely allocated to the Water Distribution reporting unit. These reporting units are consistent with the operating segments underlying the reportable segments identified in Note 23, "Segment Information," to the financial statements.

Eversource completed its annual goodwill impairment test for Electric Distribution, Electric Transmission, Natural Gas Distribution and Water Distribution reporting units as of October 1, 2018 and determined that no impairment existed. There were no events subsequent to October 1, 2018 that indicated impairment of goodwill. The annual goodwill assessment included an evaluation of the Company's share price and credit ratings, analyst reports, financial performance, cost and risk factors, long-term strategy, growth and future projections, as well as macroeconomic, industry and market conditions. This evaluation required the consideration of several factors that impact the fair value of the reporting units, including conditions and assumptions that affect the future cash flows of the reporting units. Key considerations include discount rates, utility sector market performance and merger transaction multiples, and internal estimates of future cash flows and net income.

The following table presents goodwill by reportable segment as of December 31, 2018 and 2017:

<i>(Billions of Dollars)</i>	Electric Distribution	Electric Transmission	Natural Gas Distribution	Water Distribution	Total
Goodwill	\$ 2.5	\$ 0.6	\$ 0.4	\$ 0.9	\$ 4.4

## 25. QUARTERLY FINANCIAL DATA (UNAUDITED)

<i>Eversource (Millions of Dollars, except per share information)</i>	Quarter Ended							
	2018				2017			
	March 31,	June 30,	September 30,	December 31,	March 31,	June 30,	September 30,	December 31,
Operating Revenues	\$ 2,288.0	\$ 1,853.9	\$ 2,271.4	\$ 2,034.9	\$ 2,105.1	\$ 1,762.8	\$ 1,988.5	\$ 1,895.6
Operating Income	442.5	391.4	466.0	400.0	501.0	448.2	495.3	443.7
Net Income	271.4	244.6	291.3	233.2	261.3	232.6	262.2	239.4
Net Income Attributable to Common Shareholders	269.5	242.8	289.4	231.3	259.5	230.7	260.4	237.4
Basic and Diluted EPS <sup>(1)</sup>	\$ 0.85	\$ 0.76	\$ 0.91	\$ 0.73	\$ 0.82	\$ 0.73	\$ 0.82	\$ 0.75

(1) The summation of quarterly EPS data may not equal annual data due to rounding.

<i>(Millions of Dollars)</i>	Quarter Ended							
	2018				2017			
	March 31,	June 30,	September 30,	December 31,	March 31,	June 30,	September 30,	December 31,
<b>CL&amp;P</b>								
Operating Revenues	\$ 785.0	\$ 694.9	\$ 865.0	\$ 751.3	\$ 732.3	\$ 666.6	\$ 774.8	\$ 713.7
Operating Income	157.2	163.1	172.7	142.8	175.5	175.6	177.1	155.2
Net Income	98.6	99.7	100.3	79.1	90.2	91.3	96.1	99.1
<b>NSTAR Electric</b>								
Operating Revenues	\$ 770.1	\$ 690.7	\$ 939.5	\$ 712.6	\$ 733.8	\$ 704.7	\$ 851.9	\$ 690.2
Operating Income	119.0	133.6	205.5	126.0	156.6	177.9	229.7	124.2
Net Income	77.1	87.9	140.6	77.5	83.4	95.0	125.8	70.5
<b>PSNH</b>								
Operating Revenues	\$ 267.4	\$ 235.1	\$ 290.2	\$ 254.9	\$ 253.2	\$ 230.4	\$ 250.0	\$ 248.0
Operating Income	55.8	46.9	56.5	37.2	66.6	63.5	66.0	69.8
Net Income	35.1	25.8	40.7	14.3	34.3	31.6	33.7	36.4

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

No events that would be described in response to this item have occurred with respect to Eversource, CL&P, NSTAR Electric or PSNH.

**Item 9A. Controls and Procedures**

Management, on behalf of Eversource, CL&P, NSTAR Electric and PSNH, is responsible for the preparation, integrity, and fair presentation of the accompanying Financial Statements and other sections of this combined Annual Report on Form 10-K. Eversource's internal controls over financial reporting were audited by Deloitte & Touche LLP.

Management, on behalf of Eversource, CL&P, NSTAR Electric and PSNH, is responsible for establishing and maintaining adequate internal controls over financial reporting. The internal control framework and processes have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. There are inherent limitations of internal controls over financial reporting that could allow material misstatements due to error or fraud to occur and not be prevented or detected on a timely basis by employees during the normal course of business. Additionally, internal controls over financial reporting may become inadequate in the future due to changes in the business environment. Under the supervision and with the participation of the principal executive officer and principal financial officer, an evaluation of the effectiveness of internal controls over financial reporting was conducted based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation under the framework in COSO, management concluded that internal controls over financial reporting at Eversource, CL&P, NSTAR Electric and PSNH were effective as of December 31, 2018 .

Management, on behalf of Eversource, CL&P, NSTAR Electric and PSNH, evaluated the design and operation of the disclosure controls and procedures as of December 31, 2018 to determine whether they are effective in ensuring that the disclosure of required information is made timely and in accordance with the Securities Exchange Act of 1934 and the rules and regulations of the SEC. This evaluation was made under management's supervision and with management's participation, including the principal executive officer and principal financial officer as of the end of the period covered by this Annual Report on Form 10-K. There are inherent limitations of disclosure controls and procedures, including the possibility of human error and the circumventing or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. The principal executive officer and principal financial officer have concluded, based on their review, that the disclosure controls and procedures of Eversource, CL&P, NSTAR Electric and PSNH are effective to ensure that information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 (i) is recorded, processed, summarized, and reported within the time periods specified in SEC rules and regulations and (ii) is accumulated and communicated to management, including the principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

There have been no changes in internal controls over financial reporting for Eversource, CL&P, NSTAR Electric and PSNH during the quarter ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, internal controls over financial reporting.

**Item 9B. Other Information**

No information is required to be disclosed under this item as of December 31, 2018 , as this information has been previously disclosed in applicable reports on Form 8-K during the fourth quarter of 2018 .

### PART III

#### Item 10. Directors, Executive Officers and Corporate Governance

The information in Item 10 is provided as of February 26, 2019, except where otherwise indicated.

Certain information required by this Item 10 is omitted for NSTAR Electric and PSNH pursuant to Instruction I(2)(c) to Form 10-K, Omission of Information by Certain Wholly Owned Subsidiaries.

#### Eversource Energy

In addition to the information provided below concerning the executive officers of Eversource Energy, incorporated herein by reference is the information to be contained in the sections captioned “Election of Trustees,” “Governance of Eversource Energy” and the related subsections, “Selection of Trustees,” and “Section 16(a) Beneficial Ownership Reporting Compliance” of Eversource Energy’s definitive proxy statement for solicitation of proxies, expected to be filed with the SEC on or about March 22, 2019.

#### Eversource Energy and CL&P

Each member of CL&P’s Board of Directors is an employee of Eversource Service. Directors are elected annually to serve for one year until their successors are elected and qualified.

Set forth below is certain information concerning CL&P’s Directors and Eversource Energy’s and CL&P’s executive officers:

Name	Age	Title
James J. Judge	63	Chairman of the Board, President and Chief Executive Officer and a Trustee of Eversource Energy; Chairman, President and Chief Executive Officer and a Director of Eversource Service; Chairman and a Director of the electric and natural gas regulated companies, including CL&P
Philip J. Lembo	63	Executive Vice President and Chief Financial Officer of Eversource Energy; Executive Vice President and Chief Financial Officer; a Director of Eversource Service and the electric and natural gas regulated companies, including CL&P
Gregory B. Butler	61	Executive Vice President and General Counsel of Eversource Energy; Executive Vice President and General Counsel and a Director of Eversource Service and the electric and natural gas regulated companies, including CL&P
Christine M. Carmody <sup>1</sup>	56	Executive Vice President-Human Resources and Information Technology of Eversource Energy and Eversource Service; a Director of Eversource Service
Joseph R. Nolan, Jr. <sup>1</sup>	55	Executive Vice President-Customer and Corporate Relations of Eversource Energy and Eversource Service; a Director of Eversource Service
Leon J. Olivier	71	Executive Vice President-Enterprise Energy Strategy and Business Development of Eversource Energy and Eversource Service; a Director of Eversource Service
Werner J. Schweiger	59	Executive Vice President and Chief Operating Officer of Eversource Energy; Executive Vice President and Chief Operating Officer and a Director of Eversource Service; Chief Executive Officer and a Director of the electric and natural gas regulated companies, including CL&P
Jay S. Buth	49	Vice President, Controller and Chief Accounting Officer of Eversource Energy, Eversource Service and the electric and natural gas regulated companies, including CL&P

<sup>1</sup> Deemed an executive officer of CL&P pursuant to Rule 3b-7 under the Securities Exchange Act of 1934.

*James J. Judge.* Mr. Judge has served as Chairman of the Board, President and Chief Executive Officer of Eversource Energy since May 3, 2017; as a Trustee of Eversource Energy and as Chairman of CL&P, NSTAR Electric and PSNH since May 4, 2016; and as Chairman, President and Chief Executive Officer of Eversource Service and Chairman of NSTAR Gas and Yankee Gas since May 9, 2016. Mr. Judge has served as a Director of CL&P, PSNH, Yankee Gas and Eversource Service since April 10, 2012; of NSTAR Electric and NSTAR Gas since September 27, 1999; and of Eversource Aquarion Holdings, Inc. Previously, Mr. Judge served as President and Chief Executive Officer of Eversource Energy from May 4, 2016 until May 3, 2017; and as Executive Vice President and Chief Financial Officer of Eversource Energy, CL&P, NSTAR Electric and PSNH from April 10, 2012 until May 4, 2016; of NSTAR Gas, Yankee Gas and Eversource Service from April 10, 2012 until May 9, 2016. Mr. Judge has served as Chairman of the Board of Eversource Energy Foundation, Inc. since May 9, 2016; and as a Director since April 10, 2012. He previously served as Treasurer of Eversource Energy Foundation, Inc. from April 10, 2012 until May 9, 2016. He has served as a Trustee of the NSTAR Foundation since December 12, 1995.

*Philip J. Lembo.* Mr. Lembo has served as Executive Vice President and Chief Financial Officer of Eversource Energy since May 3, 2017; and of CL&P, NSTAR Electric, NSTAR Gas, PSNH, Yankee Gas and Eversource Service since March 31, 2017. Mr. Lembo has served as a Director of CL&P, NSTAR Electric and PSNH since May 4, 2016; of NSTAR Gas, Yankee Gas and Eversource Service since May 9, 2016 and of Eversource Aquarion Holdings, Inc. Mr. Lembo previously served as Executive Vice President, Chief Financial Officer and Treasurer of Eversource Energy from August 8, 2016 until May 3, 2017; of CL&P, NSTAR Electric, PSNH, NSTAR Gas, Yankee Gas and Eversource Service from August 8, 2016 until March 31, 2017; as Senior Vice President, Chief Financial Officer and Treasurer of Eversource Energy, CL&P, NSTAR Electric and PSNH

from May 4, 2016 until August 8, 2016; and of NSTAR Gas, Yankee Gas and Eversource Service from May 9, 2016 until August 8, 2016; as Vice President and Treasurer of Eversource Energy, CL&P and PSNH from April 10, 2012 until May 4, 2016; and of Yankee Gas and Eversource Service from April 10, 2012 until May 9, 2016. Mr. Lembo served as Vice President and Treasurer of NSTAR Electric and NSTAR Gas from March 29, 2006 until May 4, 2016. Mr. Lembo has served as a Director of Eversource Energy Foundation, Inc. since May 9, 2016. He previously served as Treasurer of Eversource Energy Foundation, Inc. from May 9, 2016 until March 31, 2017. He has served as a Trustee of the NSTAR Foundation since May 9, 2016.

*Gregory B. Butler* . Mr. Butler has served as Executive Vice President and General Counsel of Eversource Energy, CL&P, NSTAR Electric, NSTAR Gas, PSNH, Yankee Gas and Eversource Service since August 8, 2016. Mr. Butler has served as a Director of NSTAR Electric and NSTAR Gas since April 10, 2012; of Eversource Service since November 27, 2012; of CL&P, PSNH and Yankee Gas since April 22, 2009 and of Eversource Aquarion Holdings, Inc. Mr. Butler previously served as Senior Vice President and General Counsel of Eversource Energy from May 1, 2014 until August 8, 2016; of NSTAR Electric and NSTAR Gas from April 10, 2012 until August 8, 2016; of CL&P, PSNH, Yankee Gas and Eversource Service from March 9, 2006 until August 8, 2016; and as Senior Vice President, General Counsel and Secretary of Eversource Energy from April 10, 2012 until May 1, 2014. He has served as a Director of Eversource Energy Foundation, Inc. since December 1, 2002. He has been a Trustee of the NSTAR Foundation since April 10, 2012.

*Christine M. Carmody*. Ms. Carmody has served as Executive Vice President-Human Resources and Information Technology of Eversource Energy and Eversource Service since August 8, 2016. Ms. Carmody has served as a Director of Eversource Service since November 27, 2012. Previously Ms. Carmody served as Senior Vice President-Human Resources of Eversource Energy from May 4, 2016 until August 8, 2016; of Eversource Service from April 10, 2012 until August 8, 2016; as Senior Vice President-Human Resources of CL&P, PSNH and Yankee Gas from November 27, 2012 until September 29, 2014; of NSTAR Electric and NSTAR Gas from August 1, 2008 until September 29, 2014; and as a Director of CL&P, PSNH and Yankee Gas from April 10, 2012 until September 29, 2014; and of NSTAR Electric and NSTAR Gas from November 27, 2012 until September 29, 2014. Ms. Carmody has served as a Director of Eversource Energy Foundation, Inc. since April 10, 2012. She has served as a Trustee of the NSTAR Foundation since August 1, 2008.

*Joseph R. Nolan, Jr.* Mr. Nolan has served as Executive Vice President-Customer and Corporate Relations of Eversource Energy and Eversource Service since August 8, 2016. Mr. Nolan has served as a Director of Eversource Service since November 27, 2012. Previously Mr. Nolan served as Senior Vice President-Corporate Relations of Eversource Energy from May 4, 2016 until August 8, 2016; of Eversource Service from April 10, 2012 until August 8, 2016; of NSTAR Electric and NSTAR Gas from April 10, 2012 until September 29, 2014; and of CL&P, PSNH and Yankee Gas from November 27, 2012 until September 29, 2014. Mr. Nolan previously served as a Director of CL&P, PSNH and Yankee Gas from April 10, 2012 until September 29, 2014; and of NSTAR Electric and NSTAR Gas from November 27, 2012 until September 29, 2014. Mr. Nolan has served as a Director of Eversource Energy Foundation, Inc. since April 10, 2012, and as Executive Director of Eversource Energy Foundation, Inc. since October 15, 2013. He has served as a Trustee of the NSTAR Foundation since October 1, 2000.

*Leon J. Olivier* . Mr. Olivier has served as Executive Vice President-Enterprise Energy Strategy and Business Development of Eversource Energy since September 2, 2014; and of Eversource Service since August 11, 2014. Mr. Olivier has served as a Director of Eversource Service since January 17, 2005. Mr. Olivier previously served as Executive Vice President and Chief Operating Officer of Eversource Energy from May 13, 2008 until September 2, 2014; of Eversource Service from May 13, 2008 until August 11, 2008; as Chief Executive Officer of NSTAR Electric and NSTAR Gas from April 10, 2012 until August 11, 2014; of CL&P, PSNH and Yankee Gas from January 15, 2007 until August 11, 2014; as a Director of NSTAR Electric and NSTAR Gas from November 27, 2012 until September 29, 2014; of PSNH and Yankee Gas from January 17, 2005 until September 29, 2014; and of CL&P from September 10, 2001 until September 29, 2014. He has served as a Director of Eversource Energy Foundation, Inc. since April 1, 2006. Mr. Olivier has served as a Trustee of the NSTAR Foundation since April 10, 2012.

*Werner J. Schweiger*. Mr. Schweiger has served as Executive Vice President and Chief Operating Officer of Eversource Energy since September 2, 2014; of Eversource Service since August 11, 2014; and as Chief Executive Officer of CL&P, NSTAR Electric, NSTAR Gas, PSNH and Yankee Gas since August 11, 2014. Mr. Schweiger has served as a Director of Eversource Service, NSTAR Gas and Yankee Gas since September 29, 2014; and of CL&P, PSNH and NSTAR Electric since May 28, 2013. He previously served as President of CL&P from June 2, 2015 until June 27, 2016; as President of NSTAR Gas and Yankee Gas from September 29, 2014 until November 10, 2014; as President-Electric Distribution of Eversource Service from January 16, 2013 until August 11, 2014; as President of NSTAR Electric from April 10, 2012 until January 16, 2013; and as a Director of NSTAR Electric from November 27, 2012 until January 16, 2013. Mr. Schweiger has served as a Director of Eversource Energy Foundation, Inc. since September 29, 2014. He has served as a Trustee of the NSTAR Foundation since September 29, 2014.

*Jay S. Buth*. Mr. Buth has served as Vice President, Controller and Chief Accounting Officer of Eversource Energy, CL&P, NSTAR Electric, NSTAR Gas, PSNH, Yankee Gas and Eversource Service since April 10, 2012.

There are no family relationships between any director or executive officer and any other trustee, director or executive officer of Eversource Energy or CL&P and none of the above executive officers or directors serves as an executive officer or director pursuant to any agreement or understanding with any other person. Our executive officers hold the offices set forth opposite their names until the next annual meeting of the Board of Trustees, in the case of Eversource Energy, and the Board of Directors, in the case of CL&P, and until their successors have been elected and qualified.

CL&P obtains audit services from the independent registered public accounting firm engaged by the Audit Committee of Eversource Energy's Board of Trustees. CL&P does not have its own audit committee or, accordingly, an audit committee financial expert. CL&P relies on Eversource Energy's audit committee and the audit committee financial expert.

## CODE OF ETHICS AND CODE OF BUSINESS CONDUCT

Each of Eversource Energy, CL&P, NSTAR Electric, and PSNH has adopted a Code of Ethics for Senior Financial Officers (Chief Executive Officer, Chief Financial Officer and Controller) and the Code of Business Conduct, which are applicable to all Trustees, directors, officers, employees, contractors and agents of Eversource Energy, CL&P, NSTAR Electric and PSNH. The Code of Ethics and the Code of Business Conduct have both been posted on the Eversource Energy web site and are available at [www.eversource.com/Content/general/about/investors/corporate-governance](http://www.eversource.com/Content/general/about/investors/corporate-governance) on the Internet. Any amendments to or waivers from the Code of Ethics and Code of Business Conduct for executive officers, directors or Trustees will be posted on the website. Any such amendment or waiver would require the prior consent of the Board of Trustees or an applicable committee thereof.

Printed copies of the Code of Ethics and the Code of Business Conduct are also available to any shareholder without charge upon written request mailed to:

Richard J. Morrison  
Secretary  
Eversource Energy  
800 Boylston Street, 17 th Floor  
Boston, Massachusetts 02199-7050

## Item 11. Executive Compensation

### Eversource Energy

The information required by this Item 11 for Eversource Energy is incorporated herein by reference to certain information contained in Eversource Energy's definitive proxy statement for solicitation of proxies, which is expected to be filed with the SEC on or about March 22, 2019, under the sections captioned "Compensation Discussion and Analysis," plus related subsections, and "Compensation Committee Report," plus related subsections following such Report.

### NSTAR ELECTRIC and PSNH

Certain information required by this Item 11 has been omitted for NSTAR Electric and PSNH pursuant to Instruction I(2)(c) to Form 10-K, Omission of Information by Certain Wholly-Owned Subsidiaries.

### CL&P

The information in this Item 11 relates solely to CL&P.

## COMPENSATION DISCUSSION AND ANALYSIS

CL&P is a wholly-owned subsidiary of Eversource Energy. Its board of directors consists entirely of executive officers of Eversource Energy system companies. CL&P does not have a compensation committee, and the Compensation Committee of Eversource Energy's Board of Trustees determines compensation for the executive officers of CL&P, including their salaries, annual incentive awards and long-term incentive awards. All of CL&P's "Named Executive Officers," as defined below, also serve as officers of Eversource Energy and one or more other subsidiaries of Eversource Energy. Compensation set by the Compensation Committee of Eversource Energy (the "Committee") and set forth herein is for services rendered to Eversource Energy and its subsidiaries by such officers in all capacities.

This Compensation Discussion and Analysis ("CD&A") provides information about the principles behind Eversource Energy's compensation objectives, plans, policies and actions for the Named Executive Officers. The discussion describes the specific components of Eversource Energy's compensation programs, how Eversource Energy measures performance, and how Eversource Energy's compensation principles were applied to compensation awards and decisions that were made by the Compensation Committee for the Named Executive Officers, as presented in the tables and narratives that follow. While this discussion focuses primarily on 2018 information, it also addresses decisions that were made in prior periods to the extent that these decisions are relevant to the full understanding of Eversource Energy's compensation programs and the specific awards that were made for performance through 2018. The CD&A also contains an assessment of performance measured against the established 2018 goals, the compensation awards made by the Compensation Committee, and other information relating to Eversource Energy's compensation programs, including:

- Summary of 2018 Accomplishments
- Pay for Performance Philosophy
- Executive Compensation Governance
- Named Executive Officers
- Overview of the Compensation Program
- Market Analysis
- Elements of 2018 Compensation
- 2018 Annual Incentive Program
- 2018 Assessment of Financial and Operational Performance
- Performance Goal Assessment Matrix
- Description of the Long-Term Incentive Program, Grants and Performance Plan Results
- Disclosure of the:
  - Clawbacks and No Hedging and No Pledging Policies
  - Share Ownership Guidelines
  - Other Benefits
- Contractual Agreements
- Tax and Accounting Considerations
- Equity Grant Practices

### *Summary of 2018 Accomplishments*

In 2018, Eversource Energy achieved very positive overall financial, operational and related results. The following is a summary of some of the most important accomplishments in 2018:

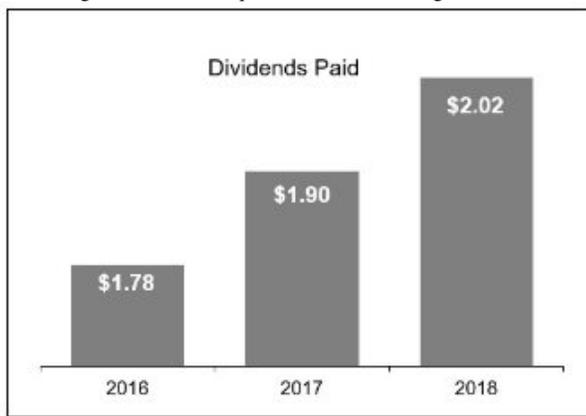
#### *2018 Financial Accomplishments*

- Eversource Energy expanded its 50-50 partnership with Ørsted, the world's leading offshore wind developer, by purchasing, along with Ørsted, the Northeast assets of Deepwater Wind, which include the Revolution Wind and South Fork Wind Farm projects, as well as a 257 square mile lease tract off the New England coast. The two existing projects will deliver 830 MW of contracted clean power to Rhode Island, Connecticut and Long Island, and the newly acquired tract, combined with the existing lease area previously purchased by the partnership's Bay State Wind project, could eventually host approximately 4,000 MW of offshore wind power. The completion of this acquisition, which the partnership began negotiating in 2018 and which was finalized in February 2019, is a significant step in fulfilling Eversource Energy's vision of being a key catalyst for clean energy in the region.

- Through effective management of its corporate operating plan, Eversource Energy's 2018 earnings exceeded the established goal. 2018 earnings were \$3.25 per share.



- Eversource Energy's Board of Trustees increased the annual dividend rate by 6.3 percent for 2018 to \$2.02 per share, which exceeds the EEI index companies' median dividend growth rate of 5.1 percent. The dividend growth rate for the period 2016 - 2018 has averaged 6.5 percent, well ahead of the utility industry.



- Eversource Energy's Total Shareholder Return in 2018 was 6.4 percent, compared to the 3.7 percent growth of the EEI Index companies and a 4.4 percent decline for the S&P 500. Eversource Energy has outperformed the EEI Index companies and the S&P 500 over one-, three-, five- and 10-year periods. An investment of \$1,000 in Eversource Energy common shares for the five-year period beginning January 1, 2014 was worth \$1,804 on December 31, 2018. The following chart represents the comparative one- and five-year total shareholder returns for the periods ending December 31, 2018, respectively:

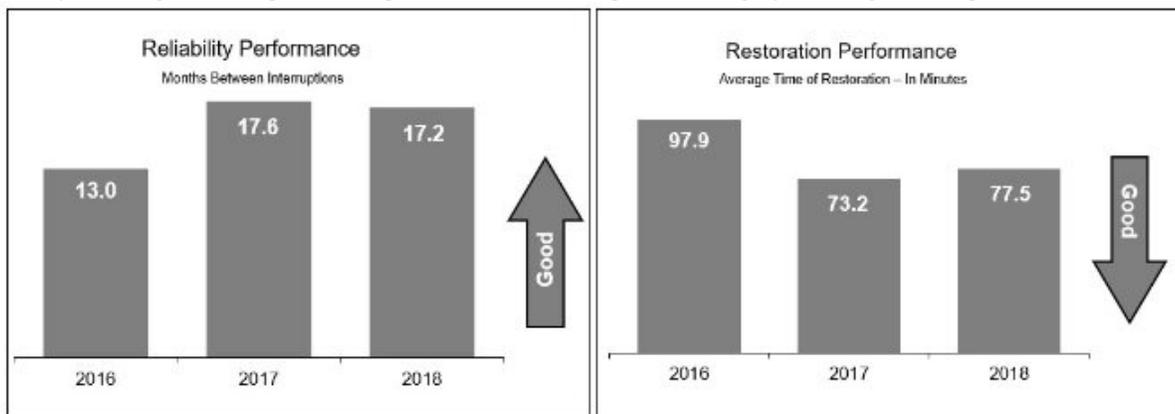
Total Shareholder Return	2018	5-Year
<b>Eversource</b>	<b>6.4%</b>	<b>80.4%</b>
EEI Index	3.7%	68.5%
S&P 500	-4.4%	50.3%

- Eversource Energy's Standard & Poor's ("S&P") Credit Rating remained at A+, the highest utility holding company S&P credit rating in the industry, two notches higher than any other company.

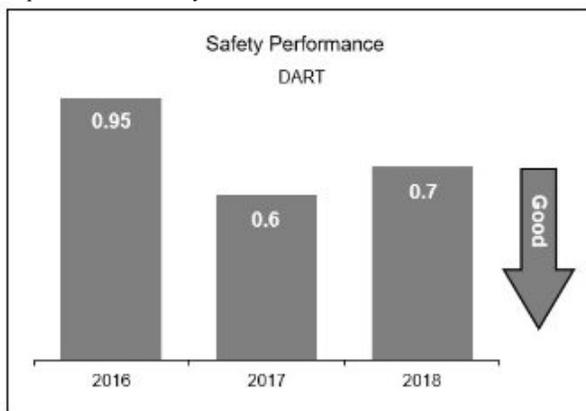
#### 2018 Operational Accomplishments

- Eversource's Electric System Reliability, measured by months between interruptions and average outage minutes per customer, was in the first quartile of the industry. Eversource's overall electric system reliability performance in 2018 continued to outpace the

industry; on average, customer power interruptions were 17.2 months apart, and average system outage duration per customer was 77.5 minutes.



- Eversource's safety performance, measured by days away, restricted or transferred ("DART") per 100 workers, has improved significantly since 2016 and continued to outperform the industry.



- Eversource's Massachusetts electric and gas distribution companies each met or exceeded Service Quality Index performance targets established by regulators in Massachusetts, which is the only state in Eversource's service territory that has such targets, and Eversource exceeded its response time for gas service calls goal.
- Eversource exceeded its goal of having 37 percent of new hires and promotions within the supervisor and above management group be women or persons of color by achieving 42 percent of these positions.
- Eversource achieved very constructive regulatory outcomes, including rate reviews of Yankee Gas, CL&P and Aquarion Water Company of Massachusetts; completed the sale of Eversource's remaining PSNH generation assets; and implemented a constructive rate order for NSTAR Electric.
- Eversource Energy led the response to a series of catastrophic natural gas explosions that occurred in another company's service territory at the request of the Massachusetts Governor and successfully completed initial phase of the incident response.
- Eversource's program of transforming the customer experience achieved significant milestones, including the introduction of a new customer outage map, further increases in timely estimates for service restoration, and increased online customer engagement.

**2018 Clean Energy/ESG Accomplishments**

- Eversource Energy continues to be recognized as the leading energy efficiency program provider in the nation and was recognized by the American Council for an Energy-Efficient Economy with two awards in January of 2019, and by the U. S. Environmental Protection Agency in April of 2018 with the Partner of the Year Sustained Excellence Award for New Hampshire.
- As previously noted, Eversource completed, with its offshore wind partner Ørsted, the acquisition of offshore wind assets that are currently contracted to deliver 830 MW of clean energy, along with offshore lease tracts that in the future may host some 4,000 MW of clean, low cost energy.

- NSTAR Electric is investing \$55 million in battery storage initiatives and \$45 million in electric vehicle infrastructure.
- Eversource completed construction of 62 MW of solar generation across 19 sites, bringing its total solar ownership to 70 MW.
- Independent sustainability rating agencies consistently rank Eversource in the top quartile or top decile of the industry.
- Eversource's commitment to Diversity and Inclusion and Eversource's programs and practices were recognized as exemplary by the Associated Industries of Massachusetts and the Bloomberg Gender Equality Index.
- Eversource continued to make a significant impact in its communities through its corporate philanthropy programs and extensive employee community volunteer programs, with 30,000 employee hours devoted to volunteerism in 2018.

Achievement of the 2018 performance goals, additional accomplishments and the Compensation Committee's assessment of Eversource and executive performance are more fully described in the section below titled "2018 Annual Incentive Program." Specific decisions regarding executive compensation based upon the Committee's assessment of Eversource and executive performance and market data are also described below.

### ***Pay for Performance Philosophy***

The Committee links the compensation of the executive officers, including the Named Executive Officers, to performance that will ultimately benefit Eversource's customers and shareholders. Eversource's compensation program is intended to attract and retain the best executive talent in the industry, motivate its executives to meet or exceed specific stretch financial and operational goals each year, and compensate its executives in a manner that aligns compensation directly with performance. Eversource strives to provide executives with base salary, performance-based annual incentive compensation, and performance-based long-term incentive compensation opportunities that are competitive with market practices and that reward excellent performance.

### ***Executive Compensation Governance***

#### ***What Eversource DOES:***

- ✓ Pay for Performance
- ✓ Share ownership and holding guidelines
- ✓ Broad clawback policy relating to incentive compensation
- ✓ Double-trigger change in control vesting provisions
- ✓ 100 percent of long-term incentive compensation paid in stock
- ✓ Independent compensation consultant
- ✓ Annual Say-on-Pay vote
- ✓ Payout limitations on incentive awards
- ✓ Limited executive trading window

#### ***What Eversource DOESN'T do:***

- ✗ No tax gross-ups in any new or materially amended executive compensation agreements
- ✗ No hedging, pledging or similar transactions by Eversource executives and Trustees
- ✗ No liberal share recycling
- ✗ No dividends on equity awards before vesting
- ✗ No discounts or repricing of options or SARs

- Eversource's executive share ownership and holding guidelines noted in this CD&A emphasize the importance of aligning management with shareholders. Under the share ownership guidelines, which require Eversource's Chief Executive Officer to hold shares equal to six times base salary, Eversource requires its executives to hold 100 percent of the shares awarded under the stock compensation program until the share ownership guidelines have been met.
- Eversource's 2018 Incentive Plan includes a clawback provision that requires its executives and other participants to reimburse Eversource for incentive compensation received, not only if earnings are subsequently required to be restated as a result of noncompliance with accounting rules caused by fraud or misconduct, but also for a material violation of Eversource's Code of Business Conduct or material breach of a covenant in an employment agreement. The Plan also imposes limits on awards and on Trustee compensation and prohibits repricing of awards and liberal share recycling.
- Eversource prohibits gross-ups in all new or materially amended executive compensation agreements.
- Eversource has a "no hedging and no pledging" policy that prohibits all Eversource Trustees and executives from purchasing financial instruments or otherwise entering into any transactions that are designed to have the effect of hedging or offsetting any decrease in the market value of Eversource common shares. This policy also prohibits all pledges, derivative transactions or short sales involving Eversource common shares or the holding of any Eversource common shares in a margin account by Eversource Trustees and

executives. This policy is under review and will be supplemented as appropriate to comply with the SEC's new rules governing disclosure of hedging policies affecting all employees.

- Eversource's employment agreements and incentive plan provide for "double-trigger" change in control acceleration of compensation.
- Eversource's Compensation Committee annually assesses the independence of its compensation consultant, Pay Governance LLC ("Pay Governance"), which is retained directly by the Committee. Pay Governance performs no other consulting nor provides services for Eversource and has no relationship with Eversource that could result in a conflict of interest. At its February 6, 2019 meeting, the Committee concluded that Pay Governance is independent and that no conflict of interest exists between Pay Governance and Eversource.

### **Named Executive Officers**

The executive officers of CL&P listed in the Summary Compensation Table and whose compensation is discussed in this Item 11 are referred to as the "Named Executive Officers" or "NEOs" under SEC regulations. For 2018, CL&P's Named Executive Officers were:

- James J. Judge, Chairman, President and Chief Executive Officer of Eversource Energy and Chairman of the Board of CL&P
- Philip J. Lembo, Executive Vice President and Chief Financial Officer of Eversource Energy and CL&P
- Werner J. Schweiger, Executive Vice President and Chief Operating Officer of Eversource Energy and Chief Executive Officer of CL&P
- Gregory B. Butler, Executive Vice President and General Counsel of Eversource Energy and CL&P
- Joseph R. Nolan, Jr., Executive Vice President - Customer and Corporate Relations of Eversource Energy and Eversource Service

### **Overview of the Compensation Program**

***The Role of the Compensation Committee.*** The Eversource Board of Trustees has delegated to the Compensation Committee overall responsibility for establishing the compensation program for those senior executive officers, whom are referred to in this CD&A as "executives" and whom are deemed to be "officers" under the SEC's regulations that determine the persons whose compensation is subject to disclosure. In this role, the Committee sets compensation policy and compensation levels, reviews and approves performance goals and evaluates executive performance. Although this discussion and analysis refers principally to compensation for the Named Executive Officers, the same compensation principles and practices apply to all executives. The compensation of Eversource's Chief Executive Officer is subject to the further review and approval of all of the independent Eversource Trustees.

***Elements of Compensation .*** Total direct compensation consists of three elements: base salary, annual cash incentive awards and long-term equity-based incentive awards. Indirect compensation is provided through certain retirement, perquisite, severance, and health and welfare benefit programs.

***Eversource's Compensation Objectives .*** The objectives of Eversource's compensation program are to attract and retain superior executive talent, motivate executives to achieve annual and long-term performance goals set each year, and provide total compensation opportunities that are competitive with market practices. With respect to incentive compensation, the Committee believes it is important to balance short-term goals, such as producing earnings, with longer-term goals, such as long-term value creation for shareholders and maintaining a strong balance sheet. The Committee also places great emphasis on system reliability and customer service. Eversource's compensation program utilizes performance-based incentive compensation to reward individual and corporate performance and to align the interests of executives with Eversource Energy's customers and shareholders. The Committee continually increases expectations to motivate executives and employees to achieve continuous improvement in carrying out their responsibilities to customers to deliver energy reliably, safely, with respect for the environment and Eversource employees, and at a reasonable cost, while providing an above-average total return to Eversource shareholders.

***Setting Compensation Levels .*** To ensure that Eversource achieves its goal of providing market-based compensation levels to attract and retain top quality management, the Committee provides executives with target compensation opportunities approximately equal to median compensation levels for executive officers of companies in the utility industry comparable to Eversource in size. To achieve that goal, the Committee and its independent compensation consultant work together to determine the market values of executive direct compensation elements (base salaries, annual incentives and long-term incentives), as well as total compensation, by using competitive market compensation data. The Committee reviews competitive compensation data obtained from utility and general industry surveys and a specific group of peer utility companies. Levels may be lower than median for those executives who are new to their roles, while long-tenured, high performing executives may be compensated above median. The review by Pay Governance performed in late 2018 indicated that Eversource's aggregate executive compensation levels were aligned with median market rates.

***Role of the Compensation Consultant.*** The Committee has retained Pay Governance as its independent compensation consultant. Pay Governance reports directly to the Committee and does not provide any other services to Eversource. With the consent of the Committee, Pay Governance works cooperatively with Eversource's management to develop analyses and proposals for presentation to the Committee. The Committee generally relies on Pay Governance for peer group market data and information as to market practices and trends to assess the competitiveness of the compensation Eversource pays to its executives and to review the Committee's proposed compensation decisions.

**Pay Governance Independence.** In February 2019, the Committee assessed the independence of Pay Governance pursuant to SEC and NYSE rules, and concluded that it is independent and that no conflict of interest exists that would prevent Pay Governance from independently advising the Committee. In making this assessment, the Committee considered the independence factors enumerated in Rule 10C-1(b) under the Securities Exchange Act of 1934, as well as the written representations of Pay Governance that Pay Governance does not provide any other services to Eversource, the level of fees received from Eversource as a percentage of Pay Governance's total revenues, the policies and procedures employed by Pay Governance to prevent conflicts of interest, and whether the individual Pay Governance advisers with whom the Committee consulted own any Eversource Energy common shares or have any business or personal relationships with members of the Committee or the Eversource executives.

**Role of Management.** The role of Eversource's management, and specifically the roles of Eversource's Chief Executive Officer and the Executive Vice President of Human Resources and Information Technology, are to provide current compensation information to the compensation consultant and analyses and recommendations on executive compensation to the Committee based on the market value of the position, individual performance, experience and internal pay equity. Eversource's Chief Executive Officer also provides recommendations on the compensation for the other Eversource Named Executive Officers. None of the executives makes recommendations that affect his or her individual compensation.

## MARKET ANALYSIS

The Compensation Committee seeks to provide executives with target compensation opportunities using a range that is approximately equal to the median compensation levels for executive officers of utility companies comparable to Eversource. Set forth below is a description of the sources of the compensation data used by the Committee when reviewing 2018 compensation:

- **Competitive compensation survey data .** The Committee reviews compensation information obtained from surveys of diverse groups of utility and general industry companies that represent Eversource's market for executive officer talent. Utility industry data serve as the primary reference point for benchmarking officer compensation and are based on a defined peer set, as discussed below, while general industry data is derived from compensation consultant surveys and serves as a secondary reference point. General industry data are used for staff positions and are size-adjusted to ensure a close correlation between the market data and Eversource's scope of operations. The Committee references this information, which it obtains from Pay Governance, to evaluate and determine base salaries and incentive opportunities.
- **Peer group data.** In support of executive pay decisions during 2018 and early 2019, the Committee consulted with Pay Governance, which provided the Committee with a competitive assessment analysis of Eversource's executive compensation levels as compared to the 20 peer group companies listed in the table below. This peer group was chosen because these companies are and continue to be similar to Eversource Energy in terms of size, business model and long-term strategies. The group was reduced in January 2019 upon the merger of SCANA and Dominion Energy, and it will be reviewed by the Committee again in 2019.

Alliant Energy Corporation	DTE Energy Company	PPL Corporation
Ameren Corporation	Edison International	Public Service Enterprise Group, Inc.
American Electric Power Co., Inc.	Entergy Corporation	SCANA Corp. (2018)
CenterPoint Energy, Inc.	FirstEnergy Corp.	Sempra Energy
CMS Energy Corp.	NiSource Inc.	WEC Energy Group, Inc.
Consolidated Edison, Inc.	PG&E Corporation	Xcel Energy Inc.
Dominion Energy, Inc.	Pinnacle West Capital Corporation	

The Committee reviews the appropriateness of the peer group periodically and adjusts the target percentages of annual and long-term incentives based on the survey data and recommendations from Eversource's CEO, after discussion with the compensation consultant, to ensure that they are approximately equal to competitive median levels.

The Committee also determines perquisites to the extent they serve business purposes and sets supplemental benefits at levels that provide appropriate compensation opportunities to the executives. The Committee periodically reviews the general market for supplemental benefits and perquisites using utility and general industry survey data, including data obtained from companies in the peer group.

## MIX OF COMPENSATION ELEMENTS

Eversource targets the mix of compensation for its Chief Executive Officer and its other Named Executive Officers so that the percentages of each compensation element are approximately equal to the competitive median market mix. The mix is heavily weighted toward incentive compensation, and incentive compensation is heavily weighted toward long-term compensation. Since the most senior positions have the greatest responsibility for implementing the long-term business plans and strategies, a greater proportion of total compensation is based on performance with a long-term focus.

The Committee determines the compensation for each executive based on the relative authority, duties and responsibilities of the executive. Eversource's Chief Executive Officer's responsibilities for the strategic direction and daily operations and management of Eversource are greater than the duties and responsibilities of the other executives. As a result, Eversource's Chief Executive Officer's compensation is higher than the

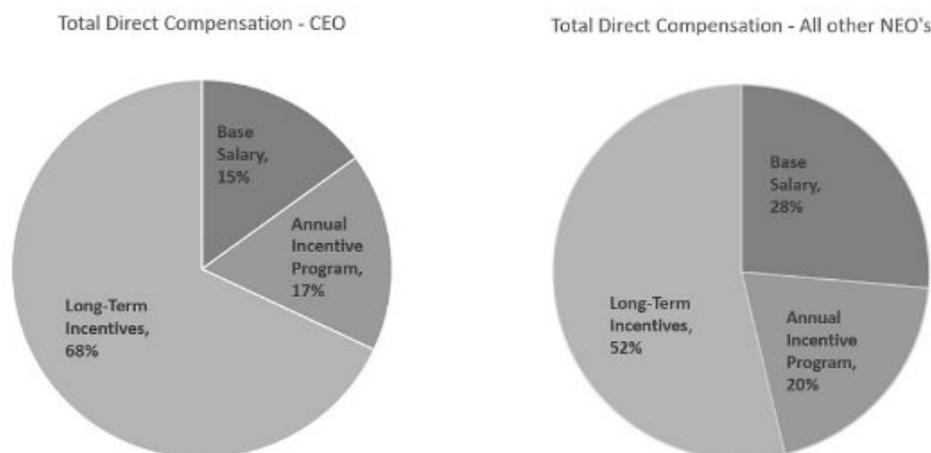
compensation of those other executives. Assisted by the compensation consultant, the Committee regularly reviews market compensation data for executive officer positions similar to those held by Eversource's executives, including its Chief Executive Officer.

The following table sets forth the contribution to 2018 Total Direct Compensation ("TDC") of each element of compensation at target, reflected as a percentage of TDC, for the Named Executive Officers. The percentages shown in this table are at target and therefore do not correspond to the amounts appearing in the Summary Compensation Table.

Named Executive Officer	Percentage of TDC at Target				
	Base Salary	Annual Incentive <sup>(1)</sup>	Performance Shares <sup>(1)</sup>	RSUs <sup>(2)</sup>	TDC
James J. Judge	15	17	34	34	100
Philip J. Lembo	26	20	27	27	100
Werner J. Schweiger	26	20	27	27	100
Gregory B. Butler	30	20	25	25	100
Joseph R. Nolan, Jr.	30	20	25	25	100
NEO average, excluding CEO	28	20	26	26	100

(1) The annual incentive compensation element and performance shares under the long-term incentive compensation element are performance-based.

(2) Restricted Share Units (RSUs) vest over three years contingent upon continued employment.



## RISK ANALYSIS OF EXECUTIVE COMPENSATION PROGRAM

The overall compensation program includes a mix of compensation elements ranging from a fixed base salary that is not at risk to annual and long-term incentive compensation programs intended to motivate executives and eligible employees to achieve individual and corporate performance goals that reflect an appropriate level of risk. The fundamental objective of the compensation program is to foster the continued growth and success of Eversource's business. The design and implementation of the overall compensation program provides the Committee with opportunities throughout the year to assess risks within the compensation program that may have a material effect on Eversource and its shareholders.

The Compensation Committee assesses the risks associated with the executive compensation program on an on-going basis by reviewing the various elements of incentive compensation. The annual incentive program was designed to ensure an appropriate balance between individual and corporate goals, which were deemed appropriate and supportive of Eversource's annual business plan. Similarly, the long-term incentive program was designed to ensure that the performance metrics were properly weighted and supportive of Eversource's strategy. The Committee reviewed the overall compensation program in the context of risks identified in the annual operating plan. The annual and long-term incentive programs were designed to include mechanisms to mitigate risk. These mechanisms include realistic goal setting and discretion with respect to actual payments, in addition to:

- A mix of annual and long-term performance awards to provide an appropriate balance of short- and long-term risk and reward horizon;

- A variety of performance metrics, including financial, operational, customer service, diversity and safety goals and other strategic initiatives for annual performance awards to avoid excessive focus on a single measure of performance;
- Metrics in Eversource's long-term incentive compensation program that use earnings per share growth and relative total shareholder return, which are both robust measures of shareholder value and which reduce the risk that employees might be encouraged to pursue other objectives that increase risk or reduce financial performance;
- The provisions of Eversource's annual and long-term incentive programs, which cap awards at 200 percent of target;
- Expansive clawback provisions on incentive compensation, including clawback for material violations of the Eversource Code of Conduct; and
- Stock ownership requirements for all executives, including the Named Executive Officers, and prohibitions on hedging, pledging and other derivative transactions related to Eversource common shares.

Based on these factors, the Compensation Committee and Eversource's Board of Trustees believe the overall compensation program risks are mitigated to reduce overall compensation risk.

**Results of Eversource's 2018 Say-on-Pay Vote** . Eversource provides its shareholders with the required opportunity to cast the annual advisory vote on executive compensation (a "Say-on-Pay" proposal).

At Eversource's Annual Meeting of Shareholders held on May 2, 2018, 90 percent of the votes cast on the Say-on-Pay proposal were voted to approve the 2017 compensation of the Named Executive Officers, as described in Eversource's 2018 proxy statement. Eversource's Say-on-Pay results, along with utility and general industry peers, are reviewed by the Committee annually to help assess whether Eversource shareholders continue to deem the executives' compensation to be appropriate. The Committee has and will continue to consider the outcome of Eversource's Say-on-Pay votes when making future compensation decisions for the Named Executive Officers.

## **ELEMENTS OF 2018 COMPENSATION**

### **Base Salary**

Base salary is designed to attract and retain key executives by providing an element of total compensation at levels competitive with those of other executives employed by companies of similar size and complexity in the utility and general industries. In establishing base salary, the Compensation Committee relies on compensation data obtained from independent third-party surveys of companies and from an industry peer group to ensure that the compensation opportunities Eversource offers are capable of attracting and retaining executives with the experience and talent required to achieve its strategic objectives. Adjustments to base salaries are made on an annual basis except in instances of promotions.

When setting or adjusting base salaries, the Committee considers annual executive performance appraisals; market pay movement across industries (determined through market analysis); targeted market pay positioning for each executive; individual experience; strategic importance of a position; recommendations of Eversource's Chief Executive Officer; and internal pay equity.

### **Incentive Compensation**

Annual incentive and long-term incentive compensation are provided under Eversource's 2018 Incentive Plan. The annual incentive program provides cash compensation intended to reward performance under Eversource's annual operating plan. The long-term stock-based incentive program is designed to reward demonstrated performance and leadership, motivate future performance, align the interests of the executives with those of shareholders, and retain executives during the term of grants. The annual and long-term programs are designed to strike a balance between Eversource's short- and long-term objectives so that the programs work in tandem.

In addition to the specific performance goals, the Committee assesses other factors, as well as the executives' roles and individual performance and then makes annual incentive program awards at the levels and amounts disclosed in this Item 11.

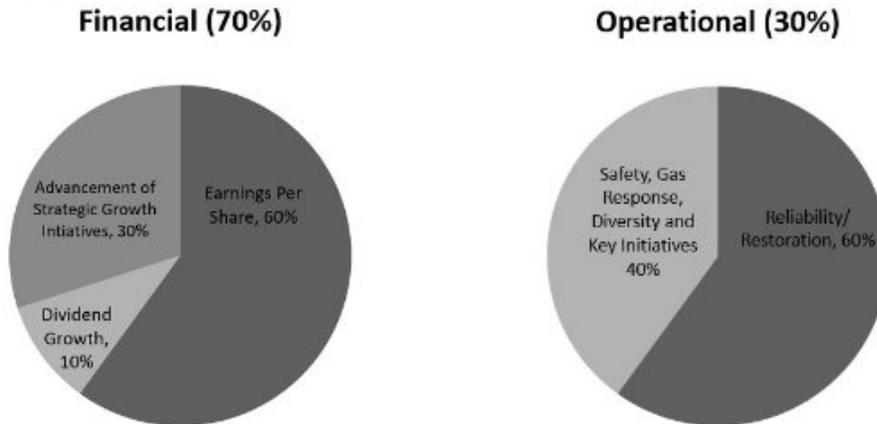
### **2018 ANNUAL INCENTIVE PROGRAM**

In February 2018, the Committee established the terms of the 2018 Annual Incentive Program. As part of the overall program, and after consulting with Pay Governance, the Committee set target award levels for each of the Named Executive Officers that ranged from 65 percent to 120 percent of base salary.

At the February 2018 meeting, the Committee determined that for 2018 it would continue to base 70 percent of the annual incentive performance goals on Eversource's overall financial performance and 30 percent of the annual performance goals on Eversource's overall operational performance. The Committee also determined the specific goals that would be used to assess performance, with potential ratings on each goal ranging from 0 percent to 200 percent of target. The Committee assigned weightings to each of these specific goals. For the financial component, the following goals were used: earnings per share, weighted at 60 percent, dividend growth, weighted at 10 percent, and

advancement of strategic growth initiatives, weighted at 30 percent. For the operational component, the Committee used the following goals: combined service reliability and restoration goals, weighted at 60 percent, and combined safety ratings, gas service response, diversity promotions and hires of leadership employee positions goals and key initiatives, weighted at 40 percent.

**2018 Performance Goals**



At the December 2018 meeting of the Committee, management provided an initial review of Eversource's 2018 performance, followed in February 2019 by a full assessment of the performance goals, the additional accomplishments noted below under the caption "Additional Factors" and the overall performance of Eversource and the executives. In addition to these meetings, the Committee and the Eversource Board were continuously provided updates during 2018 on corporate performance. At the February 6, 2019 meeting, the Committee determined, based on its assessment of the financial and operational performance goals, to set the level of achievement of combined financial and operational performance goals results at 157 percent of target, reflecting the overall strong performance of Eversource and the executive team. In arriving at this determination, the Committee determined that the financial performance goals result was 151 percent of target and the operational performance goals result was 171 percent of target. In particular, the Committee discussed its assessment of the Strategic Growth Initiative goal, and in determining the assessment of 150 percent of a possible 200 percent, it considered the success of Eversource in establishing itself as a leader in clean energy through the greatly expanded Ørsted offshore wind partnership; Eversource's best in industry ranking in energy efficiency; the completed construction of 62 MW in utility scale solar; and the advancement of Eversource's battery storage and electric vehicle infrastructure initiatives. Eversource's Chief Executive Officer recommended to the Committee awards for the executives (other than himself) based on his assessment of each executive's individual performance towards achievement of the performance goals and the additional accomplishments of Eversource, together with each executive's contributions to the overall performance of Eversource. The actual awards determined by the Committee were also based on the same criteria.

**Financial Performance Goals Assessment**

- Eversource Energy's earnings per share in 2018 increased by 4.5 percent over 2017 and exceeded the established goal of a 3.5 percent increase; 2018 earnings equaled \$3.25 per share. Eversource accomplished this by effectively managing its Operating Plan, overcoming several challenges. The Committee determined the earnings per share goal to have attained a 150 percent performance result.
- Eversource Energy increased its dividend to \$2.02 per share, a 6.3 percent increase from the prior year, significantly above the utility industry's median dividend growth of 5.1 percent. The Committee determined this goal to have attained a 155 percent performance.
- Eversource Energy significantly advanced its clean energy leadership through the expansion of its offshore wind energy partnership with Ørsted. Completing a project in February 2019 that commenced in 2018, the partnership purchased two projects that have contract commitments of 830 MW, along with a 257 square mile lease tract off the New England coast. Eversource also completed construction of 62 MW of large scale solar in Massachusetts, and achieved solid progress on existing grid modernization projects, including battery storage and electric vehicle infrastructure. In addition, the Committee also recognized advancements made to continue to expand solar and electric vehicle infrastructure in other jurisdictions. Eversource's appeal of the denial of the single final permit for the Northern Pass hydro power transmission project was accepted by the New Hampshire Supreme Court. The totality of these strategic accomplishments was considered by the Committee to have significantly advanced Eversource Energy's long-term strategy of being a clean energy leader. The Committee determined this goal to have attained a 150 percent performance.

**Operational Performance Goals Assessment**

- Eversource Energy's total electric system reliability performance exceeded that of its peers significantly. Average months between interruptions equaled 17.2 months, near the highest end of the performance zone established by the Committee of 15.5 to 18.5 months and in the first quartile of industry peers. System average restoration duration time equaled 77.5 minutes, within the performance zone

established by the Committee of 80 to 67 minutes and also exceeding peers. The Committee determined these goals to have each attained a 175 percent performance result.

- Eversource Energy achieved the safety performance goal of between 0.5 - 0.9 DART per 1,000 employees; DART equaled 0.7 in 2018, within the established performance zone and better than peers. The Committee determined this goal to have attained a 130 percent performance result.
- On-time response to gas customer emergency calls was 99.5 percent, which was at the high end of the performance zone of 99.2 percent to 99.6 percent. The Committee determined this goal to have attained a 150 percent performance result.
- In 2018, 42 percent of new hires and promotions into leadership roles were women or people of color, substantially exceeding the goal of 37 percent. The Committee determined this goal to have attained a 200 percent performance result.
- Eversource Energy successfully completed important efforts to improve the customer experience, including enhanced web/digital capabilities with a new web-based outage map and improved outage communications. Key customer metrics finished above target. Estimated Time to Restoration calls were well-managed 89 percent of the time, exceeding the goal of 85 percent, and digital customer engagement finished above target at 83.2 percent. In addition, Eversource maintained its best in industry ranking in energy efficiency program effectiveness. The Committee determined this goal to have attained a 150 percent performance result.
- Eversource Energy achieved several constructive regulatory outcomes. These included the settlement agreement approved by the PURA for CL&P, a settlement agreement also approved by the PURA on Yankee Gas' rate review, a positive rate outcome for Aquarion Water Company of Massachusetts, and a settlement with FERC in an important docket on transparency, along with progress on the critical docket relating to return on equity for transmission assets. The Committee determined this goal to have attained a 200 percent performance result.

### Financial Performance Goals

Category	2018 Goal	Eversource Performance	Assessment
Earnings Per Share	Increase earnings by 3.5 percent	Exceeded: \$3.25 per share, a 4.5% increase over 2017 and exceeding goal	150%
Dividend Growth	Increase dividend beyond industry average	Exceeded: Increased to \$2.02 per share, a \$0.12 increase and 6.3% growth, exceeding the industry median of 5.1%	155%
Strategic Growth Initiatives	Advancement of Key Strategic Projects	Achieved: Significantly advanced Eversource's status as a clean energy leader through the major expansion of Eversource's offshore wind partnership with Ørsted; the Northern Pass project appeal was accepted by New Hampshire Supreme Court; and Eversource completed construction of 62MW of solar in Massachusetts and advanced battery storage and electric vehicle infrastructure initiatives	150%
Weightings = Earnings Per Share: 60%; Dividend Growth: 10%; Strategic Growth Initiatives: 30%			

## Operational Performance Goals

Category	2018 Goal	Eversource Performance	Assessment
Reliability - Average Months Between Interruptions (MBI)	Achieve MBI of within 15.5 to 18.5 months	Exceeded: MBI = 17.2 months. At upper level of targeted performance zone, exceeding industry peers	175%
Average Restoration Duration (SAIDI)	Achieve SAIDI of 80 to 67 minutes	Exceeded: SAIDI = 77.5 minutes. Within targeted performance and significantly exceeding industry peers	175%
Safety Rate	0.5 - 0.9 days away/restricted	Achieved: 0.7 DART - Within targeted performance and exceeding industry peers	130%
Gas Service Response	99.2% - 99.6%	Achieved: 99.5%; Upper level of performance range and ahead of industry average. Exceeded all internal and regulatory pipeline safety requirements	150%
Diverse Leadership	37% hires or promotions of leadership level to be women or people of color	Exceeded: 42% - Performed well above target, with 83 of 200 leadership positions filled with diverse candidates. Recognized by industry organizations for diversity leadership	200%
Transform the Customer Experience	Successfully complete new customer outage map, increase accuracy of estimate time to restoration of 85% and achieve digital customer engagement participation at 83%	Achieved: Enhanced web/digital capabilities with new outage map and improved outage communications. Key customer metrics finished above target. Estimated Times for Restoration given to customers were well managed 89% of the time and digital customer engagement finished above target at 83.2%	150%
Positive Regulatory Outcomes	Obtain constructive rate case outcomes	Exceeded: Successfully completed constructive settlements on CL&P and Yankee Gas with PURA. Constructive rate outcome in MA for Aquarion. Reached settlement on FERC Transparency docket with 30 intervenors, and progress made on 4 open FERC ROE complaints, including dismissal of one	200%
Weightings = Reliability and Restoration: 60%; Safety, Gas Response, Diversity and Key Initiatives: 40%			

## Performance Goals Assessment

Financial Performance at 151% (weighted 70%)	106%
Operational Performance at 171% (weighted 30%)	51%
Overall Performance	157%

## Additional Factors

The following key financial, strategic, environmental and customer-focused results were also considered significant by the Committee in making an assessment of overall financial and operational performance, but were not given specific weightings or assigned a specific performance assessment score:

- At the request of the Massachusetts Governor, Eversource led the emergency response effort to a major natural gas incident that occurred in another company's franchise territory and received widespread recognition for leadership in the major restoration efforts that followed.
- Eversource responded extremely well to major weather events affecting its natural gas, electric and water systems, including three back-to-back major March blizzards, May tornadoes and July heatwaves, and were awarded two industry awards for very effective storm response and recovery from EEI.
- Eversource received awards from industry groups for performance in ERM, Sustainability, Diversity, Energy Efficiency, and Investor Relations. Eversource's ESG ratings for sustainability are top quartile by several major sustainability ratings providers.
- Eversource maintained its standing of having the best credit rating in the industry of "A+", completing \$2 billion of long term debt issuances at very competitive rates.
- Eversource completed the sale of its remaining New Hampshire generation assets.
- Eversource's employee engagement initiatives delivered positive results in many areas; the results of Eversource's company-wide employee engagement survey showed significantly higher overall favorability; Eversource's training programs and online employee

community have helped Eversource to deliver better customer service; Eversource advanced Diversity & Inclusion through leadership commitment and active D&I councils and business resource groups; and Eversource continued to foster positive union management relationships, including reaching early contract agreements with two of the largest unions in Massachusetts and Connecticut.

### ***Individual Executives' Performance Factors Considered by the Committee***

It is the Committee's philosophy to provide incentives for Eversource executives to work together as a highly effective, integrated team to achieve or exceed the financial, operational, safety, customer, strategic and diversity goals and objectives. The Committee also reviews and assesses individual executive performance. The Committee based the annual incentive payments on team performance and also on the Committee's assessment of each executive's individual performance in supporting the performance goals, additional achievements and Eversource's overall performance. With respect to Eversource's Chief Executive Officer, the Committee and all other independent Eversource Trustees assessed the performance of the Chief Executive Officer and, based on the recommendations of the Chief Executive Officer as to executives other than himself, the Committee assessed the performance of the Named Executive Officers to determine the individual incentive payments as disclosed in the Summary Compensation Table. Based on the Committee's review, which included its assessment of the performance goals, the significant other accomplishments of Eversource and the Named Executive Officers, and the overall performance of Eversource and each of the Named Executive Officers, considered in its totality by the Committee to have been excellent, the Committee approved annual incentive program payments for the Named Executive Officers at levels that ranged from 156 percent to 193 percent of target. These payments reflected the individual and team contributions of the Named Executive Officers in achieving the goals and the additional accomplishments and Eversource's overall performance.

In determining Mr. Judge's annual incentive payment of \$2,430,000, which was 157 percent of target and which reflects his and Eversource's continued strong performance, the Committee and the Board considered the totality of Eversource's success in accomplishing the goals set by the Committee, the additional accomplishments of Eversource, and the superior leadership of Mr. Judge in every part of the business, significantly advancing Eversource towards its goal of being recognized as the best energy company in the country by 2020.

#### **2018 Annual Incentive Program Awards**

<b>Named Executive Officer</b>	<b>Award</b>
James J. Judge	\$ 2,430,000
Philip J. Lembo	765,000
Werner J. Schweiger	815,000
Gregory B. Butler	645,000
Joseph R. Nolan, Jr.	720,000

### **Long-Term Incentive Program**

#### *General*

Eversource's long-term incentive program is intended to focus on Eversource's longer-term strategic goals and to help retain its executives. A new three-year program commences every year. For the three programs described below, each executive's target long-term incentive opportunity consisted of 50 percent Performance Shares and 50 percent RSUs. Performance Shares are designed to reward long-term achievements as measured against pre-established performance measures. RSUs are designed to provide executives with an incentive to increase the value of Eversource common shares in alignment with shareholder interests, while also serving as a retention component for executive talent. Eversource believes these compensation elements create a focus on continued Eversource and share price growth to further align the interests of Eversource's executives with the interests of Eversource's shareholders.

### **Performance Share Grants**

#### *General*

Performance Shares are designed to reward future financial performance, measured by long-term earnings growth and shareholder returns over a three-year performance period, therefore aligning management compensation with performance. Performance Shares are granted as a target number of Eversource common shares. The number of Performance Shares is determined by dividing the target grant value in dollars by the average daily closing prices of Eversource common shares on the New York Stock Exchange for the ten business days preceding the grant date and rounding to the nearest whole share. Until the end of the performance period, the value of dividends that would have been paid with respect to the Performance Shares had the Performance Shares been actual common shares will be deemed to be invested in additional Performance Shares, which remain at risk and do not vest until actual performance for the period is determined.

*Performance Shares under the 2017 - 2019 and 2018 - 2020 Programs*

For the 2018 - 2020 Program, the Committee determined it would continue to measure performance using: (i) average diluted earnings per share growth ("EPSG"); and (ii) relative total shareholder return ("TSR") measured against the performance of companies that comprise the EEI Index. As in 2017 and 2016, the Committee selected EPSG and TSR as performance measures because the Committee continues to believe that they are generally recognized as the best indicators of overall corporate performance. Further, the Committee considers it a best practice to use a combination of relative and absolute metrics, with EPS growth serving as a key input to shareholder value and TSR serving as the output.

The number of Performance Shares awarded at the end of the three-year period ranges from 0 percent to 200 percent of target, depending on EPSG and relative TSR performance as set forth in the performance matrix below. Performance Share grants are based on a percentage of annualized base salary at the time of the grant and measured in dollars. The target number of shares under the 2018 - 2020 Program ranged from 35 percent to 233 percent of base salary. For the 2018 - 2020 Program, EPSG ranges from 0 percent to 9 percent, while TSR ranges from below the 10th percentile to above the 90th percentile. The TSR target is 100 percent, which the Committee determined is challenging but achievable. As a result, vesting at 100 percent of target occurs at various combinations of EPSG and TSR performance. In addition, the value of any performance shares that actually vest may increase or decrease over the vesting period based on Eversource's share price performance. The number of performance shares granted at target were approved as set forth in the table below. The Committee and the independent Members of the Eversource Board determined the Performance Share grants for Eversource's Chief Executive Officer. Based on input from the Chief Executive Officer, the Committee determined the Performance Share grants for each of the other executive officers, including the other Named Executive Officers.

For the 2017 - 2019 Program, the Committee used the same performance measures of EPSG and TSR and the same criteria used in the 2018 - 2020 Program described above.

The performance matrix set forth below describes how the Performance Share payout will be determined under the 2017 - 2019 and 2018 - 2020 Long-Term Incentive Programs and how the Performance Share payout was determined under the 2016 - 2018 Program. Three-year average EPSG is cross-referenced with the actual three-year TSR percentile to determine actual performance share payout as a percentage of target:

**2016 - 2018, 2017 - 2019 and 2018 - 2020 Long-Term Incentive Programs Performance Share Potential Payout**

Three-Year Average EPS Growth	Three-Year Relative Total Shareholder Return Percentiles									
	Below 10th	20th	30th	40th	50th	60th	70th	80th	90th	Above 90th
9%	110%	120%	130%	140%	150%	160%	170%	180%	190%	200%
8%	100%	110%	120%	130%	140%	150%	160%	170%	180%	190%
7%	90%	100%	110%	120%	130%	140%	150%	160%	170%	180%
6%	80%	90%	100%	110%	120%	130%	140%	150%	160%	170%
5%	70%	80%	90%	100%	110%	120%	130%	140%	150%	160%
4%	60%	70%	80%	90%	100%	110%	120%	130%	140%	150%
3%	40%	50%	70%	80%	90%	100%	110%	120%	130%	140%
2%	20%	40%	60%	70%	80%	90%	100%	110%	120%	130%
1%	—	10%	40%	60%	70%	80%	90%	100%	110%	120%
0%	—	—	20%	30%	50%	70%	80%	90%	100%	110%
Below 0%	—	—	—	—	10%	20%	30%	40%	50%	60%

**Long-Term Incentive Program Performance Share Grants at Target**

Named Executive Officer	2017 - 2019 Performance Share Grant	2018 - 2020 Performance Share Grant
James J. Judge	48,259	48,912
Philip J. Lembo	11,520	10,682
Werner J. Schweiger	11,703	10,845
Gregory B. Butler	9,052	8,410
Joseph R. Nolan, Jr.	7,920	7,737

*Results of the 2016 - 2018 Performance Share Program*

The 2016 - 2018 Program, which used the same criteria used in the 2018 - 2020 Program described above, was completed on December 31, 2018. The actual performance level achieved under the Program was a three-year average adjusted EPS growth of 5.0 percent and a three-year total shareholder return at the 34th percentile, which when interpolated in accordance with the criteria established by the Committee in 2016 resulted in vesting performance share units at 94 percent of target. At its February 6, 2019 meeting, the Committee confirmed that the actual results achieved were calculated in accordance with established performance criteria. The number of Performance Shares awarded to the Named Executive Officers were approved as set forth in the table below.

**2016 – 2018 Long-Term Incentive Program  
Performance Share Awards**

<b>Named Executive Officer</b>	<b>Performance Share Award</b>
James J. Judge	13,206
Philip J. Lembo *	2,029
Werner J. Schweiger	12,987
Gregory B. Butler	8,571
Joseph R. Nolan, Jr.	4,954

\* Reflects award in 2016 to Mr. Lembo made prior to his election as Chief Financial Officer.

**Restricted Share Units (RSUs)**

*General*

Each RSU granted under the long-term incentive program entitles the holder to receive one Eversource common share at the time of vesting. All RSUs granted under the long-term incentive program vest in equal annual installments over three years. RSU holders are eligible to receive reinvested dividend units on outstanding RSUs held by them to the same extent that dividends are declared and paid on Eversource common shares. Reinvested dividend equivalents are accounted for as additional RSUs that accrue and are distributed with the common shares issued upon vesting of the underlying RSUs. Common shares, including any additional common shares in respect of reinvested dividend equivalents, are not issued for any RSUs that do not vest.

The Committee determined RSU grants for each executive officer participating in the long-term incentive program. RSU grants are based on a percentage of annualized base salary at the time of the grant and measured in dollars. In 2018, the percentage used for each executive officer was based on the executive officer's position in Eversource and ranged from 35 percent to 233 percent of base salary. The Committee reserves the right to increase or decrease the RSU grant from target for each officer under special circumstances. The Committee and all other independent members of the Eversource Board determined the RSU grants for Eversource's Chief Executive Officer. Based on input from the Chief Executive Officer, the Committee determined the RSU grants for each of the other executive officers, including the other Named Executive Officers.

All RSUs are granted on the date of the Committee meeting at which they are approved. RSU grants are subsequently converted from dollars into Eversource common share equivalents by dividing the value of each grant by the average closing price for Eversource common shares over the ten trading days prior to the date of the grant. RSU grants at 100 percent of target were approved as set forth in the table below.

<b>Named Executive Officer</b>	<b>RSUs Granted</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
James J. Judge	12,004	48,259	48,912
Philip J. Lembo *	1,844 *	11,520	10,682
Werner J. Schweiger	11,805	11,703	10,845
Gregory B. Butler	7,791	9,052	8,410
Joseph R. Nolan, Jr.	4,503	7,920	7,737

\* Reflects grant to Mr. Lembo made prior to his election as Chief Financial Officer.

**Clawbacks**

If Eversource's earnings were to be restated as a result of noncompliance with accounting rules caused by fraud or misconduct, or if a plan participant engages in a willful material violation of Eversource's Code of Business Conduct or material corporate policy, or the breach of a material covenant in an employment agreement, as determined by the Eversource Board of Trustees, the participant will be required by the Eversource 2018 Incentive Plan to reimburse Eversource for incentive compensation awards received by them just for that year.

**No Hedging and No Pledging Policy**

Eversource has adopted a policy prohibiting the purchase of financial instruments or otherwise entering into transactions designed to have the effect of hedging or offsetting any decrease in the value of Eversource common shares by Eversource's Trustees and executives. This policy also prohibits all pledging, forward sale contracts, zero cost collars, short sales, the holding of any Company common shares in a margin account, or otherwise pledging Eversource common shares. This policy will be reviewed and amended as appropriate to comply with the SEC's new rules governing disclosure of hedging policies affecting all employees.

**Share Ownership Guidelines and Retention Requirements**

The Committee has approved share ownership guidelines to further emphasize the importance of share ownership by Eversource officers. As indicated in the table below, the guidelines call for Eversource's Chief Executive Officer to own common shares equal to six times base salary, executive vice presidents to own a number of common shares equal to three times base salary, senior vice presidents to own common shares equal to two times base salary, and all other officers to own a number of common shares equal to one to one and one half times base salary.

Officers and Eversource Trustees may only transact in Eversource common shares during approved trading windows and subject to continuing compliance with these share ownership guidelines.

<b>Executive Officer</b>	<b>Base Salary Multiple</b>
Chief Executive Officer	6
Executive Vice Presidents	3
Operating Company Presidents / Senior Vice Presidents	2
Vice Presidents	1 – 1.5

Eversource requires that its officers attain these ownership levels within five years. All Eversource officers, including Eversource's Named Executive Officers, have satisfied the share ownership guidelines or are expected to satisfy them within the applicable timeframe. Common shares, whether held of record, in street name, or in individual 401(k) accounts, and RSUs satisfy the guideline requirements to hold 100 percent of the net shares. Unvested performance shares do not count toward the ownership guidelines. In addition to the share ownership guidelines noted above, all officers must hold all the shares awarded under Eversource's incentive compensation plan until the share ownership guidelines have been met.

#### **Other Benefits**

##### **Retirement Benefits**

Eversource provides a qualified defined benefit pension program for certain officers, which is a final average pay program subject to tax code limits. Because of such limits, Eversource also maintain a supplemental non-qualified pension program. Benefits are based on base salary and certain incentive payments, which is consistent with the goal of providing a retirement benefit that replaces a percentage of pre-retirement income. The supplemental program compensates for benefits barred by tax code limits, and generally provides (together with the qualified pension program) benefits equal to approximately 60 percent of pre-retirement compensation (subject to certain reductions) for Messrs. Judge, Lembo, Schweiger and Nolan, and approximately 50 percent of such compensation for Mr. Butler. The supplemental program has been discontinued for newly-elected officers.

As set forth in this CD&A, Mr. Judge and Mr. Lembo were elected to the positions of President and Chief Executive Officer of Eversource and Executive Vice President and Chief Financial Officer of Eversource, respectively, in 2016, such that 2017 was the first year that each served in his new position. Each had a resulting substantial increase in the actuarial, formula-based present values of their pension benefit due to the increase in their base pay and annual bonus. These increases are disclosed in the Change in Pension Value and Non-Qualified Deferred Earnings column of the Summary Compensation Table. These accounting-based increases for Mr. Judge and Mr. Lembo, while representing a substantial portion of their 2017 and 2018 total compensation disclosed in the SEC Total column of the Summary Compensation Table, resulted in no actual 2017 or 2018 W-2 earnings for either of them.

For certain participants, the benefits payable under the Supplemental Non-Qualified Pension Program differ from those described above. The program benefit payable to Mr. Schweiger is fully vested and is further reduced by benefits he is entitled to receive under previous employers' retirement plans.

Also see the narrative accompanying the "Pension Benefits" table and accompanying notes for more detail on the above program.

##### **401(k) Benefits**

Eversource offers a qualified 401(k) program for all employees, including executives, subject to tax code limits. After applying these limits, the program provides a match of 50 percent of the first 8 percent of eligible base salary, up to a maximum of \$11,000 per year for Messrs. Judge, Lembo, Schweiger and Nolan. For Mr. Butler, the program provides a match of 100 percent of the first 3 percent of eligible base salary, up to a maximum of \$8,250 per year.

##### **Deferred Compensation**

Eversource offers a non-qualified deferred compensation program for its executives. In 2018, the program allowed deferral of up to 100 percent of base salary, annual incentives and long-term incentive awards. The program allows participants to select investment measures for deferrals based on an array of deemed investment options (including certain mutual funds and publicly traded securities).

See the Non-Qualified Deferred Compensation Table and accompanying notes for additional details on the above program.

##### **Perquisites**

Eversource provides executives with limited financial planning benefits, vehicle leasing and access to tickets to sporting events. The current level of perquisites does not factor into decisions on total compensation.

## **Contractual Agreements**

Eversource maintains contractual agreements with all of its Named Executive Officers that provide for potential compensation in the event of certain terminations, including termination following a Change in Control. Eversource believes these agreements are necessary to attract and retain high quality executives and to ensure executive focus on Eversource business during the period leading up to a potential Change in Control. The agreements are "double-trigger" agreements that provide executives with compensation in the event of a Change in Control followed by termination of employment due to one or more of the events set forth in the agreements, while still providing an incentive to remain employed with Eversource for the transition period that follows.

Under the agreements, certain compensation is generally payable if, during the applicable change in control period, the executive is involuntarily terminated (other than for cause) or terminates employment for "good reason." These agreements are described more fully in the tables following this CD&A under "Payments Upon Termination."

## **Tax and Accounting Considerations**

Section 162(m) of the Internal Revenue Code precludes a public corporation from taking an income tax deduction in any one year for compensation in excess of \$1 million payable to its Named Executive Officers (excluding the Chief Financial Officer) who are employed on the last day of the fiscal year, unless certain specific performance goals are satisfied. Until January 1, 2018, there was an exception to the \$1 million limitation for performance-based compensation meeting certain requirements. This exception was repealed, effective for taxable years beginning after December 31, 2017, and the limitation on deductibility generally was expanded to include all Named Executive Officers. As a result, compensation paid to the Named Executive Officers in excess of \$1 million per officer will not be deductible unless it qualifies for transition relief applicable to certain arrangements in place as of and not modified after November 2, 2017.

The Committee believes that the availability of a tax deduction for forms of compensation should be one of many factors taken into consideration of providing market-based compensation to attract and retain highly qualified executives. The Committee believes it is in Eversource's best interests to retain discretion to make compensation awards, whether or not deductible.

Eversource has adopted the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 718, *Compensation-Stock Compensation*. In general, Eversource and the Committee do not consider accounting considerations in structuring compensation arrangements.

## **Equity Grant Practices**

Equity awards noted in the compensation tables are made annually at the February meeting of the Compensation Committee (subject to further approval by all of the independent members of Eversource's Board of Trustees of Eversource's Chief Executive Officer's award) when the Committee also determines base salary, annual and long-term incentive compensation targets and annual incentive awards. The date of this meeting is chosen at least a year in advance, and therefore awards are not coordinated with the release of material non-public information.

## SUMMARY COMPENSATION TABLE

The table below summarizes the total compensation paid or earned by CL&P's principal executive officer (Mr. Judge), principal financial officer (Mr. Lembo) and the three other most highly compensated executive officers in 2018, determined in accordance with the applicable SEC disclosure rules (collectively, the Named Executive Officers). As explained in the footnotes below, the amounts reflect the economic benefit to each Named Executive Officer of the compensation item paid or accrued on behalf of the Named Executive Officers for the fiscal year ended December 31, 2018 in accordance with such rules. All salaries, annual incentive amounts and long-term incentive amounts shown for each Named Executive Officer were paid for all services rendered to Eversource Energy and its subsidiaries, including CL&P, in all capacities.

Name and Principal Position	Year	Salary	Stock Awards <sup>(1)</sup>	Non-Equity Incentive Plan <sup>(2)</sup>	Change in Pension Value and Non-Qualified Deferred Earnings <sup>(3)</sup>	All Other Compensation <sup>(4)</sup>	SEC Total	Adjusted SEC Total <sup>(5)</sup>
<b>James J. Judge</b>	2018	\$ 1,277,078	\$ 5,632,217	\$ 2,430,000	\$ 5,560,877	\$ 25,209	\$ 14,925,381	\$ 9,364,504
Chairman, President and Chief Executive Officer of Eversource Energy; Chairman of CL&P	2017	1,230,694	5,504,904	2,285,000	6,869,854	25,009	15,915,461	9,045,607
	2016	959,690	1,382,021	2,200,000	1,616,742	24,809	6,183,262	4,566,520
<b>Philip J. Lembo</b>	2018	648,271	1,230,032	765,000	1,535,216	21,685	4,200,204	2,664,988
Executive Vice President and Chief Financial Officer of Eversource Energy and CL&P	2017	613,847	1,314,086	700,000	1,246,325	21,485	3,895,743	2,649,418
	2016	439,208	212,300	600,000	543,133	21,285	1,815,926	1,272,793
<b>Werner J. Schweiger</b>	2018	658,271	1,248,802	815,000	538,978	53,896	3,314,947	2,775,969
Executive Vice President and Chief Operating Officer of Eversource Energy and CL&P	2017	634,078	1,334,961	775,000	1,225,581	21,418	3,991,038	2,765,457
	2016	592,108	1,359,110	700,000	1,156,328	21,135	3,828,681	2,672,353
<b>Gregory B. Butler</b>	2018	618,271	968,412	645,000	634,394	15,143	2,881,220	2,246,826
Executive Vice President and General Counsel of Eversource Energy and CL&P	2017	597,886	1,032,562	625,000	1,670,745	15,361	3,941,554	2,270,809
	2016	514,494	896,978	575,000	539,638	12,886	2,538,996	1,999,358
<b>Joseph R. Nolan, Jr.</b>	2018	561,540	890,916	720,000	1,193,350	56,084	3,421,890	2,228,540
Executive Vice President-Customer and Corporate Relations of Eversource Energy and Eversource Service	2017	515,578	903,434	680,000	1,486,025	16,076	3,601,113	2,115,088
	2016	419,364	518,430	550,000	826,729	15,876	2,330,399	1,503,670

(1) Reflects the aggregate grant date fair value of restricted share units (RSUs) and performance shares granted in each fiscal year, calculated in accordance with FASB ASC Topic 718.

RSUs were granted to each Named Executive Officer as long-term compensation, which vest in equal annual installments over three years.

RSUs were granted to each Named Executive Officer in 2018 as long-term compensation, which vest in equal annual installments over three years. In 2018, each of the Named Executive Officers was also granted performance shares as long-term incentive compensation. These performance shares will vest based on the extent to which the two performance conditions described in the CD&A are achieved as of December 31, 2020. The grant date fair values for the performance shares, assuming achievement of the highest level of both performance conditions, are as follows: Mr. Judge: \$4,309,636; Mr. Lembo: \$941,191; Mr. Schweiger: \$955,553; Mr. Butler: \$741,005; and Mr. Nolan: \$681,707.

Holders of RSUs and performance shares are eligible to receive dividend equivalent units on outstanding awards to the same extent that dividends are declared and paid on Eversource common shares. Dividend equivalent units are accounted for as additional common shares that accrue and are distributed simultaneously with those common shares that are issued upon vesting of the underlying RSUs and performance shares.

Mr. Judge was elected President and Chief Executive Officer of Eversource Energy on April 6, 2016, upon the retirement of Thomas J. May. Mr. Judge had previously served as Executive Vice President and Chief Financial Officer of Eversource Energy until his election as President and Chief Executive Officer. Mr. Lembo was elected Executive Vice President and Chief Financial Officer of Eversource Energy on May 4, 2016, having previously served as Vice President and Treasurer. Thus, 2017 was the first year during which the Committee made long term incentive program stock awards to Mr. Judge and Mr. Lembo in their then-new positions of President and Chief Executive Officer and Executive Vice President and Chief Financial Officer, respectively.

(2) Includes payments to the Named Executive Officers under the 2018 Annual Incentive Program: Mr. Judge: \$2,430,000; Mr. Lembo: \$765,000; Mr. Schweiger: \$815,000; Mr. Butler: \$645,000 and Mr. Nolan: \$720,000.

(3) Includes the actuarial increase in the present value from December 31, 2017 to December 31, 2018 of the Named Executive Officers' accumulated benefits under all defined benefit pension programs and agreements, determined using interest rate and mortality rate assumptions consistent with those appearing in the footnotes to this Annual Report on Form 10-K for the fiscal year ended December 31, 2018. The Named Executive Officer may not be fully vested in such amounts. More information on this topic is set forth in the Pension Benefits table. There were no above-market earnings in deferred compensation value during 2018, as the terms of the Deferred Compensation Plan provide for market-based investments, including Eversource common shares. Mr. Judge and Mr. Lembo were elected to the positions of President and Chief Executive Officer of Eversource Energy and Executive Vice President and Chief Financial Officer of Eversource Energy, respectively, in 2016, such that 2017 was the first year that each served in his new position. Each had a resulting substantial increase in the actuarial, formula-based present value of his pension benefit due to the increase in his base pay and annual

bonus and the effect of interest rates. These accounting-based increases, while representing for Mr. Judge and Mr. Lembo a substantial portion of their 2017 and 2018 total compensation disclosed in the SEC Total above, resulted in no actual 2017 W-2 earnings for either of them.

- (4) Includes matching contributions allocated by us to the accounts of Named Executive Officers under the 401k Plan as follows: \$11,000 for each of Messrs. Judge, Lembo, Schweiger and Nolan, and \$8,250 for Mr. Butler. For Mr. Judge, the value shown includes financial planning services valued at \$5,000 and \$9,209 paid by Eversource for a company-leased vehicle. For Mr. Lembo, the value shown includes financial planning services valued at \$5,000 and \$5,685 paid by Eversource for a company-leased vehicle. For Mr. Schweiger, the value shown includes financial planning services valued at \$5,000 and \$5,646 paid by Eversource for a company-leased vehicle. For Mr. Nolan, the value shown includes \$5,276 paid by Eversource for a company-leased vehicle. For Messrs. Schweiger and Nolan, the value includes additional compensation of \$32,250 and 39,808, respectively, for their efforts in leading the initial response, as directed by the Massachusetts Department of Public Utilities, to a very substantial series of natural gas explosions that occurred in September 2018 in a non-Eversource natural gas company's service territory. None of the other Named Executive Officers received perquisites valued in the aggregate in excess of \$10,000.
- (5) The amounts in the Adjusted SEC Total column reflect an adjustment to the total compensation reported in the column marked SEC Total. The Adjusted SEC Total subtracts the actuarial change in pension value disclosed in the column titled "Change in Pension Value and Non-Qualified Deferred Earnings" as further described in footnote 3 above in order to reflect compensation earned during the year by the executive without consideration of pension benefit impacts. The amounts in this column differ substantially from, and are not a substitute for, the amounts noted in the SEC Total.

#### GRANTS OF PLAN-BASED AWARDS DURING 2018

The Grants of Plan-Based Awards Table provides information on the range of potential payouts under all incentive plan awards during the fiscal year ended December 31, 2018. The table also discloses the underlying equity awards and the grant date for equity-based awards. Eversource has not granted any stock options since 2002.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards <sup>(1)</sup>			All Other Stock Awards: Number of Shares of Stock or Units <sup>(2)</sup>	Grant Date Fair Value of Stock and Option Awards <sup>(3)</sup>
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (\$)	Target (#)	Maximum (#)		
<b>James J. Judge</b>									
Annual Incentive <sup>(4)</sup>	02/07/18	\$ 742,000	\$ 1,484,000	\$ 2,968,000	\$ —	—	—	—	\$ —
Long-Term Incentive <sup>(5)</sup>	02/07/18	—	—	—	—	48,912	97,824	48,912	5,632,217
<b>Philip J. Lembo</b>									
Annual Incentive <sup>(4)</sup>	02/07/18	245,500	491,000	982,000	—	—	—	—	—
Long-Term Incentive <sup>(5)</sup>	02/07/18	—	—	—	—	10,682	21,364	10,682	1,230,032
<b>Werner J. Schweiger</b>									
Annual Incentive <sup>(4)</sup>	02/07/18	249,500	499,000	998,000	—	—	—	—	—
Long-Term Incentive <sup>(5)</sup>	02/07/18	—	—	—	—	10,845	21,690	10,845	1,248,802
<b>Gregory B. Butler</b>									
Annual Incentive <sup>(4)</sup>	02/07/18	203,000	406,000	812,000	—	—	—	—	—
Long-Term Incentive <sup>(5)</sup>	02/07/18	—	—	—	—	8,410	16,820	8,410	968,412
<b>Joseph R. Nolan, Jr.</b>									
Annual Incentive <sup>(4)</sup>	02/07/18	187,000	374,000	748,000	—	—	—	—	—
Long-Term Incentive <sup>(5)</sup>	02/07/18	—	—	—	—	7,737	15,474	7,737	890,916

- (1) Reflects the number of performance shares granted to each of the Named Executive Officers on February 7, 2018 under the 2018 - 2020 Long-Term Incentive Program. Performance shares were granted subject to a three-year Performance Period that ends on December 31, 2020. At the end of the Performance Period, Eversource common shares will be awarded based on actual performance results as a percentage of target, subject to reduction for applicable payroll withholding taxes. Holders of performance shares are eligible to receive dividend equivalent units on outstanding performance shares awarded to them to the same extent that dividends are declared and paid on Eversource common shares. Dividend equivalent units are accounted for as additional common shares that accrue and are distributed simultaneously with the number of common shares underlying the performance shares that are actually awarded. The Annual Incentive Program did not include an equity component.
- (2) Reflects the number of RSUs granted to each of the Named Executive Officers on February 7, 2018 under the 2018 - 2020 Long-Term Incentive Program. RSUs vest in equal installments on February 7, 2019, 2020 and 2021. Common shares will be distributed with respect to vested RSUs on a one-for-one basis following vesting, after reduction for applicable payroll withholding taxes. Holders of RSUs are eligible to receive dividend equivalent units on outstanding RSUs awarded to them to the same extent that dividends are declared and paid on Eversource common shares. Dividend equivalent units are accounted for as additional common shares that accrue and are distributed simultaneously with those common shares actually distributed in respect of the underlying RSUs.
- (3) Reflects the grant date fair value, determined in accordance with FASB ASC Topic 718, of RSUs and performance shares granted to the Named Executive Officers on February 7, 2018 under the 2018 - 2020 Long-Term Incentive Program.
- (4) The threshold payment under the Annual Incentive Program is 50 percent of target. The actual payments in 2019 for performance in 2018 are set forth in the Non-Equity Incentive Plan column of the Summary Compensation Table.

- (5) Reflects the range of potential payouts, if any, pursuant to performance share awards under the 2018 - 2020 Long-Term Incentive Program, as described in the CD&A.

### OUTSTANDING EQUITY GRANTS AT DECEMBER 31, 2018

The following table sets forth RSU and performance share grants outstanding at the end of the fiscal year ended December 31, 2018 for each of the Named Executive Officers. There are no outstanding options.

Name	Stock Awards <sup>(1)</sup>			
	Number of Shares or Units of Stock That Have Not Vested (#) <sup>(2)</sup>	Market Value of Shares or Units of Stock That Have Not Vested (\$) <sup>(3)</sup>	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) <sup>(4)</sup>	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) <sup>(5)</sup>
<b>James J. Judge</b>	89,263	\$ 5,805,692	115,219	\$ 7,493,837
<b>Philip J. Lembo</b>	19,907	1,294,719	25,353	1,648,967
<b>Werner J. Schweiger</b>	23,857	1,551,685	36,675	2,385,329
<b>Gregory B. Butler</b>	17,985	1,169,714	26,915	1,750,582
<b>Joseph R. Nolan, Jr.</b>	15,278	993,692	21,396	1,391,576

- (1) Awards and market values of awards appearing in the table and the accompanying notes have been rounded to whole units.
- (2) A total of 75,187 unvested RSUs will vest on February 7, 2019 (Mr. Judge: 38,407; Mr. Lembo: 8,451; Mr. Schweiger: 12,225; Mr. Butler: 8,972 and Mr. Nolan: 7,132). A total of 61,271 unvested RSUs will vest on February 7, 2020 (Mr. Judge: 34,004; Mr. Lembo: 7,775; Mr. Schweiger: 7,896; Mr. Butler: 6,115; and Mr. Nolan: 5,481). A total of 29,831 unvested RSUs will vest on February 8, 2021 (Mr. Judge: 16,852; Mr. Lembo: 3,680; Mr. Schweiger: 3,736; Mr. Butler: 2,897; and Mr. Nolan: 2,666).
- (3) The market value of RSUs is determined by multiplying the number of RSUs by \$65.04, the closing price per common share on December 31, 2018, the last trading day of the year.
- (4) Reflects the target payout level for performance shares granted under the 2016 - 2018 Program, the 2017 - 2019 Program and the 2018 - 2020 Program.

The performance period for the 2016 - 2018 Program ended on December 31, 2018. Awards under that program are set forth in the CD&A under the "Results of the 2016 - 2018 Performance Share Program."

The performance share award for 2017 - 2019 Program and the 2018 - 2020 Program will be based on actual performance results as a percentage of target, subject to reduction for applicable payroll withholding taxes. As described more fully under "Performance Shares" in the CD&A and footnote (1) to the Grants of Plan-Based Awards table, performance shares will vest following a three-year performance period based on the extent to which the two performance conditions are achieved. Under the 2017 - 2019 Program, a total of 94,319 unearned performance shares (including accrued dividend equivalents) will vest based on the extent to which the two performance conditions described in the CD&A are achieved as of December 31, 2019, assuming achievement of these conditions at a target level of performance: Mr. Judge: 51,459; Mr. Lembo: 12,284; Mr. Schweiger: 12,479; Mr. Butler: 9,652 and Mr. Nolan: 8,445. Under the 2018 - 2020 Program, a total of 89,494 unearned performance shares (including accrued dividend equivalents) will vest based on the extent to which the two performance conditions described in the CD&A are achieved as of December 31, 2020. Assuming achievement of these conditions at a target level of performance, the amount of the awards would be as follows: Mr. Judge: 50,555; Mr. Lembo: 11,041; Mr. Schweiger: 11,209; Mr. Butler: 8,692; and Mr. Nolan: 7,997.

- (5) The market value is determined by multiplying the number of performance shares in the adjacent column by \$65.04, the closing price of Eversource Energy common shares on December 31, 2018, the last trading day of the year.

### OPTION EXERCISES AND STOCK VESTED IN 2018

The following table reports amounts realized on equity compensation during the fiscal year ended December 31, 2018. The Stock Awards columns report the vesting of RSU and performance share grants to the Named Executive Officers in 2018.

Name	Stock Awards	
	Number of Shares Acquired on Vesting (#) <sup>(1)</sup>	Value Realized on Vesting <sup>(2)</sup>
<b>James J. Judge</b>	35,886	\$ 2,073,063
<b>Philip J. Lembo</b>	7,225	417,186
<b>Werner J. Schweiger</b>	23,091	1,336,258
<b>Gregory B. Butler</b>	16,460	952,517
<b>Joseph R. Nolan, Jr.</b>	10,151	587,111

- (1) Includes RSUs and performance shares granted to the Named Executive Officers under the long-term incentive programs, including dividend reinvestments, as follows:

Name	2015 Program	2016 Program	2017 Program	2018 Program
<b>James J. Judge</b>	15,033	4,258	16,595	—
<b>Philip J. Lembo</b>	2,608	655	3,962	—
<b>Werner J. Schweiger</b>	14,879	4,188	4,024	—
<b>Gregory B. Butler</b>	10,584	2,764	3,112	—
<b>Joseph R. Nolan, Jr.</b>	5,829	1,598	2,724	—

In all cases, the distribution of common shares is reduced by that number of shares valued in an amount sufficient to satisfy tax withholding obligations.

- (2) Values realized on vesting of RSUs granted under the 2015 - 2017, 2016 - 2018 and 2017 - 2019 Programs were based on \$57.58 per share, the closing price of Eversource Energy common shares on February 14, 2018. Values realized on vesting of performance shares granted under the 2015 - 2017 Program were based on \$58.17 per share, the closing price of Eversource Energy common shares on February 20, 2018.

#### PENSION BENEFITS IN 2018

The Pension Benefits Table shows the estimated present value of accumulated retirement benefits payable to each Named Executive Officer upon retirement based on the assumptions described below. The table distinguishes between benefits available under the qualified pension program, the supplemental pension program, and any additional benefits available under contractual agreements. See the narrative above in the CD&A under the caption "Other - Retirement Benefits" and "Contractual Agreements" for more detail on benefits under these plans and agreements.

The values shown in the Pension Benefits Table for Messrs. Judge, Lembo, Schweiger and Nolan were calculated as of December 31, 2018, based on benefit payments in the form of a lump sum. For Mr. Butler, a payment of benefits was assumed in the form of a contingent annuitant option. Such earned pension program benefit value could otherwise have changed because of the reduction in mortality factors and potentially rising interest rates.

The values shown in this Table for the Named Executive Officers were based on benefit payments commencing at the earliest possible ages for retirement with unreduced benefits: Mr. Judge: age 60; Mr. Lembo: age 62; Mr. Schweiger: age 55; Mr. Butler: age 62; and Mr. Nolan: age 62.

In addition, benefits were determined under the qualified pension program using tax code limits in effect on December 31, 2018. For Messrs. Judge, Lembo, Schweiger and Nolan, the values shown reflect actual 2018 salary and annual incentives earned in 2017 but paid in 2018 (per applicable supplemental program rules). For Mr. Butler, the values shown reflect actual 2018 salary and annual incentives earned in 2018 but paid in 2019 (per applicable supplemental program rules).

We determined the present value of benefits at retirement age using the discount rate within a range of 4.22 percent to 4.37 percent under ASC 715-30 pension accounting for the 2018 fiscal year end measurement as of December 31, 2018. This present value assumes no pre-retirement mortality, turnover or disability. However, for postretirement period beginning at retirement age, the 2018 IRS lump sum mortality table was used for Mr. Judge, Mr. Lembo, Mr. Schweiger and Mr. Nolan. The RP2014 Employee Table Projected Generationally with Scale MP2018 was used for Mr. Butler. This new mortality table (as published by the Society of Actuaries in 2014) and projection scale were used by the Eversource Pension Plan for year-end 2018 financial disclosure. Additional assumptions appear in the footnotes to this Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

## Pension Benefits

Name	Plan Name	Number of Years Credited Service (#)	Present Value of Accumulated Benefit	During Last Fiscal Year
James J. Judge	Retirement Plan	41.33	\$ 2,714,417	\$ —
	Supplemental Plan	21.00	9,738,848	—
	Supplemental Plan	41.33	12,150,475	—
Philip J. Lembo	Retirement Plan	9.75	1,263,600	—
	Supplemental Plan	9.75	3,962,402	—
Werner J. Schweiger	Retirement Plan	16.83	547,641	—
	Supplemental Plan	16.83	2,209,494	—
	Supplemental Plan	16.00	6,267,490	—
Gregory B. Butler	Retirement Plan	22.00	1,135,545	—
	Supplemental Plan	22.00	4,239,418	—
	Target	22.00	3,335,777	—
Joseph R. Nolan, Jr.	Retirement Plan	19.33	896,939	—
	Supplemental Plan	19.33	2,696,355	—
	Supplemental Plan	19.00	3,092,797	—

## NONQUALIFIED DEFERRED COMPENSATION IN 2018

The following table reports amounts contributed in 2018, together with aggregate earnings on contributions and withdrawals or distributions on contributions in 2018, under Eversource's deferred compensation program, along with aggregate balances on contributions. Named Executive Officers who participate in this program are provided with a variety of investment opportunities, which the individual can modify and reallocate under the program terms. See the narrative above in the CD&A under the caption "Elements of 2018 Compensation - Other - Deferred Compensation" for more detail on the non-qualified deferred compensation program.

Name	Executive Contributions in Last FY	Registrant Contributions in Last FY	Aggregate Earnings in Last FY	Aggregate Withdrawals/Distributions	Aggregate Balance at Last FYE <sup>(1)</sup>
James J. Judge	\$ —	\$ —	\$ 350,351	\$ —	\$ 6,043,699
Philip J. Lembo	—	—	(61,055)	—	1,309,411
Werner J. Schweiger	—	—	(1,036,872)	701,236	16,191,292
Gregory B. Butler	—	—	586	—	21,193
Joseph R. Nolan, Jr.	—	—	166,121	—	5,016,295

(1) Includes the total market value of deferred compensation program balances at December 31, 2018, plus the value of vested RSUs or other awards for which the distribution of common shares is currently deferred, based on \$65.04, the closing price of Eversource common shares on December 31, 2018, the last trading day of the year. The aggregate balances reflect a significant level of earnings on previously earned and deferred compensation.

## POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL

The discussion and tables below show compensation payable to each Named Executive Officer who is still an employee of Eversource, in the event of: (i) voluntary termination; (ii) involuntary not-for-cause termination; (iii) termination in the event of death or disability; and (iv) termination following a change in control. No amounts are payable in the event of a termination for cause. The amounts shown assume that each termination was effective as of December 31, 2018, the last business day of the fiscal year.

Generally, a "change in control" means a change in ownership or control effected through (i) the acquisition of 30 percent or more of the combined voting power of common shares or other voting securities (20 percent for Mr. Butler, excluding certain defined transactions); (ii) the acquisition of more than 50 percent of Eversource common shares, excluding certain defined transactions (for Messrs. Judge, Lembo, Schweiger and Nolan); (iii) a change in the majority of the Eversource Board of Trustees, unless approved by a majority of the incumbent Trustees; (iv) certain reorganizations, mergers or consolidations where substantially all of the persons who were the beneficial owners of the outstanding common shares immediately prior to such business combination do not beneficially own more than 50 percent of the voting power of the resulting business entity (excluding in certain cases defined transactions); and (v) complete liquidation or dissolution of Eversource, or a sale or disposition of all or substantially all of the assets of Eversource other than, for Mr. Butler, to an entity with respect to which following completion of the transaction more than 50 percent of common shares or other voting securities is then owned by all or substantially all of the persons who were the beneficial owners of common shares and other voting securities immediately prior to such transaction.

In the event of a change in control, the Named Executive Officers are generally entitled to receive compensation and benefits following either involuntary termination of employment without "cause" or voluntary termination of employment for "good reason" within the applicable period (generally two years following a change in control). The Committee believes that termination for good reason is conceptually the same as termination "without cause" and, in the absence of this provision, potential acquirers would have an incentive to constructively terminate executives to avoid paying severance. Termination for "cause" generally means termination due to a felony or certain other convictions; fraud, embezzlement, or theft in the course of employment; intentional, wrongful damage to Eversource property; gross misconduct or gross

negligence in the course of employment or gross neglect of duties harmful to Eversource; or a material breach of obligations under the agreement. "Good reason" for termination generally exists after assignment of duties inconsistent with executive's position, a material reduction in compensation or benefits, a transfer more than 50 miles from the executive's pre-change in control principal business location (or for Messrs. Judge, Lembo, Schweiger and Nolan, an involuntary transfer outside the Greater Boston Metropolitan Area), or requiring business travel to a substantially greater extent than required prior to the change in control.

The summaries above do not purport to be complete and are qualified in their entirety by the actual terms and provisions of the agreements and plans, copies of which have been filed as exhibits to this Annual Report on Form 10-K for the year ended December 31, 2018.

### **Payments Upon Termination**

Regardless of the manner in which the employment of a Named Executive Officer terminates, the executive is entitled to receive certain amounts earned during the executive's term of employment. Such amounts include:

- Vested RSUs and certain other vested awards;
- Amounts contributed and any vested matching contributions under the deferred compensation program;
- Pay for unused vacation; and
- Amounts accrued and vested under the pension/supplemental and 401k programs (except in the event of a termination for cause under the supplemental program).

The following table describes additional compensation payable to the Named Executive Officers in the event of voluntary termination, involuntary termination not for cause, termination in the event of death or disability and termination following a change in control. No benefits are provided in the event of termination for cause. See the section above captioned "Pension Benefits in 2018" for information about the pension program, supplemental program and other benefits, and the section captioned "Nonqualified Deferred Compensation in 2018."

**POST-EMPLOYMENT COMPENSATION PAYMENTS UPON TERMINATION**

Name	Type of Payments	Voluntary Termination	Involuntary Termination Not for Cause	Termination Upon Death or Disability	Termination Following a Change in Control
<b>James J. Judge</b>	Annual Incentives <sup>(1)</sup>	\$ —	\$ —	\$ —	\$ 1,486,000
	Performance Shares <sup>(2)</sup>	4,186,357	4,186,357	4,186,357	7,493,837
	RSUs <sup>(3)</sup>	2,298,133	2,298,133	2,298,133	5,805,692
	Special Retirement Benefit <sup>(4)</sup>	—	—	—	7,049,367
	Health and Welfare Benefits <sup>(5)</sup>	—	—	—	98,441
	Perquisites <sup>(6)</sup>	—	—	—	15,000
	Excise Tax and Gross-ups <sup>(7)</sup>	—	—	—	8,044,238
	Separation Payment for Liquidated Damages <sup>(8)</sup>	—	—	—	10,770,000
<b>Total</b>		<b>\$ 6,484,490</b>	<b>\$ 6,484,490</b>	<b>\$ 6,484,490</b>	<b>\$ 40,762,576</b>
<b>Philip J. Lembo</b>	Annual Incentives <sup>(1)</sup>	\$ —	\$ —	\$ —	\$ 491,000
	Performance Shares <sup>(2)</sup>	904,197	904,197	904,197	1,648,967
	RSUs <sup>(3)</sup>	505,664	505,664	505,664	1,294,719
	Special Retirement Benefit <sup>(4)</sup>	—	—	—	1,779,646
	Health and Welfare Benefits <sup>(5)</sup>	—	—	—	42,998
	Perquisites <sup>(6)</sup>	—	—	—	10,000
	Separation Payment for Liquidated Damages <sup>(8)</sup>	—	—	—	2,710,000
	<b>Total</b>		<b>\$ 1,409,861</b>	<b>\$ 1,409,861</b>	<b>\$ 1,409,861</b>
<b>Werner J. Schweiger</b>	Annual Incentives <sup>(1)</sup>	\$ —	\$ —	\$ —	\$ 499,000
	Performance Shares <sup>(2)</sup>	1,629,030	1,629,030	1,629,030	2,385,329
	RSUs <sup>(3)</sup>	731,501	731,501	731,501	1,551,685
	Special Retirement Benefit <sup>(4)</sup>	—	—	—	3,009,271
	Health and Welfare Benefits <sup>(5)</sup>	—	—	—	87,807
	Perquisites <sup>(6)</sup>	—	—	—	15,000
	Separation Payment for Liquidated Damages <sup>(8)</sup>	—	—	—	4,320,000
	<b>Total</b>		<b>\$ 2,360,531</b>	<b>\$ 2,360,531</b>	<b>\$ 2,360,531</b>
<b>Gregory B. Butler</b>	Annual Incentives <sup>(1)</sup>	\$ —	\$ —	\$ —	\$ 406,000
	Performance Shares <sup>(2)</sup>	1,164,627	1,164,627	1,164,627	1,750,582
	RSUs <sup>(3)</sup>	536,803	536,803	536,803	1,169,714
	Special Retirement Benefit <sup>(4)</sup>	—	4,861,592	—	5,283,938
	Health and Welfare Benefits <sup>(5)</sup>	—	23,500	—	35,251
	Perquisites <sup>(6)</sup>	—	10,000	—	15,000
	Excise Tax and Gross-Ups <sup>(7)</sup>	—	1,034,102	—	2,223,174
	Separation Payment for Liquidated Damages <sup>(8)</sup>	—	1,031,250	—	2,062,500
	Separation Payment for Non-Compete Agreement <sup>(9)</sup>	—	1,031,250	—	1,031,250
<b>Total</b>		<b>\$ 1,701,430</b>	<b>\$ 9,693,124</b>	<b>\$ 1,701,430</b>	<b>\$ 13,977,409</b>
<b>Joseph R. Nolan, Jr.</b>	Annual Incentives <sup>(1)</sup>	\$ —	\$ —	\$ —	\$ 374,000
	Performance Shares <sup>(2)</sup>	861,840	861,840	861,840	1,391,576
	RSUs <sup>(3)</sup>	426,750	426,750	426,750	993,692
	Special Retirement Benefit <sup>(4)</sup>	—	—	—	3,787,811
	Health and Welfare Benefits <sup>(5)</sup>	—	—	—	86,223
	Perquisites <sup>(6)</sup>	—	—	—	15,000
	Excise Tax and Gross-ups <sup>(7)</sup>	—	—	—	2,444,743
	Separation Payment for Liquidated Damages <sup>(8)</sup>	—	—	—	3,765,000
	<b>Total</b>		<b>\$ 1,288,590</b>	<b>\$ 1,288,590</b>	<b>\$ 1,288,590</b>

- (1) For Termination Following a Change in Control: Represents target 2018 annual incentive awards as described in the Grants of Plan Based Awards Table.
- (2) For Voluntary Termination and Termination Not For Cause and Termination Upon Death or Disability: Represents 100 percent of the performance share awards under the 2016 - 2018 Long-Term Incentive Program, 67 percent of the performance share awards under the 2017 - 2019 Long-Term Incentive Program and 33 percent of the performance share awards under the 2018 - 2020 Long-Term Incentive Program. For all of the Named Executive Officers, the values were calculated by multiplying the number of RSUs by \$65.04, the closing price of Eversource common shares on December 31, 2018, the last trading day of the year. For Termination Following a Change in Control: Represents 100 percent of the performance share awards under each of the three Programs noted in the previous two sentences.
- (3) For Voluntary Termination and Termination Not For Cause and Termination Upon Death or Disability: Represents values of RSUs granted under long-term incentive programs that, at year-end 2018, were unvested under applicable vesting schedules. Under these programs, RSUs vest pro rata based on credited service years and age at termination, and time

worked during the vesting period. For all, the values were calculated by multiplying the number of RSUs by \$65.04, the closing price of Eversource common shares on December 31, 2018, the last trading day of the year. For Termination Following a Change in Control: Represents values of all RSUs granted under long-term incentive programs that, at year-end 2018, were unvested under applicable vesting schedules, all of which vest in full.

- (4) The amount noted in the Involuntary Termination, Not for Cause column, represents for Mr. Butler actuarial present values at year-end 2018 of amounts payable (two years of service) solely under an employment agreement upon termination, which are in addition to amounts due under the pension plan. For Termination Following a Change in Control: represents actuarial present values at year-end 2018 of amounts payable solely under employment agreements upon termination (which are in addition to amounts due under the pension program). For Messrs. Judge, Schweiger, Butler and Nolan, pension benefits were calculated by adding three years of service (two years for Mr. Lembo). A lump sum of this benefit value is payable to Messrs. Judge, Lembo and Schweiger. Pension amounts shown in the table are present values at year-end 2018 of benefits payable upon termination as described with respect to the Pension Benefits Table above.
- (5) The amount noted in the Involuntary Termination, Not for Cause column, represents for Mr. Butler the value of two years' employer contributions toward active health, long-term disability, and life insurance benefits, plus a payment to offset any taxes thereon. For Termination Following a Change in Control: represents estimated cost to Eversource at year-end 2018 (estimated by consultants) of providing post-employment health and welfare benefits beyond those available to non-executives upon involuntary termination. The amounts shown in the table for Messrs. Judge, Schweiger and Nolan represent the value of three years (two years for Mr. Lembo) continued health and welfare plan participation. The amounts shown in the table for Mr. Butler represent the value of three years' employer contributions toward active health, long-term disability, and life insurance benefits, plus a payment to offset any taxes on the value of these benefits, less the value of one year of retiree health coverage at retiree rates.
- (6) The amount noted in the Involuntary Termination, Not for Cause column, represents for Mr. Butler the cost of reimbursing Mr. Butler for two years financial planning and tax preparation fees. For Termination Following a Change in Control: represents the cost to Eversource of reimbursing for financial planning and tax preparation fees for three years (two years for Mr. Lembo).
- (7) For Termination Following a Change in Control: Represents payments made to offset costs associated with certain excise taxes under Section 280G of the Internal Revenue Code. Executives may be subject to certain excise taxes under Section 280G if they receive payments and benefits related to a Termination Following a Change in Control that exceed specified Internal Revenue Service limits. Contractual agreements with the above executives provide for a grossed-up reimbursement of these excise taxes. The amounts in the table are based on the Section 280G excise tax rate of 20 percent, the statutory federal income tax withholding rate of 35 percent, the applicable state income tax rate, and the Medicare tax rate of 1.45 percent.
- (8) For Involuntary Termination, Not for Cause: Represents for Mr. Butler a severance payment (two-times the sum of base salary plus relevant annual incentive award) in addition to any non-compete agreement payment described above. For Termination Following a Change in Control: Represents severance payments in addition to any non-compete agreement payments described in the prior note. For Messrs. Judge, Schweiger and Nolan, this payment equals three-times the sum of base salary plus relevant annual incentive award (two-times the sum for Messrs. Lembo and Butler). These payments do not replace, offset or otherwise affect the calculation or payment of the annual incentive awards.
- (9) For Involuntary Termination, Not For Cause and Termination Following a Change in Control: Represents payments made under an agreement with Mr. Butler as consideration for agreement not to compete with Eversource following termination of employment, equal to the sum of base salary plus relevant annual incentive award. These payments do not replace, offset or otherwise affect the calculation or payment of the annual incentive awards.

#### PAY RATIO

Eversource's CEO to median employee pay ratio is calculated pursuant to the requirements of Item 402(u) of Regulation S-K. Eversource identified the median employee by reviewing the 2018 total cash compensation of all full-time employees, excluding Eversource's CEO, who were employed by Eversource and its subsidiaries on December 31, 2018. In Eversource's assessment of median employee compensation, pay was annualized for those employees who commenced work during 2018. Otherwise, no assumptions, adjustments, or estimates were made with respect to total cash compensation, and the compensation for any full-time employees who were not employed by Eversource at the end of 2018 was not annualized. Eversource believes the use of total cash compensation for all employees is a consistently applied compensation measure, as Eversource does not widely distribute annual equity awards to employees.

After identifying the median employee based on total cash compensation, Eversource calculated the annual total compensation for such employee using the same methodology it uses for its named executive officers as set forth in the 2018 Summary Compensation Table.

Mr. Judge had 2018 annual total compensation of \$14,925,381, as reflected in the Summary Compensation Table. Eversource's median employee's annual total compensation for 2018 was \$129,401. Eversource's 2018 CEO to median employee pay ratio is 115 to 1.

## Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

### Eversource Energy

In addition to the information below under "Securities Authorized for Issuance Under Equity Compensation Plans," incorporated herein by reference is the information contained in the sections "Common Share Ownership of Certain Beneficial Owners" and "Common Share Ownership of Trustees and Management" of Eversource Energy's definitive proxy statement for solicitation of proxies, expected to be filed with the SEC on or about March 22, 2019.

### NSTAR ELECTRIC and PSNH

Certain information required by this Item 12 has been omitted for NSTAR Electric and PSNH pursuant to Instruction I(2)(c) to Form 10-K, Omission of Information by Certain Wholly-Owned Subsidiaries.

### CL&P

#### COMMON SHARE OWNERSHIP OF DIRECTORS AND MANAGEMENT

Eversource Energy owns 100 percent of the outstanding common stock of CL&P. The table below shows the number of Eversource Energy common shares beneficially owned as of February 22, 2019, by each of CL&P's directors and each Named Executive Officer of CL&P, as well as the number of Eversource Energy common shares beneficially owned by all of CL&P's directors and executive officers as a group. The table also includes information about restricted share units and deferred shares credited to the accounts of CL&P's directors and executive officers under certain compensation and benefit plans. No equity securities of CL&P are owned by any of the Trustees, directors or executive officers of Eversource Energy or CL&P. The address for the shareholders listed below is c/o Eversource Energy, Prudential Center, 800 Boylston Street, Boston, Massachusetts 02199 for Messrs. Judge, Lembo, Nolan and Schweiger; c/o Eversource Energy, 56 Prospect Street, Hartford, Connecticut 06103-2818 for Mr. Butler.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership <sup>(1)(2)</sup> (3)	Percent of Class
James J. Judge, Chairman of CL&P	300,849	*
Philip J. Lembo, Executive Vice President and Chief Financial Officer, Director of CL&P	48,697 <sup>(4)</sup>	*
Werner J. Schweiger, Chief Executive Officer, Director of CL&P	242,942	*
Gregory B. Butler, Executive Vice President and General Counsel, Director of CL&P	96,569	*
Joseph R. Nolan, Jr., Executive Vice President-Customer and Corporate Relations of Eversource Service	92,197	*
All directors and executive officers as a group (7 persons)	840,596 <sup>(5)</sup>	*

\* Less than 1% of Eversource Energy common shares outstanding.

- The persons named in the table have sole voting and investment power with respect to all shares beneficially owned by each of them, except as noted below.
- Also includes restricted share units, deferred restricted share units and/or deferred shares, including dividend equivalents, as to which none of the individuals has voting or investment power, and phantom shares held by executive officers who participate in a deferred compensation plan as follows: Mr. Judge: 187,891 shares; Mr. Lembo: 25,580 shares; Mr. Schweiger: 157,829 shares; Mr. Butler: 17,574 shares; and Mr. Nolan: 73,377 shares.
- Includes Eversource Energy common shares held as units in the 401(k) Plan invested in the Eversource Energy Common Shares Fund over which the holder has sole voting and investment power (Mr. Judge: 26,415 shares; Mr. Lembo: 3,055 shares; Mr. Schweiger: 500 shares; Mr. Butler: 6,062 shares; and Mr. Nolan: 18,819 shares).
- Includes 524 common shares held by Mr. Lembo in a custodial account over which Mr. Lembo has sole voting and investment power.
- Includes 485,144 unissued Eversource Energy common shares (see Note 2) and 59,326 common shares held as units in the 401(k) Plan (see Note 3).

## SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table sets forth the number of Eversource Energy common shares issuable under Eversource Energy equity compensation plans, as well as their weighted exercise price, as of December 31, 2018, in accordance with the rules of the SEC:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights <sup>(1)</sup>	Weighted-average exercise price of outstanding options, warrants and rights <sup>(2)</sup>	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column <sup>(1)</sup> )
Equity compensation plans approved by security holders	1,281,929	\$—	3,720,650
Equity compensation plans not approved by security holders <sup>(3)</sup>	—	—	—
<b>Total</b>	<b>1,281,929</b>	<b>\$—</b>	<b>3,720,650</b>

- (1) Includes 782,365 common shares for distribution in respect of restricted share units, and 499,564 performance shares issuable at target, all pursuant to the terms of our Incentive Plan.
- (2) The weighted-average exercise price does not take into account restricted share units or performance shares, which have no exercise price.
- (3) Securities set forth in this table are authorized for issuance under compensation plans that have been approved by shareholders of Eversource Energy or the former shareholders of NSTAR.

### Item 13. Certain Relationships and Related Transactions, and Director Independence

#### Eversource Energy

Incorporated herein by reference is the information contained in the sections captioned "Trustee Independence" and "Related Person Transactions" of Eversource Energy's definitive proxy statement for solicitation of proxies, expected to be filed with the SEC on or about March 22, 2019.

#### NSTAR ELECTRIC and PSNH

Certain information required by this Item 13 has been omitted for NSTAR Electric and PSNH pursuant to Instruction I(2)(c) to Form 10-K, Omission of Information by Certain Wholly-Owned Subsidiaries .

#### CL&P

Eversource Energy's Code of Ethics for Senior Financial Officers applies to the Senior Financial Officers (Chief Executive Officer, Chief Financial Officer and Controller) of Eversource Energy, CL&P and certain other Eversource Energy subsidiaries. Under the Code, one's position as a Senior Financial Officer in the company may not be used to improperly benefit such officer or his or her family or friends. Under the Code, specific activities that may be considered conflicts of interest include, but are not limited to, directly or indirectly acquiring or retaining a significant financial interest in an organization that is a customer, vendor or competitor, or that seeks to do business with the company; serving, without proper safeguards, as an officer or director of, or working or rendering services for an organization that is a customer, vendor or competitor, or that seeks to do business with the company. Waivers of the provisions of the Code of Ethics for Trustees, executive officers or directors must be approved by Eversource Energy's Board of Trustees. Any such waivers will be disclosed pursuant to legal requirements.

Eversource Energy's Code of Conduct, which applies to all Trustees, directors, officers and employees of Eversource Energy and its subsidiaries, including CL&P, contains a Conflict of Interest Policy that requires all such individuals to disclose any potential conflicts of interest. Such individuals are expected to discuss their particular situations with management to ensure appropriate steps are in place to avoid a conflict of interest. All disclosures must be reviewed and approved by management to ensure a particular situation does not adversely impact the individual's primary job and role.

Eversource Energy's Related Persons Transactions Policy is administered by the Corporate Governance Committee of Eversource Energy's Board of Trustees. The Policy generally defines a "Related Persons Transaction" as any transaction or series of transactions in which (i) Eversource Energy or a subsidiary is a participant, (ii) the aggregate amount involved exceeds \$120,000 and (iii) any "Related Persons" has a direct or indirect material interest. A "Related Persons" is defined as any Trustee or nominee for Trustee, any executive officer, any shareholder owning more than 5 percent of Eversource Energy's total outstanding shares, and any immediate family member of any such person. Management submits to the Corporate Governance Committee for consideration any Related Persons Transaction into which Eversource Energy or a subsidiary proposes to enter. The Corporate Governance Committee recommends to the Eversource Energy Board of Trustees for approval only those transactions that are in Eversource Energy's best interests. If management causes the company to enter into a Related Persons Transaction prior to approval by the Corporate Governance Committee, the transaction will be subject to ratification by the Eversource Energy Board of Trustees. If the Eversource Energy Board of Trustees determines not to ratify the transaction, then management will make all reasonable efforts to cancel or annul such transaction.

The directors of CL&P are employees of CL&P and/or other subsidiaries of Eversource Energy, and thus are not considered independent.

## **Item 14. Principal Accountant Fees and Services**

### **Eversource Energy**

Incorporated herein by reference is the information contained in the section "Relationship with Independent Auditors" of Eversource Energy's definitive proxy statement for solicitation of proxies, expected to be filed with the SEC on or about March 22, 2019.

### **CL&P, NSTAR ELECTRIC and PSNH**

#### **Pre-Approval of Services Provided by Principal Auditors**

None of CL&P, NSTAR Electric and PSNH is subject to the audit committee requirements of the SEC, the national securities exchanges or the national securities associations. CL&P, NSTAR Electric and PSNH obtain audit services from the independent auditor engaged by the Audit Committee of Eversource Energy's Board of Trustees. Eversource Energy's Audit Committee has established policies and procedures regarding the pre-approval of services provided by the principal auditors. Those policies and procedures delegate pre-approval of services to the Eversource Energy Audit Committee Chair provided that such offices are held by Trustees who are "independent" within the meaning of the Sarbanes-Oxley Act of 2002 and that all such pre-approvals are presented to the Eversource Energy Audit Committee at the next regularly scheduled meeting of the Committee.

The following relates to fees and services for the entire Eversource Energy system, including Eversource Energy, CL&P, NSTAR Electric and PSNH.

#### **Fees Billed By Principal Independent Registered Public Accounting Firm**

The aggregate fees billed to the Company and its subsidiaries by Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates (collectively, the Deloitte Entities), for the years ended December 31, 2018 and 2017 totaled \$5,076,922 and \$4,533,922, respectively. In addition, affiliates of Deloitte & Touche LLP, as noted below, provide other accounting services to the Company. Fees consisted of the following:

##### **1. Audit Fees**

The aggregate fees billed to the Company and its subsidiaries by Deloitte & Touche LLP for audit services rendered for the years ended December 31, 2018 and 2017 totaled \$4,464,500 and \$4,243,000, respectively. The audit fees were incurred for audits of consolidated financial statements of Eversource Energy and its subsidiaries, reviews of financial statements included in the Combined Quarterly Reports on Form 10-Q of Eversource Energy and its subsidiaries and other costs. The fees also included audits of internal controls over financial reporting as of December 31, 2018 and 2017.

##### **2. Audit-Related Fees**

The aggregate fees billed to the Company and its subsidiaries by the Deloitte Entities for audit-related services rendered for the years ended December 31, 2018 and 2017 totaled \$597,500 and \$283,000, respectively. The audit-related fees were incurred for procedures performed in the ordinary course of business in support of certain regulatory filings, comfort letters, and consents and other costs related to registration statements and financings.

##### **3. Tax Fees**

The aggregate fees billed to the Company and its subsidiaries by the Deloitte Entities for tax services rendered for the year ended December 31, 2018 totaled \$7,500. The tax service fees were incurred for procedures performed in the ordinary course of business in support of certain employee benefit plan federal filings. There were no tax fees for the year ended December 31, 2017.

##### **4. All Other Fees**

The aggregate fees billed to the Company and its subsidiaries by the Deloitte Entities for services, other than the services described above, for the years ended December 31, 2018 and 2017 totaled \$57,422 and \$7,922, respectively. These fees were for the review of benefit payment calculations and a license for access to an accounting standards research tool.

The Audit Committee pre-approves all auditing services and permitted audit-related or other services (including the fees and terms thereof) to be performed for us by our independent registered public accounting firm, subject to the de minimis exceptions for non-audit services described in Section 10A(i)(1)(B) of the Securities Exchange Act of 1934, which are approved by the Audit Committee prior to the completion of the audit. The Audit Committee may form and delegate its authority to subcommittees consisting of one or more members when appropriate, including the authority to grant pre-approvals of audit and permitted non-audit services, provided that decisions of such subcommittee to grant pre-approvals are presented to the full Audit Committee at its next scheduled meeting. During 2018, all services described above were pre-approved by the Audit Committee or its Chair.

The Audit Committee has considered whether the provision by the Deloitte Entities of the non-audit services described above was allowed under Rule 2-01(c)(4) of Regulation S-X and was compatible with maintaining the independence of the registered public accountants and has concluded that the Deloitte Entities were and are independent of us in all respects.

**PART IV**

**Item 15. Exhibits and Financial Statement Schedules**

(a) 1. Financial Statements:

The financial statements filed as part of this Annual Report on Form 10-K are set forth under Item 8, "Financial Statements and Supplementary Data."

2. Schedules

I. Financial Information of Registrant:

Eversource Energy (Parent) Balance Sheets as of December 31, 2018 and 2017 S-1

Eversource Energy (Parent) Statements of Income for the Years Ended  
December 31, 2018, 2017 and 2016 S-2

Eversource Energy (Parent) Statements of Comprehensive Income for the Years Ended  
December 31, 2018, 2017 and 2016 S-2

Eversource Energy (Parent) Statements of Cash Flows for the Years Ended  
December 31, 2018, 2017 and 2016 S-3

II. Valuation and Qualifying Accounts and Reserves for Eversource, CL&P, NSTAR Electric and PSNH  
for 2018, 2017 and 2016 S-4

All other schedules of the companies for which inclusion is required in the applicable regulations of the SEC are permitted to be omitted under the related instructions or are not applicable, and therefore have been omitted.

3. Exhibit Index E-1

**Item 16. Form 10-K Summary**

Not applicable.

SCHEDULE I  
EVERSOURCE ENERGY (PARENT)  
FINANCIAL INFORMATION OF REGISTRANT  
BALANCE SHEETS  
AS OF DECEMBER 31, 2018 AND 2017  
(Thousands of Dollars)

	2018	2017
<b>ASSETS</b>		
Current Assets:		
Cash	\$ 591	\$ 521
Accounts Receivable from Subsidiaries	32,175	3,397
Dividend Receivable from Subsidiary	—	150,000
Notes Receivable from Subsidiaries	991,400	844,500
Prepayments and Other Current Assets	26,861	18,568
<b>Total Current Assets</b>	<b>1,051,027</b>	<b>1,016,986</b>
Deferred Debits and Other Assets:		
Investments in Subsidiary Companies, at Equity	12,009,659	10,945,986
Notes Receivable from Subsidiaries	323,500	312,190
Accumulated Deferred Income Taxes	40,454	47,940
Goodwill	3,231,811	3,231,811
Other Long-Term Assets	73,669	58,313
<b>Total Deferred Debits and Other Assets</b>	<b>15,679,093</b>	<b>14,596,240</b>
<b>Total Assets</b>	<b>\$ 16,730,120</b>	<b>\$ 15,613,226</b>
<b>LIABILITIES AND CAPITALIZATION</b>		
Current Liabilities:		
Notes Payable	\$ 631,500	\$ 778,087
Long-Term Debt - Current Portion	378,883	32,114
Accounts Payable	286	292
Accounts Payable to Subsidiaries	8,432	18,242
Other Current Liabilities	57,591	56,601
<b>Total Current Liabilities</b>	<b>1,076,692</b>	<b>885,336</b>
Deferred Credits and Other Liabilities	134,614	118,176
<b>Long-Term Debt</b>	<b>4,031,997</b>	<b>3,523,472</b>
Common Shareholders' Equity:		
Common Shares	1,669,392	1,669,392
Capital Surplus, Paid in	6,241,222	6,239,940
Retained Earnings	3,953,974	3,561,084
Accumulated Other Comprehensive Loss	(60,000)	(66,403)
Treasury Stock	(317,771)	(317,771)
<b>Common Shareholders' Equity</b>	<b>11,486,817</b>	<b>11,086,242</b>
<b>Total Liabilities and Capitalization</b>	<b>\$ 16,730,120</b>	<b>\$ 15,613,226</b>

See the Combined Notes to Financial Statements in this Annual Report on Form 10-K for a description of significant accounting matters related to Eversource parent, including Eversource common shares information as described in Note 18, "Common Shares," material obligations and guarantees as described in Note 12, "Commitments and Contingencies," and debt agreements as described in Note 7, "Short-Term Debt," and Note 8, "Long-Term Debt."

SCHEDULE I  
EVERSOURCE ENERGY (PARENT)  
FINANCIAL INFORMATION OF REGISTRANT  
STATEMENTS OF INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2018 , 2017 AND 2016  
(Thousands of Dollars, Except Share Information)

	2018	2017	2016
Operating Revenues	\$ —	\$ —	\$ —
Operating Expenses:			
Other	(6,552)	(32,189)	(39,453)
Operating Income	6,552	32,189	39,453
Interest Expense	123,638	80,700	59,420
Other Income, Net:			
Equity in Earnings of Subsidiaries	1,049,748	993,063	922,321
Other, Net	47,581	23,339	4,267
Other Income, Net	1,097,329	1,016,402	926,588
Income Before Income Tax Benefit	980,243	967,891	906,621
Income Tax Benefit	(52,757)	(20,105)	(35,681)
Net Income	\$ 1,033,000	\$ 987,996	\$ 942,302
Basic Earnings per Common Share	\$ 3.25	\$ 3.11	\$ 2.97
Diluted Earnings per Common Share	\$ 3.25	\$ 3.11	\$ 2.96
Weighted Average Common Shares Outstanding:			
Basic	317,370,369	317,411,097	317,650,180
Diluted	317,993,934	318,031,580	318,454,239

STATEMENTS OF COMPREHENSIVE INCOME

	2018	2017	2016
Net Income	\$ 1,033,000	\$ 987,996	\$ 942,302
Other Comprehensive Income/(Loss), Net of Tax:			
Qualified Cash Flow Hedging Instruments	1,756	1,974	2,137
Changes in Unrealized (Losses)/Gains on Marketable Securities	(547)	(350)	2,294
Change in Funded Status of Pension, SERP and PBOP Benefit Plans	5,194	(2,745)	(2,869)
Other Comprehensive Income/(Loss), Net of Tax	6,403	(1,121)	1,562
Comprehensive Income	\$ 1,039,403	\$ 986,875	\$ 943,864

See the Combined Notes to Financial Statements in this Annual Report on Form 10-K for a description of significant accounting matters related to Eversource parent, including Eversource common shares information as described in Note 18, "Common Shares," material obligations and guarantees as described in Note 12, "Commitments and Contingencies," and debt agreements as described in Note 7, "Short-Term Debt," and Note 8, "Long-Term Debt."

SCHEDULE I  
EVERSOURCE ENERGY (PARENT)  
FINANCIAL INFORMATION OF REGISTRANT  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2018 , 2017 and 2016  
(Thousands of Dollars)

	2018	2017	2016
Operating Activities:			
Net Income	\$ 1,033,000	\$ 987,996	\$ 942,302
Adjustments to Reconcile Net Income to Net Cash			
Flows Provided by Operating Activities:			
Equity in Earnings of Subsidiaries	(1,049,748)	(993,063)	(922,321)
Cash Dividends Received from Subsidiaries	569,500	753,300	724,877
Deferred Income Taxes	20,032	37,867	19,008
Other	(31,093)	(36,052)	(27,963)
Changes in Current Assets and Liabilities:			
Accounts Receivables from Subsidiaries	(28,716)	29,405	(9,173)
Taxes Receivable/Accrued, Net	(20,207)	1,555	8,050
Accounts Payable, Including Affiliate Payables	(9,817)	9,763	(6,908)
Other Current Assets and Liabilities, Net	2,553	7,536	(7,433)
Net Cash Flows Provided by Operating Activities	<u>485,504</u>	<u>798,307</u>	<u>720,439</u>
Investing Activities:			
Capital Contributions to Subsidiaries	(955,700)	(1,156,731)	(589,500)
Return of Capital from Subsidiary	530,000	—	—
(Increase)/Decrease in Notes Receivable from Subsidiaries	(158,210)	(192,100)	14,510
Other Investing Activities	(1,149)	1,484	—
Net Cash Flows Used in Investing Activities	<u>(585,059)</u>	<u>(1,347,347)</u>	<u>(574,990)</u>
Financing Activities:			
Cash Dividends on Common Shares	(640,110)	(602,083)	(564,486)
Issuance of Long-Term Debt	1,550,000	1,200,000	500,000
Retirements of Long-Term Debt	(450,000)	—	—
Decrease in Notes Payable	(347,810)	(42,690)	(76,453)
Other Financing Activities	(12,455)	(5,759)	(4,484)
Net Cash Flows Provided by/(Used in) Financing Activities	<u>99,625</u>	<u>549,468</u>	<u>(145,423)</u>
Net Increase in Cash	70	428	26
Cash - Beginning of Year	521	93	67
Cash - End of Year	<u>\$ 591</u>	<u>\$ 521</u>	<u>\$ 93</u>
Supplemental Cash Flow Information:			
Cash Paid/(Received) During the Year for:			
Interest	<u>\$ 118,533</u>	<u>\$ 73,868</u>	<u>\$ 58,018</u>
Income Taxes	<u>\$ (30,239)</u>	<u>\$ (59,526)</u>	<u>\$ (65,531)</u>

See the Combined Notes to Financial Statements in this Annual Report on Form 10-K for a description of significant accounting matters related to Eversource parent, including Eversource common shares information as described in Note 18, "Common Shares," material obligations and guarantees as described in Note 12, "Commitments and Contingencies," and debt agreements as described in Note 7, "Short-Term Debt," and Note 8, "Long-Term Debt."

SCHEDULE II  
EVERSOURCE ENERGY AND SUBSIDIARIES  
VALUATION AND QUALIFYING ACCOUNTS AND RESERVES  
FOR THE YEARS ENDED DECEMBER 31, 2018 , 2017 AND 2016  
(Thousands of Dollars)

Column A	Column B	Column C		Column D	Column E
		Additions			
		(1)	(2)		
Description:	Balance as of Beginning of Year	Charged to Costs and Expenses	Charged to Other Accounts - Describe (a)	Deductions - Describe (b)	Balance as of End of Year
<u>Eversource :</u>					
Reserves Deducted from Assets -					
Reserves for Uncollectible Accounts:					
2018	\$ 195,708	\$ 61,337	\$ 48,671	\$ 92,993	\$ 212,723
2017	200,630	44,665	47,630	97,217	195,708
2016	190,680	69,466	45,452	104,968	200,630
<u>CL&amp;P:</u>					
Reserves Deducted from Assets -					
Reserves for Uncollectible Accounts:					
2018	\$ 78,872	\$ 15,831	\$ 29,524	\$ 36,193	\$ 88,034
2017	86,391	5,312	25,533	38,364	78,872
2016	79,479	17,572	28,801	39,461	86,391
<u>NSTAR Electric:</u>					
Reserves Deducted from Assets -					
Reserves for Uncollectible Accounts:					
2018	\$ 69,666	\$ 22,279	\$ 14,971	\$ 32,400	\$ 74,516
2017	70,284	21,252	14,273	36,143	69,666
2016	66,676	31,728	11,253	39,373	70,284
<u>PSNH :</u>					
Reserves Deducted from Assets -					
Reserves for Uncollectible Accounts:					
2018	\$ 10,481	\$ 6,383	\$ 953	\$ 6,752	\$ 11,065
2017	9,941	6,917	464	6,841	10,481
2016	8,733	7,288	498	6,578	9,941

(a) Amounts relate to uncollectible accounts receivables reserved for that are not charged to bad debt expense. The PURA allows CL&P and Yankee Gas to accelerate the recovery of accounts receivable balances attributable to qualified customers under financial or medical duress (uncollectible hardship accounts receivable) outstanding for greater than 180 days and 90 days, respectively. The DPU allows NSTAR Electric and NSTAR Gas to recover in rates, amounts associated with certain uncollectible hardship accounts receivable.

(b) Amounts written off, net of recoveries.

## EXHIBIT INDEX

Each document described below is incorporated by reference by the registrant(s) listed to the files identified, unless designated with a (\*), which exhibits are filed herewith. Management contracts and compensation plans or arrangements are designated with a (+).

<b>Exhibit Number</b>	<b>Description</b>
3.	Articles of Incorporation and By-Laws
(A)	Eversource Energy
3.1	Declaration of Trust of Eversource Energy, as amended through May 3, 2017 ( <a href="#">Exhibit 3.1, Eversource Form 10-Q filed on May 5, 2017</a> )
(B)	The Connecticut Light and Power Company
3.1	Certificate of Incorporation of CL&P, restated to March 22, 1994 (Exhibit 3.2.1, 1993 CL&P Form 10-K, File No. 000-00404) ( <a href="#">Exhibit 3.2.1, 1993 CL&amp;P Form 10-K, File No. 000-00404</a> )
3.1.1	Certificate of Amendment to Certificate of Incorporation of CL&P, dated December 26, 1996 ( <a href="#">Exhibit 3.2.2, 1996 CL&amp;P Form 10-K filed March 25, 1997, File No. 001-11419</a> )
3.1.2	Certificate of Amendment to Certificate of Incorporation of CL&P, dated April 27, 1998 ( <a href="#">Exhibit 3.2.3, 1998 CL&amp;P Form 10-K filed March 23, 1999, File No. 000-00404</a> )
3.1.3	Amended and Restated Certificate of Incorporation of CL&P, dated effective January 3, 2012 ( <a href="#">Exhibit 3(i), CL&amp;P Current Report on Form 8-K filed January 9, 2012, File No. 000-00404</a> )
3.2	By-laws of CL&P, as amended and restated effective September 29, 2014 ( <a href="#">Exhibit 3.1, CL&amp;P Current Report on Form 8-K filed October 2, 2014, File No. 000-00404</a> )
(C)	NSTAR Electric Company
3.1	Restated Articles of Organization of NSTAR Electric Company, fka Boston Edison Company ( <a href="#">Exhibit 3.1, NSTAR Electric Form 10-Q for the Quarter Ended June 30, 1994 filed August 12, 1994, File No. 001-02301</a> )
3.2	Bylaws of NSTAR Electric Company, as amended and restated effective September 29, 2014 ( <a href="#">Exhibit 3.1, NSTAR Electric Current Report on Form 8-K filed October 2, 2014, File No. 000-02301</a> )
(D)	Public Service Company of New Hampshire
3.1	Articles of Incorporation, as amended to May 16, 1991 ( <a href="#">Exhibit 3.3.1, 1993 PSNH Form 10-K filed March 25, 1994, File No. 001-06392</a> )
3.2	By-laws of PSNH, as in effect June 27, 2008 ( <a href="#">Exhibit 3, PSNH Form 10-Q for the Quarter Ended June 30, 2008 filed August 7, 2008, File No. 001-06392</a> )
4.	Instruments defining the rights of security holders, including indentures
(A)	Eversource Energy
4.1	Indenture between Eversource Energy and The Bank of New York as Trustee dated as of April 1, 2002 ( <a href="#">Exhibit A-3, Eversource Energy 35-CERT filed April 16, 2002, File No. 070-09535</a> )
4.1.1	Fifth Supplemental Indenture between Eversource Energy and The Bank of New York Trust Company N.A., as Trustee, dated as of May 1, 2013, relating to \$450 million of Senior Notes, Series F, due 2023 ( <a href="#">Exhibit 4.1, Eversource Energy Current Report on Form 8-K filed May 16, 2013, File No. 001-05324</a> )

- 4.1.2 Sixth Supplemental Indenture between Eversource Energy and The Bank of New York Trust Company N.A., as Trustee, dated as of January 1, 2015, relating to \$300 million of Senior Notes, Series H, due 2025 ([Exhibit 4.1, Eversource Energy Current Report on Form 8-K filed January 21, 2015, File No. 001-05324](#))
- 4.1.3 Seventh Supplemental Indenture between Eversource Energy and The Bank of New York Trust Company N.A., as Trustee, dated as of March 7, 2016, relating to \$250 million of Senior Notes, Series I, due 2021 and \$250 million of Senior Notes, Series J, due 2026 ([Exhibit 4.1, Eversource Energy Current Report on Form 8-K filed March 15, 2016, File No. 001-05324](#))
- 4.1.4 Eighth Supplemental Indenture between Eversource Energy and The Bank of New York Trust Company N.A., as Trustee, dated as of March 10, 2017, relating to \$300 million of Senior Notes, Series K, Due 2022 ([Exhibit 4.1, Eversource Energy Current Report on Form 8-K filed March 16, 2017, File No. 001-05324](#))
- 4.1.5 Ninth Supplemental Indenture between Eversource Energy and The Bank of New York Trust Company N.A., as Trustee, dated as of October 1, 2017, relating to \$450 million of Senior Notes, Series K, due 2022 and \$450 million of Senior Notes, Series L, due 2024 ([Exhibit 4.1, Eversource Energy Current Report on Form 8-K filed October 12, 2017, File No. 001-05324](#))
- 4.1.6 Tenth Supplemental Indenture between Eversource Energy and The Bank of New York Trust Company N.A., as Trustee, dated as of January 1, 2018, relating to \$200 million of Senior Notes, Series I, Due 2021 and \$450 million of Senior Notes, Series M, Due 2028 ([Exhibit 4.1, Eversource Energy Current Report on Form 8-K filed January 12, 2018, File No. 001-05324](#))
- 4.1.7 Eleventh Supplemental Indenture between Eversource Energy and The Bank of New York Trust Company N.A., as Trustee, dated as of December 1, 2018, relating to 400 million of Senior Notes, Series N, Due 2023 and \$500 million of Senior Notes, Series O, Due 2029 ([Exhibit 4.1, Eversource Energy Current Report on Form 8-K filed December 18, 2018, File No. 001-05324](#))
- 4.2 Indenture dated as of January 12, 2000, between Eversource Energy, as successor to NSTAR LLC, as successor to NSTAR, and Bank One Trust Company N.A. ([Exhibit 4.1 to NSTAR Registration Statement on Form S-3, filed January 14, 2000, on File No. 333-94735](#))
- 4.2.1 Form of 4.50% Debenture Due 2019 ([Exhibit 99.2, NSTAR Form 8-K filed November 16, 2009, File No. 001-14768](#))

(B) The Connecticut Light and Power Company

- 4.1 Indenture of Mortgage and Deed of Trust between CL&P and Bankers Trust Company, Trustee, dated as of May 1, 1921 (Composite including all twenty-four amendments to May 1, 1967) ([Exhibit 4.1, 2017 Eversource 10-K filed on February 26, 2018](#))
- 4.1.1 Series D Supplemental Indentures to the Composite May 1, 1921 Indenture of Mortgage and Deed of Trust between CL&P and Bankers Trust Company, dated as of October 1, 1994 ([Exhibit 4.2.16, 1994 CL&P Form 10-K filed March 27, 1995, File No. 001-11419](#))
- 4.1.2 Series B Supplemental Indenture between CL&P and Deutsche Bank Trust Company Americas, as Trustee dated as of September 1, 2004 ([Exhibit 99.5, CL&P Current Report on Form 8-K filed September 22, 2004, File No. 000-00404](#))
- 4.2 Composite Indenture of Mortgage and Deed of Trust between CL&P and Deutsche Bank Trust Company Americas f/k/a Bankers Trust Company, dated as of May 1, 1921, as amended and supplemented by seventy-three supplemental mortgages to and including Supplemental Mortgage dated as of April 1, 2005 ([Exhibit 99.5, CL&P Current Report on Form 8-K filed April 13, 2005, File No. 000-00404](#))
- 4.2.1 Supplemental Indenture (2005 Series B Bonds) between CL&P and Deutsche Bank Trust Company Americas, as Trustee dated as of April 1, 2005 ([Exhibit 99.2, CL&P Current Report on Form 8-K filed April 13, 2005, File No. 000-00404](#))

- 4.2.2 Supplemental Indenture (2006 Series A Bonds) between CL&P and Deutsche Bank Trust Company Americas, as Trustee dated as of June 1, 2006 ([Exhibit 99.2, CL&P Current Report on Form 8-K filed June 7, 2006, File No. 000-00404](#))
- 4.2.3 Supplemental Indenture (2007 Series B Bonds) between CL&P and Deutsche Bank Trust Company Americas, as Trustee dated as of March 1, 2007 ([Exhibit 99.2, CL&P Current Report on Form 8-K filed March 29, 2007, File No. 000-00404](#))
- 4.2.4 Supplemental Indenture (2007 Series D Bonds) between CL&P and Deutsche Bank Trust Company Americas, as Trustee dated as of September 1, 2007 ([Exhibit 4, CL&P Current Report on Form 8-K filed September 19, 2007, File No. 000-00404](#))
- 4.2.5 Supplemental Indenture (2009 Series A Bonds) between CL&P and Deutsche Bank Trust Company Americas, as Trustee dated as of February 1, 2009 ([Exhibit 4, CL&P Current Report on Form 8-K filed February 19, 2009, File No. 000-00404](#))
- 4.2.6 Supplemental Indenture (2013 Series A Bond) between CL&P and Deutsche Bank Trust Company Americas, as Trustee dated as of January 1, 2013 ([Exhibit 4.1, CL&P Current Report on Form 8-K filed January 22, 2013, File No. 000-00404](#))
- 4.2.7 Supplemental Indenture (2014 Series A Bond) between CL&P and Deutsche Bank Trust Company Americas, as Trustee dated as of April 1, 2014 ([Exhibit 4.1, CL&P Current Report on Form 8-K filed April 29, 2014, File No. 000-00404](#))
- 4.2.8 Supplemental Indenture (2015 Series A Bonds) between CL&P and Deutsche Bank Trust Company Americas, as Trustee dated as of May 1, 2015 ([Exhibit 4.1, CL&P Current Report on Form 8-K filed May 26, 2015, File No. 000-00404](#))
- 4.2.9 Supplemental Indenture (2015 Series A Bonds) between CL&P and Deutsche Bank Trust Company Americas, as Trustee dated as of November 1, 2015 ([Exhibit 4.1, CL&P Current Report on Form 8-K filed December 4, 2015, File No. 000-00404](#))
- 4.2.10 Supplemental Indenture (2017 Series A Bonds) between CL&P and Deutsche Bank Trust Company Americas, as Trustee dated as of March 1, 2017 ([Exhibit 4.1, CL&P Current Report on Form 8-K filed on March 16, 2017, File No. 000-00404](#))
- 4.2.11 Supplemental Indenture (2014 Series A Bonds) between CL&P and Deutsche Bank Trust Company Americas, as Trustee dated as of August 1, 2017 ([Exhibit 4.1, CL&P Current Report on Form 8-K filed August 23, 2017, File No. 000-00404](#))
- 4.2.12 Supplemental Indenture (2018 Series A Bonds) between CL&P and Deutsche Bank Trust Company Americas, as Trustee dated as of March 1, 2018 ([Exhibit 4.1, CL&P Current Report on Form 8-K filed April 2, 2018, File No. 000-00404](#))
- 4.3 Loan Agreement between Connecticut Development Authority and CL&P (Pollution Control Revenue Refunding Bonds - 2011A Series) dated as of October 1, 2011 ([Exhibit 1.1, CL&P Current Report on Form 8-K filed October 28, 2011, File No. 000-00404](#))

(C) NSTAR Electric Company

- 4.1 Indenture between Boston Edison Company and the Bank of New York (as successor to Bank of Montreal Trust Company) ([Exhibit 4.1, 2017 Eversource Form 10-K filed February 26, 2018](#))
  - 4.1.1 A Form of 5.75% Debenture Due March 15, 2036 ([Exhibit 99.2, Boston Edison Company Current Report on Form 8-K filed March 17, 2006, File No. 001-02301](#))
  - 4.1.2 A Form of 5.50% Debenture Due March 15, 2040 ([Exhibit 99.2, NSTAR Electric Company Current Report on Form 8-K filed March 15, 2010, File No. 001-02301](#))
  - 4.1.3 A Form of 2.375% Debenture Due 2022 ([Exhibit 4, NSTAR Electric Company Current Report on Form 8-K filed October 18, 2012, File No. 001-02301](#))

- 4.1.4 A Form of 4.40% Debenture Due 2044 ([Exhibit 4, NSTAR Electric Company Current Report on Form 8-K filed March 13, 2014, File No. 001-02301](#))
- 4.1.5 A Form of 3.25% Debenture due 2025 ([Exhibit 4, NSTAR Electric Company Current Report on Form 8-K filed on November 20, 2015, File No. 001-02301](#))
- 4.1.6 A Form of 2.70% Debenture due 2026 ([Exhibit 4, NSTAR Electric Company Current Report on Form 8-K filed on May, 31, 2016, File No. 001-02301](#))
- 4.1.7 Form of 3.20% Debenture due May 15, 2027 ([Exhibit 4, NSTAR Electric Company Current Report on Form 8-K/A filed on October 12, 2017 File No. 001-02301](#))
- 4.2 Amended and Restated Credit Agreement, dated December 8, 2017, by and between NSTAR Electric Company and the Banks named therein, pursuant to which Barclays Bank PLC serves as Administrative Agent and Swing Line Lender ([Exhibit 4.2, 2017 Eversource Form 10-K filed on February 26, 2018](#))
- 4.3 Indenture between NSTAR Electric Company, as successor to Western Massachusetts Electric Company ("WMECO"), and The Bank of New York, as Trustee, dated as of September 1, 2003 ([Exhibit 99.2, WMECO Current Report on Form 8-K filed October 8, 2003, File No. 000-07624](#))
  - 4.3.1 Second Supplemental Indenture between NSTAR Electric Company, as successor to WMECO, and The Bank of New York, as Trustee dated as of September 1, 2004 ([Exhibit 4.1, WMECO Current Report on Form 8-K filed September 27, 2004, File No. 000-07624](#))
  - 4.3.2 Fourth Supplemental Indenture between NSTAR Electric Company, as successor to WMECO, and The Bank of New York Trust, as Trustee, dated as of August 1, 2007 ([Exhibit 4.1, WMECO Current Report on Form 8-K filed August 20, 2007, File No. 000-07624](#))
  - 4.3.3 Fifth Supplemental Indenture between NSTAR Electric Company, as successor to WMECO, and The Bank of New York Trust Company, N.A., as Trustee, dated as of March 1, 2010 ([Exhibit 4.1, Exhibit 4.1, WMECO Current Report on Form 8-K filed March 10, 2010, File No. 000-07624](#))
  - 4.3.4 Sixth Supplemental Indenture between NSTAR Electric Company, as successor to WMECO, and The Bank of New York Trust Company, N.A., as Trustee, dated as of September 15, 2011 ([Exhibit 4.1, WMECO Current Report on Form 8-K filed September 19, 2011, File No. 000-07624](#))
  - 4.3.5 Seventh Supplemental Indenture between NSTAR Electric Company, as successor to WMECO, and The Bank of New York Trust Company, N.A., as Trustee, dated as of November 1, 2013 ([Exhibit 4.1, WMECO Current Report on Form 8-K filed November 21, 2013, File No. 000-07624](#))
  - 4.3.6 Eighth Supplemental Indenture between NSTAR Electric Company, as successor to WMECO, and The Bank of New York Trust Company, N.A., as Trustee, dated as of June 1, 2016 ([Exhibit 4.1, WMECO Current Report on Form 8-K filed June 29, 2016, File No. 000-07624](#))

(D) Public Service Company of New Hampshire

- 4.1 First Mortgage Indenture between PSNH and First Fidelity Bank, National Association, New Jersey, now First Union National Bank, Trustee, dated as of August 15, 1978 (Composite including all amendments effective June 1, 2011) ([included as Exhibit C to the Eighteenth Supplemental Indenture filed as Exhibit 4.1 to PSNH Current Report on Form 8-K filed June 2, 2011, File No. 001-06392](#))
  - 4.1.1 Fourteenth Supplemental Indenture between PSNH and Wachovia Bank, National Association successor to First Union National Bank, as successor to First Fidelity Bank, National Association, as Trustee dated as of October 1, 2005 ([Exhibit 99.2, PSNH Current Report on Form 8-K filed October 6, 2005, File No. 001-06392](#))
  - 4.1.2 Seventeenth Supplemental Indenture, between PSNH and U.S. Bank National Association, as Trustee dated as of December 1, 2009 ([Exhibit 4.1, PSNH Current Report on Form 8-K filed December 15, 2009 \(File No. 001-06392\)](#))

- 4.1.3 Eighteenth Supplemental Indenture, between PSNH and U.S. Bank National Association, as Trustee dated as of May 1, 2011 ([Exhibit 4.1, PSNH Current Report on Form 8-K filed June 2, 2011 \(File No. 001-06392\)](#))
  - 4.1.4 Nineteenth Supplemental Indenture, between PSNH and U.S. Bank National Association, as Trustee dated as of September 1, 2011 ([Exhibit 4.1, PSNH Current Report on Form 8-K filed September 16, 2011 \(File No. 001-06392\)](#))
  - 4.1.5 Twentieth Supplemental Indenture, between PSNH and U.S. Bank National Association, as Trustee dated as of November 1, 2013 ([Exhibit 4.1, PSNH Current Report on Form 8-K filed November 20, 2013 \(File No. 001-06392\)](#))
  - 4.1.6 Twenty-first Supplemental Indenture, between PSNH and U.S. Bank National Association, as Trustee dated as of October 1, 2014 ([Exhibit 4.1, PSNH Current Report on Form 8-K filed October 17, 2014 \(File No. 001-06392\)](#))
  - 4.2 Series A Loan and Trust Agreement among Business Finance Authority of the State of New Hampshire and PSNH and State Street Bank and Trust Company, as Trustee (Tax Exempt Pollution Control Bonds) dated as of October 1, 2001 ([Exhibit 4.3.4, 2001 Eversource Energy Form 10-K filed March 22, 2002, File No. 001-05324](#))
- (F) Eversource Energy, The Connecticut Light and Power Company and Public Service Company of New Hampshire
- 4.1 Amended and Restated Credit Agreement, dated December 8, 2017, by and among Eversource Energy, CL&P, NSTAR Gas, PSNH and Yankee Gas Services Company and the Banks named therein, pursuant to which Bank of America, N.A. serves as Administrative Agent ([Exhibit 4.1, 2017 Eversource Form 10-K filed on February 26, 2018](#))
10. Material Contracts
- (A) Eversource Energy
- 10.1 Lease between The Rocky River Realty Company and Eversource Energy Service Company, dated as of July 1, 2008 ([Exhibit 10.1, 2017 Eversource Form 10-K filed on February 26, 2018](#))
  - \*+10.2 Eversource Energy Board of Trustees' Compensation Arrangement Summary ([Exhibit 10.3, 2016 Eversource Energy Form 10-K filed February 23, 2017, File No. 001-05324](#))
  - +10.3 Amended and Restated Memorandum Agreement between Eversource Energy and Leon J. Olivier effective January 1, 2009 ([Exhibit 10.9, 2008 Eversource Energy Form 10-K filed February 27, 2009, File No. 001-05324](#))
  - +10.4 Eversource Supplemental Executive Retirement Program effective as of January 1, 2015 ([Exhibit 10.5, 2015 Eversource Energy Form 10-K filed February 26, 2016, File No. 001-05324](#))
  - +10.5 Composite Transmission Service Agreement, by and between Northern Pass Transmission LLC, as Owner and H.Q. Hydro Renewable Energy, Inc., as Purchaser dated October 4, 2010 and effective February 14, 2014 ([Exhibit 10.5, 2013 Eversource Energy Form 10-K filed on February 25, 2014, File No. 001-05324](#))
  - 10.6 Eversource Energy Deferred Compensation Plan for Executives effective as of January 1, 2014 ([Exhibit 10.6, 2015 Eversource Energy Form 10-K filed February 26, 2016, File No. 001-05324](#))
    - \*+10.6.1 [Amendment No 1 to the Eversource Deferred Compensation Plan effective February 7, 2018](#)
  - +10.7 NSTAR Excess Benefit Plan, effective August 25, 1999 ([Exhibit 10.1 1999 NSTAR Form 10-K/A filed September 29, 2000, File No. 001-14768](#))
    - +10.7.1 NSTAR Excess Benefit Plan, incorporating the NSTAR 409A Excess Benefit Plan, as amended and restated effective January 1, 2008, dated December 24, 2008 ([Exhibit 10.1.1 2008 NSTAR Form 10-K filed February 9, 2009, File No. 001-14768](#))
  - +10.8 Amended and Restated Change in Control Agreement by and between James J. Judge and NSTAR, dated November 15, 2007 ([Exhibit 10.9, 2007 NSTAR Form 10-K filed February 11, 2008, File No. 001-14768](#))

- +10.9 Amended and Restated Change in Control Agreement by and between Joseph R. Nolan, Jr. and NSTAR, dated November 15, 2007 ([Exhibit 10.13, 2007 NSTAR Form 10-K filed February 11, 2008, File No. 001-14768](#))
- +10.10 Amended and Restated Change in Control Agreement by and between Werner J. Schweiger and NSTAR, dated November 15, 2007 ([Exhibit 10.14, 2007 NSTAR Form 10-K filed February 11, 2008, File No. 001-14768](#))
- +10.11 Amended and Restated Change in Control Agreement by and between Senior Vice President and NSTAR, dated November 15, 2007 ([Exhibit 10.15, 2007 NSTAR Form 10-K filed February 11, 2008, File No. 001-14768](#))
- +10.12 Master Trust Agreement between NSTAR and State Street Bank and Trust Company (Rabbi Trust), effective August 25, 1999 ([Exhibit 10.5, NSTAR Form 10-Q for the Quarter Ended September 30, 2000 filed November 14, 2000, File No. 001-14768](#))
- +10.13 Currently effective Change in Control Agreement between NSTAR's Vice Presidents and NSTAR (in form) ([Exhibit 10.17, 2009 NSTAR Form 10-K filed February 25, 2010, File No. 001-14768](#))

(B) Eversource Energy, The Connecticut Light and Power Company, NSTAR Electric Company and Public Service Company of New Hampshire

- 10.1 Amended and Restated Form of Service Contract between each of Eversource Energy, CL&P, NSTAR Electric Company and Eversource Energy Service Company dated as of January 1, 2014. ([Exhibit 10.1, Eversource Energy Form 10-K filed on February 25, 2014, File No. 001-05324](#))
- 10.2 Transmission Operating Agreement between the Initial Participating Transmission Owners, Additional Participating Transmission Owners and ISO New England, Inc. dated as of February 1, 2005 ([Exhibit 10.29, 2004 Eversource Energy Form 10-K filed March 17, 2005, File No. 001-05324](#))
  - 10.2.1 Rate Design and Funds Disbursement Agreement among the Initial Participating Transmission Owners, Additional Participating Transmission Owners and ISO New England, Inc., effective June 30, 2006 ([Exhibit 10.22.1, 2006 Eversource Energy Form 10-K filed March 1, 2007, File No. 001-05324](#))
- 10.3 Eversource Energy's Third Amended and Restated Tax Allocation Agreement dated as of April 10, 2012, ([Exhibit 10.1 Eversource Energy Form 10-Q for Quarter Ended June 30, 2012 filed August 7, 2012, File No. 001-05324](#))
- +10.4 Amended and Restated Incentive Plan Effective January 1, 2009 ([Exhibit 10.3, Eversource Energy Form 10-Q for the Quarter Ended September 30, 2008 filed November 10, 2008, File No. 001-05324](#))
- +10.5 2018 Eversource Energy Incentive Plan ([Exhibit 99.2, Eversource Energy Current Report on Form 8-K dated May 3, 2018](#))
- +10.6 Trust under Supplemental Executive Retirement Plan dated May 2, 1994 ([Exhibit 10.33, 2002 Eversource Energy Form 10-K filed March 21, 2003, File No. 001-05324](#))
  - +10.6.1 First Amendment to Trust Under Supplemental Executive Retirement Plan, effective as of December 10, 2002 ([Exhibit 10 \(B\) 10.19.1, 2003 Eversource Energy Form 10-K filed March 12, 2004, File No. 001-05324](#))
  - +10.6.2 Second Amendment to Trust Under Supplemental Executive Retirement Plan, effective as of November 12, 2008 ([Exhibit 10.12.2, 2008 Eversource Energy Form 10-K filed February 27, 2009, File No. 001-05324](#))
- +10.7 Special Severance Program for Officers of Eversource Energy Companies as of January 1, 2009 ([Exhibit 10.2 Eversource Energy Form 10-Q for Quarter Ended September 30, 2008 filed November 10, 2008, File No. 001-05324](#))
- +10.8 Amended and Restated Employment Agreement with Gregory B. Butler, effective January 1, 2009 ([Exhibit 10.7, 2008 Eversource Energy 2010 Form 10-K filed February 27, 2009, File No. 001-05324](#))

(C) Eversource Energy, The Connecticut Light and Power Company, Public Service Company of New Hampshire and NSTAR Electric Company

- 10.1 Agreements among New England Utilities with respect to the Hydro-Quebec interconnection projects
  - 10.1.1 Composite conformed copy of Equity Funding Agreement for New England Hydro-Transmission Electric Company., dated as of June 1, 1985 (Massachusetts) ([Exhibit 10.1.1, 2017 Eversource Form 10-K filed February 26, 2018](#))
  - 10.1.2 Composite conformed copy of Equity Funding Agreement of Equity Funding Agreement for New England Hydro-Transmission Electric Company, Inc., dated as of June 1, 1985 (New Hampshire) ([Exhibit 10.1.2, 2017 Eversource Form 10-K filed February 26, 2018](#))
  - 10.1.3 Composite conformed copy of Phase II Massachusetts Transmission Facilities Support Agreement, dated as of June 1, 1985 ([Exhibit 10.1.3, 2017 Eversource Form 10-K filed February 26, 2018](#))
  - 10.1.4 Composite conformed copy of Phase II New England Power AC Facilities Support Agreement dated June 1, 1985 ([Exhibit 10.1.4, 2017 Eversource Form 10-K filed on February 26, 2018](#))
  - 10.1.5 Composite conformed copy of Phase II New Hampshire Transmission Facilities Support Agreement dated as of June 1, 1985 ([Exhibit 10.1.5, Eversource 10-K filed on February 26, 2018](#))
- 10.2 Eversource Energy Service Company Transmission and Ancillary Service Wholesale Revenue Allocation Methodology among The Connecticut Light and Power Company, NSTAR Electric Company, Public Service Company of New Hampshire, Holyoke Water Power Company and Holyoke Power and Electric Company Trustee dated as of January 1, 2008 ([Exhibit 10.1, Eversource Energy Form 10-Q for the Quarter Ended March 31, 2008 filed May 9, 2008, File No. 001-05324](#))

(D) Eversource Energy and The Connecticut Light and Power Company

- 10.1 CL&P Agreement Re: Connecticut NEEWS Projects by and between CL&P and The United Illuminating Company dated July 14, 2010 ([Exhibit 10, CL&P Form 10-Q for the Quarter Ended June 30, 2010 filed August 6, 2010, File No. 000-00404](#))

\*21. [Subsidiaries of the Registrant](#)

\*23. [Consents of Independent Registered Public Accounting Firm](#)

\*31. Rule 13a - 14(a)/15 d - 14(a) Certifications

(A) Eversource Energy

- 31 [Certification by the Chief Executive Officer of Eversource Energy pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
- 31.1 [Certification by the Chief Financial Officer of Eversource Energy pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)

(B) The Connecticut Light and Power Company

- 31 [Certification by the Chairman of CL&P pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
- 31.1 [Certification by the Chief Financial Officer of CL&P pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)

(C) NSTAR Electric Company

- 31 [Certification by the Chairman of NSTAR Electric Company pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
- 31.1 [Certification by the Chief Financial Officer of NSTAR Electric Company pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)

- (D) Public Service Company of New Hampshire
  - 31 [Certification by the Chairman of PSNH pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
    - 31.1 [Certification by the Chief Financial Officer of PSNH pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
- \*32 18 U.S.C. Section 1350 Certifications
  - (A) Eversource Energy
    - 32 [Certification by the Chief Executive Officer and Chief Financial Officer of Eversource Energy pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)
  - (B) The Connecticut Light and Power Company
    - 32 [Certification by the Chairman and the Chief Financial Officer of CL&P pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)
  - (C) NSTAR Electric Company
    - 32 [Certification by the Chairman and the Chief Financial Officer of NSTAR Electric Company pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)
  - (D) Public Service Company of New Hampshire
    - 32 [Certification by the Chairman and the Chief Financial Officer of PSNH pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)
- \*101.INS XBRL Instance Document
- \*101.SCH XBRL Taxonomy Extension Schema
- \*101.CAL XBRL Taxonomy Extension Calculation
- \*101.DEF XBRL Taxonomy Extension Definition
- \*101.LAB XBRL Taxonomy Extension Labels
- \*101.PRE XBRL Taxonomy Extension Presentation

**EVERSOURCE ENERGY**

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**EVERSOURCE ENERGY**

February 26, 2019

By: /s/ Jay S. Buth

Jay S. Buth

Vice President, Controller and Chief Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

**POWER OF ATTORNEY**

Each person whose signature appears below constitutes and appoints Gregory B. Butler, Philip J. Lembo and Jay S. Buth and each of them, his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ James J. Judge</u> James J. Judge	Chairman of the Board, President and Chief Executive Officer and a Trustee (Principal Executive Officer)	February 26, 2019
<u>/s/ Philip J. Lembo</u> Philip J. Lembo	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 26, 2019
<u>/s/ Jay S. Buth</u> Jay S. Buth	Vice President, Controller and Chief Accounting Officer	February 26, 2019
<u>/s/ Cotton M. Cleveland</u> Cotton M. Cleveland	Trustee	February 26, 2019
<u>/s/ Sanford Cloud, Jr.</u> Sanford Cloud, Jr.	Trustee	February 26, 2019

<u>Signature</u>	<u>Title</u>	<u>Date</u>
/s/ James S. DiStasio _____ James S. DiStasio	Trustee	February 26, 2019
/s/ Francis A. Doyle _____ Francis A. Doyle	Trustee	February 26, 2019
/s/ Linda Dorcena Forry _____ Linda Dorcena Forry	Trustee	February 26, 2019
/s/ John Y. Kim _____ John Y. Kim	Trustee	February 26, 2019
/s/ Kenneth R. Leibler _____ Kenneth R. Leibler	Trustee	February 26, 2019
/s/ William C. Van Faasen _____ William C. Van Faasen	Trustee	February 26, 2019
/s/ Frederica M. Williams _____ Frederica M. Williams	Trustee	February 26, 2019
/s/ Dennis R. Wraase _____ Dennis R. Wraase	Trustee	February 26, 2019

THE CONNECTICUT LIGHT AND POWER COMPANY

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE CONNECTICUT LIGHT AND POWER COMPANY

February 26, 2019

By: /s/ Jay S. Buth

Jay S. Buth

Vice President, Controller and Chief Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

POWER OF ATTORNEY

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<u>Signature</u>	<u>Title</u>	<u>Date</u>
/s/ James J. Judge _____ James J. Judge	Chairman and a Director (Principal Executive Officer)	February 26, 2019
/s/ Werner J. Schweiger _____ Werner J. Schweiger	Chief Executive Officer and a Director	February 26, 2019
/s/ Philip J. Lembo _____ Philip J. Lembo	Executive Vice President and Chief Financial Officer and a Director (Principal Financial Officer)	February 26, 2019
/s/ Gregory B. Butler _____ Gregory B. Butler	Executive Vice President and General Counsel and a Director	February 26, 2019
/s/ Jay S. Buth _____ Jay S. Buth	Vice President, Controller and Chief Accounting Officer	February 26, 2019

NSTAR ELECTRIC COMPANY

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NSTAR ELECTRIC COMPANY

February 26, 2019

By: /s/ Jay S. Buth

Jay S. Buth

Vice President, Controller and Chief Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

POWER OF ATTORNEY

Each person whose signature appears below constitutes and appoints Gregory B. Butler, Philip J. Lembo and Jay S. Buth and each of them, his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
/s/ James J. Judge James J. Judge	Chairman and a Director (Principal Executive Officer)	February 26, 2019
/s/ Werner J. Schweiger Werner J. Schweiger	Chief Executive Officer and a Director	February 26, 2019
/s/ Philip J. Lembo Philip J. Lembo	Executive Vice President and Chief Financial Officer and a Director (Principal Financial Officer)	February 26, 2019
/s/ Gregory B. Butler Gregory B. Butler	Executive Vice President and General Counsel and a Director	February 26, 2019
/s/ Jay S. Buth Jay S. Buth	Vice President, Controller and Chief Accounting Officer	February 26, 2019

**PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE**

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE**

February 26, 2019

By: /s/ Jay S. Buth

\_\_\_\_\_  
Jay S. Buth

Vice President, Controller and Chief Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

**POWER OF ATTORNEY**

Each person whose signature appears below constitutes and appoints Gregory B. Butler, Philip J. Lembo and Jay S. Buth and each of them, his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
/s/ James J. Judge _____ James J. Judge	Chairman and a Director (Principal Executive Officer)	February 26, 2019
/s/ Werner J. Schweiger _____ Werner J. Schweiger	Chief Executive Officer and a Director	February 26, 2019
/s/ Philip J. Lembo _____ Philip J. Lembo	Executive Vice President and Chief Financial Officer and a Director (Principal Financial Officer)	February 26, 2019
/s/ Gregory B. Butler _____ Gregory B. Butler	Executive Vice President and General Counsel and a Director	February 26, 2019
/s/ Jay S. Buth _____ Jay S. Buth	Vice President, Controller and Chief Accounting Officer	February 26, 2019

## SUMMARY OF TRUSTEE COMPENSATION ARRANGEMENTS

The Compensation Committee periodically reviews the compensation of our non-employee Trustees and, when it deems appropriate and upon consultation with the Committee's independent compensation consultant, recommends adjustments to be approved by the Board of Trustees. The Compensation Committee recommends to the Board compensation for the Trustees based on competitive market practices for both the total value of compensation and the allocation of cash and equity. The Committee uses data obtained from similarly sized utility and general industry companies as guidelines for setting Trustee compensation. The level of Trustee compensation recommended by the Committee and approved by the Board enables us to attract Trustees who have a broad range of backgrounds and experiences.

Each non-employee Trustee serving on January 1 receives a grant under the Company's Incentive Plan, generally effective on the tenth business day of each such year, consisting of the number of restricted stock units (RSUs) resulting from dividing \$135,000 by the average closing price of our common shares as reported on the NYSE for the 10 trading days immediately preceding such date and rounding the resulting amount to the nearest whole RSU. RSUs generally vest on the next business day following the grant. In 2018, these RSU grants were made subject to shareholder approval of the Company's 2018 Incentive Plan, which was received on May 2, 2018. As a result, RSUs granted in January 2018 vested on May 2, 2018. Beginning with grants made in 2019, each non-employee Trustee was entitled to elect distribution of up to 50 percent of the common shares issuable in respect of such RSUs immediately upon vesting of their RSU grant, subject to satisfaction of applicable share ownership guidelines. The distribution of all common shares entitled to be received upon vesting, but not distributed immediately, will be deferred until the tenth business day of January of the year following retirement from Board service. Any individual who is elected to serve as a Trustee after January 1 of any calendar year receives an RSU grant prorated from the date of such election and granted on the first business day of the month following such election.

### 2018 Trustee Compensation

<u>Compensation Element</u>	<u>Amount</u>
Annual Cash Retainer	\$115,000
Annual Stock Retainer	\$135,000
Board and Committee Attendance Fees	None
Annual Lead Trustee Retainer	\$30,000
	\$20,000 Audit Committee
	\$15,000 Compensation Committee
	\$15,000 Corporate Governance Committee
Annual Committee Chair Retainer	\$15,000 Finance Committee

Annual cash retainers of \$115,000 per Trustee, additional Committee Chair and Lead Trustee cash retainers and annual RSU grants for service on the Board for 2018 based on the amounts above were paid as described in this section.

The share ownership guidelines set forth in the Company's Corporate Governance Guidelines require each Trustee to attain and hold 7,500 common shares and/or RSUs of the Company within five years from January 1 of the year succeeding their date of election to the Board. All of the current Trustees exceed the required share ownership threshold except for Mr. Kim and Ms. Forry, each of whom was elected as a Trustee in 2018.

Pursuant to the Company's Deferred Compensation Plan, prior to the year earned, each Trustee may irrevocably elect to defer receipt of all or a portion of their cash compensation. Deferred funds are credited with deemed earnings on various deemed investments as permitted by the Deferred Compensation Plan. Deferred cash compensation is payable either in a lump sum or in installments in accordance with the Trustee's prior election. There were no above-market earnings in deferred compensation value during 2018, as the terms of the Deferred Compensation Plan provide for market-based investments, including Company common shares.

Our 2018 Incentive Plan places a limit on the amount of total annual compensation that can be paid to any Trustee. When applicable, we pay travel-related expenses for spouses of Trustees who attend Board functions, but we do not pay tax gross-up payments in connection with such expenses, nor do we pay pension benefits to our non-employee Trustees.

**Amendment Number 1 to the  
Eversource Deferred Compensation Plan**

Effective February 7, 2018, the Eversource Deferred Compensation Plan is amended as follows:

1. The definition of “Eligible Trustee” in Article 2 is hereby amended to remove “an” and add “a non-Employee” and shall read as follows:  
““ **Eligible Trustee** ” means any person serving as a non-employee Eversource Energy Trustee for a particular Plan Year.”
2. Article 4.5 (A) is hereby amended to add the percentage amount of any annual Equity Award granted to be automatically deferred and shall read as follows:  
“(A) **Trustee Equity Award** . An Eligible Trustee automatically shall be deemed to elect deferral of fifty percent of any annual Equity Award granted as part of the retainer for Board service for any Plan Year, and may, subject to such rules as the Trustees may adopt from time to time, elect to defer or not defer part or all of the remaining fifty percent of such annual Equity Award.”
3. Article 4.6 (B) is hereby amended to add reference to Equity with respect to deferral elections and shall read as follows:  
“(B) **Trustee Participants** . A Trustee Participant’s Cash and Equity Award Deferral elections for a Particular Year shall terminate as to further deferrals for such Plan Year if such Participant (i) becomes Disabled during such Plan Year, or (ii) receives an Emergency Benefit under the Plan during such Plan Year.”
4. Article 6.2 (A) is hereby amended to clarify the distribution time of a properly deferred Trustee Participant Equity Award and shall read as follows:  
“(A) **Affirmative Elections by Participants** . All distributions from all Employee Participant Accounts and Trustee Participant Cash Retainer Deferral Accounts hereunder shall be made within 60 days of the Participant’s End Termination Date unless other permitted by the Plan Administrator and properly elected in the Participant’s Enrollment Agreement. Distributions from Trustee Participant Equity Deferral Accounts shall be made on the tenth day of January in the year following the Trustee’s Termination Date unless otherwise permitted by the Plan Administrator and properly elected in the Trustee Participant’s Enrollment Agreement. No Enrollment Agreement shall elect a distribution date sooner than 3 years after the Plan Year for which the deferral is to occur (or earlier termination of Service).”
5. Article 6.2 (B) is hereby deleted in its entirety and Article 6.2 (C) is renamed Article 6.2 (B).
6. Article 7.2 is hereby amended by deleting the words “within 90 days” and substituting therein “at the election of the Participant’s beneficiary, but in no event later than December 31 of the year following the Participant’s death”.

EVERSOURCE ENERGY SERVICE COMPANY

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Christine M. Carmody  
Executive Vice President - Human Resources and  
Information Technology

Subsidiaries of the Registrants as of February 26, 2019 <sup>(1)</sup>

	State of Incorporation
Eversource Energy (a Massachusetts business trust) <sup>(2)</sup>	MA
The Connecticut Light and Power Company <sup>(2) (3)</sup>	CT
Connecticut Yankee Atomic Power Company <sup>(4)</sup>	CT
Eversource Energy Service Company	CT
Eversource Energy Transmission Ventures, Inc.	CT
Eversource Gas Transmission LLC	MA
Eversource Gas Transmission II LLC	MA
Eversource LNG Service Company LLC	MA
Northern Pass Transmission LLC	NH
Renewable Properties, Inc.	NH
Eversource Holdco Corporation	MA
Eversource Investment LLC	MA
Eversource Investment Service Company LLC	MA
Eversource Water Ventures, Inc.	CT
Eversource Aquarion Holdings, Inc.	DE
Aquarion Company	DE
Aquarion Water Company	CT
Aquarion Water Company of Connecticut	CT
Aquarion Water Company of Massachusetts, Inc.	MA
Aquarion Water Capital of Massachusetts, Inc.	DE
Aquarion Water Company of New Hampshire, Inc.	NH
Homeowner Safety Valve Company	DE
HWP Company	MA
North Atlantic Energy Corporation	NH
North Atlantic Energy Service Corporation	NH
Northeast Nuclear Energy Company	CT
NSTAR Electric Company <sup>(2) (3)</sup>	MA
Harbor Electric Energy Company	MA
Public Service Company of New Hampshire <sup>(2) (3)</sup>	NH
Properties, Inc.	NH
PSNH Funding LLC 3	DE
The Rocky River Realty Company	CT
Yankee Atomic Electric Company <sup>(4)</sup>	MA
Yankee Energy System, Inc.	CT
Hopkinton LNG Corp.	MA
NSTAR Gas Company <sup>(3)</sup>	MA
Yankee Gas Services Company <sup>(3)</sup>	CT

- (1) The names of some of our subsidiaries which, if considered in the aggregate as a single subsidiary, would not constitute a “significant subsidiary,” have been omitted in accordance with Item 601(b)(21)(ii) of Regulation S-K.
- (2) SEC Registrant.
- (3) Each of these entities is doing business as Eversource Energy.
- (4) For The Connecticut Light and Power Company, NSTAR Electric Company and Public Service Company of New Hampshire, investments in Connecticut Yankee Atomic Power Company and Yankee Atomic Electric Company are accounted for under the equity method.

**CONSENTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statements Nos. 333-211062 and 333-224122 on Form S-3 and Registration Statements Nos. 333-121364, 333-142724, 333-181258, and 333-224605 on Form S-8 of our report dated February 26, 2019 , relating to the consolidated financial statements and the financial statement schedules of Eversource Energy and subsidiaries, and the effectiveness of Eversource Energy and subsidiaries' internal control over financial reporting, appearing in this Annual Report on Form 10-K of Eversource Energy for the year ended December 31, 2018.

We also consent to the incorporation by reference in Registration Statement No. 333-211062-04 on Form S-3 of our report dated February 26, 2019 , relating to the financial statements and the financial statement schedule of The Connecticut Light and Power Company appearing in this Annual Report on Form 10-K of The Connecticut Light and Power Company for the year ended December 31, 2018.

We also consent to the incorporation by reference in Registration Statement No. 333-211062-03 on Form S-3 of our report dated February 26, 2019 , relating to the consolidated financial statements and the financial statement schedule of NSTAR Electric Company and subsidiary appearing in this Annual Report on Form 10-K of NSTAR Electric Company for the year ended December 31, 2018.

We also consent to the incorporation by reference in Registration Statement No. 333-211062-02 on Form S-3 of our report dated February 26, 2019 , relating to the consolidated financial statements and the financial statement schedule of Public Service Company of New Hampshire and subsidiaries appearing in this Annual Report on Form 10-K of Public Service Company of New Hampshire for the year ended December 31, 2018.

/s/ Deloitte & Touche LLP

Hartford , Connecticut  
February 26, 2019

CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, James J. Judge, certify that:

1. I have reviewed this Annual Report on Form 10-K of Eversource Energy (the registrant);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2019

/s/ James J. Judge

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James J. Judge  
Chairman of the Board, President and Chief Executive Officer  
(Principal Executive Officer)

CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Philip J. Lembo, certify that:

1. I have reviewed this Annual Report on Form 10-K of Eversource Energy (the registrant);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2019

/s/ Philip J. Lembo

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Philip J. Lembo  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this Annual Report on Form 10-K of Eversource Energy (the registrant) for the period ending December 31, 2018 as filed with the Securities and Exchange Commission (the Report), we, James J. Judge, Chairman of the Board, President and Chief Executive Officer of the registrant, and Philip J. Lembo, Executive Vice President and Chief Financial Officer of the registrant, certify, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the registrant.

/s/ James J. Judge

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James J. Judge  
Chairman of the Board, President and Chief Executive Officer

/s/ Philip J. Lembo

---

Philip J. Lembo  
Executive Vice President and Chief Financial Officer

Date: February 26, 2019

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the registrant and will be retained by the registrant and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, James J. Judge, certify that:

1. I have reviewed this Annual Report on Form 10-K of The Connecticut Light and Power Company (the registrant);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2019

/s/ James J. Judge

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James J. Judge

Chairman

(Principal Executive Officer)

CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Philip J. Lembo, certify that:

1. I have reviewed this Annual Report on Form 10-K of The Connecticut Light and Power Company (the registrant);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2019

/s/ Philip J. Lembo

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Philip J. Lembo  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this Annual Report on Form 10-K of The Connecticut Light and Power Company (the registrant) for the period ending December 31, 2018 as filed with the Securities and Exchange Commission (the Report), we, James J. Judge, Chairman of the registrant, and Philip J. Lembo, Executive Vice President and Chief Financial Officer of the registrant, certify, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the registrant.

/s/ James J. Judge

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James J. Judge  
Chairman

/s/ Philip J. Lembo

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Philip J. Lembo  
Executive Vice President and Chief Financial Officer

Date: February 26, 2019

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the registrant and will be retained by the registrant and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, James J. Judge, certify that:

1. I have reviewed this Annual Report on Form 10-K of NSTAR Electric Company (the registrant);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2019

/s/ James J. Judge

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James J. Judge

Chairman

(Principal Executive Officer)

CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Philip J. Lembo, certify that:

1. I have reviewed this Annual Report on Form 10-K of NSTAR Electric Company (the registrant);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2019

/s/ Philip J. Lembo

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Philip J. Lembo

Executive Vice President and Chief Financial Officer

(Principal Financial Officer)

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this Annual Report on Form 10-K of NSTAR Electric Company (the registrant) for the period ending December 31, 2018 as filed with the Securities and Exchange Commission (the Report), we, James J. Judge, Chairman of the registrant, and Philip J. Lembo, Executive Vice President and Chief Financial Officer of the registrant, certify, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the registrant.

/s/ James J. Judge

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James J. Judge  
Chairman

/s/ Philip J. Lembo

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Philip J. Lembo  
Executive Vice President and Chief Financial Officer

Date: February 26, 2019

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the registrant and will be retained by the registrant and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, James J. Judge, certify that:

1. I have reviewed this Annual Report on Form 10-K of Public Service Company of New Hampshire (the registrant);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2019

/s/ James J. Judge

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James J. Judge  
Chairman  
(Principal Executive Officer)

CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Philip J. Lembo, certify that:

1. I have reviewed this Annual Report on Form 10-K of Public Service Company of New Hampshire (the registrant);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2019

/s/ Philip J. Lembo

---

Philip J. Lembo  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this Annual Report on Form 10-K of Public Service Company of New Hampshire (the registrant) for the period ending December 31, 2018 as filed with the Securities and Exchange Commission (the Report), we, James J. Judge, Chairman of the registrant, and Philip J. Lembo, Executive Vice President and Chief Financial Officer of the registrant, certify, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the registrant.

/s/ James J. Judge

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James J. Judge  
Chairman

/s/ Philip J. Lembo

---

Philip J. Lembo  
Executive Vice President and Chief Financial Officer

Date: February 26, 2019

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the registrant and will be retained by the registrant and furnished to the Securities and Exchange Commission or its staff upon request.

**ATTACHMENT 7-7**

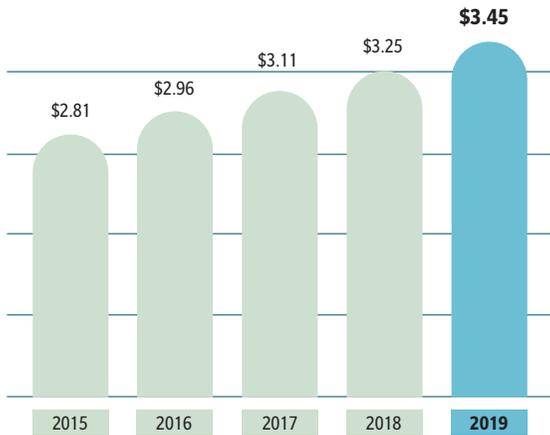
**Eversource 2019 Financial  
Report**

# 2019 Annual Report

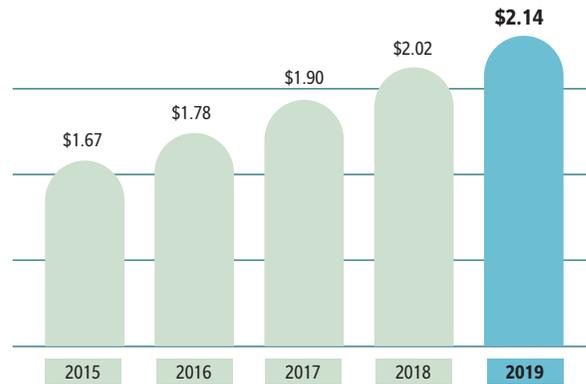
**EVERSOURCE**



## Diluted Earnings Per Share <sup>(1)</sup>



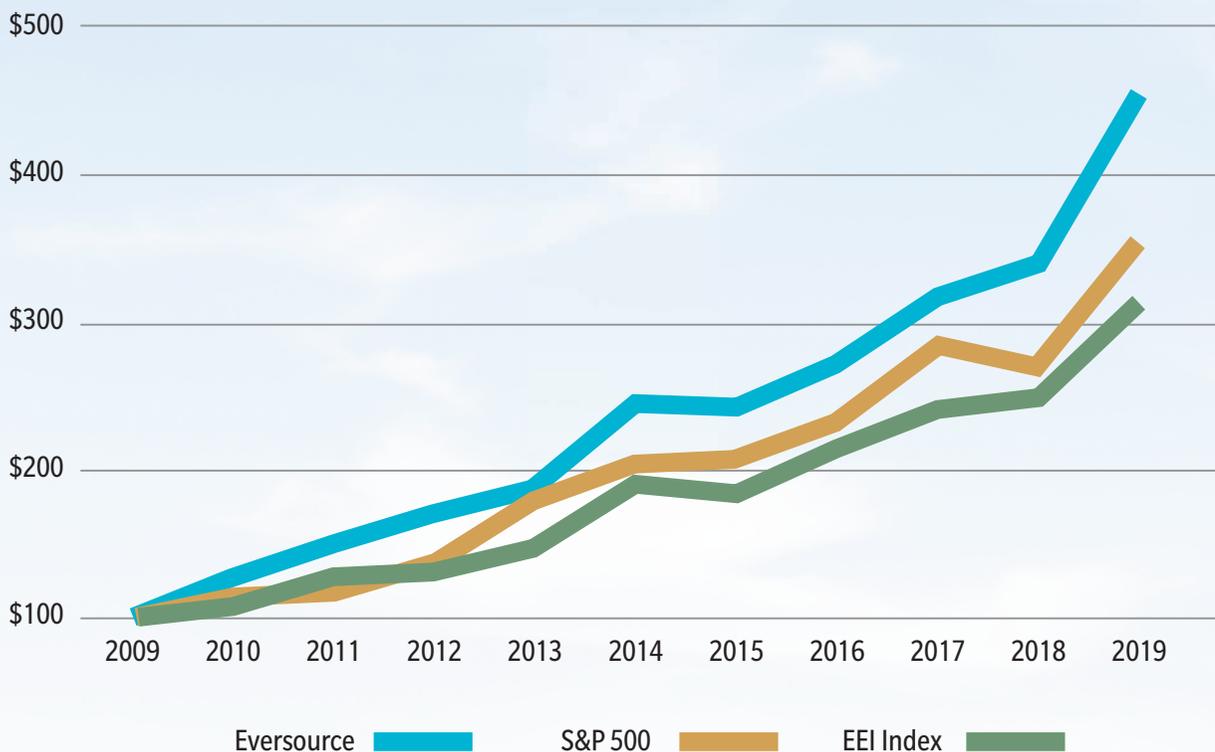
## Dividends Per Share



<sup>(1)</sup> Diluted Earnings per Share (Non-GAAP) for 2019 was adjusted to exclude an after-tax impairment charge of \$0.64 related to the Northern Pass Transmission Project. 2015 Diluted Earnings per Share was adjusted to exclude integration and merger-related costs of \$0.05.

## Total Shareholder Return

(Assumes \$100 invested on December 31, 2009 with all dividends reinvested)



## Selected Financial Data

(Thousands of dollars, except share information and statistical data)

	<b>2019</b>	<b>2018</b>
Operating Revenues	\$ 8,526,470	\$ 8,448,201
Net Income Attributable to ES Common Shares	\$ 909,053	\$ 1,033,000
Diluted Earnings per Common Share (GAAP)	\$ 2.81	\$ 3.25
Diluted Earnings per Common Share (Non-GAAP) <sup>(1)</sup>	\$ 3.45	\$ 3.25
Diluted Common Shares Outstanding (Weighted Average)	\$ 322,941,636	\$ 317,993,934
Dividends per Common Share	\$ 2.14	\$ 2.02
Electric Customers (As of Year End)	3,223,951	3,202,992
Natural Gas Customers (As of Year End)	539,860	533,295
Water Customers (As of Year End)	228,523	227,632
Investments in Property, Plant and Equipment	\$ 2,911,489	\$ 2,569,936
Property, Plant and Equipment, Net (As of Year End)	\$ 27,585,470	\$ 25,610,428
Market Capitalization (As of Year End)	\$ 28,062,946	\$ 20,610,253
Share Price (As of Year End)	\$ 85.07	\$ 65.04

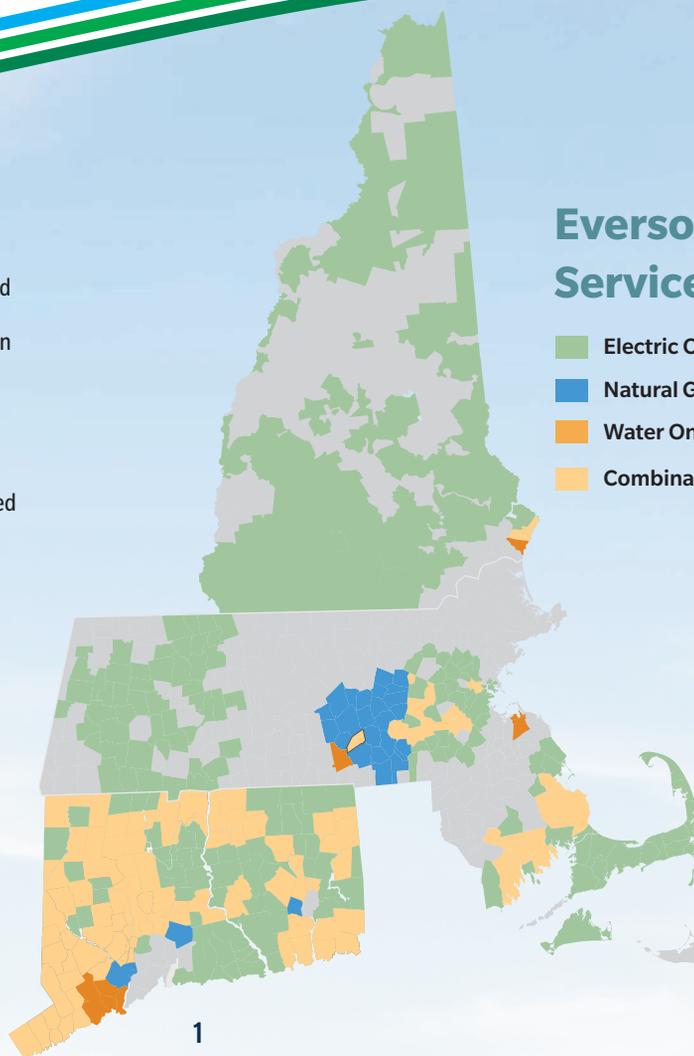
<sup>(1)</sup> Diluted Earnings per Common Share (Non-GAAP) for 2019 was adjusted to exclude an after-tax impairment charge of \$0.64 per share related to the Northern Pass Transmission Project. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," in the accompanying Form 10-K for a reconciliation to GAAP.

## Company Profile

Eversource Energy (NYSE:ES), a Fortune 500 and Standard & Poor's 500 energy company based in Connecticut, Massachusetts and New Hampshire, operates New England's largest energy delivery system. Eversource is committed to safety, reliability, environmental leadership and stewardship for its 4 million electricity, natural gas and water customers.

## Eversource Service Territory

- Electric Only
- Natural Gas Only
- Water Only
- Combination



## Letter from Chairman Jim Judge

2019 was Eversource Energy's best year in our history. We posted strong operational and financial performance and excellent returns for investors, while embracing and defining our growing role as a catalyst for clean energy.

We made significant progress on initiatives that support the clean energy vision that our customers, investors, regulators and legislators have identified as a priority. Our 50-50 partnership with Ørsted is now the nation's leading offshore wind developer, with approved contracts for about 1,700 megawatts, including a contract signed in 2019 to provide 880 megawatts to New York electric customers for 25 years.

We are advancing innovative energy storage projects for our customers. Our utility-owned solar installations are in service and producing renewable energy for the region. And we are tripling the number of electric vehicle charging stations in Massachusetts through a \$45 million investment in infrastructure.

We unveiled our plan to be carbon neutral by 2030, the only US energy utility with such an ambitious goal. It is consistent with our strategy of being the catalyst for clean energy development in New England and another way we can lead by example on climate action.

Our ability to shape our region's energy future is based on a bedrock of strong financial performance. We had a total return for shareholders of 34.4 percent in 2019, compared with 25.8 percent for the EEI index and 31.5 percent for the S&P 500. This continues a trend of outperforming our peers on a short-, medium-, and long-term basis.

We reported recurring earnings per share of \$3.45, an increase of 6.2 percent from 2018 excluding a one-time impairment charge of \$0.64 per share related to our decision to cancel our Northern Pass Transmission project. While we felt Northern Pass offered clear economic and environmental benefits to customers, resistance to siting of the project in New Hampshire proved insurmountable. We continue to project long-term EPS growth of 5 percent to 7 percent, accompanied by similar dividend growth. In 2019, we raised the common dividend to \$2.14 per share on an annualized basis from \$2.02, and in February 2020, we announced a 6.1 percent increase to \$2.27 per share.

We successfully completed our first issuance of "green bonds," issuing \$400 million to support low-carbon clean energy initiatives. Also, we successfully sold approximately \$1.3 billion of new equity to support our projected \$17 billion of investments from 2019 through



## Eversource's #1 honors

#1

utility on the **Forbes/JUST Capital** Most Just Companies list, honoring our combination of corporate social responsibility and business success.

#1

energy efficiency provider in the nation, according to **ACEEE**. We invest more than \$500 million a year to help customers save energy and money.

#1

developer of offshore wind in North America, with **Ørsted**. We're a catalyst for clean energy, helping to shape our region's energy future.

#1

energy company on **Newsweek's** list of Most Responsible Companies, recognizing our commitment to corporate social responsibility.

2024 in our core business, while also helping to finance our offshore wind partnership. The utility investments will enable our customers to continue to receive the safe and reliable electricity, natural gas and water service they expect.

Those core utility operations performed very well in 2019. We continue to deliver top-decile electric reliability, reducing the frequency and length of electric outages. We are consistently working to improve customer experience, with new offerings like a mobile app, expanded outage-related communications, and upgrades to the process to start, stop, or transfer service. Our safety record remained strong, with performance in the top tier of the industry. Aquarion, our water delivery company, continues to deliver very good service and solid financial performance, justifying our decision to enter the water business.

We remain the nation's #1 provider of energy efficiency programs, investing more than \$500 million in 2019 alone to help customers save about 1 billion kilowatt-hours and over 10 million therms per year and reduce their energy costs by nearly \$200 million per year. We announced new energy efficiency partnerships with many organizations and communities that will benefit from our proven and innovative energy-saving solutions.

Our natural gas operations focused on safe, reliable service, including our ongoing program of gas line replacement. Our NSTAR Gas operations in Massachusetts filed for a rate review to recover \$38 million in costs primarily associated with distribution system improvements and increases in labor and health care costs and property taxes. Our request also included innovative pilot projects that explore opportunities to develop geothermal energy, incorporate renewable and more responsibly produced natural gas into our supply, and establish a demand response program.

Our many community partners again benefited from the generous support of Eversource and its employees. Our signature community events were well-attended and successful, benefiting both charitable organizations and communities. We provided \$18 million in donations and other support to community agencies, as well as more than 37,000 volunteer hours. Our United Way campaign again raised more than \$1 million in employee donations, and with matching funds our total impact was \$2.2 million.

Diversity & Inclusion remains a key focus, with our D&I Councils and Business Resource Groups working throughout the company to build and maintain a supportive culture where all employees feel welcome and engaged. We were chosen for the 2019 Bloomberg Gender-Equality Index, which distinguishes companies committed to transparency in gender reporting and advancing women's equality.

## Our Total Return to Shareholders

	2019	3-Year	5-Year	10-Year
<b>Eversource</b>	<b>34.4%</b>	<b>68.7%</b>	<b>85.8%</b>	<b>356.7%</b>
EEI 40-Company Index	25.8%	45.7%	64.4%	214.0%
S&P 500	31.5%	53.2%	73.9%	256.7%





As an organization, we are focused on what’s next for 2020 and beyond. We continue to advance our ambitious carbon neutral goal. In offshore wind, we’ll be working through the permitting review process for existing project commitments and participating in additional requests for proposals as states work to fulfill and expand their offshore wind capacity demands. And, we will continue with our grid modernization efforts and the core capital investment that keeps our delivery systems so reliable.

The national awards and honors we received this year are a testament to our employees’ hard work and our commitment to excellence. In addition to the Gender-Equality Index previously mentioned, we were recognized with the following honors:

- **JUST Capital and Forbes** magazine’s Most JUST Companies list – #1 utility company.
- **Newsweek** magazine’s Most Responsible Companies list – #1 Energy & Utilities company.
- **American Council for an Energy-Efficient Economy** – Massachusetts ranked first on the organization’s energy efficiency scorecard for the ninth straight year.
- We received the **ENERGY STAR** Partner of the Year Sustained Excellence Award in all three states for our energy efficiency programs.
- We achieved top-decile **environmental, social, and governance (ESG)** performance among utilities nationally, as assessed by the two leading sustainability rating firms.
- We were one of only 15 companies selected nationwide for the **2019 Secretary of Defense Employer Support Freedom Award**, the military’s highest employer honor, which recognizes companies’ support for employees on military duty.
- We earned the **Edison Electric Institute’s Emergency Recovery Award**, recognizing our response to the July 2019 Cape Cod tornadoes.

In February 2020, we announced an agreement to acquire Columbia Gas’ natural gas assets in Massachusetts for \$1.1 billion in cash. Following state and federal regulatory reviews, we expect to close on the transaction by the end of the third quarter of 2020. We expect this transaction to be accretive in the first year after closing. It would also benefit customers and support the state’s greenhouse gas reduction goals through accelerated pipe replacement and access to our best-in-class energy efficiency programs.

Eversource Energy is paving the way to a sustainable and prosperous future in the states we serve. We are proud to be a catalyst for clean energy, and I thank our 8,300 employees for their hard work and commitment to our customers and communities.

Chairman, President and Chief Executive Officer

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# EVERSOURCE

ENERGY

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

## FORM 10-K

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

For the fiscal year ended December 31, 2019

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**Registrant; State of Incorporation; Address; Telephone Number;  
Commission File Number; and I.R.S. Employer Identification No.**

### EVERSOURCE ENERGY

(a Massachusetts voluntary association)  
300 Cadwell Drive, Springfield, Massachusetts 01104  
Telephone: (800) 286-5000  
Commission File Number: 1-5324  
I.R.S. Employer Identification No. 04-2147929

### THE CONNECTICUT LIGHT AND POWER COMPANY

(a Connecticut corporation)  
107 Selden Street, Berlin, Connecticut 06037-1616  
Telephone: (800) 286-5000  
Commission File Number: 0-00404  
I.R.S. Employer Identification No. 06-0303850

### NSTAR ELECTRIC COMPANY

(a Massachusetts corporation)  
800 Boylston Street, Boston, Massachusetts 02199  
Telephone: (800) 286-5000  
Commission File Number: 1-02301  
I.R.S. Employer Identification No. 04-1278810

### PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

(a New Hampshire corporation)  
Energy Park  
780 North Commercial Street, Manchester, New Hampshire 03101-1134  
Telephone: (800) 286-5000  
Commission File Number: 1-6392  
I.R.S. Employer Identification No. 02-0181050

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Shares, \$5.00 par value per share	ES	New York Stock Exchange

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

<u>Registrant</u>	<u>Title of Class</u>
<b>The Connecticut Light and Power Company</b>	Preferred Stock, par value \$50.00 per share, issuable in series, of which the following series are outstanding:
	\$1.90 Series of 1947
	\$2.00 Series of 1947
	\$2.04 Series of 1949
	\$2.20 Series of 1949
	3.90% Series of 1949
	\$2.06 Series E of 1954
	\$2.09 Series F of 1955
	4.50% Series of 1956
	4.96% Series of 1958
	4.50% Series of 1963
	5.28% Series of 1967
	\$3.24 Series G of 1968
6.56% Series of 1968	

**NSTAR Electric Company** Preferred Stock, par value \$100.00 per share, issuable in series, of which the following series are outstanding:

4.25%	Series	of 1956
4.78%	Series	of 1958

NSTAR Electric Company and Public Service Company of New Hampshire each meet the conditions set forth in General Instruction I(1)(a) and (b) of Form 10-K, and each is therefore filing this Form 10-K with the reduced disclosure format specified in General Instruction I(2) of Form 10-K.

Indicate by check mark if the registrants are well-known seasoned issuers, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrants are not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrants have submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrants were required to submit such files).

Yes  No

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

Eversource Energy	Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>	Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>	Emerging growth company	<input type="checkbox"/>
The Connecticut Light and Power Company	Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>	Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>	Emerging growth company	<input type="checkbox"/>
NSTAR Electric Company	Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>	Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>	Emerging growth company	<input type="checkbox"/>
Public Service Company of New Hampshire	Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>	Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>	Emerging growth company	<input type="checkbox"/>

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

Indicate by check mark whether the registrants are shell companies (as defined in Rule 12b-2 of the Act):

	<u>Yes</u>	<u>No</u>
Eversource Energy	<input type="checkbox"/>	<input checked="" type="checkbox"/>
The Connecticut Light and Power Company	<input type="checkbox"/>	<input checked="" type="checkbox"/>
NSTAR Electric Company	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Public Service Company of New Hampshire	<input type="checkbox"/>	<input checked="" type="checkbox"/>

The aggregate market value of Eversource Energy's Common Shares, \$5.00 par value, held by non-affiliates, computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of Eversource Energy's most recently completed second fiscal quarter (June 30, 2019) was \$24,486,439,602 based on a closing market price of \$75.76 per share for the 323,210,660 common shares outstanding held by non-affiliates on June 30, 2019.

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

<u>Company - Class of Stock</u>	<u>Outstanding as of January 31, 2020</u>
Eversource Energy Common Shares, \$5.00 par value	329,952,663 shares
The Connecticut Light and Power Company Common Stock, \$10.00 par value	6,035,205 shares
NSTAR Electric Company Common Stock, \$1.00 par value	200 shares
Public Service Company of New Hampshire Common Stock, \$1.00 par value	301 shares

Eversource Energy holds all of the 6,035,205 shares, 200 shares and 301 shares of the outstanding common stock of The Connecticut Light and Power Company, NSTAR Electric Company and Public Service Company of New Hampshire, respectively.

Eversource Energy, The Connecticut Light and Power Company, NSTAR Electric Company and Public Service Company of New Hampshire each separately file this combined Form 10-K. Information contained herein relating to any individual registrant is filed by such registrant on its own behalf. Each registrant makes no representation as to information relating to the other registrants.

## GLOSSARY OF TERMS

The following is a glossary of abbreviations and acronyms that are found in this report:

### **Current or former Eversource Energy companies, segments or investments:**

Eversource, ES or the Company	Eversource Energy and subsidiaries
Eversource parent or ES parent	Eversource Energy, a public utility holding company
ES parent and other companies	ES parent and other companies are comprised of Eversource parent, Eversource Service, Eversource Water Ventures, Inc. (parent company of Aquarion), and other subsidiaries, which primarily includes our unregulated businesses, HWP Company, The Rocky River Realty Company (a real estate subsidiary), the consolidated operations of CYAPC and YAEC, and Eversource parent's equity ownership interests that are not consolidated
CL&P	The Connecticut Light and Power Company
NSTAR Electric	NSTAR Electric Company
PSNH	Public Service Company of New Hampshire
PSNH Funding	PSNH Funding LLC 3, a bankruptcy remote, special purpose, wholly-owned subsidiary of PSNH
NSTAR Gas	NSTAR Gas Company
Yankee Gas	Yankee Gas Services Company
Aquarion	Eversource Aquarion Holdings, Inc. and its subsidiaries
NPT	Northern Pass Transmission LLC
Northern Pass	The HVDC and associated alternating-current transmission line project from Canada into New Hampshire
Eversource Service	Eversource Energy Service Company
Bay State Wind	Bay State Wind LLC, an offshore wind business being developed jointly by Eversource and Denmark-based
North East Offshore	North East Offshore, LLC, an offshore wind business holding company being developed jointly by Eversource and Denmark-based Ørsted, which holds the Revolution Wind and South Fork Wind projects
CYAPC	Connecticut Yankee Atomic Power Company
MYAPC	Maine Yankee Atomic Power Company
YAEC	Yankee Atomic Electric Company
Yankee Companies	CYAPC, YAEC and MYAPC
Regulated companies	The Eversource regulated companies are comprised of the electric distribution and transmission businesses of CL&P, NSTAR Electric and PSNH, the natural gas distribution businesses of Yankee Gas and NSTAR Gas, NPT, Aquarion, and the solar power facilities of NSTAR Electric

### **Regulators:**

DEEP	Connecticut Department of Energy and Environmental Protection
DOE	U.S. Department of Energy
DOER	Massachusetts Department of Energy Resources
DPU	Massachusetts Department of Public Utilities
EPA	U.S. Environmental Protection Agency
FERC	Federal Energy Regulatory Commission
ISO-NE	ISO New England, Inc., the New England Independent System Operator
MA DEP	Massachusetts Department of Environmental Protection
NHPUC	New Hampshire Public Utilities Commission
PURA	Connecticut Public Utilities Regulatory Authority
SEC	U.S. Securities and Exchange Commission
SJC	Supreme Judicial Court of Massachusetts

### **Other Terms and Abbreviations:**

ADIT	Accumulated Deferred Income Taxes
AFUDC	Allowance For Funds Used During Construction
AOCI	Accumulated Other Comprehensive Income
ARO	Asset Retirement Obligation
Bcf	Billion cubic feet
C&LM	Conservation and Load Management
CfD	Contract for Differences
CTA	Competitive Transition Assessment
CWIP	Construction Work in Progress
EDC	Electric distribution company
EDIT	Excess Deferred Income Taxes
EPS	Earnings Per Share

ERISA	Employee Retirement Income Security Act of 1974
ESOP	Employee Stock Ownership Plan
Eversource 2018 Form 10-K	The Eversource Energy and Subsidiaries 2018 combined Annual Report on Form 10-K as filed with the SEC
Fitch	Fitch Ratings
FMCC	Federally Mandated Congestion Charge
FTR	Financial Transmission Rights
GAAP	Accounting principles generally accepted in the United States of America
GSC	Generation Service Charge
GSRP	Greater Springfield Reliability Project
GWh	Gigawatt-Hours
HQ	Hydro-Québec, a corporation wholly-owned by the Québec government, including its divisions that produce, transmit and distribute electricity in Québec, Canada
HVDC	High-voltage direct current
Hydro Renewable Energy	Hydro Renewable Energy, Inc., a wholly-owned subsidiary of Hydro-Québec
IPP	Independent Power Producers
ISO-NE Tariff	ISO-NE FERC Transmission, Markets and Services Tariff
kV	Kilovolt
kVa	Kilovolt-ampere
kW	Kilowatt (equal to one thousand watts)
LBR	Lost Base Revenue
LNG	Liquefied natural gas
LRS	Supplier of last resort service
MG	Million gallons
MGP	Manufactured Gas Plant
MMBtu	One million British thermal units
MMcf	Million cubic feet
Moody's	Moody's Investors Services, Inc.
MW	Megawatt
MWh	Megawatt-Hours
NEEWS	New England East-West Solution
NETOs	New England Transmission Owners (including Eversource, National Grid and Avangrid)
OCI	Other Comprehensive Income/(Loss)
PAM	Pension and PBOP Rate Adjustment Mechanism
PBOP	Postretirement Benefits Other Than Pension
PBOP Plan	Postretirement Benefits Other Than Pension Plan
Pension Plan	Single uniform noncontributory defined benefit retirement plan
PPA	Power purchase agreement
RECs	Renewable Energy Certificates
Regulatory ROE	The average cost of capital method for calculating the return on equity related to the distribution business segment excluding the wholesale transmission segment
ROE	Return on Equity
RRBs	Rate Reduction Bonds or Rate Reduction Certificates
RSUs	Restricted share units
S&P	Standard & Poor's Financial Services LLC
SBC	Systems Benefits Charge
SCRC	Stranded Cost Recovery Charge
SERP	Supplemental Executive Retirement Plans and non-qualified defined benefit retirement plans
SS	Standard service
TCAM	Transmission Cost Adjustment Mechanism
TSA	Transmission Service Agreement
UI	The United Illuminating Company
VIE	Variable Interest Entity

**EVERSOURCE ENERGY AND SUBSIDIARIES  
THE CONNECTICUT LIGHT AND POWER COMPANY  
NSTAR ELECTRIC COMPANY AND SUBSIDIARY  
PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE AND SUBSIDIARIES**

**2019 FORM 10-K ANNUAL REPORT**

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**EVERSOURCE ENERGY AND SUBSIDIARIES  
THE CONNECTICUT LIGHT AND POWER COMPANY  
NSTAR ELECTRIC COMPANY AND SUBSIDIARY  
PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE AND SUBSIDIARIES**

**SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES  
LITIGATION REFORM ACT OF 1995**

References in this Annual Report on Form 10-K to "Eversource," the "Company," "we," "our," and "us" refer to Eversource Energy and its consolidated subsidiaries. CL&P, NSTAR Electric, and PSNH are each doing business as Eversource Energy.

From time to time, we make statements concerning our expectations, beliefs, plans, objectives, goals, strategies, assumptions of future events, future financial performance or growth and other statements that are not historical facts. These statements are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. You can generally identify our forward-looking statements through the use of words or phrases such as "estimate," "expect," "anticipate," "intend," "plan," "project," "believe," "forecast," "should," "could," and other similar expressions. Forward-looking statements are based on the current expectations, estimates, assumptions or projections of management and are not guarantees of future performance. These expectations, estimates, assumptions or projections may vary materially from actual results. Accordingly, any such statements are qualified in their entirety by reference to, and are accompanied by, the following important factors that could cause our actual results to differ materially from those contained in our forward-looking statements, including, but not limited to:

- cyberattacks or breaches, including those resulting in the compromise of the confidentiality of our proprietary information and the personal information of our customers,
- ability or inability to commence and complete our major strategic development projects and opportunities,
- acts of war or terrorism, physical attacks or grid disturbances that may damage and disrupt our electric transmission and electric, natural gas, and water distribution systems,
- actions or inaction of local, state and federal regulatory, public policy and taxing bodies,
- substandard performance of third-party suppliers and service providers,
- fluctuations in weather patterns, including extreme weather due to climate change,
- changes in business conditions, which could include disruptive technology or development of alternative energy sources related to our current or future business model,
- contamination of, or disruption in, our water supplies,
- changes in economic conditions, including impact on interest rates, tax policies, and customer demand and payment ability,
- changes in levels or timing of capital expenditures,
- disruptions in the capital markets or other events that make our access to necessary capital more difficult or costly,
- changes in laws, regulations or regulatory policy, including compliance with environmental laws and regulations,
- changes in accounting standards and financial reporting regulations,
- actions of rating agencies, and
- other presently unknown or unforeseen factors.

Other risk factors are detailed in our reports filed with the SEC and updated as necessary, and we encourage you to consult such disclosures.

All such factors are difficult to predict and contain uncertainties that may materially affect our actual results, many of which are beyond our control. You should not place undue reliance on the forward-looking statements, as each speaks only as of the date on which such statement is made, and, except as required by federal securities laws, we undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time and it is not possible for us to predict all of such factors, nor can we assess the impact of each such factor on the business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. For more information, see Item 1A, *Risk Factors*, included in this combined Annual Report on Form 10-K. This Annual Report on Form 10-K also describes material contingencies and critical accounting policies in the accompanying *Management's Discussion and Analysis of Financial Condition and Results of Operations* and *Combined Notes to Financial Statements*. We encourage you to review these items.

**EVERSOURCE ENERGY AND SUBSIDIARIES  
THE CONNECTICUT LIGHT AND POWER COMPANY  
NSTAR ELECTRIC COMPANY AND SUBSIDIARY  
PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE AND SUBSIDIARIES**

**PART I**

**Item 1. Business**

Please refer to the Glossary of Terms for definitions of defined terms and abbreviations used in this combined Annual Report on Form 10-K.

Eversource Energy, headquartered in Boston, Massachusetts and Hartford, Connecticut, is a public utility holding company subject to regulation by the FERC under the Public Utility Holding Company Act of 2005. We are engaged primarily in the energy delivery business through the following wholly-owned utility subsidiaries:

- The Connecticut Light and Power Company (CL&P), a regulated electric utility that serves residential, commercial and industrial customers in parts of Connecticut;
- NSTAR Electric Company (NSTAR Electric), a regulated electric utility that serves residential, commercial and industrial customers in parts of eastern and western Massachusetts and owns solar power facilities;
- Public Service Company of New Hampshire (PSNH), a regulated electric utility that serves residential, commercial and industrial customers in parts of New Hampshire;
- NSTAR Gas Company (NSTAR Gas), a regulated natural gas utility that serves residential, commercial and industrial customers in parts of Massachusetts;
- Yankee Gas Services Company (Yankee Gas), a regulated natural gas utility that serves residential, commercial and industrial customers in parts of Connecticut; and
- Eversource Aquarion Holdings, Inc. (Aquarion), a utility holding company that owns three separate regulated water utility subsidiaries and collectively serves residential, commercial, industrial, and municipal and fire protection customers in parts of Connecticut, Massachusetts and New Hampshire.

CL&P, NSTAR Electric and PSNH also serve New England customers through Eversource Energy's electric transmission business. Along with NSTAR Gas and Yankee Gas, each is doing business as Eversource Energy in its respective service territory.

Eversource Energy, CL&P, NSTAR Electric and PSNH each report their financial results separately. We also include information in this report on a segment basis for Eversource Energy. Eversource Energy has four reportable segments: electric distribution, electric transmission, natural gas distribution and water distribution. These segments represent substantially all of Eversource Energy's total consolidated revenues. CL&P, NSTAR Electric and PSNH do not report separate business segments.

**ELECTRIC DISTRIBUTION SEGMENT**

Eversource Energy's electric distribution segment consists of the distribution businesses of CL&P, NSTAR Electric and PSNH, which are engaged in the distribution of electricity to retail customers in Connecticut, Massachusetts and New Hampshire, respectively, and the solar power facilities of NSTAR Electric, and the generation facilities of PSNH before such facilities were sold in January and August 2018.

**ELECTRIC DISTRIBUTION – CONNECTICUT – THE CONNECTICUT LIGHT AND POWER COMPANY**

CL&P's distribution business consists primarily of the purchase, delivery and sale of electricity to its residential, commercial and industrial customers. As of December 31, 2019, CL&P furnished retail franchise electric service to approximately 1.26 million customers in 149 cities and towns in Connecticut, covering an area of approximately 4,400 square miles. CL&P does not own any electric generation facilities.

**Rates**

CL&P is subject to regulation by the PURA, which, among other things, has jurisdiction over rates, certain dispositions of property and plant, mergers and consolidations, issuances of long-term securities, standards of service and construction and operation of facilities. CL&P's present general rate structure consists of various rate and service classifications covering residential, commercial and industrial services. CL&P's retail rates include a delivery service component, which includes distribution, transmission, conservation, renewable energy programs and other charges that are assessed on all customers.

Under Connecticut law, all of CL&P's customers are entitled to choose their energy suppliers, while CL&P remains their electric distribution company. For those customers who do not choose a competitive energy supplier, under SS rates for customers with less than 500 kilowatts of demand (residential customers and small and medium commercial and industrial customers), and LRS rates for customers with 500 kilowatts or more of demand (larger commercial and industrial customers), CL&P purchases power under standard offer contracts and passes the cost of the purchased power to customers through a combined charge on customers' bills.

The rates established by the PURA for CL&P are comprised of the following:

- An electric GSC, which recovers energy-related costs incurred as a result of providing electric generation service supply to all customers that have not migrated to competitive energy suppliers. The GSC is adjusted periodically and reconciled annually in accordance with the policies and procedures of the PURA, with any differences refunded to, or recovered from, customers.
- A revenue decoupling adjustment that reconciles annual base distribution rate recovery amounts recovered from customers to the pre-established level of baseline distribution delivery service revenue requirement approved by the PURA of \$1.099 billion effective May 1, 2018, \$1.127 billion effective May 1, 2019, and \$1.158 billion effective May 1, 2020. These pre-established levels of baseline distribution delivery service revenue requirement are also subject to adjustment at each of these dates in accordance with provisions of the April 2018 rate case settlement agreement.
- A distribution charge, which includes a fixed customer charge and a demand and/or energy charge to collect the costs of building and expanding the infrastructure to deliver electricity to customers, as well as ongoing operating costs to maintain the infrastructure.
- An Electric System Improvements (ESI) charge, which collects the costs of building and expanding the infrastructure to deliver electricity to customers above the level recovered through the distribution charge. The ESI also recovers costs associated with CL&P's system resiliency program. The ESI is adjusted periodically and reconciled annually in accordance with the policies and procedures of the PURA, with any differences refunded to, or recovered from, customers.
- An FMCC, which recovers any costs imposed by the FERC as part of the New England Standard Market Design, including locational marginal pricing, locational installed capacity payments, and any costs approved by the PURA to reduce these charges. The FMCC has both a bypassable component and a non-bypassable component, and is adjusted periodically and reconciled annually in accordance with the policies and procedures of the PURA, with any differences refunded to, or recovered from, customers.
- A transmission charge that recovers the cost of transporting electricity over high-voltage lines from generating plants to substations, including costs allocated by ISO-NE to maintain the wholesale electric market. The transmission charge is adjusted periodically and reconciled annually to actual costs incurred, and reviewed by the PURA, with any difference refunded to, or recovered from, customers.
- A CTA charge, assessed to recover stranded costs associated with electric industry restructuring such as various IPP contracts. The CTA is reconciled annually to actual costs incurred and reviewed by the PURA, with any difference refunded to, or recovered from, customers.
- An SBC, established to fund expenses associated with various hardship and low-income programs. The SBC is reconciled annually to actual costs incurred and reviewed by the PURA, with any difference refunded to, or recovered from, customers.
- A Renewable Energy Investment Charge, which is used to promote investment in renewable energy sources. Amounts collected by this charge are deposited into the Connecticut Clean Energy Fund and administered by the Connecticut Green Bank.
- A conservation charge, comprised of both a statutory rate and Conservation Adjustment Mechanism (CAM) established to implement cost-effective energy conservation programs and market transformation initiatives. The conservation charge is reconciled annually to actual costs incurred, and reviewed by the PURA, with any difference refunded to, or recovered from, customers through an approved adjustment to the following year's energy conservation spending plan budget.

As required by regulation, CL&P has entered into long-term contracts for the purchase of (i) products from renewable energy facilities, which may include energy, renewable energy certificates, or capacity, (ii) capacity-related contracts with generation facilities, and (iii) contracts for peaking capacity. Some of these contracts are subject to sharing agreements with UI, whereby CL&P is responsible for 80 percent and UI for 20 percent of the net costs or benefits. CL&P's portion of the costs and benefits of these contracts will be paid by, or refunded to, CL&P's customers.

Distribution Rate Case: CL&P's distribution rates were established in an April 2018 PURA-approved rate case settlement agreement with rates effective May 1, 2018.

### **Sources and Availability of Electric Power Supply**

As noted above, CL&P does not own any generation assets and purchases energy supply to serve its SS and LRS loads from a variety of competitive sources through requests for proposals. During 2019, CL&P supplied approximately 46 percent of its customer load at SS or LRS rates while the other 54 percent of its customer load had migrated to competitive energy suppliers. In terms of the total number of CL&P customers, this equates to 25 percent being on competitive supply, while 75 percent remain with SS or LRS. Because this customer migration is only for energy supply service, it has no impact on CL&P's electric distribution business or its operating income.

CL&P periodically enters into full requirements contracts for SS loads for periods of up to one year. CL&P typically enters into full requirements contracts for LRS loads every three months. Currently, CL&P has full requirements contracts in place for 100 percent of its SS loads for the first half of 2020. For the second half of 2020, CL&P has 70 percent of its SS load under full requirements contracts and intends to purchase an additional 30 percent of full requirements. None of the SS load for 2021 has been procured. CL&P has full requirements contracts in place for its LRS loads through June 2020 and intends to purchase 100 percent of full requirements for the remainder of 2020.

## **ELECTRIC DISTRIBUTION – MASSACHUSETTS – NSTAR ELECTRIC COMPANY**

NSTAR Electric's distribution business consists primarily of the purchase, delivery and sale of electricity to its residential, commercial and industrial customers. As of December 31, 2019, NSTAR Electric furnished retail franchise electric service to approximately 1.44 million customers in Boston and 139 cities and towns in eastern and western Massachusetts, including Cape Cod, Martha's Vineyard and the greater Springfield metropolitan area, covering an aggregate area of approximately 3,200 square miles.

NSTAR Electric does not own any generating facilities that are used to supply customers and purchases its energy requirements from competitive energy suppliers.

NSTAR Electric installed and completed nineteen new solar power facilities for a total of 62 MW by the end of 2019. These solar sites are in addition to the 8 MW of solar power facilities constructed between 2010 and 2014. NSTAR Electric now owns, operates and maintains a total of 70 MW of solar power facilities on twenty-two sites in Massachusetts. NSTAR Electric will sell energy from the new facilities into the ISO-NE market, with proceeds credited to customers.

### **Rates**

NSTAR Electric is subject to regulation by the DPU, which, among other things, has jurisdiction over rates, certain dispositions of property and plant, mergers and consolidations, issuances of long-term securities, acquisition of securities, standards of service and construction and operation of facilities. The present general rate structure for NSTAR Electric consists of various rate and service classifications covering residential, commercial and industrial services.

Under Massachusetts law, all customers of NSTAR Electric are entitled to choose their energy suppliers, while NSTAR Electric remains their electric distribution company. NSTAR Electric purchases power from competitive suppliers on behalf of, and passes the related cost through to, its customers who do not choose a competitive energy supplier (basic service). Electric distribution companies in Massachusetts are required to obtain and resell power to retail customers through basic service for those who choose not to buy energy from a competitive energy supplier. Most of the residential customers of NSTAR Electric have continued to buy their power from NSTAR Electric at basic service rates. Most commercial and industrial customers have switched to a competitive energy supplier.

The Cape Light Compact, an inter-governmental organization consisting of the 21 towns and two counties on Cape Cod and Martha's Vineyard, serves 200,000 customers through the delivery of energy efficiency programs, consumer advocacy, competitive electricity supply and green power options. NSTAR Electric continues to provide electric service to these customers including the delivery of power, maintenance of infrastructure, capital investment, meter reading, billing, and customer service.

The rates established by the DPU for NSTAR Electric are comprised of the following:

- A basic service charge that represents the collection of energy costs incurred as a result of providing electric generation service supply to all customers that have not migrated to competitive energy suppliers, including costs related to charge-offs of uncollectible energy costs from customers. Basic service rates are reset every six months (every three months for large commercial and industrial customers). Additionally, the DPU has authorized NSTAR Electric to recover the cost of its NSTAR Green wind contracts through the basic service charge. Basic service costs are reconciled annually, with any differences refunded to, or recovered from, customers.
- A distribution charge, which includes a fixed customer charge and a demand and/or energy charge to collect the costs of building and expanding the distribution infrastructure to deliver electricity to its destination, as well as ongoing operating costs.
- A revenue decoupling adjustment that reconciles annual base distribution rate recovery amounts recovered from customers to the pre-established level of baseline distribution delivery service revenue requirement approved by the DPU of \$956 million on an annualized basis for 2018 and \$988 million for 2019. Annual base distribution amounts are adjusted for inflation and filed for approval by the DPU on an annual basis, until the next rate case.
- A transmission charge that recovers the cost of transporting electricity over high-voltage lines from generating plants to substations, including costs allocated by ISO-NE to maintain the wholesale electric market. The transmission charge is reconciled annually to actual costs incurred and reviewed by the DPU, with any difference refunded to, or recovered from, customers.
- A transition charge that represents costs to be collected primarily from previously held investments in generating plants, costs related to existing above-market power contracts, and contract costs related to long-term power contract buy-outs. The transition charge is reconciled annually to actual costs incurred and reviewed by the DPU, with any difference refunded to, or recovered from, customers.
- A renewable energy charge that represents a legislatively-mandated charge to support the Massachusetts Renewable Energy Trust Fund.

- An energy efficiency charge that represents a legislatively-mandated charge to collect costs for energy efficiency programs. The energy efficiency charge is reconciled annually to actual costs incurred and reviewed by the DPU, with any difference refunded to, or recovered from, customers.
- Reconciling adjustment charges that recover certain DPU-approved costs, including pension and PBOP benefits, low income customer discounts, credits issued to net-metering facilities installed by customers, payments to solar facilities qualified under the state solar renewable energy target program, attorney general consultant expenses, long-term renewable contracts, company-owned solar facilities, vegetation management costs, credits related to the Tax Cuts and Jobs Act of 2017, grid modernization costs, and storm restoration. These charges are reconciled annually to actual costs incurred and reviewed by the DPU, with any difference refunded to, or recovered from, customers.

NSTAR Electric has signed long-term commitments for the purchase of energy from renewable energy facilities.

Distribution Rate Case: NSTAR Electric's distribution rates were established in a 2017 DPU-approved rate case with rates effective February 1, 2018.

Service Quality Metrics: NSTAR Electric is subject to service quality (SQ) metrics that measure safety, reliability and customer service, and could be required to pay to customers a SQ charge of up to 2.5 percent of annual transmission and distribution revenues for failing to meet such metrics. NSTAR Electric will not be required to pay a SQ charge for its 2019 performance as the company achieved results at or above target for all of its SQ metrics in 2019.

### **Sources and Availability of Electric Power Supply**

As noted above, NSTAR Electric does not own any generation assets (other than 70 MW of solar power facilities that produce energy that is sold into the ISO-NE market) and purchases its energy requirements from a variety of competitive sources through requests for proposals issued periodically, consistent with DPU regulations. NSTAR Electric enters into supply contracts for basic service for approximately 45 percent of its residential and small commercial and industrial (C&I) customers twice per year for twelve-month terms. NSTAR Electric enters into supply contracts for basic service for 18 percent of large C&I customers every three months.

During 2019, NSTAR Electric supplied approximately 44 percent of its residential customer load, 31 percent of its small C&I customer load, and 8 percent of its large C&I customer load at basic service rates. The remainder of its customer load was distributed between municipal aggregation and competitive supply. Because customer migration is limited to energy supply service, it has no impact on the delivery business or operating income of NSTAR Electric.

### **ELECTRIC DISTRIBUTION – NEW HAMPSHIRE – PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE**

PSNH's distribution business consists primarily of the purchase, delivery and sale of electricity to its residential, commercial and industrial customers. As of December 31, 2019, PSNH furnished retail franchise electric service to approximately 523,000 retail customers in 211 cities and towns in New Hampshire, covering an area of approximately 5,630 square miles.

On January 10, 2018, PSNH completed the sale of its thermal generation assets pursuant to a 2017 purchase and sale agreement. The thermal generation facilities included approximately 1,100 MW of coal, natural gas, biomass and oil-fired electricity generation facilities. On August 26, 2018, PSNH completed the sale of its hydroelectric generation assets pursuant to a separate 2017 purchase and sale agreement. For further information, see "Generation Divestiture" below. As of December 31, 2019, PSNH does not own any electric generation facilities.

### **Rates**

PSNH is subject to regulation by the NHPUC, which, among other things, has jurisdiction over rates, certain dispositions of property and plant, mergers and consolidations, issuances of securities, standards of service and construction and operation of facilities.

Under New Hampshire law, all of PSNH's customers are entitled to choose competitive energy suppliers. During 2019, approximately 23 percent of all of PSNH's customers (approximately 56 percent of load) were taking service from competitive energy suppliers.

The rates established by the NHPUC for PSNH are comprised of the following:

- A default energy service charge recovers energy-related costs incurred as a result of providing electric generation service supply to all customers that have not migrated to competitive energy suppliers. Through March 31, 2018, the default energy service charge recovered the costs of PSNH's generation, as well as purchased power, and included an allowed ROE of 9.81 percent. Effective April 1, 2018, as a result of the completion of the divestiture of its non-hydro generation assets, PSNH purchased power for retail customers who had not chosen a competitive supplier through a periodic market solicitation with the rate set to recover the cost of that power, statutorily mandated renewable portfolio standard costs and the continued cost associated with the ownership of the Hydro generation units until the completion of the divestiture of the hydro units in August 2018. Effective September 1, 2018, any remaining costs from ownership of generation are recovered as part of the SCRC described below.
- A distribution charge, which includes kilowatt-hour and/or demand-based charges to recover costs related to the maintenance and operation of PSNH's infrastructure to deliver power to its destination, as well as power restoration and service costs. It also includes a customer charge to collect the cost of providing service to a customer; such as the installation, maintenance, reading and replacement of meters and maintaining accounts and records.

- A transmission charge that recovers the cost of transporting electricity over high-voltage lines from generating plants to substations, including costs allocated by ISO-NE to maintain the wholesale electric market.
- An SCRC, which allows PSNH to recover its stranded costs, including above-market expenses incurred under mandated power purchase obligations, other long-term investments and obligations, and the remaining costs associated with the 2018 sales of its generation facilities.
- An SBC, which funds energy efficiency programs for all customers, as well as assistance programs for residential customers within certain income guidelines.

PSNH has signed long-term commitments for the purchase of energy from renewable energy facilities.

The default energy service charge and SCRC rates change semi-annually and the transmission and SBC rates change annually. These rates are reconciled annually in accordance with the policies and procedures of the NHPUC, with any differences refunded to, or recovered from, customers.

Distribution Rate Case: PSNH distribution rates were last established in a settlement approved by the NHPUC in 2010. Prior to the expiration of that settlement on June 30, 2015, the NHPUC approved the continuation of those rates, and increased funding via rates, of PSNH's reliability enhancement program.

On April 26, 2019, PSNH filed an application with the NHPUC for approval of a temporary annual base distribution rate increase of approximately \$33 million, effective July 1, 2019. On June 27, 2019, the NHPUC approved a settlement agreement that was reached by PSNH, the NHPUC Staff, the Office of the Consumer Advocate, and another settling party, to implement a temporary annual base distribution rate increase of \$28.3 million. Although new rates were implemented on August 1, 2019 to customers, the provisions of the temporary base distribution rate increase were effective July 1, 2019. The settlement agreement also permits PSNH to recover approximately \$68.5 million in unrecovered storm costs over a five-year period beginning August 1, 2019, with debt carrying charges, which is included in the temporary rate increase.

On May 28, 2019, PSNH filed an application with the NHPUC for a permanent increase in base distribution rates of approximately \$70 million, effective July 1, 2020, which includes the temporary rate increase request. The temporary rates are subject to reconciliation based on the outcome of the permanent rate case now before the NHPUC. The NHPUC is permitted up to twelve months to adjudicate the permanent rate application from the date of filing. A decision by the NHPUC is expected in the second quarter of 2020.

### **Generation Divestiture**

In June 2015, Eversource and PSNH entered into the 2015 Public Service Company of New Hampshire Restructuring and Rate Stabilization Agreement, pursuant to which PSNH agreed to divest its generation assets, subject to NHPUC approval. The NHPUC approved this agreement as well as the final divestiture plan and auction process in 2016. On October 11, 2017, PSNH entered into two Purchase and Sale Agreements with private investors, one to sell its thermal generation assets at a purchase price of \$175 million, subject to adjustment, (the "Thermal Agreement") and a second to sell its hydroelectric generation assets at a purchase price of \$83 million, subject to adjustment (the "Hydro Agreement"). The NHPUC approved these agreements in late November 2017.

On January 10, 2018, PSNH completed the sale of its thermal generation assets pursuant to the Thermal Agreement. In accordance with the Thermal Agreement, the original purchase price of \$175 million was adjusted to reflect working capital adjustments, closing date adjustments and proration of taxes and fees prior to closing, totaling \$40.9 million. In the second quarter of 2018, the purchase price was further adjusted by \$17.3 million relating to the valuation of certain allowances. As a result of these adjustments, net proceeds from the sale of the thermal assets totaled \$116.8 million.

On July 16, 2018, FERC issued its order approving the transfer of PSNH's six hydroelectric licenses to private investors. On August 26, 2018, PSNH completed the sale of its hydroelectric generation assets pursuant to the Hydro Agreement. In accordance with the Hydro Agreement, the original purchase price of \$83 million was adjusted to reflect contractual adjustments totaling \$5.8 million, resulting in net proceeds of \$77.2 million. The difference between the carrying value of the hydroelectric generation assets and the sale proceeds resulted in a gain of \$17.3 million. An estimated gain from the sale of these assets was included as an offset to the total remaining costs associated with the sale of generation assets that were securitized on May 8, 2018.

On May 8, 2018, PSNH Funding issued \$635.7 million of securitized RRBs pursuant to a finance order issued by the NHPUC on January 30, 2018 to recover remaining costs resulting from the divestiture of PSNH's generation assets, which included the deferred costs resulting from the sale of the thermal generation assets. These RRBs are secured by a non-bypassable charge recoverable from PSNH customers. PSNH recorded regulatory assets and other deferred costs in connection with the generation asset divestiture and the securitization of remaining costs, which are probable of recovery through collection of the non-bypassable charge.

On November 27, 2019, PSNH filed a motion for the commencement of audit of divestiture-related costs. PSNH's actual balance of costs eligible for recovery as divestiture-related costs is \$654.0 million, which is above the \$635.7 million amount securitized in May 2018. PSNH proposed to recover this balance through the SCRC tracker mechanism and believes the amount deferred is probable of recovery.

## Sources and Availability of Electric Power Supply

PSNH does not own any generation assets and purchases energy supply from a variety of competitive suppliers for its energy service customers through requests for proposals issued twice per year, for six-month terms, for approximately 78 percent of its residential and small C&I customers and for 14 percent of its large C&I customers.

During 2019, PSNH supplied approximately 43 percent of its customer load at default energy service rates while the other 57 percent of its customer load had migrated to competitive energy suppliers. Because this customer migration is only for energy supply service, it has no impact on PSNH's electric distribution business or its operating income.

## ELECTRIC TRANSMISSION SEGMENT

Each of CL&P, NSTAR Electric and PSNH owns and maintains transmission facilities that are part of an interstate power transmission grid over which electricity is transmitted throughout New England. Each of CL&P, NSTAR Electric and PSNH, and most other New England utilities, are parties to a series of agreements that provide for coordinated planning and operation of the region's transmission facilities and the rules by which they acquire transmission services. Under these arrangements, ISO-NE, a non-profit corporation whose board of directors and staff are independent of all market participants, serves as the regional transmission organization of the New England transmission system.

### Wholesale Transmission Rates

Wholesale transmission revenues are recovered through FERC-approved formula rates. Annual transmission revenue requirements include recovery of transmission costs and include a return on equity applied to transmission rate base. Transmission revenues are collected from New England customers, including distribution customers of CL&P, NSTAR Electric and PSNH. The transmission rates provide for an annual true-up of estimated to actual costs. The financial impacts of differences between actual and estimated costs are deferred for future recovery from, or refund to, transmission customers.

### FERC ROE Complaints

Four separate complaints were filed at the FERC by combinations of New England state attorneys general, state regulatory commissions, consumer advocates, consumer groups, municipal parties and other parties (collectively the "Complainants"). In each of the first three complaints, filed on October 1, 2011, December 27, 2012, and July 31, 2014, respectively, the Complainants challenged the NETOs' base ROE of 11.14 percent that had been utilized since 2005 and sought an order to reduce it prospectively from the date of the final FERC order and for the separate 15-month complaint periods. In the fourth complaint, filed April 29, 2016, the Complainants challenged the NETOs' base ROE billed of 10.57 percent and the maximum ROE for transmission incentive (incentive cap) of 11.74 percent, asserting that these ROEs were unjust and unreasonable.

In response to appeals of the FERC decision in the first complaint filed by the NETOs and the Complainants, the U.S. Court of Appeals for the D.C. Circuit (the Court) issued a decision on April 14, 2017 vacating and remanding the FERC's decision. On October 16, 2018, FERC issued an order on all four complaints describing how it intends to address the issues that were remanded by the Court. FERC proposed a new framework to determine (1) whether an existing ROE is unjust and unreasonable and, if so, (2) how to calculate a replacement ROE.

On November 21, 2019, FERC issued an order concerning the transmission ROEs for the Midcontinent ISO transmission owners (MISO). In that order, FERC adopted another new methodology for determining base ROEs for MISO, which differed significantly from the methodology and framework set forth in its October 16, 2018 FERC order on the NETOs' ROE dockets. On December 23, 2019, the NETOs filed a Supplemental Paper Hearing Brief and a Motion to supplement the record in the NETO ROE dockets to respond to the new methodology proposed in the MISO order, as there is uncertainty to whether it may be applied to the NETOs' cases. On January 21, 2020, the FERC issued an order granting rehearing for further consideration to give the FERC more time to act on the substantive issues of the MISO ROE proceedings. Further changes to the methodology by FERC are possible as a result of the arguments in both the MISO and NETO proceedings. Given the significant uncertainty relating to the October 2018 FERC order, the November 2019 FERC order to MISO, and the FERC's rehearing of the MISO order, the Company is unable to predict the potential effect of the MISO order on the NETO complaints or the outcome of the four complaints and concluded that there is no reasonable basis for a change to the reserve or recognized ROEs for any of the complaint periods at this time. Further, the Company cannot reasonably estimate a range of gain or loss for any of the four complaint proceedings.

For further information, see "FERC Regulatory Matters - FERC ROE Complaints" in the accompanying Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

### Transmission Projects

During 2019, we were involved in the planning, development and construction of a series of electric transmission projects that will be built within the next two years and that will enhance system reliability and improve capacity. For more information on transmission projects, see "Business Development and Capital Expenditures – Electric Transmission Business" in the accompanying Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

Northern Pass was Eversource's planned 1,090 MW HVDC transmission line that would have interconnected from the Québec-New Hampshire border to Franklin, New Hampshire and an associated alternating current radial transmission line between Franklin and Deerfield, New Hampshire. As a result of a final decision received on July 19, 2019 from the New Hampshire Supreme Court, whereby the court denied Northern Pass' appeal and affirmed the NHSEC's denial of Northern Pass' siting application on NPT, Eversource concluded that construction of NPT was no longer probable and that there was no constructive path forward for the project. Eversource terminated the project and permanently abandoned any further development. As a result, substantially all of the capitalized project costs, which totaled \$318 million, certain of which are subject to cost

reimbursement agreements, were impaired. For further information, see "Critical Accounting Policies - Impairment of Northern Pass Transmission" in the accompanying Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

### **Transmission Rate Base**

Transmission rate base under our FERC-approved tariff primarily consists of our investment in transmission net utility plant less accumulated deferred income taxes.

Under our FERC-approved tariff, and with the exception of transmission projects that received specific FERC approval to include CWIP in rate base, transmission projects generally enter rate base after they are placed in commercial operation. At the end of 2019, our estimated transmission rate base was approximately \$7.3 billion, including approximately \$3.3 billion at CL&P, \$2.9 billion at NSTAR Electric, and \$1.1 billion at PSNH.

### **NATURAL GAS DISTRIBUTION SEGMENT**

NSTAR Gas distributes natural gas to approximately 300,000 customers in 51 communities in central and eastern Massachusetts covering 1,067 square miles, and Yankee Gas distributes natural gas to approximately 241,000 customers in 72 cities and towns in Connecticut covering 2,187 square miles. Total throughput (sales and transportation) in 2019 was approximately 73.5 Bcf for NSTAR Gas and 58.4 Bcf for Yankee Gas. Our natural gas businesses provide firm natural gas sales and transportation service to eligible retail customers who require a continuous natural gas supply throughout the year, such as residential customers who rely on natural gas for heating, hot water and cooking needs, as well as commercial and industrial customers that rely on natural gas for space heating, hot water, cooking and commercial and industrial applications.

A portion of the storage of natural gas supply for NSTAR Gas during the winter heating season is provided by Hopkinton LNG Corp., an indirect, wholly-owned subsidiary of Eversource Energy. NSTAR Gas has access to Hopkinton LNG Corp. facilities in Hopkinton, Massachusetts consisting of a LNG liquefaction and vaporization plant and three above-ground cryogenic storage tanks having an aggregate capacity of 3.0 Bcf of liquefied natural gas. NSTAR Gas also has access to Hopkinton LNG Corp. facilities in Acushnet, Massachusetts that include additional storage capacity of 0.5 Bcf. Total vaporization capacity of these facilities is 0.21 Bcf per day. Yankee Gas owns a 1.2 Bcf LNG facility in Waterbury, Connecticut, which also has the ability to liquefy and vaporize up to 0.1 Bcf per day. This facility is used primarily to assist Yankee Gas in meeting its supplier-of-last-resort obligations and also enables it to provide economic supply and make economic refill of natural gas, typically during periods of low demand.

NSTAR Gas and Yankee Gas generate revenues primarily through the sale and/or transportation of natural gas. While all NSTAR Gas customers have the ability to choose to transport natural gas, in the past year, transportation represented only approximately three percent of the total residential load, while transportation represented approximately 58 percent of the total commercial and industrial load. Retail natural gas service in Connecticut is partially unbundled: residential customers in Yankee Gas' service territory buy natural gas supply and delivery only from Yankee Gas while commercial and industrial customers may choose their natural gas suppliers. Firm transportation service is offered to customers who purchase natural gas from sources other than NSTAR Gas or Yankee Gas. NSTAR Gas has the ability to offer interruptible transportation and interruptible natural gas sales service to high volume commercial and industrial customers. Yankee Gas offers interruptible transportation and interruptible natural gas sales service to commercial and industrial customers that have the ability to switch from natural gas to an alternate fuel on short notice. NSTAR Gas and Yankee Gas can interrupt service to these customers during peak demand periods or at any other time to maintain distribution system integrity.

### **Rates**

NSTAR Gas and Yankee Gas are subject to regulation by the DPU and the PURA, respectively, which, among other things, have jurisdiction over rates, certain dispositions of property and plant, mergers and consolidations, issuances of long-term securities, standards of service and construction and operation of facilities.

Retail natural gas delivery and supply rates are established by the DPU and the PURA and are comprised of:

- A distribution charge consisting of a fixed customer charge and a demand and/or energy charge that collects the costs of building, maintaining, and expanding the natural gas infrastructure to deliver natural gas supply to its customers. This also includes collection of ongoing operating costs.
- A seasonal cost of gas adjustment clause (CGAC) at NSTAR Gas that collects natural gas supply costs, pipeline and storage capacity costs, costs related to charge-offs of uncollected energy costs and working capital related costs. The CGAC is reset semi-annually with any difference being recovered from, or refunded to, customers during the following corresponding season. In addition, NSTAR Gas files interim changes to its CGAC factor when the actual costs of natural gas supply vary from projections by more than five percent.
- A local distribution adjustment clause (LDAC) at NSTAR Gas that collects all energy efficiency and related program costs, environmental costs, pension and PBOP related costs, attorney general consultant costs, credits related to the Tax Cuts and Jobs Act of 2017, gas system enhancement program (GSEP) costs and costs associated with low income customers. The LDAC is reset annually with any difference being recovered from, or refunded to, customers during the following period and provides for the recovery of certain costs applicable to both sales and transportation customers.
- A Revenue Decoupling Mechanism (RDM) at NSTAR Gas that reconciles annual base distribution rate recovery amounts recovered from customers to the pre-established level of baseline distribution delivery service revenue requirement approved by the DPU in

2015. The pre-established level of baseline distribution delivery service revenue requirement is also subject to adjustment in accordance with provisions of the November 2015 NSTAR Gas distribution rate case.

- A Purchased Gas Adjustment (PGA) clause, which is evaluated monthly and allows Yankee Gas to recover the costs of the procurement of natural gas for its firm and seasonal customers. Differences between actual natural gas costs and collection amounts on August 31st of each year are deferred and then recovered from, or refunded to, customers during the following year. Carrying charges on outstanding balances are calculated using Yankee Gas' weighted average cost of capital in accordance with the directives of the PURA.
- A Conservation Adjustment Mechanism (CAM) at Yankee Gas, which allows 100 percent recovery of conservation costs through this mechanism including program incentives to promote energy efficiency, as well as recovery of any lost revenues associated with implementation of energy conservation measures. A reconciliation of CAM revenues to expenses is performed annually with any difference being recovered from, or refunded to, customers with carrying charges during the following year.
- A Gas System Improvement (GSI) reconciliation mechanism at Yankee Gas, which collects the costs of certain Distribution Integrity Management Program (DIMP) and core capital plant in service above and beyond the level that is recovered through the distribution charge. The GSI is adjusted and reconciled annually, with any differences refunded to, or recovered from, customers.
- A RDM at Yankee Gas that reconciles annual base distribution rate recovery amounts recovered from customers to the pre-established level of baseline distribution delivery service revenue requirement approved by the PURA effective January 1, 2019, January 1, 2020 and January 1, 2021. The pre-established level of baseline distribution delivery service revenue requirement is also subject to adjustment at each of these dates in accordance with provisions of the 2018 rate case settlement agreement.
- A System Expansion Rate (SER) Reconciliation Mechanism at Yankee Gas, which compares distribution system expansion investment costs and revenues for new customers, with the level projected in current distribution customer rates. This reconciliation is performed annually and customer rates are adjusted accordingly.

NSTAR Gas purchases financial contracts based on the New York Mercantile Exchange (NYMEX) natural gas futures in order to reduce cash flow variability associated with the price for approximately one-third of its normal winter season natural gas supplies. These purchases are made under a program approved by the DPU in 2006. This practice attempts to minimize the impact of fluctuations in natural gas prices to NSTAR Gas' firm natural gas customers. These financial contracts do not procure natural gas supply. All costs incurred or benefits realized when these contracts are settled are included in the CGAC.

NSTAR Gas is subject to SQ metrics that measure safety, reliability and customer service and could be required to pay to customers a SQ charge of up to 2.5 percent of annual distribution revenues for failing to meet such metrics. NSTAR Gas will not be required to pay a SQ charge for its 2019 performance as it achieved results at or above target for all of its SQ metrics in 2019.

Distribution Rate Case: On November 8, 2019, NSTAR Gas filed its application with the DPU, which sought a distribution rate increase of \$38.0 million effective October 1, 2020. As part of this filing, NSTAR Gas also proposed to continue its ongoing Gas System Enhancement Program (GSEP), include the GSEP investments since 2015 into base rates, and implement a performance-based ratemaking plan. A final decision from the DPU is expected by September 30, 2020.

Yankee Gas distribution rates were set in a December 2018 PURA approved rate case settlement agreement, with rates effective November 15, 2018. The 2018 Yankee Gas settlement agreement required Yankee Gas to implement a Distribution Integrity Management Program (DIMP) cost recovery mechanism to further invest capital to replace aging infrastructure. The DIMP mechanism allows for recovery of costs associated with capital additions of approximately \$26 million to \$37 million annually, which is incremental to the \$150 million included in base distribution rate base per year. The settlement agreement also provides Yankee Gas the opportunity to seek recovery of additional capital spending above these levels with PURA approval. PURA ordered an accelerated replacement program for Yankee Gas to fully replace its cast iron and bare steel facilities in 11 years and fully replace copper services and certain steel mains and services in 14 years. Yankee Gas was also authorized to continue its ongoing natural gas system expansion program, implement a revenue decoupling rate mechanism, and recover merger costs. The settlement agreement included a regulatory ROE of 9.3 percent. In addition, the distribution rates charged to customers were adjusted to reflect the prospective impacts of the lower federal corporate income tax rate, the overcollection of the lower income tax rate from January 1, 2018, and the EDIT from the Tax Cuts and Jobs Act. Although new rates were effective January 1, 2019, the provisions of the settlement agreement took effect November 15, 2018.

### **Natural Gas Replacement and Expansion**

Massachusetts: Pursuant to Massachusetts legislation, in October of each year, NSTAR Gas files the GSEP with the DPU for the following construction year. NSTAR Gas' program accelerates the replacement of certain natural gas distribution facilities in the system to less than 25 years. The GSEP includes a tariff that provides NSTAR Gas an opportunity to collect the costs for the program on an annual basis through a reconciling factor. On April 30th each year, the DPU approves the GSEP rate recovery factor that goes into effect on May 1st.

NSTAR Gas' distribution rate case application filed on November 8, 2019 included a proposal to include GSEP additions through 2018 into base distribution rates and to continue the operation of the GSEP mechanism for GSEP investments made after 2018. In addition, the filing included a proposal for a customer connection surcharge, which would be used to reduce up-front contribution in aid of construction (CIAC) costs for customers seeking to connect to the company's distribution system. A final decision from the DPU is expected by September 30, 2020.

Connecticut: Yankee Gas' December 2018 PURA approved rate case settlement agreement included an accelerated pipeline replacement cost recovery program. The Gas System Improvement ("GSI") rate recovers accelerated pipeline replacement as well as other capital investment through an annual reconciliation. The Company filed its first GSI reconciliation on March 1, 2019 for rates effective April 1, 2019 and will continue to file annually on March 1 for rates effective April 1.

In 2013, in accordance with Connecticut law and regulations, the PURA approved a comprehensive joint natural gas infrastructure expansion plan (the "Expansion Plan") filed by Yankee Gas and other Connecticut natural gas distribution companies. In January 2015, the PURA approved a joint settlement agreement proposed by Yankee Gas and other Connecticut natural gas distribution companies and regulatory agencies that clarified the procedures and oversight criteria applicable to the Expansion Plan. Yankee Gas received approval from PURA for its 2014, 2015 and 2016 System Expansion Reconciliations. Yankee Gas filed its 2017 and 2018 System Expansion Reconciliations in March 2018 and March 2019, respectively. Yankee Gas is now awaiting an order and does not anticipate any material changes to its 2017 and 2018 Reconciliations.

### **Sources and Availability of Natural Gas Supply**

NSTAR Gas maintains a flexible resource portfolio consisting of natural gas supply contracts, transportation contracts on interstate pipelines, market area storage and peaking services. NSTAR Gas purchases transportation, storage, and balancing services from Tennessee Gas Pipeline Company and Algonquin Gas Transmission Company, as well as other upstream pipelines that transport natural gas from major natural gas producing regions in the U.S., including the Gulf Coast, Mid-continent region, and Appalachian Shale supplies to the final delivery points in the NSTAR Gas service area. NSTAR Gas purchases all of its natural gas supply under a firm, competitively bid annual portfolio management contract. In addition to the firm transportation and natural gas storage supplies discussed above, NSTAR Gas utilizes on-system LNG facilities to meet its winter peaking demands. These LNG facilities are located within NSTAR Gas' distribution system and are used to liquefy and store pipeline natural gas during the warmer months for vaporization and use during the heating season. During the summer injection season, excess pipeline capacity and supplies are used to deliver and store natural gas in market area underground storage facilities located in Maryland and Pennsylvania. Stored natural gas is withdrawn during the winter season to supplement flowing pipeline supplies in order to meet firm heating demand. NSTAR Gas has firm underground storage contracts and total storage capacity entitlements of approximately 6.6 Bcf, of which 3.5 Bcf LNG storage is provided by Hopkinton LNG Corp. in facilities located in Hopkinton and Acushnet, Massachusetts.

The PURA requires Yankee Gas to meet the needs of its firm customers under all weather conditions. Specifically, Yankee Gas must structure its supply portfolio to meet firm customer needs under a design day scenario (defined as the coldest day in 30 years) and under a design year scenario (defined as the average of the four coldest years in the last 30 years). Yankee Gas also maintains a flexible resource portfolio consisting of natural gas supply contracts, transportation contracts on interstate pipelines, off-system storage and its on-system 1.2 Bcf LNG storage facility to meet consumption needs during the coldest days of winter. Yankee Gas obtains its interstate capacity from the three interstate pipelines that directly serve Connecticut: the Algonquin, Tennessee and Iroquois Pipelines, which connect to other upstream pipelines that transport natural gas from major natural gas producing regions, including the Gulf Coast, Mid-continent, Canadian regions and Appalachian Shale supplies.

Based on information currently available regarding projected growth in demand and estimates of availability of future supplies of pipeline natural gas, each of NSTAR Gas and Yankee Gas believes that in order to meet the long-term firm customer requirements in a reliable manner will necessitate a combination of pipeline, storage, and non-pipeline solutions.

### **WATER DISTRIBUTION SEGMENT**

Eversource Water Ventures, Inc., a Connecticut corporation, through its wholly-owned subsidiary, Eversource Aquarion Holdings, Inc. (Aquarion), operates three separate regulated water utilities in Connecticut (Aquarion Water Company of Connecticut, or "AWC-CT"), Massachusetts (Aquarion Water Company of Massachusetts, or "AWC-MA") and New Hampshire (Aquarion Water Company of New Hampshire, or "AWC-NH"). These regulated companies provide water services to approximately 229,000 residential, commercial, industrial, municipal and fire protection and other customers, in 60 towns and cities in Connecticut, Massachusetts and New Hampshire. As of December 31, 2019, approximately 87 percent of Aquarion's customers were based in Connecticut.

#### **Rates**

Aquarion's water utilities are subject to regulation by the PURA, the DPU and the NHPUC in Connecticut, Massachusetts and New Hampshire, respectively. These regulatory agencies have jurisdiction over, among other things, rates, certain dispositions of property and plant, mergers and consolidations, issuances of long-term securities, standards of service and construction and operation of facilities.

Aquarion's general rate structure consists of various rate and service classifications covering residential, commercial, industrial, and municipal and fire protection services.

The rates established by the PURA, DPU and NHPUC are comprised of the following:

- A base rate, which is comprised of fixed charges based on meter/fire connection sizes, as well as volumetric charges based on the amount of water sold. Together these charges are designed to recover the full cost of service resulting from a general rate proceeding.
- In Connecticut, a revenue adjustment mechanism ("RAM") that reconciles earned revenues, with certain allowed adjustments, on an annual basis, to the revenue requirement approved by the PURA in AWC-CT's last rate case (2013), which is an annual amount of \$178.0 million.
- In Connecticut and New Hampshire, a water infrastructure conservation adjustment ("WICA") charge, and in Massachusetts an annual main replacement adjustment mechanism ("MRAM") charge, which is applied between rate case proceedings and seeks recovery of

allowed costs associated with eligible infrastructure improvement projects placed in-service. The WICA is updated semi-annually in Connecticut and annually in New Hampshire, with any differences refunded to, or recovered from, customers.

- In Massachusetts, treatment plant surcharges, which are a series of three surcharges (one fixed and two volumetric in nature) that are designed to recover certain operating costs and the costs of the lease of the treatment plant located in Hingham. These surcharges are applicable only to customers in Hingham, Hull and Cohasset.

### **Sources and Availability of Water Supply**

Our water utilities obtain their water supplies from owned surface water sources (reservoirs) and groundwater supplies (wells) with a total supply yield of approximately 131 million gallons per day, as well as water purchased from other water suppliers. Approximately 99 percent of our annual production is self-supplied and processed at 10 surface water treatment plants and numerous well stations, which are all located in Connecticut, Massachusetts, and New Hampshire.

The capacities of Aquarion's sources of supply, and water treatment, pumping and distribution facilities, are considered sufficient to meet the present requirements of Aquarion's customers under normal conditions. On occasion, drought declarations are issued for portions of Aquarion's service territories in response to extended periods of dry weather conditions.

### **OFFSHORE WIND PROJECTS**

Eversource's offshore wind business includes ownership interests in North East Offshore and Bay State Wind, which together hold power purchase agreements (PPAs) and contracts for the Revolution Wind, South Fork Wind and Sunrise Wind projects, as well as offshore leases through the U.S. Bureau of Ocean Energy Management (BOEM). Our offshore wind projects are being developed and constructed through a joint and equal partnership with Ørsted. This partnership also participates in opportunities for solicitations for offshore wind energy in the Northeast U.S.

On February 8, 2019, Eversource and Ørsted entered into an equal partnership to acquire key offshore wind assets in the Northeast. Eversource has a 50 percent ownership interest in North East Offshore, which holds the Revolution Wind and South Fork Wind projects, as well as a 257 square-mile lease off the coasts of Massachusetts and Rhode Island. Eversource also has a 50 percent ownership interest in Bay State Wind, which holds the Sunrise Wind project. Bay State Wind's separate 300-square-mile ocean lease is located approximately 25 miles south of the coast of Massachusetts adjacent to the North East Offshore area. In aggregate, the Bay State Wind and the North East Offshore lease sites jointly-owned by Eversource and Ørsted could eventually develop at least 4,000 MW of clean, renewable offshore wind energy.

Revolution Wind is a 704 MW offshore wind power project located approximately 15 miles south of the Rhode Island coast, and South Fork Wind is a 130 MW offshore wind power project located approximately 35 miles east of Long Island. Sunrise Wind is an 880 MW offshore wind facility, which will be developed 35 miles east of Montauk Point, Long Island. The completion dates for these projects are subject to federal permitting through BOEM, engineering, state siting and permitting in New York and Rhode Island, and finalizing a PPA amendment in New York. For more information on these projects, see "Business Development and Capital Expenditures – Offshore Wind Business" in the accompanying Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

### **NATURAL GAS TRANSMISSION PROJECT**

Access Northeast was a natural gas pipeline and storage project jointly owned by Eversource, Enbridge, Inc. (Enbridge) and National Grid plc (National Grid), through Algonquin Gas Transmission, LLC (AGT). In 2018, management determined that the future cash flows of the Access Northeast project were uncertain and could no longer be reasonably estimated and that the book value of our equity method investment was not recoverable. As a result, Eversource recorded an other-than-temporary impairment of \$32.9 million pre-tax within Other Income, Net on our statement of income in 2018, which represented the full carrying value of our equity method investment. On April 1, 2019, in accordance with a provision of the AGT LLC operating agreement, the Access Northeast project was terminated. For further information, see "Critical Accounting Policies - Access Northeast" in the accompanying Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

### **PROJECTED CAPITAL EXPENDITURES**

We project to make capital expenditures of \$14.19 billion from 2020 through 2024, of which we expect \$8.63 billion to be in our electric and natural gas distribution segments, \$3.98 billion to be in our electric transmission segment and \$0.69 billion to be in our water distribution segment. We also project to invest \$0.90 billion in information technology and facilities upgrades and enhancements. These projections do not include any expected investments related to our offshore wind partnership.

### **FINANCING**

Our credit facilities and indentures require that Eversource parent and certain of its subsidiaries, including CL&P, NSTAR Electric, PSNH, NSTAR Gas, Yankee Gas, and Aquarion, comply with certain financial and non-financial covenants as are customarily included in such agreements, including maintaining a ratio of consolidated debt to total capitalization of no more than 65 percent. All of these companies currently are, and expect to remain, in compliance with these covenants.

As of December 31, 2019, \$296.1 million of Eversource's long-term debt, including \$95.0 million, \$50.0 million, \$150.0 million, and \$1.1 million for NSTAR Electric, Yankee Gas, NSTAR Gas and Aquarion, respectively, will mature within the next 12 months.

## **NUCLEAR FUEL STORAGE**

CL&P, NSTAR Electric, PSNH, and several other New England electric utilities are stockholders in three inactive regional nuclear generation companies, CYAPC, MYAPC and YAEC (collectively, the Yankee Companies). The Yankee Companies have completed the physical decommissioning of their respective nuclear power facilities and are now engaged in the long-term storage of their spent nuclear fuel. The Yankee Companies fund these costs through litigation proceeds received from the DOE and, to the extent necessary, through wholesale, FERC-approved rates charged under power purchase agreements with several New England utilities, including CL&P, NSTAR Electric and PSNH. CL&P, NSTAR Electric and PSNH, in turn recover these costs from their customers through state regulatory commission-approved retail rates. The Yankee Companies collect amounts that we believe are adequate to recover the remaining plant closure and fuel storage cost estimates for the respective plants. We believe CL&P and NSTAR Electric will recover their shares of these obligations from their customers. PSNH has recovered its total share of these costs from its customers.

We consolidate the assets and obligations of CYAPC and YAEC on our consolidated balance sheet because our ownership and voting interests are more than 50 percent of each of these companies.

## **OTHER REGULATORY AND ENVIRONMENTAL MATTERS**

### **General**

We are regulated in virtually all aspects of our business by various federal and state agencies, including FERC, the SEC, and various state and/or local regulatory authorities with jurisdiction over the industry and the service areas in which each of our companies operates, including the PURA, which has jurisdiction over CL&P, Yankee Gas, and Aquarion, the NHPUC, which has jurisdiction over PSNH and Aquarion, and the DPU, which has jurisdiction over NSTAR Electric, NSTAR Gas, and Aquarion.

### **Environmental Regulation**

We are subject to various federal, state and local requirements with respect to water quality, air quality, toxic substances, hazardous waste and other environmental matters. Additionally, major generation and transmission facilities may not be constructed or significantly modified without a review of the environmental impact of the proposed construction or modification by the applicable federal or state agencies.

### **Renewable Portfolio Standards**

Each of the states in which we do business also has Renewable Portfolio Standards (RPS) requirements, which generally require fixed percentages of our energy supply to come from renewable energy sources such as solar, wind, hydropower, landfill gas, fuel cells and other similar sources.

New Hampshire's RPS provision requires increasing percentages of the electricity sold to retail customers to have direct ties to renewable sources. In 2019, the total RPS obligation was 19.7 percent and it will ultimately reach 25.2 percent in 2025. The costs of the RECs are recovered by PSNH through rates charged to customers.

Similarly, Connecticut's RPS statute requires increasing percentages of the electricity sold to retail customers to have direct ties to renewable sources. In 2019, the total RPS obligation was 27.5 percent and will ultimately reach 48 percent in 2030. CL&P is permitted to recover any costs incurred in complying with RPS from its customers through its GSC rate.

Massachusetts' RPS program also requires electricity suppliers to meet renewable energy standards. For 2019, the requirement was 24.94 percent, and will ultimately reach 38.96 percent in 2025. NSTAR Electric is permitted to recover any costs incurred in complying with RPS from its customers through rates. NSTAR Electric also owns renewable solar power facilities. The RECs generated from NSTAR Electric's solar power facilities are sold to other energy suppliers, and the proceeds from these sales are credited back to customers.

### **Hazardous Materials Regulations**

We have recorded a liability for what we believe, based upon currently available information, is our reasonably estimable environmental investigation, remediation, and/or Natural Resource Damages costs for waste disposal sites for which we have probable liability. Under federal and state law, government agencies and private parties can attempt to impose liability on us for recovery of investigation and remediation costs at hazardous waste sites. As of December 31, 2019, the liability recorded for our reasonably estimable and probable environmental remediation costs for known sites needing investigation and/or remediation, exclusive of recoveries from insurance or from third parties, was \$81.0 million, representing 57 sites. These costs could be significantly higher if additional remediation becomes necessary or when additional information as to the extent of contamination becomes available.

The most significant liabilities currently relate to future clean-up costs at former MGP facilities. These facilities were owned and operated by our predecessor companies from the mid-1800's to mid-1900's. By-products from the manufacture of natural gas using coal resulted in fuel oils, hydrocarbons, coal tar, purifier wastes, metals and other waste products that may pose a potential risk to human health and the environment. We currently have partial or full ownership responsibilities at former MGP sites that have a reserve balance of \$67.9 million of the total \$81.0 million as of December 31, 2019. MGP costs are recoverable through rates charged to our customers.

## Electric and Magnetic Fields

For more than twenty years, published reports have discussed the possibility of adverse health effects from electric and magnetic fields (EMF) associated with electric transmission and distribution facilities and appliances and wiring in buildings and homes. Although weak health risk associations reported in some epidemiology studies remain unexplained, most researchers, as well as numerous scientific review panels, considering all significant EMF epidemiology and laboratory studies, have concluded that the available body of scientific information does not support the conclusion that EMF affects human health.

In accordance with recommendations of various regulatory bodies and public health organizations, we reduce EMF associated with new transmission lines by the use of designs that can be implemented without additional cost or at a modest cost. We do not believe that other capital expenditures are appropriate to minimize unsubstantiated risks.

## Global Climate Change and Greenhouse Gas Emission Issues

Global climate change and greenhouse gas emission issues have received an increased focus from state governments and the federal government. The EPA initiated a rulemaking addressing greenhouse gas emissions and, on December 7, 2009, issued a finding that concluded that greenhouse gas emissions are "air pollution" that endangers public health and welfare and should be regulated. The EPA has mandated greenhouse gas emission reporting beginning in 2011 for emissions for certain aspects of our business including volume of gas supplied to large customers and fugitive emissions of SF<sub>6</sub> gas and methane.

We are continually evaluating the regulatory risks and regulatory uncertainty presented by climate change concerns. Such concerns could potentially lead to additional rules and regulations that impact how we operate our general utility business. These could include federal "cap and trade" laws, carbon taxes, and fuel and energy taxes. We expect that any costs of these rules and regulations would be recovered from customers.

## INFORMATION ABOUT OUR EXECUTIVE OFFICERS

For information about Eversource Energy's executive officers, see Item 10, *Directors, Executive Officers and Corporate Governance*, included in this Annual Report on Form 10-K.

## EMPLOYEES

As of December 31, 2019, Eversource Energy employed a total of 8,234 employees, excluding temporary employees, of which 1,343 were employed by CL&P, 1,604 were employed by NSTAR Electric, and 742 were employed by PSNH. Approximately 50 percent of our employees are members of the International Brotherhood of Electrical Workers, the Utility Workers Union of America or The United Steelworkers, and are covered by nine collective bargaining agreements.

## INTERNET INFORMATION

Our website address is [www.eversource.com](http://www.eversource.com). We make available through our website a link to the SEC's EDGAR website (<http://www.sec.gov/edgar/searchedgar/companysearch.html>), at which site Eversource's, CL&P's, NSTAR Electric's and PSNH's combined Annual Reports on Form 10-K, combined Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports may be reviewed. Information contained on the Company's website or that can be accessed through the website is not incorporated into and does not constitute a part of this Annual Report on Form 10-K. Printed copies of these reports may be obtained free of charge by writing to our Investor Relations Department at Eversource Energy, 107 Selden Street, Berlin, CT 06037.

## Item 1A. Risk Factors

In addition to the matters set forth under "Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995" included immediately prior to Item 1, *Business*, above, we are subject to a variety of significant risks. Our susceptibility to certain risks, including those discussed in detail below, could exacerbate other risks. These risk factors should be considered carefully in evaluating our risk profile.

**Cyberattacks, including acts of war or terrorism, targeted directly on or indirectly affecting our systems or the systems of third parties on which we rely, could severely impair operations, negatively impact our business, lead to the disclosure of confidential information and adversely affect our reputation.**

A successful cyberattack on the information technology systems that control our transmission and distribution systems or other assets could impair or prevent us from managing these systems and facilities, operating our systems effectively, or properly managing our data, networks and programs. The breach of certain information technology systems could adversely affect our ability to correctly record, process and report financial information. A major cyber incident could result in significant expenses to investigate and to repair system damage or security breaches and could lead to litigation, fines, other remedial action, heightened regulatory scrutiny and damage to our reputation.

We have instituted safeguards to protect our information technology systems and assets. We devote substantial resources to network and application security, encryption and other measures to protect our computer systems and infrastructure from unauthorized access or misuse and interface with numerous external entities to improve our cybersecurity situational awareness. The FERC, through the North American Electric Reliability Corporation (NERC), requires certain safeguards to be implemented to deter cyberattacks. These safeguards may not always be effective due to the evolving nature of cyberattacks. We maintain cyber insurance to cover damages and defense costs related to breaches of networks or operational technology, but it may be insufficient to cover all losses.

Any such cyberattacks could result in loss of service to customers and a significant decrease in revenues, which could have a material adverse impact on our financial position, results of operations and cash flows.

**Strategic development opportunities associated with offshore wind or investment opportunities in electric transmission or clean-energy opportunities may not be successful, and projects may not commence operation as scheduled or be completed, which could have a material adverse effect on our business prospects.**

We are pursuing broader strategic development investment opportunities that will benefit the Northeast region related to the construction of offshore wind electric generation facilities, and investment opportunities in electric transmission facilities and other clean-energy infrastructure. The development of these activities involves numerous significant risks around schedule, cost, capacity factors, tax strategies and permitting (both on and offshore). Various external factors could result in increased costs or result in delays or cancellation of these projects. Risks include both federal and state regulatory approval processes, new legislation impacting the industry, changes to federal income tax laws, economic events or factors, environmental and community concerns, design and siting issues, difficulties in obtaining required rights of way, competition from incumbent utilities and other entities, and actions of our strategic partners. Should any of these factors result in significant delays or cancellations, our financial position, results of operations, and cash flows could be materially adversely affected, or our future growth opportunities may not be realized as anticipated.

Eversource has a joint and equal partnership with Ørsted for the development and operation of three offshore wind projects. Offshore wind is currently an emerging industry in the U.S., but it has a very robust operational and construction history in Europe. As such, siting, permitting, tax legislation, and supply chain are currently being addressed for the first time in the U.S. The projects currently being developed by our partnership may not achieve the results we anticipate. The partnership's ability to generate revenue from offshore wind projects depends on meeting our construction schedules, controlling cost overruns, maintaining continuing interconnection arrangements, power purchase agreements, or other market mechanisms as well as interconnecting utility and Regional Transmission Organizations rules, policies, procedures and FERC tariffs that permit future offshore wind project operations. After projects are placed in operation, capacity factors will directly affect revenues generated from these investments. Other factors that may have an adverse impact on our anticipated project returns include significant schedule delays resulting from federal, state or local permitting processes. Specifically, the approval from the Bureau of Ocean Energy Management (BOEM) is a critical path item in the projects' timeline. Any changes to tax laws or to Eversource's ability to monetize tax attributes associated with these projects could also have a material adverse effect on cash flows and project returns.

As a result of legislative and regulatory changes, the states in which we provide service have implemented new selection procedures for new major electric transmission, offshore wind and other clean energy facilities. These procedures require the review of competing projects and permit the selection of only those projects that are expected to provide the greatest benefit to customers. If the projects in which we have invested are not selected for construction, or even if our projects are selected, then legislative or regulatory actions could result in our projects not being probable of entering the construction phase, which could have a material adverse effect on our future financial position, results of operations and cash flows.

**Physical attacks, including acts of war or terrorism, both threatened and actual, could adversely affect our ability to operate our systems and could adversely affect our financial results and liquidity.**

Physical attacks, including acts of war or terrorism, both threatened and actual, that damage our transmission and distribution systems or other assets could negatively impact our ability to transmit or distribute energy, water, natural gas, or operate our systems efficiently or at all. Because our electric transmission systems are part of an interconnected regional grid, we face the risk of widespread blackouts due to grid disturbances or disruptions on a neighboring interconnected system. Similarly, our natural gas distribution system is connected to transmission pipelines, not owned by Eversource, if there was an attack on the transmission pipelines, it could impact our ability to deliver natural gas. If our assets were physically damaged and were not recovered in a timely manner, it could result in a loss of service to customers, a significant decrease in revenues, significant expense to repair system damage, costs associated with governmental actions in response to such attacks, and liability claims, all of which could have a material adverse impact on our financial position, results of operations and cash flows. We maintain property and liability insurance, but it may be insufficient to cover all losses.

**The actions of regulators and legislators can significantly affect our earnings, liquidity and business activities.**

The rates that our electric, natural gas and water companies charge their customers are determined by their state regulatory commissions and by the FERC. These commissions also regulate the companies' accounting, operations, the issuance of certain securities and certain other matters. The FERC also regulates the transmission of electric energy, the sale of electric energy at wholesale, accounting, issuance of certain securities and certain other matters, including reliability standards through NERC.

Under state and federal law, our electric, natural gas and water companies are entitled to charge rates that are sufficient to allow them an opportunity to recover their prudently incurred operating and capital costs and a reasonable rate of return on invested capital, to attract needed capital and maintain their financial integrity, while also protecting relevant public interests. Each of these companies prepares and submits periodic rate filings with their respective regulatory commissions for review and approval, which allows for various entities to challenge our current or future rates, structures or mechanisms and could alter or limit the rates we are allowed to charge our customers and may not match the timing of when costs are incurred. Additionally, a catastrophic event not involving Eversource could result in our regulators and legislators imposing additional requirements that may lead to additional costs for the Company.

There is no assurance that regulators will approve the recovery of all costs incurred by our electric, natural gas and water companies, including costs for construction, operation and maintenance, as well as a reasonable return on their respective regulated assets. The amount of costs incurred by the companies, coupled with increases in fuel and energy prices, could lead to consumer or regulatory resistance to the timely recovery of such costs, thereby adversely affecting our financial position, results of operations and cash flows.

The FERC has jurisdiction over our transmission costs recovery and our allowed ROEs. Certain outside parties have filed four complaints against all electric companies under the jurisdiction of ISO-NE alleging that our allowed ROEs are unjust and unreasonable. An adverse decision in any of these four complaints could adversely affect our financial position, results of operations and cash flows.

FERC's policy has encouraged competition for transmission projects, even within existing service territories of electric companies. Implementation of FERC's goals, including within our service territories, may expose us to competition for construction of transmission projects, additional regulatory considerations, and potential delay with respect to future transmission projects, which may adversely affect our results of operations and lower rate base growth.

Changes in tax laws, as well as the potential tax effects of business decisions could negatively impact our business, results of operations (including our expected project returns from our planned offshore wind facilities), financial condition and cash flows.

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

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

**The effects of climate change, including severe storms, could cause significant damage to any of our facilities requiring extensive expenditures, the recovery for which is subject to approval by regulators.**

Climate change creates physical and financial risks to our operations. Physical risks from climate change may include an increase in sea levels and changes in weather conditions, such as changes in precipitation and extreme weather events including drought. Customers' energy needs vary with weather conditions, primarily temperature and humidity. For residential customers, heating and cooling represent their largest energy use. For water customers, conservation measures imposed by the communities we serve could impact water usage. To the extent weather conditions are affected by climate change, customers' energy and water usage could increase or decrease depending on the duration and magnitude of the changes.

Severe weather, such as ice and snow storms, hurricanes, droughts, and other natural disasters, may cause outages and property damage, which may require us to incur additional costs that may not be recoverable from customers. The cost of repairing damage to our operating subsidiaries' facilities and the potential disruption of their operations due to storms, natural disasters or other catastrophic events could be substantial, particularly as regulators and customers demand better and quicker response times to outages. If, upon review, any of our state regulatory authorities finds that our actions were imprudent, some of those restoration costs may not be recoverable from customers. The inability to recover a significant amount of such costs could have an adverse effect on our financial position, results of operations and cash flows. We maintain property insurance, but it may be insufficient to cover all losses.

**Our transmission and distribution systems may not operate as expected, and could require unplanned expenditures, which could adversely affect our financial position, results of operations and cash flows.**

Our ability to properly operate our transmission and distribution systems is critical to the financial performance of our business. Our transmission and distribution businesses face several operational risks, including the breakdown, failure of, or damage to operating equipment, information technology systems, or processes, especially due to age; labor disputes; disruptions in the delivery of electricity, natural gas and water; increased capital expenditure requirements, including those due to environmental regulation; catastrophic events such as fires, explosions, a solar event, an electromagnetic event, or other similar occurrences; extreme weather conditions beyond equipment and plant design capacity; human error; and potential claims for property damage or personal injuries beyond the scope of our insurance coverage. Many of our transmission projects are expected to alleviate identified reliability issues and reduce customers' costs. However, if the in-service date for one or more of these projects is delayed due to economic events or factors, or regulatory or other delays, the risk of failures in the electricity transmission system may increase. Any failure of our transmission and distribution systems to operate as planned may result in increased capital costs, reduced earnings or unplanned increases in operation and maintenance costs. The inability to recover a significant amount of such costs could have an adverse effect on our financial position, results of operations and cash flows.

**New technology and alternative energy sources could adversely affect our operations and financial results.**

Advances in technology that reduce the costs of alternative methods of producing electric energy to a level that is competitive with that of current electric production methods, could result in loss of market share and customers, and may require us to make significant expenditures to remain competitive. These changes in technology could also alter the channels through which electric customers buy or utilize energy, which could reduce our revenues or increase our expenses. Economic downturns or periods of high energy supply costs typically can lead to the development of legislative and regulatory policy designed to promote reductions in energy consumption and increased energy efficiency and self-generation by customers.

**Contamination of our water supplies, the failure of dams on reservoirs providing water to our customers, or requirements to repair, upgrade or dismantle any of these dams, may disrupt our ability to distribute water to our customers and result in substantial additional costs, which could adversely affect our financial condition, and results of operations.**

Our water supplies, including water provided to our customers, are subject to possible contamination from naturally occurring compounds or man-made substances.

Our water systems include impounding dams and reservoirs of various sizes. Although we believe our dams are structurally sound and well-maintained, significant damage to these facilities, or a significant decrease in the water in our reservoirs, could adversely affect our ability to provide water to our customers until the facilities and a sufficient amount of water in our reservoirs can be restored. A failure of a dam could result in personal injuries and downstream property damage for which we may be liable. The failure of a dam would also adversely affect our ability to supply water in sufficient quantities to our customers. Any losses or liabilities incurred due to a failure of one of our dams may not be recoverable in rates and may have a material adverse effect on our financial condition, results of operations and cash flows. We maintain liability insurance, but it may be insufficient to cover all losses.

**The unauthorized access to and the misappropriation of confidential and proprietary customer, employee, financial or system operating information could adversely affect our business operations and adversely impact our reputation.**

In the regular course of business, we, and our third-party suppliers, maintain sensitive customer, employee, financial and system operating information. We are required by various federal and state laws to safeguard this information. Cyber intrusions, security breaches, theft or loss of this information by cybercrime or otherwise could lead to the release of critical operating information or confidential customer or employee information, which could adversely affect our business operations or adversely impact our reputation, and could result in significant costs, fines and litigation. We maintain cyber insurance to cover damages and defense costs arising from unauthorized disclosure of, or failure to protect, private information, as well as costs for notification to, or for credit monitoring of, customers, employees and other persons in the event of a breach of private information. This insurance covers amounts paid to avert, prevent or stop a network attack or the disclosure of personal information, and costs of a qualified forensics firm to determine the cause, source and extent of a network attack or to investigate, examine and analyze our network to find the cause, source and extent of a data breach, but it may be insufficient to cover all losses. While we have implemented measures designed to prevent network attacks and mitigate their effects should they occur, these measures may not be effective due to the continually evolving nature of efforts to access confidential information.

**Our counterparties may not meet their obligations to us or may elect to exercise their termination rights, which could adversely affect our earnings.**

We are exposed to the risk that counterparties to various arrangements that owe us money, have contracted to supply us with energy or other commodities or services, or that work with us as strategic partners, including on significant capital projects, will not be able to perform their obligations, will terminate such arrangements or, with respect to our credit facilities, fail to honor their commitments. Should any of these counterparties fail to perform their obligations or terminate such arrangements, we might be forced to replace the underlying commitment at higher market prices and/or have to delay the completion of, or cancel, a capital project. Should any lenders under our credit facilities fail to perform, the level of borrowing capacity under those arrangements could decrease. In any such events, our financial position, results of operations, or cash flows could be adversely affected.

**Our goodwill is recorded at an amount that, if impaired and written down, could adversely affect our future operating results and total capitalization.**

We have a significant amount of goodwill on our consolidated balance sheet, which, as of December 31, 2019, totaled \$4.4 billion. The carrying value of goodwill represents the fair value of an acquired business in excess of the fair value of identifiable assets and liabilities as of the acquisition date. We test our goodwill balances for impairment on an annual basis or whenever events occur, or circumstances change that would indicate a potential for impairment. A determination that goodwill is deemed to be impaired would result in a non-cash charge that could materially adversely affect our financial position, results of operations and total capitalization. The annual goodwill impairment test in 2019 resulted in a conclusion that our goodwill was not impaired.

**We are exposed to significant reputational risks, which make us vulnerable to increased regulatory oversight or other sanctions.**

Because utility companies, including our electric, natural gas and water utility subsidiaries, have large customer bases, they are subject to adverse publicity focused on the reliability of their distribution services and the speed with which they are able to respond to electric outages, natural gas leaks and similar interruptions caused by storm damage or other unanticipated events. Adverse publicity of this nature could harm our reputation and the reputation of our subsidiaries; may make state legislatures, utility commissions and other regulatory authorities less likely to view us in a favorable light; and may cause us to be subject to less favorable legislative and regulatory outcomes or increased regulatory oversight. Unfavorable regulatory outcomes can include more stringent laws and regulations governing our operations, such as reliability and customer service quality standards or vegetation management requirements, as well as fines, penalties or other sanctions or requirements.

**Limits on our access to, and increases in, the cost of capital may adversely impact our ability to execute our business plan.**

We use short-term debt and the long-term capital markets as a significant source of liquidity and funding for capital requirements not obtained from our operating cash flow. If access to these sources of liquidity becomes constrained, our ability to implement our business strategy could be adversely affected. In addition, higher interest rates would increase our cost of borrowing, which could adversely impact our results of operations. A downgrade of our credit ratings or events beyond our control, such as a disruption in global capital and credit markets, could increase our cost of

borrowing and cost of capital or restrict our ability to access the capital markets and negatively affect our ability to maintain and to expand our businesses.

**Costs of compliance with environmental laws and regulations, including those related to climate change, may increase and have an adverse effect on our business and results of operations.**

Our subsidiaries' operations are subject to extensive federal, state and local environmental statutes, rules and regulations that govern, among other things, water quality, water discharges, the management of hazardous and solid waste, and air emissions. Compliance with these requirements requires us to incur significant costs relating to environmental monitoring, maintenance and upgrading of facilities, remediation and permitting. The costs of compliance with existing legal requirements or legal requirements not yet adopted may increase in the future. An increase in such costs, unless promptly recovered, could have an adverse impact on our business and our financial position, results of operations and cash flows.

For further information, see Item 1, *Business - Other Regulatory and Environmental Matters*, included in this Annual Report on Form 10-K.

**The loss of key personnel, the inability to hire and retain qualified employees, or the failure to maintain a positive relationship with our workforce could have an adverse effect on our business, financial position and results of operations.**

Our operations depend on the continued efforts of our employees. Retaining key employees and maintaining the ability to attract new employees are important to both our operational and financial performance. We cannot guarantee that any member of our management or any key employee at the Eversource parent or subsidiary level will continue to serve in any capacity for any particular period of time. In addition, a significant portion of our workforce in our subsidiaries, including many workers with specialized skills maintaining and servicing the electric, natural gas and water infrastructure, will be eligible to retire over the next five to ten years. Such highly skilled individuals cannot be quickly replaced due to the technically complex work they perform. We have developed strategic workforce plans to identify key functions and proactively implement plans to assure a ready and qualified workforce, but we cannot predict the impact of these plans on our ability to hire and retain key employees. Labor disputes, work stoppages or an inability to negotiate future collective bargaining agreements on commercially reasonable terms, as well as the intentional misconduct of employees or contractors, may also have an adverse effect on our business, financial position and results of operations.

**Market performance or changes in assumptions may require us to make significant contributions to our pension and other postretirement benefit plans.**

We provide a defined benefit pension plan and other postretirement benefits for a substantial number of employees, former employees and retirees. Our future pension obligations, costs and liabilities are highly dependent on a variety of factors, many of which are beyond our control. These factors include estimated investment returns, interest rates, discount rates, health care cost trends, benefit changes, salary increases and the demographics of plan participants. If our assumptions prove to be inaccurate, our future costs could increase significantly. In addition, various factors, including underperformance of plan investments and changes in law or regulation, could increase the amount of contributions required to fund our pension plan in the future. Additional large funding requirements, when combined with the financing requirements of our construction program, could impact the timing, amounts, and number of future financings and negatively affect our financial position, results of operations and cash flows.

**As a holding company with no revenue-generating operations, Eversource parent's liquidity is dependent on dividends from its subsidiaries, its commercial paper program, and its ability to access the long-term debt and equity capital markets.**

Eversource parent is a holding company and as such, has no revenue-generating operations of its own. Its ability to meet its debt service obligations and to pay dividends on its common shares is largely dependent on the ability of its subsidiaries to pay dividends to, or repay borrowings from, Eversource parent, and/or Eversource parent's ability to access its commercial paper program or the long-term debt and equity capital markets. Prior to funding Eversource parent, the subsidiary companies have financial obligations that must be satisfied, including among others, their operating expenses, debt service, preferred dividends of certain subsidiaries, and obligations to trade creditors. Should the subsidiary companies not be able to pay dividends or repay funds due to Eversource parent, or if Eversource parent cannot access its commercial paper programs or the long-term debt and equity capital markets, Eversource parent's ability to pay interest, dividends and its own debt obligations would be restricted.

**Item 1B. Unresolved Staff Comments**

We do not have any unresolved SEC staff comments.

## Item 2. Properties

### Transmission and Distribution System

As of December 31, 2019, Eversource and our electric operating subsidiaries owned the following:

Eversource	Electric Distribution		Electric Transmission	
Number of substations owned		486		77
Transformer capacity (in kVa)		42,891,000		16,149,000
Overhead lines (in circuit miles)		40,568		3,963
Capacity range of overhead transmission lines (in kV)		N/A		69 to 345
Underground lines (in circuit miles)		17,764		406
Capacity range of underground transmission lines (in kV)		N/A		69 to 345

	CL&P		NSTAR Electric		PSNH	
	Distribution	Transmission	Distribution	Transmission	Distribution	Transmission
Number of substations owned	181	20	169	35	136	22
Transformer capacity (in kVa)	21,618,000	3,633,000	16,937,000	7,465,000	4,336,000	5,051,000
Overhead lines (in circuit miles)	16,942	1,675	11,427	1,247	12,199	1,041
Capacity range of overhead transmission lines (in kV)	N/A	69 to 345	N/A	69 to 345	N/A	115 to 345
Underground lines (in circuit miles)	6,722	137	9,076	268	1,966	1
Capacity range of underground transmission lines (in kV)	N/A	69 to 345	N/A	115 to 345	N/A	115

	Eversource	CL&P	NSTAR Electric	PSNH
Underground and overhead line transformers in service	628,219	291,415	171,362	165,442
Aggregate capacity (in kVa)	37,019,694	16,092,291	14,338,752	6,588,651

### Electric Generating Plants

On January 10, 2018, Eversource and PSNH completed the sale of PSNH's thermal generation assets, including steam, internal combustion and biomass units. The sale of hydroelectric generation assets was completed on August 26, 2018. See Note 14, "Generation Asset Sale," in the accompanying Item 8, *Financial Statements and Supplementary Data* for further information.

As of December 31, 2019, NSTAR Electric owned the following solar power facilities:

Type of Plant	Number of Sites	Year Installed	Claimed Capability** (kilowatts)
Solar Fixed Tilt, Photovoltaic	22	2010 - 2019	70,000

\*\* Claimed capability represents the direct current nameplate capacity of the plants.

CL&P does not own any electric generating plants.

### Natural Gas Distribution System

As of December 31, 2019, Yankee Gas owned 28 active gate stations, 206 district regulator stations, and approximately 3,445 miles of natural gas main pipeline. Yankee Gas also owns a liquefaction and vaporization plant and above ground storage tank with a storage capacity equivalent of 1.2 Bcf of natural gas in Waterbury, Connecticut.

As of December 31, 2019, NSTAR Gas owned 21 active gate stations, 164 district regulator stations, and approximately 3,302 miles of natural gas main pipeline. Hopkinton, another subsidiary of Eversource, owns a satellite vaporization plant and above ground storage tanks in Acushnet, Massachusetts (0.5 Bcf of natural gas). In addition, Hopkinton owns a liquefaction and vaporization plant with above ground storage tanks in Hopkinton, Massachusetts (3.0 Bcf of natural gas). Combined, the two plants' tanks have an aggregate storage capacity equivalent to 3.5 Bcf of natural gas that is provided to NSTAR Gas under contract.

### Water Distribution System

Aquarion's properties consist of water transmission and distribution mains and associated valves, hydrants and service lines, water treatment plants, pumping facilities, wells, tanks, meters, dams, reservoirs, buildings, and other facilities and equipment used for the operation of our systems, including the collection, treatment, storage, and distribution of water.

As of December 31, 2019, Aquarion owned and operated sources of water supply with a combined yield of approximately 131 million gallons per day; 3,639 miles of transmission and distribution mains; 10 surface water treatment plants; 31 dams; and 112 wellfields.

## Franchises

**CL&P** Subject to the power of alteration, amendment or repeal by the General Assembly of Connecticut and subject to certain approvals, permits and consents of public authority and others prescribed by statute, CL&P has, subject to certain exceptions not deemed material, valid franchises free from burdensome restrictions to provide electric transmission and distribution services in the respective areas in which it is now supplying such service.

In addition to the right to provide electric transmission and distribution services as set forth above, the franchises of CL&P include, among others, limited rights and powers, as set forth under Connecticut law and the special acts of the General Assembly constituting its charter, to manufacture, generate, purchase and/or sell electricity at retail, including to provide Standard Service, Supplier of Last Resort service and backup service, to sell electricity at wholesale and to erect and maintain certain facilities on public highways and grounds, all subject to such consents and approvals of public authority and others as may be required by law. The franchises of CL&P include the power of eminent domain. Connecticut law prohibits an electric distribution company from owning or operating generation assets. However, under "An Act Concerning Electricity and Energy Efficiency," enacted in 2007, an electric distribution company, such as CL&P, is permitted to purchase an existing electric generating plant located in Connecticut that is offered for sale, subject to prior approval from the PURA and a determination by the PURA that such purchase is in the public interest.

**NSTAR Electric** Through its charter, which is unlimited in time, NSTAR Electric has the right to engage in the business of delivering and selling electricity within its respective service territory, and has the power incidental thereto and is entitled to all the rights and privileges of and subject to the duties imposed upon electric companies under Massachusetts laws. The locations in public ways for electric transmission and distribution lines are obtained from municipal and other state authorities who, in granting these locations, act as agents for the state. In some cases, the actions of these authorities are subject to appeal to the DPU. The rights to these locations are not limited in time and are subject to the action of these authorities and the legislature. Under Massachusetts law, no other entity may provide electric delivery service to retail customers within NSTAR Electric service territory without the written consent of NSTAR Electric. This consent must be filed with the DPU and the municipality so affected. The franchises of NSTAR Electric include the power of eminent domain, obtained through application to the DPU.

The Massachusetts restructuring legislation defines service territories as those territories actually served on July 1, 1997 and following municipal boundaries to the extent possible. The restructuring legislation further provides that until terminated by law or otherwise, distribution companies shall have the exclusive obligation to serve all retail customers within their service territories and no other person shall provide distribution service within such service territories without the written consent of such distribution companies.

**PSNH** The NHPUC, pursuant to statutory requirements, has issued orders granting PSNH exclusive franchises to distribute electricity in the respective areas in which it is now supplying such service.

In addition to the right to distribute electricity as set forth above, the franchises of PSNH include, among others, rights and powers to manufacture, generate, purchase, and transmit electricity, to sell electricity at wholesale to other utility companies and municipalities and to erect and maintain certain facilities on certain public highways and grounds, all subject to such consents and approvals of public authority and others as may be required by law. PSNH's status as a public utility gives it the ability to petition the NHPUC for the right to exercise eminent domain for distribution services and for transmission eligible for regional cost allocation.

PSNH is also subject to certain regulatory oversight by the Maine Public Utilities Commission and the Vermont Public Utility Commission.

**NSTAR Gas** Through its charter, which is unlimited in time, NSTAR Gas has the right to engage in the business of delivering and selling natural gas within its respective service territory, and has the power incidental thereto and is entitled to all the rights and privileges of and subject to the duties imposed upon natural gas companies under Massachusetts laws. The locations in public ways for natural gas distribution pipelines are obtained from municipal and other state authorities who, in granting these locations, act as agents for the state. In some cases, the actions of these authorities are subject to appeal to the DPU. The rights to these locations are not limited in time and are subject to the action of these authorities and the legislature. Under Massachusetts law, no other entity may provide natural gas delivery service to retail customers within the NSTAR Gas service territory without the written consent of NSTAR Gas. This consent must be filed with the DPU and the municipality so affected.

**Yankee Gas** Yankee Gas holds valid franchises to sell natural gas in the areas in which Yankee Gas supplies natural gas service, which it acquired either directly or from its predecessors in interest. Generally, Yankee Gas holds franchises to serve customers in areas designated by those franchises as well as in most other areas throughout Connecticut so long as those areas are not occupied and served by another natural gas utility under a valid franchise of its own or are not subject to an exclusive franchise of another natural gas utility or by consent. Yankee Gas' franchises are perpetual but remain subject to the power of alteration, amendment or repeal by the General Assembly of the State of Connecticut, the power of revocation by the PURA and certain approvals, permits and consents of public authorities and others prescribed by statute. Generally, Yankee Gas' franchises include, among other rights and powers, the right and power to manufacture, generate, purchase, transmit and distribute natural gas and to erect and maintain certain facilities on public highways and grounds, and the right of eminent domain, all subject to such consents and approvals of public authorities and others as may be required by law.

**Aquarion Water Company of Connecticut** AWC-CT derives its rights and franchises to operate from special acts of the Connecticut General Assembly and subject to certain approvals, permits and consents of public authority and others prescribed by statute and by its charter, AWC-CT has, with minor exceptions, solid franchises free from burdensome restrictions and unlimited as to time, and is authorized to sell potable water in the towns (or parts thereof) in which water is now being supplied by AWC-CT.

In addition to the right to sell water as set forth above, the franchises of AWC-CT include rights and powers to erect and maintain certain facilities on public highways and grounds, all subject to such consents and approvals of public authority and others as may be required by law. Under the Connecticut General Statutes, AWC-CT may, upon payment of compensation, take and use such lands, springs, streams or ponds, or such rights or

interests therein as the Connecticut Superior Court, upon application, may determine is necessary to enable AWC-CT to supply potable water for public or domestic use in its franchise areas.

**Aquarion Water Company of Massachusetts** Through its charters, which are unlimited in time, AWC-MA has the right to engage in the business of distributing and selling water within its service territories, and has the power incidental thereto and is entitled to all the rights and privileges of and subject to the duties imposed upon water companies under Massachusetts laws. AWC-MA has the right to construct and maintain its mains and distribution pipes in and under any public ways and to take and hold water within its respective service territories. Subject to DPU regulation, AWC-MA has the right to establish and fix rates for use of the water distributed and to establish reasonable regulations regarding the same. Certain of the towns within our service area have the right, at any time, to purchase the corporate property and all rights and privileges of AWC-MA according to pricing formulas and procedures specifically described in AWC-MA's respective charters and in compliance with Massachusetts law.

**Aquarion Water Company of New Hampshire** The NHPUC, pursuant to statutory law, has issued orders granting and affirming AWC-NH's exclusive franchise to own, operate, and manage plant and equipment and any part of the same, for the conveyance of water for the public located within its franchise territory. That franchise territory encompasses the towns of Hampton, North Hampton and Rye. Subject to NHPUC's regulations, AWC-NH has the right to establish and fix rates for use of the water distributed and to establish reasonable regulations regarding the same.

In addition to the right to provide water supply, the franchise also allows AWC-NH to sell water at wholesale to other water utilities and municipalities and to construct plant and equipment and maintain such plant and equipment on certain public highways and grounds, all subject to such consents and approvals of public authority and others as may be required by law.

AWC-NH's status as a regulated public utility gives it the ability to petition the NHPUC for the right to exercise eminent domain for the establishment of plant and equipment. It can also petition the NHPUC for exemption from the operation of any local ordinance when certain utility structures are reasonably necessary for the convenience or welfare of the public and the local conditions, and, if the purpose of the structure relates to water supply withdrawal, the exemption is recommended by the New Hampshire Department of Environmental Services.

### **Item 3. Legal Proceedings**

#### **1. Yankee Companies v. U.S. Department of Energy**

The Yankee Companies have filed complaints against the DOE in the Court of Federal Claims seeking monetary damages resulting from the DOE's failure to accept delivery of, and provide for a permanent facility to store, spent nuclear fuel pursuant to the terms of the 1983 spent fuel and high-level waste disposal contracts between the Yankee Companies and the DOE. The court previously awarded the Yankee Companies damages for Phases I, II and III of litigation resulting from the DOE's failure to meet its contractual obligations. These Phases covered damages incurred in the years 1998 through 2012, and the awarded damages have been received by the Yankee Companies with certain amounts of the damages refunded to their customers.

*DOE Phase IV Damages* - On May 22, 2017, each of the Yankee Companies filed a fourth set of lawsuits against the DOE in the Court of Federal Claims. The Yankee Companies sought monetary damages totaling \$104.4 million for CYAPC, YAEC and MYAPC, resulting from the DOE's failure to begin accepting spent nuclear fuel for disposal covering the years from 2013 to 2016 ("DOE Phase IV"). On February 21, 2019, the Yankee Companies received a partial summary judgment and partial final judgment in their favor for the undisputed amount of monetary damages of \$103.2 million. The court awarded CYAPC, YAEC, and MYAPC damages of \$40.7 million, \$28.1 million and \$34.4 million, respectively. The DOE did not appeal the court's judgment and the decision became final on April 23, 2019. On June 12, 2019, each of the Yankee Companies received the damages proceeds. On June 12, 2019, the court accepted an offer of judgment in the amount of \$0.5 million to settle the disputed amount of approximately \$1 million in Phase IV contested damages. The Yankee Companies received the \$0.5 million payment in July 2019. CYAPC's and YAEC's proceeds received were classified as operating activities on the Eversource consolidated statement of cash flows.

In September 2019, the Yankee Companies made a required informational filing with FERC as to the use of proceeds, for which approval was received in the fourth quarter of 2019. In December 2019, YAEC and MYAPC returned proceeds of \$5.4 million and \$21.0 million, respectively, to its member companies, of which the Eversource utilities (CL&P, NSTAR Electric and PSNH) received a total of \$2.8 million from YAEC and \$5.0 million from MYAPC. The Eversource utilities will ultimately refund these proceeds to utility customers. Also, in December 2019, CYAPC paid \$29.0 million to the DOE to partially settle its pre-1983 spent nuclear fuel obligation.

#### **2. Other Legal Proceedings**

For further discussion of legal proceedings, see Item 1, *Business*: "- Electric Distribution Segment," "- Electric Transmission Segment," and "- Natural Gas Distribution Segment" for information about various state and federal regulatory and rate proceedings, civil lawsuits related thereto, and information about proceedings relating to power, transmission and pricing issues; "- Nuclear Fuel Storage" for information related to nuclear waste; and "- Other Regulatory and Environmental Matters" for information about toxic substances and hazardous waste, electric and magnetic fields, and other matters. In addition, see Item 1A, *Risk Factors*, for general information about several significant risks.

### **Item 4. Mine Safety Disclosures**

Not applicable.

**PART II**

**Item 5. Market for the Registrants' Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

(a) Market Information

Our common shares are listed on the New York Stock Exchange. The ticker symbol is "ES." There is no established public trading market for the common stock of CL&P, NSTAR Electric and PSNH. All of the common stock of CL&P, NSTAR Electric and PSNH is held solely by Eversource.

(b) Holders

As of January 31, 2020, there were 33,508 registered common shareholders of our company on record. As of the same date, there were a total of 329,952,663 shares outstanding.

(c) Dividends

Information with respect to dividends and dividend restrictions for Eversource, CL&P, NSTAR Electric and PSNH is contained in Item 8, *Financial Statements and Supplementary Data*, in the *Combined Notes to Financial Statements*, within this Annual Report on Form 10-K.

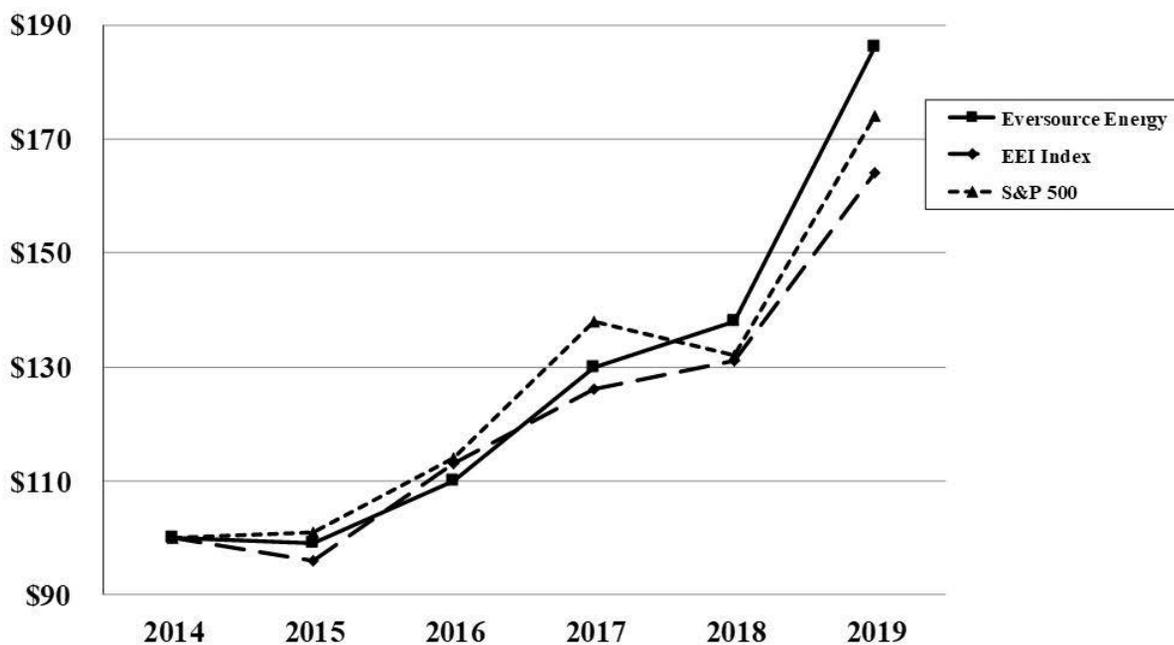
(d) Securities Authorized for Issuance Under Equity Compensation Plans

For information regarding securities authorized for issuance under equity compensation plans, see Item 12, *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*, included in this Annual Report on Form 10-K.

(e) Performance Graph

The performance graph below illustrates a five-year comparison of cumulative total returns based on an initial investment of \$100 in 2014 in Eversource Energy common stock, as compared with the S&P 500 Stock Index and the EEI Index for the period 2014 through 2019, assuming all dividends are reinvested.

**Total Shareholder Return**



	December 31,					
	2014	2015	2016	2017	2018	2019
Eversource Energy	\$100	\$99	\$110	\$130	\$138	\$186
EEI Index	\$100	\$96	\$113	\$126	\$131	\$164
S&P 500	\$100	\$101	\$114	\$138	\$132	\$174

## Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table discloses purchases of our common shares made by us or on our behalf for the periods shown below. The common shares purchased consist of open market purchases made by the Company or an independent agent. These share transactions related to matching contributions under the Eversource 401k Plan.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans and Programs (at month end)
October 1 - October 31, 2019	—	\$ —	—	—
November 1 - November 30, 2019	20	82.94	—	—
December 1 - December 31, 2019	2,169	84.78	—	—
Total	2,189	\$ 84.76	—	—

## Recent Sales of Unregistered Securities

In January 2020, we determined that during 2019 and early 2020, the Savings Plan for Employees of Aquarion Water Company, a 401(k) retirement plan (Plan), offered Eversource common shares (Shares) as an investment alternative for participants. The Plan trustee purchased Shares in the open market and allocated the Shares to participants' Plan accounts at the election of participants. During this period, the Plan sold 5,990 Shares to 35 participants, which Shares were not registered on Form S-8. The investment alternative to purchase Shares under the Plan has been terminated, and we did not receive any proceeds from such sales, which were funded with participants' contributions to the Plan.

## Item 6. Selected Consolidated Financial Data

### Eversource Selected Consolidated Financial Data (Unaudited)

(Thousands of Dollars, except percentages and common share information)

	2019	2018	2017	2016	2015
<b>Balance Sheet Data:</b>					
Property, Plant and Equipment, Net	\$ 27,585,470	\$ 25,610,428	\$ 23,617,463	\$ 21,350,510	\$ 19,892,441
Total Assets	41,123,915	38,241,256	36,220,386	32,053,173	30,580,309
Common Shareholders' Equity	12,629,994	11,486,817	11,086,242	10,711,734	10,352,215
Noncontrolling Interest - Preferred Stock of Subsidiaries	155,570	155,570	155,570	155,568	155,568
Long-Term Debt <sup>(a)</sup>	14,098,239	13,086,062	12,325,520	9,603,237	9,034,457
Obligations Under Capital Leases <sup>(a)</sup>	10,516	10,735	9,898	8,924	8,222
Obligations Under Operating Leases <sup>(a)</sup>	49,966	—	—	—	—
<b>Income Statement Data:</b>					
Operating Revenues	\$ 8,526,470	\$ 8,448,201	\$ 7,751,952	\$ 7,639,129	\$ 7,954,827
Net Income	\$ 916,572	\$ 1,040,519	\$ 995,515	\$ 949,821	\$ 886,004
Net Income Attributable to Noncontrolling Interests	7,519	7,519	7,519	7,519	7,519
Net Income Attributable to Common Shareholders	\$ 909,053	\$ 1,033,000	\$ 987,996	\$ 942,302	\$ 878,485
<b>Common Share Data:</b>					
Net Income Attributable to Common Shareholders:					
Basic Earnings Per Common Share	\$ 2.83	\$ 3.25	\$ 3.11	\$ 2.97	\$ 2.77
Diluted Earnings Per Common Share	\$ 2.81	\$ 3.25	\$ 3.11	\$ 2.96	\$ 2.76
Dividends Declared Per Common Share	\$ 2.14	\$ 2.02	\$ 1.90	\$ 1.78	\$ 1.67
Market Price - Closing (end of year) <sup>(b)</sup>	\$ 85.07	\$ 65.04	\$ 63.18	\$ 55.23	\$ 51.07
Book Value Per Common Share (end of year)	\$ 38.29	\$ 36.25	\$ 34.98	\$ 33.80	\$ 32.64
Tangible Book Value Per Common Share (end of year) <sup>(c)</sup>	\$ 24.86	\$ 22.27	\$ 21.00	\$ 22.70	\$ 21.54
Rate of Return Earned on Average Common Equity (%) <sup>(d)</sup>	7.5	9.2	9.1	9.0	8.7
Market-to-Book Ratio (end of year) <sup>(e)</sup>	2.2	1.8	1.8	1.6	1.6

<sup>(a)</sup> Includes portions due within one year.

<sup>(b)</sup> Market price information reflects closing prices as reflected by the New York Stock Exchange.

<sup>(c)</sup> Common Shareholders' Equity adjusted for goodwill and intangibles divided by total common shares outstanding.

<sup>(d)</sup> Net Income Attributable to Common Shareholders divided by average Common Shareholders' Equity.

<sup>(e)</sup> The closing market price divided by the book value per share.

See the *Combined Notes to Financial Statements* in this Annual Report on Form 10-K for a description of the sale of PSNH's thermal and hydroelectric generation assets in 2018 and the December 31, 2017 classification of these generation assets as held for sale, the acquisition of Aquarion on December 4, 2017, and any accounting changes materially affecting the comparability of the information reflected in the tables above. As a result of the adoption of new accounting guidance on January 1, 2019, we recognized lease assets and liabilities for operating leases on the balance sheet. Prior period amounts were not adjusted and continue to be reported in accordance with our historic accounting policies.

**CL&P Selected Financial Data (Unaudited) have been omitted from this report but are set forth in the Annual Report on Form 10-K for 2019 filed with the SEC on a combined basis with Eversource Energy on February 27, 2020. Such report is also available in the Investors section at [www.eversource.com](http://www.eversource.com).**

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

### EVERSOURCE ENERGY AND SUBSIDIARIES

The following discussion and analysis should be read in conjunction with our consolidated financial statements and related combined notes included in this combined Annual Report on Form 10-K. References in this combined Annual Report on Form 10-K to "Eversource," the "Company," "we," "us," and "our" refer to Eversource Energy and its consolidated subsidiaries. All per-share amounts are reported on a diluted basis. The consolidated financial statements of Eversource, NSTAR Electric and PSNH and the financial statements of CL&P are herein collectively referred to as the "financial statements." Our discussion of fiscal year 2019 compared to fiscal year 2018 is included herein. Unless expressly stated otherwise, for discussion and analysis of fiscal year 2017 items and fiscal year 2018 compared to fiscal year 2017, please refer to Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, in our combined 2018 Annual Report on Form 10-K, which is incorporated herein by reference.

Refer to the Glossary of Terms included in this combined Annual Report on Form 10-K for abbreviations and acronyms used throughout this *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

The only common equity securities that are publicly traded are common shares of Eversource. The earnings and EPS of each business discussed below do not represent a direct legal interest in the assets and liabilities of such business but rather represent a direct interest in our assets and liabilities as a whole. EPS by business is a financial measure not recognized under GAAP, calculated by dividing the Net Income Attributable to Common Shareholders of each business by the weighted average diluted Eversource common shares outstanding for the period. Our earnings discussion also includes a non-GAAP financial measure referencing our 2019 earnings and EPS excluding the impairment charge for the NPT project.

We use these non-GAAP financial measures to evaluate and provide details of earnings results by business and to more fully compare and explain our 2019 results without including the impact of the NPT impairment charge. We believe the NPT impairment charge is not indicative of our ongoing performance. Due to the nature and significance of the impairment charge on Net Income Attributable to Common Shareholders, we believe that the non-GAAP presentation is a more meaningful representation of our financial performance and provides additional and useful information to readers of this report in analyzing historical and future performance of our business. These non-GAAP financial measures should not be considered as an alternative to reported Net Income Attributable to Common Shareholders or EPS determined in accordance with GAAP as an indicator of operating performance.

The results of Aquarion and its subsidiaries, hereinafter referred to as "Aquarion," are included from the date of the acquisition, December 4, 2017, through December 31, 2019 throughout this *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

#### Financial Condition and Business Analysis

##### Executive Summary

The following items in this executive summary are explained in more detail in this combined Annual Report on Form 10-K:

##### *Earnings Overview and Future Outlook:*

- We earned \$909.1 million, or \$2.81 per share, in 2019, compared with \$1.03 billion, or \$3.25 per share, in 2018. Results for 2019 include an after-tax impairment charge of \$204.4 million, or \$0.64 per share, related to our investment in the NPT project. Excluding that impairment charge, we earned \$1.11 billion, or \$3.45 per share, in 2019.
- Our electric distribution segment earned \$513.3 million, or \$1.59 per share, in 2019, compared with \$455.4 million, or \$1.44 per share, in 2018. Our electric transmission segment earned \$256.5 million, or \$0.79 per share, in 2019, compared with \$427.2 million, or \$1.34 per share, in 2018. Excluding the after-tax NPT impairment charge of \$204.4 million, or \$0.64 per share, our electric transmission segment earned \$460.9 million, or \$1.43 per share, in 2019. Our natural gas distribution segment earned \$96.2 million, or \$0.30 per share, in 2019, compared with \$93.2 million, or \$0.29 per share, in 2018. Our water distribution segment earned \$34.9 million, or \$0.11 per share, in 2019, compared with \$30.9 million, or \$0.10 per share in 2018.
- Eversource parent and other companies earned \$8.2 million, or \$0.02 per share, in 2019, compared with \$26.3 million, or \$0.08 per share, in 2018.
- We currently project 2020 earnings of between \$3.60 per share and \$3.70 per share.

##### *Liquidity:*

- Cash flows provided by operating activities totaled \$2.01 billion in 2019, compared with \$1.83 billion in 2018. Investments in property, plant and equipment totaled \$2.91 billion in 2019 and \$2.57 billion in 2018. Cash totaled \$15.4 million as of December 31, 2019, compared with \$108.1 million as of December 31, 2018.
- In 2019, we issued 11,980,000 common shares, which resulted in proceeds of \$852.3 million, net of issuance costs.

- In 2019, we issued \$1.52 billion of new long-term debt, consisting of \$500 million by CL&P, \$400 million by NSTAR Electric, \$300 million by PSNH, \$200 million by Yankee Gas, \$75 million by NSTAR Gas and \$45 million by Aquarion. Proceeds from these new issuances were used primarily to repay short-term borrowings, repay long-term debt at maturity and fund capital expenditures and working capital. In 2019, we repaid, at maturity, \$801.1 million of previously issued long-term debt, consisting of \$350 million by Eversource parent, \$250 million by CL&P, \$150 million by PSNH, \$50 million by Yankee Gas and \$1.1 million by Aquarion.
- In 2019, we paid cash dividends of \$663.2 million and issued non-cash dividends of \$22.8 million in the form of treasury shares, totaling dividends of \$2.14 per common share, compared with cash dividends of \$640.1 million, or \$2.02 per common share, in 2018. On February 5, 2020, our Board of Trustees approved a common share dividend payment of \$0.5675 per share, payable on March 31, 2020 to shareholders of record as of March 4, 2020. The 2020 dividend represents an increase of 6.1 percent over the dividend paid in December 2019.
- We project to make capital expenditures of \$14.19 billion from 2020 through 2024, of which we expect \$8.63 billion to be in our electric and natural gas distribution segments, \$3.98 billion to be in our electric transmission segment and \$0.69 billion to be in our water distribution segment. We also project to invest \$0.90 billion in information technology and facilities upgrades and enhancements. These projections do not include any expected investments related to offshore wind projects.

#### Strategic:

- On February 26, 2020, Eversource and NiSource entered into an asset purchase agreement where Eversource would acquire the assets that comprise NiSource's local gas distribution business in Massachusetts for a purchase price of \$1.1 billion. The liabilities to be assumed by Eversource specifically exclude any liabilities (past or future) arising out of or related to the fires and explosions that occurred on September 13, 2018 in Lawrence, Andover and North Andover, Massachusetts. The acquisition and resulting rate plan both require DPU and other approvals. Eversource and NiSource expect to close this transaction later this year.

#### Earnings Overview

*Consolidated:* Below is a summary of our earnings by business, which also reconciles the non-GAAP financial measures of consolidated non-GAAP earnings and EPS, as well as EPS by business, to the most directly comparable GAAP measures of consolidated Net Income Attributable to Common Shareholders and diluted EPS.

	For the Years Ended December 31,					
	2019		2018		2017	
	Amount	Per Share	Amount	Per Share	Amount	Per Share
<i>(Millions of Dollars, Except Per Share Amounts)</i>						
Net Income Attributable to Common Shareholders (GAAP)	\$ 909.1	\$ 2.81	\$ 1,033.0	\$ 3.25	\$ 988.0	\$ 3.11
Regulated Companies	\$ 1,105.3	\$ 3.43	\$ 1,006.7	\$ 3.17	\$ 962.7	\$ 3.03
Eversource Parent and Other Companies	8.2	0.02	26.3	0.08	25.3	0.08
Non-GAAP Earnings	\$ 1,113.5	\$ 3.45	\$ 1,033.0	\$ 3.25	\$ 988.0	\$ 3.11
Impairment of Northern Pass Transmission (after-tax)	(204.4)	(0.64)	—	—	—	—
Net Income Attributable to Common Shareholders (GAAP)	\$ 909.1	\$ 2.81	\$ 1,033.0	\$ 3.25	\$ 988.0	\$ 3.11

*Regulated Companies:* Our regulated companies comprise the electric distribution, electric transmission, natural gas distribution and water distribution segments. A summary of our segment earnings and EPS is as follows:

	For the Years Ended December 31,					
	2019		2018		2017	
	Amount	Per Share	Amount	Per Share	Amount	Per Share
<i>(Millions of Dollars, Except Per Share Amounts)</i>						
Net Income - Regulated Companies (GAAP)	\$ 900.9	\$ 2.79	\$ 1,006.7	\$ 3.17	\$ 962.7	\$ 3.03
Electric Distribution	\$ 513.3	\$ 1.59	\$ 455.4	\$ 1.44	\$ 497.4	\$ 1.57
Electric Transmission, excluding Northern Pass Transmission impairment (Non-GAAP)	460.9	1.43	427.2	1.34	391.9	1.23
Natural Gas Distribution	96.2	0.30	93.2	0.29	74.6	0.23
Water Distribution	34.9	0.11	30.9	0.10	(1.2)	—
Net Income - Regulated Companies (Non-GAAP)	\$ 1,105.3	\$ 3.43	\$ 1,006.7	\$ 3.17	\$ 962.7	\$ 3.03
Impairment of Northern Pass Transmission (after-tax)	(204.4)	(0.64)	—	—	—	—
Net Income - Regulated Companies (GAAP)	\$ 900.9	\$ 2.79	\$ 1,006.7	\$ 3.17	\$ 962.7	\$ 3.03

Our electric distribution segment earnings increased \$57.9 million in 2019, as compared to 2018, due primarily to the CL&P, NSTAR Electric and PSNH base distribution rate increases, higher earnings from CL&P's capital tracker mechanism, effective July 1, 2018, due to increased electric system improvements, and higher earnings from NSTAR Electric's solar generation capital tracker mechanism. The earnings increase was partially offset by higher depreciation expense, lower non-service income from our benefit plans, higher operations and maintenance expense, the absence in 2019 of generation earnings at PSNH due to the sale of its generation assets in 2018, and the absence in 2019 of a gain on the sale of property at PSNH in 2018.

Our electric transmission segment earnings decreased \$170.7 million in 2019, as compared to 2018, due primarily to the impairment of NPT, which resulted in an after-tax charge of \$204.4 million, or \$0.64 per share in 2019. Excluding the NPT impairment charge, earnings increased \$33.7 million in 2019, as compared to 2018, due primarily to a higher transmission rate base as a result of our continued investment in our transmission infrastructure and the absence in 2019 of approximately \$6 million (after-tax) in tax-related regulatory assets that we concluded were not recoverable from customers in 2018. The earnings increase was partially offset by a lower benefit from the annual billing and cost reconciliation filing with FERC and the absence of the NPT AFUDC equity income.

Our natural gas distribution segment earnings increased \$3.0 million in 2019, as compared to 2018, due primarily to the impact of the Yankee Gas base distribution rate increase effective November 15, 2018 and higher earnings from capital tracker mechanisms due to continued investments in natural gas infrastructure. The earnings increase was partially offset by higher operations and maintenance expense, higher depreciation expense, higher property and other tax expense, and higher interest expense.

Our water distribution segment earnings increased \$4.0 million in 2019, as compared to 2018, due primarily to a lower effective tax rate driven by the elimination of a tax-related regulatory liability.

*Eversource Parent and Other Companies:* Eversource parent and other companies earnings decreased \$18.1 million in 2019, as compared to 2018, due primarily to a higher effective tax rate due in part to higher income tax reserves in 2019 and the absence in 2019 of income tax benefits recognized in 2018, higher interest expense, and the absence in 2019 of a 2018 benefit related to the allowed recovery of certain previously expensed merger-related costs in distribution rates. The earnings decrease was partially offset by the absence of the 2018 impairment of our investment in the Access Northeast project, and a higher return at Eversource Service as a result of increased investments in property, plant and equipment.

### Liquidity

Cash totaled \$15.4 million as of December 31, 2019, compared with \$108.1 million as of December 31, 2018.

*Short-Term Debt - Commercial Paper Programs and Credit Agreements:* Eversource parent has a \$1.45 billion commercial paper program allowing Eversource parent to issue commercial paper as a form of short-term debt. Eversource parent, CL&P, PSNH, NSTAR Gas, Yankee Gas and Aquarion Water Company of Connecticut are also parties to a five-year \$1.45 billion revolving credit facility. Effective December 9, 2019, the revolving credit facility's termination date was extended for one additional year to December 6, 2024. The revolving credit facility serves to backstop Eversource parent's \$1.45 billion commercial paper program.

NSTAR Electric has a \$650 million commercial paper program allowing NSTAR Electric to issue commercial paper as a form of short-term debt. NSTAR Electric is also a party to a five-year \$650 million revolving credit facility. Effective December 9, 2019, the revolving credit facility's termination date was extended for one additional year to December 6, 2024. The revolving credit facility serves to backstop NSTAR Electric's \$650 million commercial paper program.

The amount of borrowings outstanding and available under the commercial paper programs were as follows:

<i>(Millions of Dollars)</i>	<b>Borrowings Outstanding as of December 31,</b>		<b>Available Borrowing Capacity as of December 31,</b>		<b>Weighted-Average Interest Rate as of December 31,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Eversource Parent Commercial Paper Program	\$ 1,224.9	\$ 631.5	\$ 225.1	\$ 818.5	1.98%	2.77%
NSTAR Electric Commercial Paper Program	10.5	278.5	639.5	371.5	1.63%	2.50%

There were no borrowings outstanding on either the Eversource parent or NSTAR Electric revolving credit facilities as of December 31, 2019 or 2018.

Amounts outstanding under the commercial paper programs and revolving credit facilities are included in Notes Payable and classified in current liabilities on the Eversource and NSTAR Electric balance sheets, as all borrowings are outstanding for no more than 364 days at one time. As a result of the Eversource parent long-term debt issuance on January 10, 2020, the net proceeds of which were used to repay short-term borrowings outstanding under its commercial paper program, \$346.3 million of commercial paper borrowings under the Eversource parent commercial paper program were classified as Long-Term Debt as of December 31, 2019.

*Intercompany Borrowings:* Eversource parent uses its available capital resources to provide loans to its subsidiaries to assist in meeting their short-term borrowing needs. Eversource parent records intercompany interest income from its loans to subsidiaries, which is eliminated in consolidation. Intercompany loans from Eversource parent to its subsidiaries are eliminated in consolidation on Eversource's balance sheets. As of December 31, 2019, there were intercompany loans from Eversource parent to CL&P of \$63.8 million, to PSNH of \$27.0 million, and to a subsidiary of NSTAR Electric of \$30.3 million. As of December 31, 2018, there were intercompany loans from Eversource parent to PSNH of \$57.0 million. Intercompany loans from Eversource parent are included in Notes Payable to Eversource Parent and classified in current liabilities on the respective subsidiary's balance sheets.

*Long-Term Debt:* The following table summarizes long-term debt issuances and repayments:

<i>(Millions of Dollars)</i>	<b>Issue Date</b>	<b>Issuance/ (Repayment)</b>	<b>Maturity Date</b>	<b>Use of Proceeds for Issuance/ Repayment Information</b>
<b>CL&amp;P:</b>				
4.00% 2018 Series A First Mortgage Bonds <sup>(1)</sup>	April 2019	\$ 300.0	April 2048	Paid short-term borrowings that were used to pay long-term debt that matured on February 1, 2019 and fund capital expenditures and working capital
3.20% 2017 Series A First Mortgage Bonds <sup>(2)</sup>	September 2019	200.0	March 2027	Paid short-term borrowings and fund capital expenditures and working capital
5.50% 2009 Series A First Mortgage Bonds	February 2009	(250.0)	February 2019	Paid at maturity on February 1, 2019
<b>NSTAR Electric:</b>				
3.25% 2019 Debentures	May 2019	400.0	May 2029	Paid short-term borrowings that were used to fund investments in eligible green expenditures
<b>PSNH:</b>				
3.60% 2019 Series T First Mortgage Bonds	June 2019	300.0	July 2049	Paid long-term debt that matured in December 2019, paid short-term borrowings and fund capital expenditures and working capital
4.50% 2009 Series P First Mortgage Bonds	December 2009	(150.0)	December 2019	Paid at maturity on December 1, 2019
<b>Other:</b>				
Eversource Parent 4.50% Debentures	November 2009	(350.0)	November 2019	Paid at maturity on November 15, 2019
Eversource Parent 3.45% Series P Senior Notes	January 2020	350.0	January 2050	Paid short-term borrowings
NSTAR Gas 3.74% Series Q First Mortgage Bonds	July 2019	75.0	August 2049	Paid short-term borrowings and fund capital expenditures and working capital
Yankee Gas 2.23% Series P First Mortgage Bonds	September 2019	100.0	October 2024	Paid short-term borrowings and for general corporate purposes
Yankee Gas 3.30% Series Q First Mortgage Bonds	September 2019	100.0	October 2049	Paid short-term borrowings and for general corporate purposes
Yankee Gas 5.26% Series H First Mortgage Bonds	November 2004	(50.0)	November 2019	Paid at maturity on November 1, 2019
Aquarion 3.54% Senior Notes	December 2019	45.0	December 2049	Paid short-term borrowings

<sup>(1)</sup> These bonds are part of the same series issued by CL&P in March 2018. The aggregate outstanding principal amount of these bonds is now \$800 million.

<sup>(2)</sup> These bonds are part of the same series issued by CL&P in March 2017. The aggregate outstanding principal amount of these bonds is now \$500 million.

*Long-Term Debt Issuance Authorizations:* On February 27, 2019, the DPU approved NSTAR Electric's request for authorization to issue up to \$800 million in long-term debt through December 31, 2020. On April 26, 2019, the NHPUC approved PSNH's request for authorization to issue up to \$300 million in long-term debt through December 31, 2019. On August 14, 2019, PURA approved CL&P's request for authorization to issue up to \$675 million in long-term debt through December 31, 2022. On December 11, 2019, PURA approved Aquarion Water Company of Connecticut's request for authorization to issue up to \$45 million of long-term debt. On January 27, 2020, the DPU approved NSTAR Gas' request for authorization to issue up to \$270 million in long-term debt through December 31, 2021.

*Rate Reduction Bonds:* PSNH's RRB payments consist of principal and interest and are paid semi-annually, beginning on February 1, 2019. PSNH paid \$52.3 million of RRB principal payments and \$26.8 million of interest payments in 2019.

*Common Share Issuance and Forward Sale Agreement:* On June 4, 2019, Eversource completed an equity offering of 17,940,000 common shares, consisting of 5,980,000 common shares issued directly by the Company and 11,960,000 common shares issuable pursuant to a forward sale agreement with an investment bank. The issuance of 5,980,000 common shares resulted in proceeds of \$426.9 million, net of issuance costs.

Under the forward sale agreement, a total of 11,960,000 common shares were borrowed from third parties and sold by the underwriters. The forward sale agreement allows Eversource, at its election and prior to May 29, 2020, to physically settle the forward sale agreement by issuing common shares in exchange for net proceeds at the then-applicable forward sale price specified by the agreement (initially, \$71.48 per share) or, alternatively, to settle the forward sale agreement in whole or in part through the delivery or receipt of shares or cash. The forward sale price is subject to adjustment daily based on a floating interest rate factor and will decrease in respect of certain fixed amounts specified in the agreement, such as dividends.

On December 30, 2019, Eversource physically settled a portion of the forward sale agreement by delivering 6,000,000 common shares in exchange for net proceeds of \$425.4 million. The forward sale price used to determine the cash proceeds received by Eversource was calculated based on the initial forward sale price of \$71.48 per share, as adjusted in accordance with the forward sale agreement.

The 2019 issuances of 11,980,000 common shares resulted in proceeds of \$852.3 million, net of issuance costs, and were reflected in shareholders' equity and as financing activities on the statement of cash flows.

Eversource's intent is to physically settle the forward sale agreement by issuing common shares. As of December 31, 2019, if Eversource had elected to net settle the forward sale agreement, Eversource would have been required to pay \$84.4 million under a cash settlement or would have been required to deliver 992,189 common shares under a net share settlement.

Issuances of shares under the forward sale agreement are classified as equity transactions. Accordingly, no amounts relating to the forward sale agreement have or will be recorded in the financial statements until settlements take place. Prior to any settlements, the only impact to the financial statements is the inclusion of incremental shares within the calculation of diluted EPS using the treasury stock method. See Note 22, "Earnings Per Share," to the financial statements for information on the forward sale agreement's impact on the calculation of diluted EPS.

Eversource used the net proceeds received upon the direct issuance of common shares and the net proceeds received upon partial settlement of the forward sale agreement to repay short-term debt under the commercial paper program, to fund capital spending and clean energy initiatives, and for general corporate purposes.

*Cash Flows:* Cash flows provided by operating activities totaled \$2.01 billion in 2019, compared with \$1.83 billion in 2018. The increase in operating cash flows was due primarily to a decrease in 2019 of approximately \$148 million of major storm restoration cost payments, \$116 million in lower payments made in 2019 to the DOE by CYAPC to partially settle its pre-1983 spent nuclear fuel obligation, and a \$73.2 million decrease in pension and PBOP cash contributions made in 2019, as compared to 2018. Also contributing to the increase were \$102.8 million of lower income tax payments made in 2019, as compared to 2018, \$68.8 million in DOE Phase IV litigation proceeds received by CYAPC and YAEC in 2019, and the timing of cash collections on our accounts receivables. Partially offsetting these favorable impacts were the timing of collections for regulatory tracking mechanisms, which were significantly impacted by the timing of collections of purchased power and transmission costs at NSTAR Electric, and the timing of accounts payable cash payments and other working capital items.

Cash flows provided by operating activities totaled \$1.83 billion in 2018, compared with \$2.00 billion in 2017. The decrease in operating cash flows was due primarily to cash payments made in 2018 for storm restoration costs of approximately \$252 million, an increase of \$128 million in income tax payments made in 2018, as compared to 2017, and the unfavorable impacts related to the timing of payments of our working capital items, including accounts receivable and accounts payable. In addition, in December 2018, CYAPC paid \$145 million to the DOE to partially settle its pre-1983 spent nuclear fuel obligation. Partially offsetting these unfavorable impacts were the timing of cash collected for regulatory tracking mechanisms and a decrease of \$47.9 million in 2018 of pension and PBOP contributions.

In 2019, we paid cash dividends of \$663.2 million and issued non-cash dividends of \$22.8 million in the form of treasury shares, totaling dividends of \$2.14 per common share, compared with cash dividends of \$640.1 million, or \$2.02 per common share, in 2018. Our quarterly common share dividend payment was \$0.535 per share in 2019, as compared to \$0.505 per share in 2018. On February 5, 2020, our Board of Trustees approved a common share dividend payment of \$0.5675 per share, payable on March 31, 2020 to shareholders of record as of March 4, 2020. The 2020 dividend represents an increase of 6.1 percent over the dividend paid in December 2019.

Beginning in 2019, Eversource began issuing treasury shares to satisfy awards under the Company's incentive plans, shares issued under the dividend reinvestment and share purchase plan, and matching contributions under the Eversource 401k Plan.

In 2019, CL&P, NSTAR Electric and PSNH paid \$341.8 million, \$181.8 million and \$271.0 million, respectively, in common stock dividends to Eversource parent.

Investments in Property, Plant and Equipment on the statements of cash flows do not include amounts incurred on capital projects but not yet paid, cost of removal, AFUDC related to equity funds, and the capitalized and deferred portions of pension and PBOP expense. In 2019, investments for Eversource, CL&P, NSTAR Electric and PSNH were \$2.91 billion, \$917.5 million, \$861.4 million and \$309.0 million, respectively.

Eversource, CL&P, NSTAR Electric and PSNH each uses its available capital resources to fund its respective construction expenditures, meet debt requirements, pay operating costs, including storm-related costs, pay dividends, and fund other corporate obligations, such as pension contributions. Eversource's regulated companies recover their electric, natural gas and water distribution construction expenditures as the related project costs are depreciated over the life of the assets. This impacts the timing of the revenue stream designed to fully recover the total investment plus a return on the equity and debt used to finance the investments. The current growth in Eversource's construction expenditures utilizes a significant amount of cash for projects that have a long-term return on investment and recovery period, totaling approximately \$2.91 billion in cash capital spend in 2019. In addition, Eversource's investments in its offshore wind business totaled \$415.0 million in 2019, which are recognized as long-term assets. These factors have resulted in current liabilities exceeding current assets by \$1.19 billion, \$91.7 million, \$280.5 million, and \$36.7 million at Eversource, CL&P, NSTAR Electric and PSNH, respectively, as of December 31, 2019.

As of December 31, 2019, \$296.1 million of Eversource's long-term debt, including \$95.0 million, \$50.0 million, \$150.0 million, and \$1.1 million for NSTAR Electric, Yankee Gas, NSTAR Gas and Aquarion, respectively, will mature within the next 12 months. Included in the current portion of long-term debt on the Eversource balance sheet is \$31.3 million related to fair value adjustments from our various business combinations that will be amortized within the next 12 months and have no cash flow impact. Eversource, with its strong credit ratings, has several options available in the financial markets to repay or refinance these maturities with the issuance of new long-term debt. Eversource, CL&P, NSTAR Electric and PSNH will reduce their short-term borrowings with operating cash flows or with the issuance of new long-term debt, determined by considering capital requirements and maintenance of Eversource's credit rating and profile.

We expect the future operating cash flows of Eversource, CL&P, NSTAR Electric and PSNH, along with our existing borrowing availability and access to both debt and equity markets, will be sufficient to meet any working capital and future operating requirements, and capital investment forecasted opportunities.

*Credit Ratings:* A summary of our corporate credit ratings and outlooks by Moody's, S&P and Fitch is as follows:

	Moody's		S&P		Fitch	
	Current	Outlook	Current	Outlook	Current	Outlook
Eversource Parent	Baa1	Stable	A-	Stable	BBB+	Stable
CL&P	A3	Stable	A	Stable	A-	Stable
NSTAR Electric	A1	Stable	A	Stable	A	Stable
PSNH	A3	Stable	A	Stable	A-	Stable

A summary of the current credit ratings and outlooks by Moody's, S&P and Fitch for senior unsecured debt of Eversource parent and NSTAR Electric, and senior secured debt of CL&P and PSNH is as follows:

	Moody's		S&P		Fitch	
	Current	Outlook	Current	Outlook	Current	Outlook
Eversource Parent	Baa1	Stable	BBB+	Stable	BBB+	Stable
CL&P	A1	Stable	A+	Stable	A+	Stable
NSTAR Electric	A1	Stable	A	Stable	A+	Stable
PSNH	A1	Stable	A+	Stable	A+	Stable

### Business Development and Capital Expenditures

Our consolidated capital expenditures, including amounts incurred but not paid, cost of removal, AFUDC, and the capitalized and deferred portions of pension and PBOP expense (all of which are non-cash factors), totaled \$3.06 billion in 2019, \$2.86 billion in 2018, and \$2.52 billion in 2017. These amounts included \$239.0 million in 2019, \$184.6 million in 2018, and \$165.9 million in 2017 related to information technology and facilities upgrades and enhancements, primarily at Eversource Service and The Rocky River Realty Company.

*Electric Transmission Business:* Our consolidated electric transmission business capital expenditures increased by \$16.0 million in 2019, as compared to 2018. A summary of electric transmission capital expenditures by company is as follows:

(Millions of Dollars)	For the Years Ended December 31,		
	2019	2018	2017
CL&P	\$ 459.5	\$ 465.5	\$ 431.5
NSTAR Electric	379.7	334.3	301.9
PSNH	190.4	194.2	155.6
NPT	9.8	29.4	43.3
Total Electric Transmission Segment	\$ 1,039.4	\$ 1,023.4	\$ 932.3

Eastern Massachusetts Transmission Projects: These projects consist of a portfolio of electric transmission upgrades in southern New Hampshire, northern Massachusetts and continuing into the greater Boston metropolitan area, of which 28 upgrades are in Eversource's service territory (two in New Hampshire and 26 in Massachusetts). The two New Hampshire upgrades, including the Merrimack Valley Reliability Project, have been placed in service, and 20 Massachusetts upgrades have been placed in service. On December 17, 2019, the Massachusetts Siting Board issued a favorable decision on the Sudbury-Hudson Reliability Project, the last project requiring such approval. On January 17, 2020, the Town of Sudbury and Protect Sudbury, a community group, appealed the decision to the Massachusetts Supreme Judicial Court. The majority of the remaining upgrades are under construction and are expected to be placed in service in 2021. We estimate our portion of the investment will be approximately \$750 million, of which \$442.2 million has been spent and capitalized through December 31, 2019.

Hartford-Area Transmission Projects: These projects consist of 27 projects in the Hartford, Connecticut area with an expected investment of approximately \$350 million. As of December 31, 2019, 24 projects have been placed in service, and three projects are in active construction and are expected to be placed in service through mid-2020. As of December 31, 2019, CL&P had spent and capitalized \$275.9 million in costs associated with these projects.

Seacoast Reliability Project: The Seacoast Reliability Project consists of a 13-mile, 115kV transmission line within several New Hampshire communities, using a combination of overhead, underground and underwater line designs to help meet the growing demand for electricity in the Seacoast region. On December 10, 2018, the NHSEC indicated its unanimous approval of the project, and subsequently issued its written decision on January 31, 2019. On May 13, 2019, two appeals of the NHSEC's approval orders were filed with the New Hampshire Supreme Court. On December 17, 2019, the Conservation Law Foundation requested the Court to withdraw its appeal, and the Court granted the request on December 20, 2019. The other appeal remains pending. This project is under construction and is scheduled to be completed in the second quarter of 2020. We estimate the investment will be approximately \$125 million, of which PSNH had spent and capitalized \$89.0 million in costs through December 31, 2019.

All project costs are anticipated to be fully recoverable through transmission rates.

*Distribution Business:* A summary of distribution capital expenditures is as follows:

(Millions of Dollars)	For the Years Ended December 31,						
	CL&P	NSTAR Electric	PSNH	Total Electric	Natural Gas	Water <sup>(1)</sup>	Total
<b>2019</b>							
Basic Business	\$ 228.7	\$ 201.0	\$ 47.3	\$ 477.0	\$ 71.2	\$ 15.0	\$ 563.2
Aging Infrastructure	224.5	255.5	90.8	570.8	315.2	93.9	979.9
Load Growth and Other	59.6	89.4	16.8	165.8	66.8	1.5	234.1
Total Distribution	512.8	545.9	154.9	1,213.6	453.2	110.4	1,777.2
Solar	—	7.5	—	7.5	—	—	7.5
Total	\$ 512.8	\$ 553.4	\$ 154.9	\$ 1,221.1	\$ 453.2	\$ 110.4	\$ 1,784.7
<b>2018</b>							
Basic Business	\$ 256.3	\$ 217.7	\$ 69.3	\$ 543.3	\$ 72.9	\$ 17.0	\$ 633.2
Aging Infrastructure	151.6	133.3	73.0	357.9	280.2	81.1	719.2
Load Growth and Other	79.7	94.3	15.6	189.6	51.4	3.6	244.6
Total Distribution	487.6	445.3	157.9	1,090.8	404.5	101.7	1,597.0
Solar and Other	—	53.4	0.9	54.3	—	—	54.3
Total	\$ 487.6	\$ 498.7	\$ 158.8	\$ 1,145.1	\$ 404.5	\$ 101.7	\$ 1,651.3
<b>2017</b>							
Basic Business	\$ 214.0	\$ 166.1	\$ 67.2	\$ 447.3	\$ 67.7	N/A	\$ 515.0
Aging Infrastructure	180.7	95.4	87.8	363.9	219.9	N/A	583.8
Load Growth and Other	52.3	96.6	13.2	162.1	47.7	N/A	209.8
Total Distribution	447.0	358.1	168.2	973.3	335.3	N/A	1,308.6
Solar and Other	—	100.1	8.5	108.6	—	N/A	108.6
Total	\$ 447.0	\$ 458.2	\$ 176.7	\$ 1,081.9	\$ 335.3	N/A	\$ 1,417.2

<sup>(1)</sup> Our water distribution business was acquired on December 4, 2017. Amounts are immaterial for the year ended December 31, 2017.

For the electric distribution business, basic business includes the purchase of meters, tools, vehicles, information technology, transformer replacements, equipment facilities, and the relocation of plant. Aging infrastructure relates to reliability and the replacement of overhead lines, plant substations, underground cable replacement, and equipment failures. Load growth and other includes requests for new business and capacity additions on distribution lines and substation additions and expansions.

For the natural gas distribution business, basic business addresses daily operational needs including meters, pipe relocations due to public works projects, vehicles, and tools. Aging infrastructure projects seek to improve the reliability of the system through enhancements related to cast iron and bare steel replacement of main and services, corrosion mediation, and station upgrades. Load growth and other reflects growth in existing service territories including new developments, installation of services, and expansion.

For the water distribution business, basic business addresses daily operational needs including periodic meter replacement, water main relocation, facility maintenance, and tools. Aging infrastructure relates to reliability and the replacement of water mains, regulators, storage tanks, pumping stations, wellfields, reservoirs, and treatment facilities. Load growth and other reflects growth in our service territory, including improvements to acquisitions, installation of new services, and interconnections of systems.

*Acquisition of Assets of Columbia Gas of Massachusetts:* On February 26, 2020, Eversource and NiSource entered into an asset purchase agreement (the Agreement) pursuant to which Eversource would acquire the assets that comprise NiSource's local gas distribution business, currently doing business as Columbia Gas of Massachusetts (CMA). The purchase price of \$1.1 billion includes a target working capital amount that would be adjusted to reflect actual working capital as of the closing date. Eversource would acquire approximately 330,000 residential, commercial, and industrial natural gas customers, as well as over 5,000 miles of natural gas distribution pipeline across more than 60 communities in Massachusetts.

The liabilities to be assumed by Eversource under the Agreement specifically exclude any liabilities (past and future) arising out of or related to the fires and explosions that occurred on September 13, 2018 in Lawrence, Andover and North Andover, Massachusetts related to the delivery of natural gas by CMA, including certain subsequent events, all as described in the DPU's Order on Scope dated December 23, 2019 (D.P.U. 19-141) (the Greater Lawrence Incident or GLI), and any further emergency events prior to the closing of the acquisition related to the restoration and reconstruction with respect to the GLI, including any losses arising out of or related to any litigation, demand, cause of action, claim, suit, investigation, proceeding, indemnification agreements or rights.

The acquisition and resulting rate plan both require DPU and other approvals. Eversource and NiSource expect to close this transaction later this year.

*Projected Capital Expenditures:* A summary of the projected capital expenditures for the regulated companies' electric transmission and for the total electric distribution, natural gas distribution and water distribution for 2020 through 2024, including information technology and facilities upgrades and enhancements on behalf of the regulated companies, is as follows:

(Millions of Dollars)	Years					
	2020	2021	2022	2023	2024	2020 - 2024 Total
CL&P Transmission	\$ 384	\$ 209	\$ 184	\$ 182	\$ 141	\$ 1,100
NSTAR Electric Transmission	366	478	436	296	284	1,860
PSNH Transmission	160	145	235	233	243	1,016
<i>Total Electric Transmission</i>	<i>\$ 910</i>	<i>\$ 832</i>	<i>\$ 855</i>	<i>\$ 711</i>	<i>\$ 668</i>	<i>\$ 3,976</i>
Electric Distribution	\$ 1,347	\$ 1,208	\$ 1,162	\$ 1,170	\$ 1,234	\$ 6,121
Natural Gas Distribution	470	498	501	507	537	2,513
<i>Total Electric and Natural Gas Distribution</i>	<i>\$ 1,817</i>	<i>\$ 1,706</i>	<i>\$ 1,663</i>	<i>\$ 1,677</i>	<i>\$ 1,771</i>	<i>\$ 8,634</i>
Water Distribution	\$ 124	\$ 127	\$ 134	\$ 147	\$ 153	\$ 685
Information Technology and All Other	\$ 220	\$ 169	\$ 165	\$ 171	\$ 171	\$ 896
Total	\$ 3,071	\$ 2,834	\$ 2,817	\$ 2,706	\$ 2,763	\$ 14,191

The projections do not include investments related to offshore wind projects. Actual capital expenditures could vary from the projected amounts for the companies and years above.

*Offshore Wind Business:* Our offshore wind business includes ownership interests in North East Offshore and Bay State Wind, which together hold PPAs and contracts for the Revolution Wind, South Fork Wind and Sunrise Wind projects, as well as offshore leases through BOEM. Our offshore wind projects are being developed and constructed through a joint and equal partnership with Ørsted. This partnership also participates in opportunities for solicitations for offshore wind energy in the Northeast U.S.

On February 8, 2019, Eversource and Ørsted entered into an equal partnership to acquire key offshore wind assets in the Northeast. Eversource has a 50 percent ownership interest in North East Offshore, which holds the Revolution Wind and South Fork Wind projects, as well as a 257 square-mile lease off the coasts of Massachusetts and Rhode Island. Eversource also has a 50 percent ownership interest in Bay State Wind, which holds the Sunrise Wind project. Bay State Wind's separate 300-square-mile ocean lease is located approximately 25 miles south of the coast of Massachusetts adjacent to the North East Offshore area. In aggregate, the Bay State Wind and the North East Offshore lease sites jointly-owned by Eversource and Ørsted could eventually develop at least 4,000 MW of clean, renewable offshore wind energy. As of December 31, 2019, Eversource's total equity investment balance in its offshore wind business was \$649.3 million.

Currently we are developing our construction and operations plans, concluding on final offshore and onshore project designs and working through our siting and permitting processes, all of which is competitively sensitive. Subject to finalization of these plans, designs and processes, all of which are subject to change and modification as a result of our investment decisions, permit approval timelines and final design decisions, we currently expect to make additional investments in our offshore wind business of approximately \$300 million to \$400 million over the course of 2020.

The following table provides a summary of the Eversource and Ørsted major projects with announced contracts:

Wind Project	State Servicing	Size (MW)	Term (Years)	Price per MWh	Pricing Terms	Projected In-Service Date	Contract Status
Revolution Wind	Rhode Island	400	20	\$98.43	Fixed price contract; no price escalation	End of 2023	Approved
Revolution Wind	Connecticut	304	20	<sup>(1)</sup>	Fixed price contracts; no price escalation	End of 2023	Approved
South Fork Wind	New York (LIPA)	90	20	\$160.33	2 percent average price escalation	End of 2022	Approved
South Fork Wind	New York (LIPA)	40	20	\$86.25	2 percent average price escalation	End of 2022	<sup>(3)</sup>
Sunrise Wind	New York (NYSERDA)	880	25	\$110.37 <sup>(2)</sup>	Fixed price contract; no price escalation	End of 2024	Approved

<sup>(1)</sup> The pricing for the Revolution Wind contracts in Connecticut has not yet been publicly disclosed.

<sup>(2)</sup> Index OREC strike price.

<sup>(3)</sup> The Long Island Power Authority (LIPA) agreed to expand the original 20-year PPA from 90 MW to 130 MW through an amendment to the original agreement. Negotiations are currently underway, and a final amendment is expected in the first half of 2020.

On October 23, 2019, the New York State Energy Research and Development Authority (NYSERDA) announced the execution of a 25-year agreement with the Sunrise Wind project to purchase Offshore Wind Renewable Energy Certificates (ORECs) from an 880 MW offshore wind facility. The Sunrise Wind project is held by Bay State Wind and will use a combination of lease areas from Bay State Wind and North East Offshore. Sunrise Wind will be developed 35 miles east of Montauk Point, Long Island.

The completion dates for these projects are subject to federal permitting through BOEM, engineering, state siting and permitting in New York and Rhode Island, and finalizing a PPA amendment in New York. Significant delays in the siting and permitting process, including the timing of obtaining BOEM approval, could adversely impact the timing of these projects' in-service dates. Currently, BOEM has indicated it will complete its Cumulative Impact Study as part of the Draft Supplemental Environmental Impact Statement (EIS) for a non-affiliated offshore wind project during the second quarter of 2020. The study is designed to assess the overall environmental impact of all offshore wind projects. Federal siting and permitting have commenced for the South Fork Wind project, as it has filed its Construction Operations Plan (COP) application with BOEM.

South Fork Wind is designated as "FAST-41" by the U.S. Federal Permitting Improvement Council's FAST-41 infrastructure projects, which provides greater federal assistance associated with program timelines. Revolution Wind and Sunrise Wind COP filings are planned in 2020. South Fork Wind previously filed federal and state applications in 2018. State agencies also will review siting applications for Revolution Wind and Sunrise Wind in New York and Rhode Island, with application filings planned in 2020.

#### FERC Regulatory Matters

*FERC ROE Complaints:* Four separate complaints were filed at the FERC by combinations of New England state attorneys general, state regulatory commissions, consumer advocates, consumer groups, municipal parties and other parties (collectively, the Complainants). In each of the first three complaints, filed on October 1, 2011, December 27, 2012, and July 31, 2014, respectively, the Complainants challenged the NETOs' base ROE of 11.14 percent that had been utilized since 2005 and sought an order to reduce it prospectively from the date of the final FERC order and for the separate 15-month complaint periods. In the fourth complaint, filed April 29, 2016, the Complainants challenged the NETOs' base ROE billed of 10.57 percent and the maximum ROE for transmission incentive (incentive cap) of 11.74 percent, asserting that these ROEs were unjust and unreasonable.

The ROE originally billed during the period October 1, 2011 (beginning of the first complaint period) through October 15, 2014 consisted of a base ROE of 11.14 percent and incentives up to 13.1 percent. On October 16, 2014, the FERC set the base ROE at 10.57 percent and the incentive cap at 11.74 percent for the first complaint period. This was also effective for all prospective billings to customers beginning October 16, 2014. This FERC order was vacated on April 14, 2017 by the U.S. Court of Appeals for the D.C. Circuit (the Court).

All amounts associated with the first complaint period have been refunded. Eversource has recorded a reserve of \$39.1 million (pre-tax and excluding interest) for the second complaint period as of December 31, 2019. This reserve represents the difference between the billed rates during the second complaint period and a 10.57 percent base ROE and 11.74 percent incentive cap. The reserve consisted of \$21.4 million for CL&P, \$14.6 million for NSTAR Electric and \$3.1 million for PSNH as of December 31, 2019.

On October 16, 2018, FERC issued an order on all four complaints describing how it intends to address the issues that were remanded by the Court. FERC proposed a new framework to determine (1) whether an existing ROE is unjust and unreasonable and, if so, (2) how to calculate a replacement ROE. Initial briefs were filed by the NETOs, Complainants and FERC Trial Staff on January 11, 2019 and reply briefs were filed on March 8, 2019. The NETOs' brief was supportive of the overall ROE methodology determined in the October 16, 2018 order provided the FERC does not change the proposed methodology or alter its implementation in a manner that has a material impact on the results.

The FERC order included illustrative calculations for the first complaint using FERC's proposed frameworks with financial data from that complaint. Those illustrative calculations indicated that for the first complaint period, for the NETOs, which FERC concludes are of average financial risk, the preliminary just and reasonable base ROE is 10.41 percent and the preliminary incentive cap on total ROE is 13.08 percent.

If the results of the illustrative calculations were included in a final FERC order for each of the complaint periods, then a 10.41 percent base ROE and a 13.08 percent incentive cap would not have a significant impact on our financial statements for all of the complaint periods. These preliminary calculations are not binding and do not represent what we believe to be the most likely outcome of a final FERC order.

On November 21, 2019, FERC issued an order concerning the transmission ROEs for the Midcontinent ISO transmission owners (MISO). In that order, FERC adopted another new methodology for determining base ROEs for MISO, which differed significantly from the methodology and framework set forth in its October 16, 2018 FERC order on the NETOs' ROE dockets. On December 23, 2019, the NETOs filed a Supplemental Paper Hearing Brief and a Motion to supplement the record in the NETO ROE dockets to respond to the new methodology proposed in the MISO order, as there is uncertainty to whether it may be applied to the NETOs' cases. On January 21, 2020, the FERC issued an order granting rehearing for further consideration to give the FERC more time to act on the substantive issues of the MISO ROE proceedings. Further changes to the methodology by FERC are possible as a result of the arguments in both the MISO and NETO proceedings. Given the significant uncertainty relating to the October 2018 FERC order, the November 2019 FERC order to MISO, and the FERC's rehearing of the MISO order, the Company is unable to predict the potential effect of the MISO order on the NETO complaints or the outcome of the four complaints and concluded that there is no reasonable basis for a change to the reserve or recognized ROEs for any of the complaint periods at this time. Further, the Company cannot reasonably estimate a range of gain or loss for any of the four complaint proceedings.

Eversource, CL&P, NSTAR Electric and PSNH currently record revenues at the 10.57 percent base ROE and incentive cap at 11.74 percent established in the October 16, 2014 FERC order.

A change of 10 basis points to the base ROE used to establish the reserves would impact Eversource's after-tax earnings by an average of approximately \$3 million for each of the four 15-month complaint periods.

*FERC Notices of Inquiry:* On March 21, 2019, FERC issued two Notices of Inquiry (NOI) that may affect Eversource transmission ROEs and incentives. One NOI (the "FERC ROE NOI") seeks comments from all stakeholders on FERC's policies for evaluating ROEs for electric public utilities, and interstate natural gas and oil pipelines. The other NOI (the FERC transmission incentives NOI) seeks comments on FERC's policies for implementing electric transmission incentives. On June 26, 2019, the NETOs jointly filed comments in the FERC ROE NOI, supporting the methodology established in the FERC's October 16, 2018 order with minor enhancements going forward. Also, on June 26, 2019, Eversource filed comments in the FERC transmission incentives NOI, requesting that FERC retain policies that have been effective in encouraging new transmission investment and remain flexible enough to attract investment in new and emerging transmission technologies. The NETOs jointly filed reply comments in the FERC ROE NOI on July 26, 2019. Eversource filed reply comments in the FERC transmission incentives NOI on August 26, 2019. At this time, Eversource cannot predict how these NOIs will affect its ROEs or incentives.

*FERC Transmission Rate Settlement:* On December 28, 2015, FERC initiated a proceeding to review the NETOs' regional and local transmission formula rates due to a lack of transparency, finding that the formula rates appeared to lack sufficient details to determine how costs are derived and recovered in rates. This proceeding was set for hearing but held in abeyance to provide time for settlement judge procedures. On August 17, 2018, a signed Settlement Agreement between twenty-eight parties, including all six New England state regulatory commissions, the NETOs (including CL&P, NSTAR Electric and PSNH) and other settling parties, was filed at the FERC. The Settlement Agreement included, among other things, a new formula rate template in which all regional and local transmission revenue requirements will be determined through a single formula rate. The Settlement Agreement was contested by a group of municipal entities and the FERC Trial Staff. On May 22, 2019, FERC rejected the Settlement Agreement and remanded the proceeding for hearings. The parties have been engaged in further settlement negotiations and reached an agreement in principle on October 22, 2019. The FERC Chief Administrative Law Judge has approved two suspensions of the schedule for ninety days each for the NETOs to review the terms with other active parties and finalize the settlement. The procedural schedule has been suspended to April 22, 2020.

*U.S. Federal Corporate Income Taxes:* Effective January 1, 2018, the local transmission service rates were updated to reflect the lower U.S. federal corporate income tax rate that resulted from the Tax Cuts and Jobs Act. On June 28, 2018, FERC granted a one-time waiver of tariff provisions related to the federal corporate income tax rate so that, effective June 1, 2018, the regional transmission service rates also reflect the reduced federal corporate income tax rate of 21 percent. The local and regional transmission service rates do not currently reflect amortization of excess ADIT (EDIT) balances that resulted from the Act. On November 15, 2018, FERC issued a Policy Statement and a separate Notice of Proposed Rulemaking addressing accounting and rate issues related to ADIT changes resulting from the Act. On November 21, 2019, FERC issued its final rule requiring public utilities with transmission formula rates to make adjustments to ADIT and EDIT. Eversource expects to submit a filing demonstrating its compliance with the final rule in the second half of 2020.

### Regulatory Developments and Rate Matters

*Electric, Natural Gas and Water Utility Base Distribution Rates:* Each Eversource utility subsidiary is subject to the regulatory jurisdiction of the state in which it operates: CL&P, Yankee Gas and Aquarion operate in Connecticut and are subject to PURA regulation; NSTAR Electric, NSTAR Gas and Aquarion operate in Massachusetts and are subject to DPU regulation; and PSNH and Aquarion operate in New Hampshire and are subject to NHPUC regulation. The regulated companies' distribution rates are set by their respective state regulatory commissions, and their tariffs include mechanisms for periodically adjusting their rates for the recovery of specific incurred costs.

In Connecticut, electric and natural gas utilities are required to file a distribution rate case, or for PURA to initiate a rate review, within four years of the last rate case. CL&P's distribution rates were established in an April 2018 PURA-approved rate case settlement agreement with rates effective May 1, 2018. Yankee Gas' distribution rates were established in a December 2018 PURA-approved rate case settlement agreement with rates effective November 15, 2018. Aquarion is not required to initiate a rate review with the PURA. Aquarion rates were established in a 2013 PURA-approved rate case.

In Massachusetts, electric distribution companies are required to file at least one distribution rate case every five years, and natural gas local distribution companies to file at least one distribution rate case every 10 years, and those companies are limited to one settlement agreement in any 10-year period. NSTAR Electric's distribution rates were established in a 2017 DPU-approved rate case with rates effective February 1, 2018. NSTAR Gas' distribution rates were established in a 2015 DPU-approved rate case. See "Regulatory Developments and Rate Matters - Massachusetts" in this *Management's Discussion and Analysis of Financial Condition and Results of Operations*, for NSTAR Gas' November 2019 rate case application with the DPU. Aquarion is not required to initiate a rate review with the DPU. Aquarion rates were established in an October 2018 DPU-approved rate case.

In New Hampshire, PSNH's temporary distribution rates were established in a settlement agreement approved by the NHPUC on June 27, 2019, with temporary rates effective July 1, 2019. On May 28, 2019, PSNH filed an application with the NHPUC for a permanent increase in base distribution rates, effective July 1, 2020. See "Regulatory Developments and Rate Matters - New Hampshire" in this *Management's Discussion and Analysis of Financial Condition and Results of Operations*, for more information. Aquarion rates were established in a 2013 NHPUC-approved rate case, further revised in 2016. In a 2019 settlement approved by the NHPUC, Aquarion was ordered to file its next full rate proceeding no later than 2020.

*Electric, Natural Gas and Water Utility Retail Rates:* The Eversource electric distribution companies obtain and resell power to retail customers who choose not to buy energy from a competitive energy supplier. The natural gas distribution companies procure natural gas for firm and seasonal customers. These energy supply procurement costs are recovered from customers in energy supply rates that are approved by the respective state regulatory commission. The rates are reset periodically and are fully reconciled to their costs. Each electric and natural gas distribution company fully recovers its energy supply costs through approved regulatory rate mechanisms on a timely basis and, therefore, such costs have no impact on earnings.

The electric and natural gas distribution companies also recover certain other costs on a fully reconciling basis through regulatory commission-approved cost tracking mechanisms and, therefore, recovery of these costs have no impact on earnings. Costs recovered through cost tracking mechanisms include, among others, energy efficiency program costs, electric retail transmission charges, electric restructuring and stranded costs (including securitized RRB charges), and additionally for our Massachusetts companies, pension and PBOP benefits and net metering for distributed generation. The reconciliation filings compare the total actual costs allowed to revenue requirements related to these services and the difference between the costs incurred (or the rate recovery allowed) and the actual costs allowed is deferred and included, to be either recovered or refunded, in future customer rates. These cost tracking mechanisms also include certain incentives earned, return on rate base, and carrying charges that are billed in rates to customers, which do impact earnings.

*U.S. Federal Corporate Income Taxes:* On December 22, 2017, the Tax Cuts and Jobs Act became law, which amended existing federal tax rules to reduce the U.S. federal corporate income tax rate from 35 percent to 21 percent effective January 1, 2018. For our regulated companies, the most significant changes are (1) the benefit of incurring a lower federal income tax expense and (2) the reduction in ADIT liabilities (now excess ADIT or EDIT), which are estimated to be approximately \$2.8 billion and are included in regulatory liabilities as of December 31, 2019. The refund of these EDIT regulatory liabilities to customers will generally be made over the same period as the remaining useful lives of the underlying assets that gave rise to the ADIT liabilities. The refund of EDIT has begun at most of our distribution companies and is reflected in rates. The refund to customers and resulting amortization of the EDIT regulatory liabilities results in lower Revenues on the statements of income and lower current tax expense. This is offset by the reduction to Income Tax Expense due to the amortization of the EDIT. The refund of EDIT results in a lower effective tax rate and no impact on net income.

Eversource established a regulatory liability, recorded as a reduction to revenue, to reflect the difference between the 35 percent federal corporate income tax rate included in rates charged to customers and the 21 percent federal corporate income tax rate, effective January 1, 2018 as a result of the Tax Cuts and Jobs Act, until rates billed to customers reflected the lower federal tax rate. As of December 31, 2019, this liability, net of amounts refunded to customers, was \$14.6 million.

Eversource's regulated companies are in the process of, or will, refund the decrease in the income tax rate based on orders issued by applicable state and federal regulatory commissions. A summary of the timing of refunds related to the change in the tax rate is as follows:

Eversource Utility and Jurisdiction	EDIT Refund Timing	Effective Date of January 1, 2018 Tax Rate Reflected in Rates
<b>Connecticut</b>		
CL&P	Reflected in rates effective May 1, 2019	May 1, 2018
Yankee Gas	Reflected in rates effective November 15, 2018	November 15, 2018
<b>Massachusetts</b>		
NSTAR Electric	Reflected in rates effective January 1, 2019	February 1, 2018
NSTAR Gas	Reflected in rates effective February 1, 2019	July 1, 2018
<b>New Hampshire</b>		
PSNH	Refunds for EDIT are being addressed in permanent distribution rate case filing	July 1, 2019 for distribution
	Refunds for EDIT related to PSNH's divested generation assets reflected in rates effective August 1, 2018	
<b>Transmission</b>		
CL&P, NSTAR Electric and PSNH	Refunds for EDIT will be made based on November 2019 final ruling from FERC. Eversource expects to submit a filing demonstrating its compliance with the final rule in the second half of 2020.	January 1, 2018 for local transmission service and June 1, 2018 for regional transmission service

*Connecticut:*

**CL&P Storm Filing:** CL&P's approved rate case settlement in 2018 incorporated \$18.6 million of rate base recovery for catastrophic storms occurring after December 31, 2016, subject to a future storm filing. On November 16, 2018, CL&P filed for recovery of \$153 million of storm costs incurred from October 2017 through May 2018, with recovery over six years to begin May 1, 2019. Through the course of the proceeding, CL&P updated its request to \$145.5 million to reflect final invoicing and capitalization amounts. On April 17, 2019, PURA authorized recovery of \$141.0 million as part of storm cost recovery and the remainder to be recorded to plant or other balance sheet accounts.

*Massachusetts:*

**NSTAR Electric Distribution Rates:** As part of an inflation-based mechanism, NSTAR Electric submitted its second annual Performance Based Rate Adjustment filing on September 16, 2019 and the DPU approved a \$33.6 million increase to base distribution rates on December 19, 2019 for effect on January 1, 2020.

**NSTAR Gas Rate Case:** On November 8, 2019, NSTAR Gas filed its application with the DPU, which sought a distribution rate increase of \$38.0 million effective October 1, 2020. As part of this filing, NSTAR Gas also proposed to continue its ongoing Gas System Enhancement Program (GSEP), include the GSEP investments since 2015 into base rates, and implement a performance-based ratemaking plan. A final decision from the DPU is expected by September 30, 2020.

**Hingham Vote to Acquire Water System:** On April 22, 2019, the town of Hingham, Massachusetts voted to acquire the water system and treatment plant that supplies water to the towns of Hingham, Hull and North Cohasset. The acquisition price is currently estimated to be more than \$100 million, subject to adjustment based on actual capital investments as legally required and other future closing adjustments. Aquarion will continue to operate the water system consistent in all material respects with its obligations under applicable law during the transition period, until the sale closes. The Company is evaluating the impact of the sale on its financial statements, which will be recorded when the sale transaction closes. No loss is expected upon the ultimate conclusion of this transaction. The transaction is expected to close in the second half of 2020. As of December 31, 2019, these water distribution assets were included within Property, Plant and Equipment, Net and goodwill on the balance sheet and were also reflected in the Water Distribution segment and reporting unit.

## *New Hampshire:*

**Distribution Rates:** On April 26, 2019, PSNH filed an application with the NHPUC for approval of a temporary annual base distribution rate increase of approximately \$33 million, effective July 1, 2019. On June 27, 2019, the NHPUC approved a settlement agreement that was reached by PSNH, the NHPUC Staff, the Office of the Consumer Advocate, and another settling party, to implement a temporary annual base distribution rate increase of \$28.3 million. Although new rates were implemented on August 1, 2019 to customers, the provisions of the temporary base distribution rate increase were effective July 1, 2019. The settlement agreement also permits PSNH to recover approximately \$68.5 million in unrecovered storm costs over a five-year period beginning August 1, 2019, with debt carrying charges, which is included in the temporary rate increase.

On May 28, 2019, PSNH filed an application with the NHPUC for a permanent increase in base distribution rates of approximately \$70 million, effective July 1, 2020, which includes the temporary rate increase request. The temporary rates are subject to reconciliation based on the outcome of the permanent rate case now before the NHPUC. The NHPUC is permitted up to twelve months to adjudicate the permanent rate application from the date of filing. A decision by the NHPUC is expected in the second quarter of 2020.

**2013 through 2016 Storm Costs:** On March 26, 2019, the NHPUC approved the recovery of \$38.1 million, plus carrying charges, of storm costs incurred from December 2013 through April 2016 and the transfer of funding from PSNH's major storm reserve to recover those costs. The costs of these storms (excluding the equity return component of the carrying charges) were deferred as regulatory assets, and the funding reserve collected from customers was accrued as a regulatory liability. As a result of the duration of time between incurring storm costs in December 2013 through April 2016 and final approval from the NHPUC in 2019, PSNH recognized \$5.2 million (pre-tax) for the equity return component of the carrying charges within Other Income, Net on the statement of income in 2019, which has been collected from customers. Also included in the March 26, 2019 NHPUC approval is a prospective requirement for PSNH to annually net its storm funding reserve collected from customers against deferred storm costs.

## **Legislative and Policy Matters**

*New Hampshire:* On July 8, 2019, the New Hampshire Superior Court approved a settlement between PSNH and the Town of Bow, New Hampshire, where the town had over-assessed the value of the property owned by PSNH for the 2014 through 2018 property tax years. The result of this settlement was \$10.0 million in over-paid property taxes, of which PSNH has received \$4.25 million in cash through December 31, 2019. PSNH will receive the balance thereafter to be credited against future property taxes payable, annually through 2023.

In addition, PSNH reached a collective resolution with an additional 61 municipalities for an aggregate total of approximately \$7 million, where the towns had over-assessed the value of the property owned by PSNH for the 2015 through 2017 property tax years.

*Federal:* On December 20, 2019, the "Further Consolidated Appropriations Act, 2020," became law, which provided a one-year extension of the production tax credit or the investment tax credit for renewable wind projects under Section 45 of the Internal Revenue Code of 1986 on which construction begins before January 1, 2021. If construction begins on a qualifying wind project in 2020, the project will qualify for a production tax credit of \$15 per MWh or an 18 percent investment tax credit.

## **Critical Accounting Policies**

The preparation of financial statements in conformity with GAAP requires management to make estimates, assumptions and, at times, difficult, subjective or complex judgments. Changes in these estimates, assumptions and judgments, in and of themselves, could materially impact our financial position, results of operations or cash flows. Our management discusses with the Audit Committee of our Board of Trustees significant matters relating to critical accounting policies. Our critical accounting policies are discussed below. See the combined notes to our financial statements for further information concerning the accounting policies, estimates and assumptions used in the preparation of our financial statements.

*Regulatory Accounting:* Our regulated companies are subject to rate regulation that is based on cost recovery and meets the criteria for application of accounting guidance for rate-regulated operations, which considers the effect of regulation on the timing of the recognition of certain revenues and expenses. The regulated companies' financial statements reflect the effects of the rate-making process. The rates charged to the customers of our regulated companies are designed to collect each company's costs to provide service, plus a return on investment.

The application of accounting guidance for rate-regulated enterprises results in recording regulatory assets and liabilities. Regulatory assets represent the deferral of incurred costs that are probable of future recovery in customer rates. Regulatory assets are amortized as the incurred costs are recovered through customer rates. In some cases, we record regulatory assets before approval for recovery has been received from the applicable regulatory commission. We must use judgment to conclude that costs deferred as regulatory assets are probable of future recovery. We base our conclusion on certain factors, including, but not limited to, regulatory precedent. Regulatory liabilities represent either revenues received from customers to fund expected costs that have not yet been incurred or probable future refunds to customers.

We use judgment when recording regulatory assets and liabilities; however, regulatory commissions can reach different conclusions about the recovery of costs, and those conclusions could have a material impact on our financial statements. We believe it is probable that each of the regulated companies will recover the regulatory assets that have been recorded. If we determine that we can no longer apply the accounting guidance applicable to rate-regulated enterprises to our operations, or that we cannot conclude it is probable that costs will be recovered from customers in future rates, the costs would be charged to net income in the period in which the determination is made.

*Pension, SERP and PBOP:* We sponsor Pension, SERP and PBOP Plans to provide retirement benefits to our employees. For each of these plans, several significant assumptions are used to determine the projected benefit obligation, funded status and net periodic benefit cost. These

assumptions include the expected long-term rate of return on plan assets, discount rate, compensation/progression rate and mortality and retirement assumptions. We evaluate these assumptions at least annually and adjust them as necessary. Changes in these assumptions could have a material impact on our financial position, results of operations or cash flows.

**Expected Long-Term Rate of Return on Plan Assets:** In developing the expected long-term rate of return, we consider historical and expected returns, as well as input from our consultants. Our expected long-term rate of return on assets is based on assumptions regarding target asset allocations and corresponding expected rates of return for each asset class. We routinely review the actual asset allocations and periodically rebalance the investments to the targeted asset allocations when appropriate. For the year ended December 31, 2019, our expected long-term rate-of-return assumption used to determine our pension and PBOP expense was 8.25 percent for the Eversource Service plans and 7 percent for the Aquarion plans. For the forecasted 2020 pension and PBOP expense, an expected long-term rate of return of 8.25 percent for the Eversource Service plans and 7 percent for the Aquarion plans will be used reflecting our target asset allocations.

**Discount Rate:** Payment obligations related to the Pension, SERP and PBOP Plans are discounted at interest rates applicable to the expected timing of each plan's cash flows. The discount rate that was utilized in determining the pension, SERP and PBOP obligations was based on a yield-curve approach. This approach utilizes a population of bonds with an average rating of AA based on bond ratings by Moody's, S&P and Fitch, and uses bonds with above median yields within that population. As of December 31, 2019, the discount rates used to determine the funded status were within a range of 3.04 percent to 3.35 percent for the Pension and SERP Plans, and within a range of 3.26 percent to 3.28 percent for the PBOP Plans. As of December 31, 2018, the discount rates used were within a range of 4.22 percent to 4.45 percent for the Pension and SERP Plans, and within a range of 4.38 percent to 4.41 percent for the PBOP Plans. The decrease in the discount rates used to calculate the funded status resulted in an increase to the Pension and PBOP Plans' liability of \$813.1 million and \$88.6 million, respectively, as of December 31, 2019.

The Company uses the spot rate methodology for the service and interest cost components of Pension, SERP and PBOP expense because it provides a more precise measurement by matching projected cash flows to the corresponding spot rates on the yield curve. The discount rates used to estimate the 2019 expense were within a range of 2.63 percent to 3.55 percent for the Pension and SERP Plans, and within a range of 3.85 percent to 4.65 percent for the PBOP Plans.

**Mortality Assumptions:** Assumptions as to mortality of the participants in our Pension, SERP and PBOP Plans are a key estimate in measuring the expected payments a participant may receive over their lifetime and the corresponding plan liability we need to record. In 2019, a revised scale for the mortality table was released, and we utilized it in our measurements.

**Compensation/Progression Rate:** This assumption reflects the expected long-term salary growth rate, including consideration of the levels of increases built into collective bargaining agreements, and impacts the estimated benefits that Pension and SERP Plan participants receive in the future. As of December 31, 2019 and 2018, the compensation/progression rate used to determine the funded status was 3.50 percent for the Eversource Service plans and 4 percent for the Aquarion plans.

**Health Care Cost:** The Eversource Service PBOP Plan is not subject to health care cost trends. As of December 31, 2019, for the Aquarion PBOP Plan, the health care cost trend rate is a range of 3.5 percent to 6.5 percent, with an ultimate rate of 3.5 percent to 5 percent in 2019 and 2023, for post-65 and pre-65 retirees, respectively.

**Actuarial Determination of Expense:** Pension, SERP and PBOP expense is determined by our actuaries and consists of service cost and prior service cost, interest cost based on the discounting of the obligations, and amortization of actuarial gains and losses, offset by the expected return on plan assets. Actuarial gains and losses represent the amortization of differences between assumptions and actual information or updated assumptions. Pre-tax net periodic benefit expense for the Pension and SERP Plans was \$63.7 million, \$39.6 million and \$64.9 million for the years ended December 31, 2019, 2018 and 2017, respectively. For the PBOP Plans, there was net periodic PBOP income of \$41.5 million, \$45.0 million and \$39.6 million for the years ended December 31, 2019, 2018 and 2017, respectively.

The expected return on plan assets is determined by applying the assumed long-term rate of return to the Pension and PBOP Plan asset balances. This calculated expected return is compared to the actual return or loss on plan assets at the end of each year to determine the investment gains or losses to be immediately reflected in unamortized actuarial gains and losses.

**Forecasted Expenses and Expected Contributions:** We estimate that expense in 2020 for the Pension and SERP Plans will be approximately \$53 million and income in 2020 for the PBOP Plans will be approximately \$52 million. Pension, SERP and PBOP expense for subsequent years will depend on future investment performance, changes in future discount rates and other assumptions, and various other factors related to the populations participating in the plans.

Our policy is to fund the Pension Plans annually in an amount at least equal to the amount that will satisfy all federal funding requirements. We contributed \$112.5 million to the Pension Plans in 2019. We currently estimate contributing \$105.0 million to the Pension Plans in 2020.

It is our policy to fund the PBOP Plans annually through tax deductible contributions to external trusts. We contributed \$9.3 million to the PBOP Plans in 2019. We currently estimate contributing \$2.9 million to the PBOP Plans in 2020.

**Sensitivity Analysis:** The following represents the hypothetical increase to the Pension Plans' (excluding the SERP Plans) reported annual cost and a decrease to the PBOP Plans' reported annual income as a result of a change in the following assumptions by 50 basis points:

Assumption Change	Increase in Pension Plan Cost		Decrease in PBOP Plan Income	
	As of December 31,		As of December 31,	
	2019	2018	2019	2018
Eversource				
Lower expected long-term rate of return	\$ 22.9	\$ 23.7	\$ 4.1	\$ 4.5
Lower discount rate	21.7	25.5	1.7	2.9
Higher compensation rate	8.7	6.8	N/A	N/A

**Goodwill:** We recorded goodwill on our balance sheet associated with previous mergers and acquisitions, which totaled \$4.4 billion as of December 31, 2019. We have identified our reporting units for purposes of allocating and testing goodwill as Electric Distribution, Electric Transmission, Natural Gas Distribution and Water Distribution. Electric Distribution and Electric Transmission reporting units include carrying values for the respective components of CL&P, NSTAR Electric and PSNH. The Natural Gas Distribution reporting unit includes the carrying values of NSTAR Gas and Yankee Gas. The Water Distribution reporting unit includes the Aquarion water utility businesses. As of December 31, 2019, goodwill was allocated to the reporting units as follows: \$2.5 billion to Electric Distribution, \$0.6 billion to Electric Transmission, \$0.4 billion to Natural Gas Distribution and \$0.9 billion to Water Distribution.

We are required to test goodwill balances for impairment at least annually by considering the fair values of the reporting units, which requires us to use estimates and judgments. We have selected October 1st of each year as the annual goodwill impairment testing date. Goodwill impairment is deemed to exist if the carrying amount of a reporting unit exceeds its estimated fair value and if the implied fair value of goodwill based on the estimated fair values of the reporting units' assets and liabilities is less than the carrying amount of the goodwill. If goodwill were deemed to be impaired, it would be written down in the current period to the extent of the impairment.

We performed an impairment test of goodwill as of October 1, 2019 for the Electric Distribution, Electric Transmission, Natural Gas Distribution and Water Distribution reporting units. This evaluation required the consideration of several factors that impact the fair value of the reporting units, including conditions and assumptions that affect the future cash flows of the reporting units. Key considerations include discount rates, utility sector market performance and merger transaction multiples, and internal estimates of future cash flows and net income.

The 2019 goodwill impairment test resulted in a conclusion that goodwill is not impaired and no reporting unit is at risk of a goodwill impairment. The fair value of the reporting units was substantially in excess of carrying value.

**Long-Lived Assets:** Impairment evaluations of long-lived assets, including property, plant and equipment and other assets, involve a significant degree of estimation and judgment, including identifying circumstances that indicate an impairment may exist. Impairment analysis is required when events or changes in circumstances indicate that the carrying value of a long-lived asset may not be recoverable. Indicators of potential impairment include a deteriorating business climate, unfavorable regulatory action, decline in value that is other than temporary in nature, plans to dispose of a long-lived asset significantly before the end of its useful life, and accumulation of costs that are in excess of amounts allowed for recovery. The review of long-lived assets for impairment utilizes significant assumptions about operating strategies and external developments, including assessment of current and projected market conditions that can impact future cash flows.

**Impairment of Northern Pass Transmission:** Northern Pass was Eversource's planned 1,090 MW HVDC transmission line that would have interconnected from the Québec-New Hampshire border to Franklin, New Hampshire and an associated alternating current radial transmission line between Franklin and Deerfield, New Hampshire. As a result of a final decision received on July 19, 2019 from the New Hampshire Supreme Court, whereby the court denied Northern Pass' appeal and affirmed the NHSEC's denial of Northern Pass' siting application on NPT, Eversource concluded that construction of NPT was no longer probable and that there was no constructive path forward for the project. Eversource terminated the project and permanently abandoned any further development. As a result, substantially all of the capitalized project costs, which totaled \$318 million, certain of which are subject to cost reimbursement agreements, were impaired.

Based on the conclusion that the construction of Northern Pass was no longer probable, Eversource recorded an impairment charge in 2019 for all of the project costs associated with Northern Pass, which were primarily engineering design, siting, permitting and legal costs, along with appropriate allowances for funds used during construction, and recognized a receivable for certain cost reimbursement agreements. Additionally, Eversource recorded an impairment charge associated with the land acquired to construct Northern Pass in order to recognize the land at its estimated fair value based on assessed values and transaction costs. In total, this resulted in a pre-tax impairment charge of \$239.6 million within Operating Income on the statement of income for the year ended December 31, 2019, and was reflected in the Electric Transmission segment. The after-tax impact of the impairment charge was \$204.4 million, or \$0.64 per share, after giving effect to the estimated fair value of the related land, reimbursement agreements, and the impact of expected income tax benefits associated with the impairment charge. As a result of the decision to terminate the NPT project and permanently abandon any further development, Eversource does not expect any future cash expenditures associated with this project.

**Equity Method Investments:** Investments in affiliates where we have the ability to exercise significant influence, but not control, over an investee are initially recognized as an equity method investment at cost. Any differences between the cost of an investment and the amount of underlying equity in net assets of an investee are considered basis differences, and are determined based upon the estimated fair values of the investee's identifiable assets and liabilities. For our offshore wind equity method investment, basis differences are related to intangible assets for PPAs that will be amortized over the term of the PPAs, and equity method goodwill that are not amortized. Capitalized interest associated with our offshore wind equity method investment is included in the investment balance.

Equity method investments are assessed for impairment when conditions exist that indicate that the fair value of the investment is less than book value. If the decline in value is considered to be other-than-temporary, the investment is written down to its estimated fair value, which establishes a new cost basis in the investment. Impairment evaluations involve a significant degree of judgment and estimation, including identifying circumstances that indicate an impairment may exist and developing an estimate of undiscounted future cash flows.

Eversource recorded an other-than-temporary impairment of \$32.9 million within Other Income, Net on our statement of income in 2018, related to Access Northeast, an equity method investment. In September 2018, a series of non-Eversource natural gas explosions in eastern Massachusetts resulted in widespread property and system damage, personal injuries, and a fatality. Eversource identified the September 2018 natural gas series of explosions, compounded by the adverse legislative environment, as negative evidence that indicated potential impairment of our investment in Access Northeast. Our impairment assessment used a discounted cash flow approach, including consideration of the severity and duration of any decline in fair value of our investment in the project, and involved significant management judgment and estimation, including projections of the project's discounted cash flows and assumptions about exit price. In the third quarter of 2018, management determined that the future cash flows of the Access Northeast project were uncertain and could no longer be reasonably estimated and that the book value of our equity method investment was not recoverable. On April 1, 2019, pursuant to a provision in the partnership agreement jointly entered into by Eversource, Enbridge, Inc. and National Grid plc, through Algonquin Gas Transmission, LLC, the Access Northeast project was terminated.

*Income Taxes:* Income tax expense is estimated for each of the jurisdictions in which we operate and is recorded each quarter using an estimated annualized effective tax rate. This process to record income tax expense involves estimating current and deferred income tax expense or benefit and the impact of temporary differences resulting from differing treatment of items for financial reporting and income tax return reporting purposes. Such differences are the result of timing of the deduction for expenses, as well as any impact of permanent differences, non-tax deductible expenses, or other items that directly impact income tax expense as a result of regulatory activity (flow-through items). The temporary differences and flow-through items result in deferred tax assets and liabilities that are included in the balance sheets.

We also account for uncertainty in income taxes, which applies to all income tax positions previously filed in a tax return and income tax positions expected to be taken in a future tax return that have been reflected on our balance sheets. The determination of whether a tax position meets the recognition threshold under applicable accounting guidance is based on facts and circumstances available to us.

On December 22, 2017, the Tax Cuts and Jobs Act became law, which amended existing federal tax rules and included numerous provisions that impacted corporations. In particular, the act reduced the U.S. federal corporate income tax rate from 35 percent to 21 percent effective January 1, 2018. For our regulated companies, the most significant changes are (1) the benefit of incurring a lower federal income tax expense and (2) the reduction in ADIT liabilities (now excess ADIT or EDIT), which are estimated to be approximately \$2.8 billion and are included in regulatory liabilities as of December 31, 2019. Eversource's regulated companies are in the process of, or will be, refunding the EDIT liabilities to customers based on orders issued by applicable state regulatory commissions. The refund of these regulatory liabilities to customers will generally be made over the same period as the remaining useful lives of the underlying assets that gave rise to the ADIT liabilities.

*Accounting for Environmental Reserves:* Environmental reserves are accrued when assessments indicate it is probable that a liability has been incurred and an amount can be reasonably estimated. Increases to estimates of environmental liabilities could have an adverse impact on earnings. We estimate these liabilities based on findings through various phases of the assessment, considering the most likely action plan from a variety of available remediation options (ranging from no action required to full site remediation and long-term monitoring), current site information from our site assessments, remediation estimates from third party engineering and remediation contractors, and our prior experience in remediating contaminated sites. If a most likely action plan cannot yet be determined, we estimate the liability based on the low end of a range of possible action plans. A significant portion of our environmental sites and reserve amounts relate to former MGP sites that were operated several decades ago and manufactured natural gas from coal and other processes, which resulted in certain by-products remaining in the environment that may pose a potential risk to human health and the environment, for which we may have potential liability. Estimates are based on the expected remediation plan. Our estimates are subject to revision in future periods based on actual costs or new information from other sources, including the level of contamination at the site, the extent of our responsibility or the extent of remediation required, recently enacted laws and regulations or a change in cost estimates due to certain economic factors.

*Fair Value Measurements:* We follow fair value measurement guidance that defines fair value as the price that would be received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). We have applied this guidance to our Company's derivative contracts that are not elected or designated as "normal purchases or normal sales" (normal), to marketable securities held in trusts, and to our investments in our Pension and PBOP Plans. Fair value measurements are also incorporated into the accounting for goodwill, long-lived assets and AROs. We also applied this guidance in the valuation of our basis differences in our equity method offshore wind investments. The fair value measurement guidance was also applied in estimating the fair value of preferred stock, long-term debt and RRBs.

Changes in fair value of the derivative contracts are recorded as Regulatory Assets or Liabilities, as we recover the costs of these contracts in rates charged to customers. These valuations are sensitive to the prices of energy and energy-related products in future years for which markets have not yet developed and assumptions are made.

We use quoted market prices when available to determine the fair value of financial instruments. If quoted market prices are not available, fair value is determined using quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments that are not active and model-derived valuations. When quoted prices in active markets for the same or similar instruments are not available, we value derivative contracts using models that incorporate both observable and unobservable inputs. Significant unobservable inputs utilized in the models include energy and energy-related product prices for future years for long-dated derivative contracts and market volatilities. Discounted cash flow valuations incorporate estimates of premiums or discounts, reflecting risk-adjusted profit that would be required by a market participant to arrive at an exit price, using available historical market transaction information. Valuations of derivative contracts also reflect our estimates of nonperformance risk, including credit risk.

## Other Matters

**Accounting Standards:** For information regarding new accounting standards, see Note 1C, "Summary of Significant Accounting Policies - Accounting Standards," to the financial statements.

**Contractual Obligations and Commercial Commitments:** Information regarding our contractual obligations and commercial commitments as of December 31, 2019, is summarized annually through 2024 and thereafter as follows:

<b>Eversource</b> (Millions of Dollars)	2020	2021	2022	2023	2024	Thereafter	Total
Long-term debt maturities <sup>(a)</sup>	\$ 296.1	\$ 1,033.6	\$ 1,188.9	\$ 1,665.2	\$ 1,049.8	\$ 8,447.8	\$ 13,681.4
Rate reduction bond maturities	43.2	43.2	43.2	43.2	43.2	367.3	583.3
Estimated interest payments on existing debt <sup>(b)</sup>	511.5	493.4	458.4	425.5	384.1	4,020.3	6,293.2
Operating leases <sup>(c)</sup>	10.2	9.0	7.4	4.9	2.8	28.9	63.2
Finance leases <sup>(c)</sup>	3.4	2.9	1.5	0.8	0.8	13.1	22.5
Funding of pension obligations <sup>(d) (e)</sup>	105.0	—	—	—	—	—	105.0
Funding of PBOP obligations <sup>(d) (e)</sup>	2.9	—	—	—	—	—	2.9
Estimated future annual long-term contractual costs <sup>(f)</sup>	998.8	941.6	946.5	897.5	881.9	4,785.2	9,451.5
Total <sup>(g)</sup>	\$ 1,971.1	\$ 2,523.7	\$ 2,645.9	\$ 3,037.1	\$ 2,362.6	\$ 17,662.6	\$ 30,203.0

<b>CL&amp;P</b> (Millions of Dollars)	2020	2021	2022	2023	2024	Thereafter	Total
Long-term debt maturities <sup>(a)</sup>	\$ —	\$ —	\$ —	\$ 400.0	\$ 139.8	\$ 2,975.5	\$ 3,515.3
Estimated interest payments on existing debt <sup>(b)</sup>	153.2	153.2	153.2	148.2	143.2	2,016.2	2,767.2
Operating leases <sup>(c)</sup>	0.5	0.2	—	—	—	0.1	0.8
Finance leases <sup>(c)</sup>	2.0	1.5	—	—	—	—	3.5
Funding of pension obligations <sup>(d) (e)</sup>	23.2	—	—	—	—	—	23.2
Estimated future annual long-term contractual costs <sup>(f)</sup>	558.2	547.9	602.7	614.3	605.8	2,875.9	5,804.8
Total <sup>(g)</sup>	\$ 737.1	\$ 702.8	\$ 755.9	\$ 1,162.5	\$ 888.8	\$ 7,867.7	\$ 12,114.8

- (a) Long-term debt maturities exclude the CYAPC pre-1983 spent nuclear fuel obligation, net unamortized premiums, discounts and debt issuance costs, and other fair value adjustments.
- (b) Estimated interest payments on fixed-rate debt are calculated by multiplying the coupon rate on the debt by its scheduled notional amount outstanding for the period of measurement.
- (c) The operating and finance lease obligations include interest.
- (d) Amounts are not included on our balance sheets.
- (e) These amounts represent expected pension and PBOP contributions for 2020. Future contributions will vary depending on many factors, including the performance of existing plan assets, valuation of the plans' liabilities and long-term discount rates.
- (f) Other than certain derivative contracts held by the regulated companies, these obligations are not included on our balance sheets.
- (g) Does not include other long-term liabilities recorded on our balance sheet, such as environmental reserves, employee medical insurance, workers compensation and long-term disability insurance reserves, ARO liability reserves and other reserves, as we cannot make reasonable estimates of the timing of payments. Also, does not include amounts not included on our balance sheets for future funding of Eversource's equity method investments, as we cannot make reasonable estimates of the periods or the investment contributions.

For further information regarding our contractual obligations and commercial commitments, see Note 7, "Asset Retirement Obligations," Note 8, "Short-Term Debt," Note 9, "Long-Term Debt," Note 10, "Rate Reduction Bonds and Variable Interest Entities," Note 11A, "Employee Benefits - Pension Benefits and Postretirement Benefits Other Than Pension," Note 13, "Commitments and Contingencies," and Note 15, "Leases," to the financial statements.

## RESULTS OF OPERATIONS – EVERSOURCE ENERGY AND SUBSIDIARIES

The following provides the amounts and variances in operating revenues and expense line items in the statements of income for Eversource for the years ended December 31, 2019 and 2018 included in this Annual Report on Form 10-K:

(Millions of Dollars)	For the Years Ended December 31,		
	2019	2018	Increase/(Decrease)
Operating Revenues	\$ 8,526.5	\$ 8,448.2	\$ 78.3
Operating Expenses:			
Purchased Power, Fuel and Transmission	3,040.2	3,139.0	(98.8)
Operations and Maintenance	1,363.1	1,335.2	27.9
Depreciation	885.3	819.9	65.4
Amortization	195.4	252.0	(56.6)
Energy Efficiency Programs	501.4	472.4	29.0
Taxes Other Than Income Taxes	711.0	729.8	(18.8)
Impairment of Northern Pass Transmission	239.6	—	239.6
Total Operating Expenses	6,936.0	6,748.3	187.7
Operating Income	1,590.5	1,699.9	(109.4)
Interest Expense	533.2	498.8	34.4
Other Income, Net	132.8	128.4	4.4
Income Before Income Tax Expense	1,190.1	1,329.5	(139.4)
Income Tax Expense	273.5	289.0	(15.5)
Net Income	916.6	1,040.5	(123.9)
Net Income Attributable to Noncontrolling Interests	7.5	7.5	—
Net Income Attributable to Common Shareholders	\$ 909.1	\$ 1,033.0	\$ (123.9)

### Operating Revenues

**Sales Volumes:** A summary of our retail electric GWh sales volumes, our firm natural gas MMcf sales volumes, and our water MG sales volumes, and percentage changes, is as follows:

	Electric			Firm Natural Gas			Water		
	Sales Volumes (GWh)		Percentage Decrease	Sales Volumes (MMcf)		Percentage Increase	Sales Volumes (MG)		Percentage Decrease
	2019	2018 <sup>(1)</sup>		2019	2018 <sup>(2)</sup>		2019	2018	
Traditional	7,685	7,915	(2.9)%	—	—	—%	2,161	2,252	(4.0)%
Decoupled and Special Contracts <sup>(3)</sup>	43,934	45,466	(3.4)%	107,806	105,957	1.7%	21,370	21,479	(0.5)%
Total Sales Volumes	51,619	53,381	(3.3)%	107,806	105,957	1.7%	23,531	23,731	(0.8)%

<sup>(1)</sup> Effective February 1, 2018, NSTAR Electric operated entirely under a decoupled rate structure. The 2018 sales volumes for NSTAR Electric have been recast to present January 2018 as decoupled to conform to the current year presentation.

<sup>(2)</sup> Effective November 15, 2018, Yankee Gas operated under a decoupled rate structure. The 2018 sales volumes for Yankee Gas have been recast to present 2018 as decoupled to conform to the current year presentation.

<sup>(3)</sup> Special contracts are unique to Yankee Gas natural gas distribution customers who take service under such an arrangement and generally specify the amount of distribution revenue to be paid to Yankee Gas regardless of the customers' usage.

Weather, fluctuations in energy supply costs, conservation measures (including utility-sponsored energy efficiency programs), and economic conditions affect customer energy usage and water consumption. Industrial sales volumes are less sensitive to temperature variations than residential and commercial sales volumes. In our service territories, weather impacts both electric and water sales volumes during the summer and both electric and natural gas sales volumes during the winter; however, natural gas sales volumes are more sensitive to temperature variations than electric sales volumes. Customer heating or cooling usage may not directly correlate with historical levels or with the level of degree-days that occur.

Fluctuations in retail electric sales volumes at PSNH impact earnings ("Traditional" in the table above). For CL&P, NSTAR Electric, Yankee Gas, and NSTAR Gas, fluctuations in retail sales volumes do not impact earnings due to their respective regulatory commission-approved distribution revenue decoupling mechanisms ("Decoupled" in the table above). These distribution revenues are decoupled from their customer sales volumes, which breaks the relationship between sales volumes and revenues recognized. Fluctuations in water sales volumes largely do not impact earnings as our Connecticut water distribution business is also decoupled.

**Operating Revenues:** Operating Revenues by segment increased/(decreased) in 2019, as compared to 2018, as follows:

<i>(Millions of Dollars)</i>	<b>Increase/(Decrease)</b>	
Electric Distribution	\$	19.3
Natural Gas Distribution		40.0
Electric Transmission		102.7
Water Distribution		2.6
Other		92.2
Eliminations		(178.5)
<b>Total Operating Revenues</b>	<b>\$</b>	<b>78.3</b>

*Electric and Natural Gas Distribution Revenues:*

**Base Distribution Revenues:**

- Base electric distribution revenues increased \$107.7 million in 2019, as compared to 2018, due primarily to the impact of CL&P's base distribution rate increases effective May 1, 2019 and May 1, 2018, which include recovery of storm costs and certain other items that do not impact earnings, an NSTAR Electric base distribution rate increase effective January 1, 2019, and a PSNH temporary base distribution rate increase effective July 1, 2019.
- Base natural gas distribution revenues increased \$7.6 million in 2019, as compared to 2018, due primarily to the impact of the Yankee Gas base distribution rate increase effective November 15, 2018.

**Tracked Distribution Revenues:** Tracked distribution revenues consist of certain costs that are recovered from customers in retail rates through regulatory commission-approved cost tracking mechanisms and therefore, recovery of these costs has no impact on earnings. Costs recovered through cost tracking mechanisms include, among others, energy supply and natural gas supply procurement and other energy-related costs, and electric retail transmission charges, which decreased significantly due primarily to the lower federal corporate income tax rate that was reflected effective January 1, 2019. In addition, cost tracking mechanisms include energy efficiency program costs, electric restructuring and stranded cost recovery revenues (including securitized RRB charges), and additionally for NSTAR Electric, pension and PBOP benefits and net metering for distributed generation. Tracked revenues also include wholesale market sales transactions, such as sales of energy and energy-related products into the ISO-NE wholesale electricity market and the sale of RECs to various counterparties. However, tracked revenues do include certain incentives earned, return on rate base, and carrying charges that are billed in rates to customers, which do impact earnings.

Tracked distribution revenues increased/(decreased) in 2019, as compared to 2018, due primarily to the following:

<i>(Millions of Dollars)</i>	<b>Electric Distribution</b>	<b>Natural Gas Distribution</b>
Retail Tariff Tracked Revenues		
Energy supply procurement	\$ —	\$ 24.2
Retail transmission <sup>(1)</sup>	(123.3)	N/A
Other distribution tracking mechanisms	18.7	13.8
Wholesale Market Sales Revenue	36.2	(2.1)

<sup>(1)</sup> The decrease reflects a decrease in the retail transmission rate billed to customers that was adjusted on January 1, 2019 to reflect the lower federal corporate income tax rate.

**Electric Transmission Revenues:** Electric transmission revenues increased \$102.7 million in 2019, as compared to 2018, due primarily to continued investment in our transmission infrastructure and a higher recovery of tracked costs.

**Other Revenues and Eliminations:** Other revenues primarily include the revenues of Eversource's service company, most of which are eliminated in consolidation. Eliminations are also primarily related to the Eversource electric transmission revenues that are derived from ISO-NE regional transmission charges to the distribution businesses of CL&P, NSTAR Electric and PSNH that recover the costs of the wholesale transmission business.

**Purchased Power, Fuel and Transmission** expense includes costs associated with purchasing electricity and natural gas on behalf of our customers. These electric and natural gas supply costs are recovered from customers in rates through commission-approved cost tracking mechanisms, which have no impact on earnings (tracked costs). Purchased Power, Fuel and Transmission expense increased/(decreased) in 2019, as compared to 2018, due primarily to the following:

<i>(Millions of Dollars)</i>	<b>Increase/(Decrease)</b>	
Electric Distribution	\$	88.1
Natural Gas Distribution		21.8
Transmission		(124.4)
Eliminations		(84.3)
<b>Total Purchased Power, Fuel and Transmission</b>	<b>\$</b>	<b>(98.8)</b>

The increase in purchased power expense at the electric distribution business in 2019 as compared to 2018, was driven primarily by a new zero-carbon power purchase agreement entered into in 2019, as required by regulation in Connecticut, from which the energy purchased from Millstone Nuclear Power Station is sold into the market. Additionally, as a result of the sale of PSNH's thermal generation assets on January 10, 2018, and the sale of PSNH's hydroelectric assets on August 26, 2018, PSNH purchased power in place of its self-generation output. The increase in natural gas supply costs at our natural gas distribution business was due primarily to higher average sales volumes.

The decrease in transmission costs in 2019, as compared to 2018, was primarily the result of a decrease in the retail transmission cost deferral, which reflects the actual costs of transmission service compared to estimated amounts billed to customers, and a decrease in costs billed by ISO-NE that support regional grid investments. The retail transmission rate was adjusted on January 1, 2019 to reflect the lower federal corporate income tax rate, resulting in a decrease in the cost of retail transmission service. This was partially offset by an increase in Local Network Service charges, which reflect the cost of transmission service provided by Eversource over our local transmission network.

**Operations and Maintenance** expense includes tracked costs and costs that are part of base electric, natural gas and water distribution rates with changes impacting earnings (non-tracked costs). Operations and Maintenance expense increased/(decreased) in 2019, as compared to 2018, due primarily to the following:

<i>(Millions of Dollars)</i>	<u>Increase/(Decrease)</u>
<b>Base Electric Distribution (Non-Tracked Costs):</b>	
Employee-related expenses, including labor and benefits	\$ (27.6)
Storm restoration costs	8.8
Shared corporate costs (including computer software depreciation at Eversource Service)	22.3
Operations-related expenses, including vegetation management, vehicles, and outside services	14.6
Other non-tracked operations and maintenance	<u>(2.9)</u>
Total Base Electric Distribution (Non-Tracked Costs)	15.2
Base Natural Gas Distribution (Non-Tracked Costs) - Increase due primarily to higher shared corporate costs of \$10.8 million	16.6
Water Distribution	0.1
Tracked Costs (Electric Distribution, Electric Transmission and Natural Gas Distribution) - Increase due to higher transmission and vegetation management expenses, partially offset by the absence in 2019 of PSNH generation operations expenses due to the sale of its generation assets in 2018, and a decrease in employee-related benefit costs	29.2
Other and eliminations:	
Eversource Parent and Other Companies - other operations and maintenance	59.8
Eliminations	<u>(93.0)</u>
Total Operations and Maintenance	<u>\$ 27.9</u>

**Depreciation** expense increased in 2019, as compared to 2018, due primarily to higher utility plant in service balances and new depreciation rates effective with the CL&P distribution rate case settlement agreement.

**Amortization** expense includes the deferral of energy supply and energy-related costs included in certain regulatory commission-approved cost tracking mechanisms, and the amortization of certain costs. This deferral adjusts expense to match the corresponding revenues. Energy supply and energy-related costs are recovered from customers in rates and have no impact on earnings. Amortization decreased in 2019, as compared to 2018, due primarily to the deferral of energy supply and energy-related costs at CL&P and PSNH, partially offset by an increase in storm cost recovery at CL&P, NSTAR Electric and PSNH, and by increased amortization of PSNH's securitized regulatory asset related to the May 2018 RRB issuance of \$15.7 million.

**Energy Efficiency Programs** expense increased in 2019, as compared to 2018, due primarily to an increase in spending for CL&P's and PSNH's energy efficiency programs. The costs for the majority of the state energy policy initiatives and expanded energy efficiency programs are recovered from customers in rates and have no impact on earnings. CL&P, NSTAR Electric and PSNH energy efficiency programs will include additional authorized spending totaling approximately \$60 million in 2020, as compared to 2019.

**Taxes Other Than Income Taxes** expense decreased in 2019, as compared to 2018, due primarily to a decrease of \$25.4 million related to CL&P's remittance of energy efficiency funds to the State of Connecticut. Energy efficiency funds collected from CL&P's customers after July 1, 2019 are no longer subject to remittance to the State of Connecticut. The decrease is also due to amounts received by PSNH in the third quarter of 2019 relating to a refund of property taxes as a result of a settlement with the town of Bow, New Hampshire (\$8.3 million).

**Impairment of Northern Pass Transmission** reflects an impairment charge of \$239.6 million that was recorded in the second quarter of 2019 as a result of the July 19, 2019 New Hampshire Supreme Court decision. The after-tax impact of this impairment charge was \$204.4 million.

**Interest Expense** increased in 2019, as compared to 2018, due primarily to an increase in interest on long-term debt as a result of new debt issuances (\$38.9 million), an increase in interest due to the May 2018 PSNH RRB issuance (\$6.7 million) and an increase in interest on notes payable (\$4.1 million). Partially offsetting these increases were an increase in AFUDC related to debt funds (\$5.9 million) and higher other capitalized interest (\$17.0 million).

**Other Income, Net** increased in 2019, as compared to 2018, due primarily to an increase in equity in earnings of unconsolidated affiliates related to Eversource's equity method investments, net of impairment (\$38.4 million) and investment income in 2019 compared to investment losses in 2018 (\$4.8 million). In 2018, Eversource recognized a \$32.9 million other-than-temporary impairment charge to our equity method investment in the Access Northeast project, which was reflected as a loss within equity in earnings. Partially offsetting these increases were a decrease related to pension, SERP and PBOP non-service income components (\$29.5 million), lower gains on sales of property (\$4.8 million), and a decrease in the recognition of the equity component of the carrying charges related to storm costs recorded in interest income at PSNH (\$2.4 million).

**Income Tax Expense** decreased in 2019, as compared to 2018, due primarily to amortization of EDIT (\$32.4 million), by the impairment of NPT in 2019, compared to the write-off of Access Northeast in 2018 (\$37.8 million), partially offset by higher pre-tax earnings (\$15.0 million), by items that impact our tax rate as a result of regulatory treatment (flow-through items) and permanent differences (\$8.4 million), an increase in valuation allowance against state tax credits (\$13.3 million), and due to the offset of one-time items relating to federal tax reform and release of tax reserve in 2018 (\$18.0 million) that did not occur in 2019. The impact of the amortization of the EDIT regulatory liability, including the tax gross up portion, that reduced revenue was \$51.5 million, offset by current tax benefits of \$14.1 million and amortization of EDIT of \$37.4 million, for the year ended December 31, 2019, which results in no impact on earnings.

**Results of Operations for the years ended December 31, 2019 and 2018 for each of CL&P, NSTAR Electric and PSNH have been omitted from this report but are set forth in the Annual Report on Form 10-K for 2019 filed with the SEC on a combined basis with Eversource Energy on February 27, 2020. Such report is also available in the Investors section at [www.eversource.com](http://www.eversource.com).**

## **Item 7A. Quantitative and Qualitative Disclosures about Market Risk**

### **Market Risk Information**

*Commodity Price Risk Management:* Our regulated companies enter into energy contracts to serve our customers, and the economic impacts of those contracts are passed on to our customers. Accordingly, the regulated companies have no exposure to loss of future earnings or fair values due to these market risk-sensitive instruments. Eversource's Energy Supply Risk Committee, comprised of senior officers, reviews and approves all large-scale energy related transactions entered into by its regulated companies.

### **Other Risk Management Activities**

We have an Enterprise Risk Management (ERM) program for identifying the principal risks of the Company. Our ERM program involves the application of a well-defined, enterprise-wide methodology designed to allow our Risk Committee, comprised of our senior officers of the Company, to identify, categorize, prioritize, and mitigate the principal risks to the Company. The ERM program is integrated with other assurance functions throughout the Company including Compliance, Auditing, and Insurance to ensure appropriate coverage of risks that could impact the Company. In addition to known risks, ERM identifies emerging risks to the Company, through participation in industry groups, discussions with management and in consultation with outside advisers. Our management then analyzes risks to determine materiality, likelihood and impact, and develops mitigation strategies. Management broadly considers our business model, the utility industry, the global economy, climate change, sustainability and the current environment to identify risks. The Finance Committee of the Board of Trustees is responsible for oversight of the Company's ERM program and enterprise-wide risks as well as specific risks associated with insurance, credit, financing, investments, pensions and overall system security including cyber security. The findings of the ERM process are periodically discussed with the Finance Committee of our Board of Trustees, as well as with other Board Committees or the full Board of Trustees, as appropriate, including reporting on how these issues are being measured and managed. However, there can be no assurances that the ERM process will identify or manage every risk or event that could impact our financial position, results of operations or cash flows.

*Interest Rate Risk Management:* We manage our interest rate risk exposure in accordance with our written policies and procedures by maintaining a mix of fixed and variable rate long-term debt. As of December 31, 2019, all of our long-term debt except for \$11.6 million of fees and interest due for CYAPC's spent nuclear fuel disposal costs, was at a fixed interest rate.

*Credit Risk Management:* Credit risk relates to the risk of loss that we would incur as a result of non-performance by counterparties pursuant to the terms of our contractual obligations. We serve a wide variety of customers and transact with suppliers that include IPPs, industrial companies, natural gas and electric utilities, oil and natural gas producers, financial institutions, and other energy marketers. Margin accounts exist within this diverse group, and we realize interest receipts and payments related to balances outstanding in these margin accounts. This wide customer and supplier mix generates a need for a variety of contractual structures, products and terms that, in turn, require us to manage the portfolio of market risk inherent in those transactions in a manner consistent with the parameters established by our risk management process.

Our regulated companies are subject to credit risk from certain long-term or high-volume supply contracts with energy marketing companies. Our regulated companies manage the credit risk with these counterparties in accordance with established credit risk practices and monitor contracting risks, including credit risk. As of December 31, 2019, our regulated companies held collateral (letters of credit or cash) of \$20.0 million from counterparties related to our standard service contracts. As of December 31, 2019, Eversource had \$19.3 million of cash posted with ISO-NE related to energy transactions.

For further information on cash collateral deposited and posted with counterparties, see Note 10, "Summary of Significant Accounting Policies - Supplemental Cash Flow Information," to the financial statements.

If the respective unsecured debt ratings of Eversource or its subsidiaries were reduced to below investment grade by either Moody's or S&P, certain of Eversource's contracts would require additional collateral in the form of cash to be provided to counterparties and independent system operators. Eversource would have been and remains able to provide that collateral.

## **Item 8. Financial Statements and Supplementary Data**

Eversource

Company Report on Internal Controls Over Financial Reporting  
Reports of Independent Registered Public Accounting Firm  
Consolidated Financial Statements

### **Company Report on Internal Controls Over Financial Reporting**

#### **Eversource Energy**

Management is responsible for the preparation, integrity, and fair presentation of the accompanying consolidated financial statements of Eversource Energy and subsidiaries (Eversource or the Company) and of other sections of this annual report. Eversource's internal controls over financial reporting were audited by Deloitte & Touche LLP.

Management is responsible for establishing and maintaining adequate internal controls over financial reporting. The Company's internal control framework and processes have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. There are inherent limitations of internal controls over financial reporting that could allow material misstatements due to error or fraud to occur and not be prevented or detected on a timely basis by employees during the normal course of business. Additionally, internal controls over financial reporting may become inadequate in the future due to changes in the business environment.

Under the supervision and with the participation of the principal executive officer and principal financial officer, Eversource conducted an evaluation of the effectiveness of internal controls over financial reporting based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation under the framework in COSO, management concluded that internal controls over financial reporting were effective as of December 31, 2019.

February 26, 2020

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Trustees of Eversource Energy

### Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Eversource Energy and subsidiaries (the “Company”) as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2019, of the Company and our report dated February 26, 2020, expressed an unqualified opinion on those financial statements.

### Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Company Report on Internal Controls Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

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

/s/ Deloitte & Touche LLP

Hartford, Connecticut  
February 26, 2020

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Trustees and Shareholders of Eversource Energy:

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Eversource Energy and subsidiaries (the “Company”) as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, common shareholders’ equity, and cash flows, for each of the three years in the period ended December 31, 2019, and the related notes and the schedules listed in the Index at Item 15 of Part IV (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2020, expressed an unqualified opinion on the Company’s internal control over financial reporting.

### Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

#### ***Regulatory Accounting - Impact of Rate Regulation on the Financial Statements - Refer to Note 2 to the Financial Statements***

##### *Critical Audit Matter Description*

The Company’s utility companies are subject to rate regulation by one or more of the Federal Energy Regulatory Commission and the Connecticut, Massachusetts, and New Hampshire state public utility authorities (the “Commissions”) that is based on cost recovery and meets the criteria for application of accounting guidance for rate-regulated operations, which considers the effect of regulation on the timing of the recognition of certain revenues and expenses. The regulated companies’ financial statements reflect the effects of the rate-making process. The rates charged to the customers of the Company’s regulated companies are designed to collect each company’s cost to provide service, plus a return on investment.

The application of accounting guidance for rate-regulated enterprises results in recording regulatory assets and liabilities. Regulatory assets represent the deferral of incurred costs that are probable of future recovery in customer rates. Regulatory assets are amortized as the incurred costs are recovered through customer rates. In some cases, the Company records regulatory assets before approval for recovery has been received from the applicable regulatory commission. The Company must use judgment to conclude that costs deferred as regulatory assets are probable of future recovery. The Company bases its conclusion on certain factors, including, but not limited to, regulatory precedent. Regulatory liabilities represent either revenues received from customers to fund expected costs that have not yet been incurred or probable future refunds to customers.

The Company uses judgment when recording regulatory assets and liabilities; however, regulatory commissions can reach different conclusions about the recovery of costs, and those conclusions could have a material impact on the financial statements. Management believes it is probable that each of the regulated companies will recover its respective investment in long-lived assets, including regulatory assets. If management were to determine that it could no longer apply the accounting guidance applicable to rate-regulated enterprises to any of the regulated companies’ operations, or if management could not conclude it is probable that costs would be recovered from customers in future rates, the costs would be charged to net income in the period in which the determination is made.

Accounting for the economics of rate-regulation impacts multiple financial statement line items and disclosures, such as regulated property, plant, and equipment, regulatory assets and liabilities, operating revenues and depreciation expense. While management has indicated it expects to recover costs from customers through regulated rates, there is a risk that the Commissions will not approve full recovery of such costs or full recovery of all amounts invested in the utility business and a reasonable return on that investment. We identified the impact of rate-regulation as a critical audit matter due to the significant judgments made by management to support its assertions about impact of future regulatory orders on the financial statements. Management judgments include assessing the probability of recovery in future rates of incurred costs and a refund to customers. Given that management's accounting judgments are based on assumptions about the outcome of future decisions by the Commissions, auditing these judgments requires specialized knowledge of accounting for rate regulation and the rate setting process due to its inherent complexities.

*How the Critical Audit Matter Was Addressed in the Audit*

Our audit procedures related to the uncertainty of future decisions by the Commissions included the following, among others:

We tested the effectiveness of management's controls over the evaluation of the likelihood of (1) the recovery in future rates of costs incurred as property, plant, and equipment and deferred as regulatory assets, and (2) a refund or a future reduction in rates that should be reported as regulatory liabilities. We tested the effectiveness of management's controls over the initial recognition of amounts as property, plant, and equipment; regulatory assets or liabilities; and the monitoring and evaluation of regulatory developments that may affect the likelihood of recovering costs in future rates, a refund, or a future reduction in rates.

We evaluated the Company's disclosures related to the applicability and impacts of rate regulation, including the balances recorded and regulatory developments disclosed in the financial statements.

We read relevant regulatory orders issued by the Commissions for the Company and other public utilities in Connecticut, Massachusetts, and New Hampshire, regulatory statutes, interpretations, procedural memorandums, filings made by intervenors, and other publicly available information to assess the likelihood of recovery in future rates or of a future refund or reduction in rates based on precedence of the Commissions' treatment of similar costs under similar circumstances. We evaluated the external information and compared it to management's recorded regulatory asset and liability balances for completeness.

For regulatory matters in process, we inspected the Company's filings with the Commissions and the filings with the Commissions by intervenors that may impact the Company's future rates, for any evidence that might contradict management's assertions.

We obtained the regulatory orders and analysis from management that support the probability of recovery, refund, or future reductions in rates for regulatory assets and liabilities to assess management's assertion that amounts are probable of recovery, refund, or a future reduction in rates.

/s/ Deloitte & Touche LLP

Hartford, Connecticut  
February 26, 2020

We have served as the Company's auditor since 2002.

EVERSOURCE ENERGY AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

(Thousands of Dollars)	As of December 31,	
	2019	2018
<b>ASSETS</b>		
Current Assets:		
Cash	\$ 15,432	\$ 108,068
Receivables, Net	989,383	994,055
Unbilled Revenues	181,006	176,285
Fuel, Materials, Supplies and REC Inventory	235,471	238,042
Regulatory Assets	651,112	514,779
Prepayments and Other Current Assets	342,135	260,995
<b>Total Current Assets</b>	<b>2,414,539</b>	<b>2,292,224</b>
Property, Plant and Equipment, Net	27,585,470	25,610,428
Deferred Debits and Other Assets:		
Regulatory Assets	4,863,639	4,631,137
Goodwill	4,427,266	4,427,266
Investments in Unconsolidated Affiliates	871,633	464,286
Marketable Securities	449,130	417,508
Other Long-Term Assets	512,238	398,407
<b>Total Deferred Debits and Other Assets</b>	<b>11,123,906</b>	<b>10,338,604</b>
<b>Total Assets</b>	<b>\$ 41,123,915</b>	<b>\$ 38,241,256</b>
<b>LIABILITIES AND CAPITALIZATION</b>		
Current Liabilities:		
Notes Payable	\$ 889,084	\$ 910,000
Long-Term Debt – Current Portion	327,411	837,319
Rate Reduction Bonds – Current Portion	43,210	52,332
Accounts Payable	1,147,872	1,119,995
Regulatory Liabilities	361,152	370,230
Other Current Liabilities	836,834	823,006
<b>Total Current Liabilities</b>	<b>3,605,563</b>	<b>4,112,882</b>
Deferred Credits and Other Liabilities:		
Accumulated Deferred Income Taxes	3,755,777	3,506,030
Regulatory Liabilities	3,658,042	3,609,475
Derivative Liabilities	338,710	379,562
Asset Retirement Obligations	488,511	466,236
Accrued Pension, SERP and PBOP	1,370,245	962,510
Other Long-Term Liabilities	810,553	730,100
<b>Total Deferred Credits and Other Liabilities</b>	<b>10,421,838</b>	<b>9,653,913</b>
Long-Term Debt	13,770,828	12,248,743
Rate Reduction Bonds	540,122	583,331
Noncontrolling Interest - Preferred Stock of Subsidiaries	155,570	155,570
Common Shareholders' Equity:		
Common Shares	1,729,292	1,669,392
Capital Surplus, Paid In	7,087,768	6,241,222
Retained Earnings	4,177,048	3,953,974
Accumulated Other Comprehensive Loss	(65,059)	(60,000)
Treasury Stock	(299,055)	(317,771)
<b>Common Shareholders' Equity</b>	<b>12,629,994</b>	<b>11,486,817</b>
Commitments and Contingencies (Note 13)		
<b>Total Liabilities and Capitalization</b>	<b>\$ 41,123,915</b>	<b>\$ 38,241,256</b>

The accompanying notes are an integral part of these consolidated financial statements.

EVERSOURCE ENERGY AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME

(Thousands of Dollars, Except Share Information)	For the Years Ended December 31,		
	2019	2018	2017
Operating Revenues	\$ 8,526,470	\$ 8,448,201	\$ 7,751,952
Operating Expenses:			
Purchased Power, Fuel and Transmission	3,040,160	3,138,969	2,535,271
Operations and Maintenance	1,363,113	1,335,213	1,307,052
Depreciation	885,278	819,930	773,802
Amortization	195,380	252,026	89,986
Energy Efficiency Programs	501,369	472,380	480,835
Taxes Other Than Income Taxes	711,035	729,753	676,757
Impairment of Northern Pass Transmission	239,644	—	—
Total Operating Expenses	6,935,979	6,748,271	5,863,703
Operating Income	1,590,491	1,699,930	1,888,249
Interest Expense	533,197	498,805	421,755
Other Income, Net	132,777	128,366	107,913
Income Before Income Tax Expense	1,190,071	1,329,491	1,574,407
Income Tax Expense	273,499	288,972	578,892
Net Income	916,572	1,040,519	995,515
Net Income Attributable to Noncontrolling Interests	7,519	7,519	7,519
Net Income Attributable to Common Shareholders	\$ 909,053	\$ 1,033,000	\$ 987,996
Basic Earnings Per Common Share	\$ 2.83	\$ 3.25	\$ 3.11
Diluted Earnings Per Common Share	\$ 2.81	\$ 3.25	\$ 3.11
Weighted Average Common Shares Outstanding:			
Basic	321,416,086	317,370,369	317,411,097
Diluted	322,941,636	317,993,934	318,031,580

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Thousands of Dollars)	For the Years Ended December 31,		
	2019	2018	2017
Net Income	\$ 916,572	\$ 1,040,519	\$ 995,515
Other Comprehensive (Loss)/Income, Net of Tax:			
Qualified Cash Flow Hedging Instruments	1,393	1,756	1,974
Changes in Unrealized Gains/(Losses) on Marketable Securities	1,166	(547)	(350)
Changes in Funded Status of Pension, SERP and PBOP Benefit Plans	(7,618)	5,194	(2,745)
Other Comprehensive (Loss)/Income, Net of Tax	(5,059)	6,403	(1,121)
Comprehensive Income Attributable to Noncontrolling Interests	(7,519)	(7,519)	(7,519)
Comprehensive Income Attributable to Common Shareholders	\$ 903,994	\$ 1,039,403	\$ 986,875

The accompanying notes are an integral part of these consolidated financial statements.

EVERSOURCE ENERGY AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMMON SHAREHOLDERS' EQUITY

(Thousands of Dollars, Except Share Information)	Common Shares		Capital Surplus, Paid In	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Common Shareholders' Equity
	Shares	Amount					
Balance as of January 1, 2017	316,885,808	\$ 1,669,392	\$ 6,250,224	\$ 3,175,171	\$ (65,282)	\$ (317,771)	\$ 10,711,734
Net Income				995,515			995,515
Dividends on Common Shares - \$1.90 Per Share				(602,083)			(602,083)
Dividends on Preferred Stock				(7,519)			(7,519)
Long-Term Incentive Plan Activity			(10,834)				(10,834)
Other Changes in Shareholders' Equity			550				550
Other Comprehensive Loss					(1,121)		(1,121)
Balance as of December 31, 2017	316,885,808	1,669,392	6,239,940	3,561,084	(66,403)	(317,771)	11,086,242
Net Income				1,040,519			1,040,519
Dividends on Common Shares - \$2.02 Per Share				(640,110)			(640,110)
Dividends on Preferred Stock				(7,519)			(7,519)
Long-Term Incentive Plan Activity			(543)				(543)
Other Changes in Shareholders' Equity			1,825				1,825
Other Comprehensive Income					6,403		6,403
Balance as of December 31, 2018	316,885,808	1,669,392	6,241,222	3,953,974	(60,000)	(317,771)	11,486,817
Net Income				916,572			916,572
Dividends on Common Shares - \$2.14 Per Share				(685,979)			(685,979)
Dividends on Preferred Stock				(7,519)			(7,519)
Issuance of Common Shares - \$5 par value	11,980,000	59,900	808,650				868,550
Long-Term Incentive Plan Activity			3,434				3,434
Issuance of Treasury Shares	1,014,837		50,758			18,716	69,474
Capital Stock Expense			(16,296)				(16,296)
Other Comprehensive Loss					(5,059)		(5,059)
Balance as of December 31, 2019	329,880,645	\$ 1,729,292	\$ 7,087,768	\$ 4,177,048	\$ (65,059)	\$ (299,055)	\$ 12,629,994

The accompanying notes are an integral part of these consolidated financial statements.

EVERSOURCE ENERGY AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Thousands of Dollars)	For the Years Ended December 31,		
	2019	2018	2017
<b>Operating Activities:</b>			
Net Income	\$ 916,572	\$ 1,040,519	\$ 995,515
Adjustments to Reconcile Net Income to Net Cash Flows Provided by Operating Activities:			
Depreciation	885,278	819,930	773,802
Deferred Income Taxes	209,812	174,812	491,630
Uncollectible Expense	63,446	61,337	44,453
Pension, SERP and PBOP Expense, Net	22,000	5,498	22,454
Pension and PBOP Contributions	(121,782)	(194,947)	(242,800)
Regulatory (Under)/Over Recoveries, Net	(124,870)	34,920	(47,935)
Amortization	195,380	252,026	89,986
Payments Related to CYAPC's DOE Pre-1983 Spent Nuclear Fuel Obligation	(29,000)	(145,000)	—
Proceeds from DOE Spent Nuclear Fuel Litigation	68,840	—	—
Impairment of Northern Pass Transmission	239,644	—	—
Other	(196,087)	(111,225)	(204,421)
Changes in Current Assets and Liabilities:			
Receivables and Unbilled Revenues, Net	(98,716)	(141,433)	(117,155)
Fuel, Materials, Supplies and REC Inventory	(8,074)	(831)	(9,223)
Taxes Receivable/Accrued, Net	(16,129)	(67,770)	52,284
Accounts Payable	14,866	24,481	56,067
Other Current Assets and Liabilities, Net	(11,603)	78,226	91,545
Net Cash Flows Provided by Operating Activities	<u>2,009,577</u>	<u>1,830,543</u>	<u>1,996,202</u>
<b>Investing Activities:</b>			
Investments in Property, Plant and Equipment	(2,911,489)	(2,569,936)	(2,348,105)
Proceeds from Sales of Marketable Securities	566,592	900,749	832,903
Proceeds from Sales of Marketable Securities Used to Pay Pre-1983 Spent Nuclear Fuel Obligation	—	145,000	—
Purchases of Marketable Securities	(537,258)	(908,387)	(810,507)
Acquisition of Aquarion	—	—	(877,652)
Investments in Unconsolidated Affiliates, Net	(416,337)	(205,150)	(32,634)
Proceeds from the Sale of PSNH Generation Assets	—	193,924	—
Other Investing Activities	24,204	6,754	5,479
Net Cash Flows Used in Investing Activities	<u>(3,274,288)</u>	<u>(2,437,046)</u>	<u>(3,230,516)</u>
<b>Financing Activities:</b>			
Issuance of Common Shares, Net of Issuance Costs	852,254	—	—
Cash Dividends on Common Shares	(663,239)	(640,110)	(602,083)
Cash Dividends on Preferred Stock	(7,519)	(7,519)	(7,519)
Increase/(Decrease) in Notes Payable	325,370	(379,310)	72,810
(Repayments)/Issuance of Rate Reduction Bonds	(52,332)	635,663	—
Issuance of Long-Term Debt	1,520,000	2,200,000	2,500,000
Retirement of Long-Term Debt	(801,078)	(1,050,330)	(745,000)
Other Financing Activities	(1,006)	(28,457)	(4,754)
Net Cash Flows Provided by Financing Activities	<u>1,172,450</u>	<u>729,937</u>	<u>1,213,454</u>
Net (Decrease)/Increase in Cash and Restricted Cash	(92,261)	123,434	(20,860)
Cash and Restricted Cash - Beginning of Year	209,324	85,890	106,750
Cash and Restricted Cash - End of Year	<u>\$ 117,063</u>	<u>\$ 209,324</u>	<u>\$ 85,890</u>

The accompanying notes are an integral part of these consolidated financial statements.

**The 2019 financial statements for CL&P, NSTAR Electric and PSNH have been omitted from this report but are set forth in the Annual Report on Form 10-K for 2019 filed with the SEC on a combined basis with Eversource Energy on February 27, 2020. Such report is also available in the Investors section at [www.eversource.com](http://www.eversource.com).**

**EVERSOURCE ENERGY AND SUBSIDIARIES**  
**THE CONNECTICUT LIGHT AND POWER COMPANY**  
**NSTAR ELECTRIC COMPANY AND SUBSIDIARY**  
**PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE AND SUBSIDIARIES**

**COMBINED NOTES TO FINANCIAL STATEMENTS**

Refer to the Glossary of Terms included in this combined Annual Report on Form 10-K for abbreviations and acronyms used throughout the combined notes to the financial statements.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. About Eversource, CL&P, NSTAR Electric and PSNH**

Eversource Energy is a public utility holding company primarily engaged, through its wholly-owned regulated utility subsidiaries, in the energy delivery business. Eversource Energy's wholly-owned regulated utility subsidiaries consist of CL&P, NSTAR Electric and PSNH (electric utilities), Yankee Gas and NSTAR Gas (natural gas utilities) and Aquarion (water utilities). Eversource provides energy delivery and/or water service to approximately four million electric, natural gas and water customers through eight regulated utilities in Connecticut, Massachusetts and New Hampshire.

Eversource, CL&P, NSTAR Electric and PSNH are reporting companies under the Securities Exchange Act of 1934. Eversource Energy is a public utility holding company under the Public Utility Holding Company Act of 2005. Arrangements among the regulated electric companies and other Eversource companies, outside agencies and other utilities covering interconnections, interchange of electric power and sales of utility property are subject to regulation by the FERC. Eversource's regulated companies are subject to regulation of rates, accounting and other matters by the FERC and/or applicable state regulatory commissions (the PURA for CL&P, Yankee Gas and Aquarion, the DPU for NSTAR Electric, NSTAR Gas and Aquarion, and the NHPUC for PSNH and Aquarion).

CL&P, NSTAR Electric and PSNH furnish franchised retail electric service in Connecticut, Massachusetts and New Hampshire. Yankee Gas and NSTAR Gas are engaged in the distribution and sale of natural gas to customers within Connecticut and Massachusetts, respectively. Aquarion is engaged in the collection, treatment and distribution of water in Connecticut, Massachusetts and New Hampshire. CL&P, NSTAR Electric and PSNH's results include the operations of their respective distribution and transmission businesses. The distribution business also includes the results of NSTAR Electric's solar power facilities and PSNH's generation facilities prior to sale in 2018. PSNH completed the sales of all its thermal and hydroelectric generation assets in 2018. See Note 14, "Generation Asset Sale," for further information.

Eversource Service, Eversource's service company, and several wholly-owned real estate subsidiaries of Eversource, provide support services to Eversource, including its regulated companies.

**B. Basis of Presentation**

The consolidated financial statements of Eversource, NSTAR Electric and PSNH include the accounts of each of their respective subsidiaries. Intercompany transactions have been eliminated in consolidation. The accompanying consolidated financial statements of Eversource, NSTAR Electric and PSNH and the financial statements of CL&P are herein collectively referred to as the "financial statements."

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Eversource consolidates the operations of CYAPC and YAEC, both of which are inactive regional nuclear generation companies engaged in the long-term storage of their spent nuclear fuel. Eversource consolidates CYAPC and YAEC because CL&P's, NSTAR Electric's and PSNH's combined ownership and voting interests in each of these entities is greater than 50 percent. Intercompany transactions between CL&P, NSTAR Electric, PSNH and the CYAPC and YAEC companies have been eliminated in consolidation of the Eversource financial statements.

Eversource's consolidated financial information includes the results of Aquarion and its subsidiaries beginning from the date of the acquisition on December 4, 2017.

Eversource holds several equity ownership interests that are not consolidated and are accounted for under the equity method.

In accordance with accounting guidance on noncontrolling interests in consolidated financial statements, the Preferred Stock of CL&P and the Preferred Stock of NSTAR Electric, which are not owned by Eversource or its consolidated subsidiaries and are not subject to mandatory redemption, have been presented as noncontrolling interests in the financial statements of Eversource. The Preferred Stock of CL&P and the Preferred Stock of NSTAR Electric are considered to be temporary equity and have been classified between liabilities and permanent shareholders' equity on the balance sheets of Eversource, CL&P and NSTAR Electric due to a provision in the preferred stock agreements of both CL&P and NSTAR Electric that grant preferred stockholders the right to elect a majority of the CL&P and NSTAR Electric Boards of Directors, respectively, should certain conditions exist, such as if preferred dividends are in arrears for a specified amount of time. The Net Income reported in the statements of income and cash flows represents net income prior to apportionment to noncontrolling interests, which is represented by dividends on preferred stock of CL&P and NSTAR Electric.

Eversource's utility subsidiaries' electric, natural gas and water distribution and transmission businesses are subject to rate-regulation that is based on cost recovery and meets the criteria for application of accounting guidance for entities with rate-regulated operations, which considers the effect

of regulation on the differences in the timing of the recognition of certain revenues and expenses from those of other businesses and industries. See Note 2, "Regulatory Accounting," for further information.

Certain reclassifications of prior year data were made in the accompanying financial statements to conform to the current year presentation.

The Eversource and PSNH 2018 statements of cash flows, the 2018 supplemental cash flow information footnote, and the 2018 segment footnote were revised to correct an error in the presentation of non-cash capital additions. The impact of this revision on the statement of cash flows is an increase to operating cash inflows in Accounts Payable of \$46.6 million and a corresponding increase to investing cash outflows in Investments in Property, Plant and Equipment for the year ended December 31, 2018. This revision is not deemed material, individually or in the aggregate, to the previously issued financial statements.

As of both December 31, 2019 and 2018, Eversource's carrying amount of goodwill was \$4.43 billion. Eversource performs an assessment for possible impairment of its goodwill at least annually. Eversource completed its annual goodwill impairment test for each of its reporting units as of October 1, 2019 and determined that no impairment exists. See Note 25B, "Acquisition of Aquarion and Goodwill - Goodwill," for further information.

### **C. Accounting Standards**

*Accounting Standards Issued but Not Yet Effective:* In June 2016, the FASB issued Accounting Standards Update ("ASU") 2016-13, *Financial Instruments - Credit Losses (Topic 326)*, which provides a new model for recognizing credit losses on financial instruments based on an estimate of current expected credit losses. Under the new guidance, immediate recognition of credit losses expected over the life of a financial instrument is required. The standard is effective January 1, 2020. The Company assessed the impacts of this standard on the accounting for credit losses on its financial instruments, including accounts receivable, and does not expect a material impact on the financial statements of Eversource, CL&P, NSTAR Electric or PSNH.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740) - Simplifying the Accounting for Income Taxes*, which eliminates certain exceptions to the general principles of current income tax guidance in ASC 740, Income Taxes, and simplifies and improves consistency in application of that income tax guidance through clarifications of, and amendments to, ASC 740. The guidance is effective in the first quarter of 2021. The Company is evaluating the impact of this standard on the financial statements of Eversource, CL&P, NSTAR Electric and PSNH.

*Accounting Standards Recently Adopted:* On January 1, 2019, the Company adopted ASU 2016-02, *Leases (Topic 842)*, which amended existing lease accounting guidance. The Company applied the Topic 842 lease criteria to new leases and lease renewals entered into effective on or after January 1, 2019. The ASU required balance sheet recognition of leases deemed to be operating leases as well as additional disclosure requirements. The recognition, measurement and presentation of expenses and cash flows were not significantly changed.

The Company utilized the modified retrospective transition method allowed in ASU 2018-11, *Leases (Topic 842) - Targeted Improvements*, which allowed the Company to adopt the new leases standard as of January 1, 2019, with prior periods presented in the financial statements continuing to follow existing lease accounting guidance under Topic 840 (Leases) in the accounting literature. Implementation of ASU 2018-11 had no effect on retained earnings, and the requirements of the new lease standard (Topic 842) are reflected in the 2019 financial statements and footnotes.

The Company elected the practical expedient package whereby it did not need to reassess whether or not an existing contract is or contains a lease or whether a lease is an operating or capital lease, and it did not need to reassess initial direct costs for leases. Election of this practical expedient allowed us to carry forward our historical lease classifications. The Company elected the practical expedient to not reevaluate land easements existing at adoption if they were not previously accounted for as leases. The Company also elected to use the discount rate as of the January 1, 2019 implementation date to discount its operating lease liabilities. The Company did not elect the hindsight practical expedient to determine the lease term for existing leases.

The Company determined the impact the ASUs had on its financial statements by reviewing its lease population and identifying lease data needed for the disclosure requirements. The Company implemented a new lease accounting system in 2019 to ensure ongoing compliance with the ASU's requirements. Adoption of the new standard resulted in the recording of operating lease liabilities and right-of-use assets on the balance sheet upon transition at January 1, 2019 of \$58.0 million at Eversource, \$25.3 million at NSTAR Electric, \$0.6 million at CL&P, and \$0.6 million at PSNH. Implementation of the new guidance did not have an impact on each company's results of operations or cash flows.

### **D. Impairment of Northern Pass Transmission**

Northern Pass was Eversource's planned 1,090 MW HVDC transmission line that would have interconnected from the Québec-New Hampshire border to Franklin, New Hampshire and an associated alternating current radial transmission line between Franklin and Deerfield, New Hampshire. As a result of a final decision received on July 19, 2019 from the New Hampshire Supreme Court, whereby the court denied Northern Pass' appeal and affirmed the NHSEC's denial of Northern Pass' siting application on NPT, Eversource concluded that construction of NPT was no longer probable and that there was no constructive path forward for the project. Eversource terminated the project and permanently abandoned any further development. As a result, substantially all of the capitalized project costs, which totaled \$318 million, certain of which are subject to cost reimbursement agreements, were impaired.

Based on the conclusion that the construction of Northern Pass was no longer probable, Eversource recorded an impairment charge in 2019 for all of the project costs associated with Northern Pass, which were primarily engineering design, siting, permitting and legal costs, along with appropriate allowances for funds used during construction, and recognized a receivable for certain cost reimbursement agreements. Additionally, Eversource recorded an impairment charge associated with the land acquired to construct Northern Pass in order to recognize the land at its estimated fair value based on assessed values and transaction costs. In total, this resulted in a pre-tax impairment charge of \$239.6 million within Operating Income on the statement of income for the year ended December 31, 2019, and was reflected in the Electric Transmission segment. The after-tax impact of the impairment charge was \$204.4 million, or \$0.64 per share, after giving effect to the estimated fair value of the related land,

reimbursement agreements, and the impact of expected income tax benefits associated with the impairment charge. As a result of the decision to terminate the NPT project and permanently abandon any further development, Eversource does not expect any future cash expenditures associated with this project.

#### E. Cash

Cash includes cash on hand. At the end of each reporting period, any overdraft amounts are reclassified from Cash to Accounts Payable on the balance sheets.

#### F. Provision for Uncollectible Accounts

Eversource, including CL&P, NSTAR Electric and PSNH, presents its receivables at estimated net realizable value by maintaining a provision for uncollectible accounts. This provision is determined based upon a variety of judgments and factors, including the application of an estimated uncollectible percentage to each receivable aging category. The estimate is based upon historical collection and write-off experience and management's assessment of collectability from customers. Management continuously assesses the collectability of receivables and adjusts collectability estimates based on actual experience. Receivable balances are written off against the provision for uncollectible accounts when the customer accounts are terminated and these balances are deemed to be uncollectible.

The PURA allows CL&P and Yankee Gas to accelerate the recovery of accounts receivable balances attributable to qualified customers under financial or medical duress (uncollectible hardship accounts receivable) outstanding for greater than 180 days and 90 days, respectively. The DPU allows NSTAR Electric and NSTAR Gas to recover in rates, amounts associated with certain uncollectible hardship accounts receivable. These uncollectible hardship customer account balances are included in Regulatory Assets or Other Long-Term Assets on the balance sheets.

The total provision for uncollectible accounts is included in Receivables, Net on the balance sheets. The provision for uncollectible hardship accounts is included in the total uncollectible provision balance. The provision balances were as follows:

<i>(Millions of Dollars)</i>	<u>Total Provision for Uncollectible Accounts</u>		<u>Provision for Uncollectible Hardship Accounts</u>	
	<u>As of December 31,</u>		<u>As of December 31,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Eversource	\$ 224.8	\$ 212.7	\$ 143.3	\$ 131.5
CL&P	97.3	88.0	80.1	71.9
NSTAR Electric	75.4	74.5	43.9	42.5
PSNH	10.5	11.1	—	—

Uncollectible expense associated with customers' accounts receivable included in Operations and Maintenance expense on the statements of income was as follows:

<i>(Millions of Dollars)</i>	<u>For the Years Ended December 31,</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Eversource	\$ 63.4	\$ 61.3	\$ 44.5
CL&P	15.9	15.8	5.3
NSTAR Electric	25.1	22.3	21.3
PSNH	6.7	6.4	6.7

#### G. Transfer of Energy Efficiency Loans

In 2018, CL&P transferred \$41.3 million of its energy efficiency customer loan portfolio to two outside lenders in order to make additional loans to customers. CL&P remains the servicer of the loans and will transmit customer payments to the lenders. Under a three-year agreement with the lenders, additional energy efficiency loans will also be transferred with a maximum amount outstanding under this program of \$55 million. The transaction did not qualify as a sale for accounting purposes, and the amounts of the loans are included in Accounts Receivable, Net and Other Long-Term Assets, and are offset by Other Current Liabilities and Other Long-Term Liabilities on CL&P's balance sheet. The current and long-term portions totaled \$16.5 million and \$18.2 million, respectively, as of December 31, 2019, and \$18.5 million and \$22.8 million, respectively, as of December 31, 2018.

#### H. Fuel, Materials, Supplies and REC Inventory

Fuel, Materials, Supplies and REC Inventory include natural gas inventory, materials and supplies purchased primarily for construction or operation and maintenance purposes, and RECs. Inventory is valued at the lower of cost or net realizable value. RECs are purchased from suppliers of renewable sources of generation and are used to meet state mandated Renewable Portfolio Standards requirements. The carrying amounts of fuel, materials and supplies, and RECs, which are included in Current Assets on the balance sheets, were as follows:

<i>(Millions of Dollars)</i>	<u>As of December 31,</u>							
	<u>2019</u>				<u>2018</u>			
	<u>Eversource</u>	<u>CL&amp;P</u>	<u>NSTAR Electric</u>	<u>PSNH</u>	<u>Eversource</u>	<u>CL&amp;P</u>	<u>NSTAR Electric</u>	<u>PSNH</u>
Fuel	\$ 26.7	\$ —	\$ —	\$ —	\$ 33.1	\$ —	\$ —	\$ —
Materials and Supplies	132.9	50.7	54.7	18.5	126.1	44.5	48.6	24.3
RECs	75.9	—	69.4	6.5	78.8	—	65.6	13.2
Total	\$ 235.5	\$ 50.7	\$ 124.1	\$ 25.0	\$ 238.0	\$ 44.5	\$ 114.2	\$ 37.5

## I. Fair Value Measurements

Fair value measurement guidance is applied to derivative contracts that are not elected or designated as "normal purchases" or "normal sales" (normal) and to the marketable securities held in trusts. Fair value measurement guidance is also applied to valuations of the investments used to calculate the funded status of pension and PBOP plans, the nonrecurring fair value measurements of nonfinancial assets such as goodwill, long-lived assets and AROs. We also applied this guidance in the valuation of our basis differences in our equity method offshore wind investments (see Note 6, "Investments in Unconsolidated Affiliates," for further information). The fair value measurement guidance was also applied in estimating the fair value of preferred stock, long-term debt and RRBs.

*Fair Value Hierarchy:* In measuring fair value, Eversource uses observable market data when available in order to minimize the use of unobservable inputs. Inputs used in fair value measurements are categorized into three fair value hierarchy levels for disclosure purposes. The entire fair value measurement is categorized based on the lowest level of input that is significant to the fair value measurement. Eversource evaluates the classification of assets and liabilities measured at fair value on a quarterly basis, and Eversource's policy is to recognize transfers between levels of the fair value hierarchy as of the end of the reporting period. The three levels of the fair value hierarchy are described below:

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - Inputs are quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which all significant inputs are observable.

Level 3 - Quoted market prices are not available. Fair value is derived from valuation techniques in which one or more significant inputs or assumptions are unobservable. Where possible, valuation techniques incorporate observable market inputs that can be validated to external sources such as industry exchanges, including prices of energy and energy-related products.

Uncategorized - Investments that are measured at net asset value are not categorized within the fair value hierarchy.

*Determination of Fair Value:* The valuation techniques and inputs used in Eversource's fair value measurements are described in Note 4, "Derivative Instruments," Note 5, "Marketable Securities," Note 6, "Investments in Unconsolidated Affiliates," Note 7, "Asset Retirement Obligations," Note 11A, "Employee Benefits – Pension Benefits and Postretirement Benefits Other Than Pension," Note 16, "Fair Value of Financial Instruments" and Note 25B, "Acquisition of Aquarion and Goodwill - Goodwill" to the financial statements.

## J. Derivative Accounting

Many of the electric and natural gas companies' contracts for the purchase and sale of energy or energy-related products are derivatives. The accounting treatment for energy contracts entered into varies and depends on the intended use of the particular contract and on whether or not the contract is a derivative.

The application of derivative accounting is complex and requires management judgment in the following respects: identification of derivatives and embedded derivatives, election and designation of a contract as normal, and determination of the fair value of derivative contracts. All of these judgments can have a significant impact on the financial statements. The judgment applied in the election of a contract as normal (and resulting accrual accounting) includes the conclusion that it is probable at the inception of the contract and throughout its term that it will result in physical delivery of the underlying product and that the quantities will be used or sold by the business in the normal course of business. If facts and circumstances change and management can no longer support this conclusion, then a contract cannot be considered normal, accrual accounting is terminated, and fair value accounting is applied prospectively.

The fair value of derivative contracts is based upon the contract terms and conditions and the underlying market price or fair value per unit. When quantities are not specified in the contract, the Company determines whether the contract has a determinable quantity by using amounts referenced in default provisions and other relevant sections of the contract. The fair value of derivative assets and liabilities with the same counterparty are offset and recorded as a net derivative asset or liability on the balance sheets.

Regulatory assets or regulatory liabilities are recorded to offset the fair values of derivative contracts related to energy and energy-related products, as contract settlements are recovered from, or refunded to, customers in future rates. All changes in the fair value of derivative contracts are recorded as regulatory assets or liabilities and do not impact net income.

For further information regarding derivative contracts, see Note 4, "Derivative Instruments," to the financial statements.

## K. Operating Expenses

Costs related to fuel and natural gas included in Purchased Power, Fuel and Transmission on the statements of income were as follows:

(Millions of Dollars)	For the Years Ended December 31,		
	2019	2018	2017
Eversource - Natural Gas and Fuel	\$ 462.1	\$ 442.6	\$ 432.5
PSNH - Fuel	—	7.9	43.4

PSNH completed the sale of its generation assets in 2018. See Note 14, "Generation Asset Sale," for further information.

## L. Allowance for Funds Used During Construction

AFUDC represents the cost of borrowed and equity funds used to finance construction and is included in the cost of the electric, natural gas and water companies' utility plant on the balance sheet. The portion of AFUDC attributable to borrowed funds is recorded as a reduction of Interest Expense, and the AFUDC related to equity funds is recorded as Other Income, Net on the statements of income. AFUDC costs are recovered from customers over the service life of the related plant in the form of increased revenue collected as a result of higher depreciation expense.

The average AFUDC rate is based on a FERC-prescribed formula using the cost of a company's short-term financings and capitalization (preferred stock, long-term debt and common equity), as appropriate. The average rate is applied to average eligible CWIP amounts to calculate AFUDC.

AFUDC costs and the weighted-average AFUDC rates were as follows:

Eversource <i>(Millions of Dollars, except percentages)</i>	For the Years Ended December 31,		
	2019	2018	2017
Borrowed Funds	\$ 25.6	\$ 19.7	\$ 12.5
Equity Funds	45.0	44.0	34.4
Total AFUDC	\$ 70.6	\$ 63.7	\$ 46.9
Average AFUDC Rate	5.4%	4.9%	5.1%

Eversource <i>(Millions of Dollars, except percentages)</i>	For the Years Ended December 31,								
	2019			2018			2017		
	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH
Borrowed Funds	\$ 7.1	\$ 10.4	\$ 2.8	\$ 6.3	\$ 7.8	\$ 1.3	\$ 5.1	\$ 4.8	\$ 0.7
Equity Funds	13.2	19.8	3.4	12.2	15.6	—	12.1	10.2	—
Total AFUDC	\$ 20.3	\$ 30.2	\$ 6.2	\$ 18.5	\$ 23.4	\$ 1.3	\$ 17.2	\$ 15.0	\$ 0.7
Average AFUDC Rate	6.3%	5.7%	4.6%	5.8%	5.0%	0.7%	6.2%	5.0%	0.7%

## M. Other Income, Net

The components of Other Income, Net on the statements of income were as follows:

Eversource <i>(Millions of Dollars)</i>	For the Years Ended December 31,		
	2019	2018	2017
Pension, SERP and PBOP Non-Service Income Components	\$ 31.3	\$ 60.8	\$ 29.9
AFUDC Equity	45.0	44.0	34.4
Equity in Earnings of Unconsolidated Affiliates <sup>(1)</sup>	42.2	3.8	27.4
Investment Income/(Loss)	0.8	(4.0)	7.5
Interest Income <sup>(2)</sup>	12.8	18.1	8.3
Gains on Sales of Property	0.3	5.1	—
Other	0.4	0.6	0.4
Total Other Income, Net	\$ 132.8	\$ 128.4	\$ 107.9

Eversource <i>(Millions of Dollars)</i>	For the Years Ended December 31,								
	2019			2018			2017		
	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH
Pension, SERP and PBOP Non-Service Income Components	\$ 0.5	\$ 23.5	\$ 4.9	\$ 9.5	\$ 36.0	\$ 9.9	\$ 1.8	\$ 19.2	\$ 5.9
AFUDC Equity	13.2	19.8	3.4	12.2	15.6	—	12.1	10.2	—
Equity in Earnings of Unconsolidated Affiliates	0.1	0.7	—	0.1	0.7	—	—	0.3	—
Investment Income/(Loss)	2.3	(0.4)	0.3	(3.0)	(0.5)	(0.8)	4.5	2.6	1.6
Interest Income <sup>(2)</sup>	1.5	0.7	10.5	3.7	0.8	14.1	4.6	1.8	2.2
Gains on Sales of Property	—	0.1	—	—	0.5	4.4	—	—	—
Other	(0.1)	0.2	0.1	0.2	—	0.1	—	—	0.1
Total Other Income, Net	\$ 17.5	\$ 44.6	\$ 19.2	\$ 22.7	\$ 53.1	\$ 27.7	\$ 23.0	\$ 34.1	\$ 9.8

<sup>(1)</sup> Equity in earnings of unconsolidated affiliates includes an other-than-temporary impairment of \$32.9 million of the Access Northeast project investment for the year ended December 31, 2018. See Note 6, "Investments in Unconsolidated Affiliates," for further information. Equity in earnings includes \$20.4 million, \$17.6 million and \$9.7 million of pre-tax unrealized gains for the years ended December 31, 2019, 2018 and 2017, respectively, associated with an equity method investment in a renewable energy fund.

- (2) For the years ended December 31, 2019 and 2018, PSNH recognized \$6.3 million and \$8.7 million, respectively, of interest income for the equity return component of carrying charges on storm costs approved in 2019 and 2018. See Note 2, "Regulatory Accounting," for further information.

#### N. Other Taxes

Eversource's companies that serve customers in Connecticut collect gross receipts taxes levied by the state of Connecticut from their customers. These gross receipts taxes are recorded separately with collections in Operating Revenues and with payments in Taxes Other Than Income Taxes on the statements of income as follows:

<i>(Millions of Dollars)</i>	For the Years Ended December 31,		
	2019	2018	2017
Eversource	\$ 163.1	\$ 161.9	\$ 157.4
CL&P	141.1	141.4	137.5

As agents for state and local governments, Eversource's companies that serve customers in Connecticut and Massachusetts collect certain sales taxes that are recorded on a net basis with no impact on the statements of income.

Separate from above were amounts recorded as Taxes Other Than Income Taxes related to the remittance to the State of Connecticut of energy efficiency funds collected from customers in Operating Revenues. These amounts were \$21.4 million and \$46.8 million in 2019 and 2018, respectively. Energy efficiency funds collected from customers after July 1, 2019 are no longer subject to remittance to the State of Connecticut. These amounts were recorded separately, with collections in Operating Revenues and with payments in Taxes Other Than Income Taxes on the Eversource and CL&P statements of income.

#### O. Supplemental Cash Flow Information

<i>Eversource</i> <i>(Millions of Dollars)</i>	As of and For the Years Ended December 31,		
	2019	2018	2017
Cash Paid During the Year for:			
Interest, Net of Amounts Capitalized	\$ 532.4	\$ 503.2	\$ 419.1
Income Taxes	56.0	158.8	30.8
Non-Cash Investing Activities:			
Plant Additions Included in Accounts Payable (As of) <sup>(1)</sup>	379.4	389.3	379.5

<i>(Millions of Dollars)</i>	As of and For the Years Ended December 31,								
	2019			2018			2017		
	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH
Cash Paid During the Year for:									
Interest, Net of Amounts Capitalized	\$ 144.6	\$ 121.9	\$ 56.9	\$ 149.7	\$ 122.1	\$ 40.5	\$ 144.6	\$ 124.6	\$ 45.9
Income Taxes	80.6	77.9	3.4	66.1	120.0	27.3	68.8	95.5	26.1
Non-Cash Investing Activities:									
Plant Additions Included in Accounts Payable (As of) <sup>(1)</sup>	111.3	116.4	49.9	106.1	116.5	35.1	132.5	116.5	44.4

- (1) See Note 1B, "Summary of Significant Accounting Policies - Basis of Presentation," for information regarding the correction of non-cash capital additions at Eversource and PSNH reported as of December 31, 2018.

Beginning in 2019, Eversource began issuing treasury shares to satisfy awards under the Company's incentive plans, shares issued under the dividend reinvestment and share purchase plan, and matching contributions under the Eversource 401k Plan. The issuance of treasury shares represents a non-cash transaction, as the treasury shares were used to fulfill Eversource's obligations that require the issuance of common shares.

The following table reconciles cash as reported on the balance sheets to the cash and restricted cash balance as reported on the statements of cash flows:

	As of December 31,								
	2019				2018				
	Eversource	CL&P	NSTAR Electric	PSNH	Eversource	CL&P	NSTAR Electric	PSNH	
<i>(Millions of Dollars)</i>									
Cash as reported on the Balance Sheets	\$ 15.4	\$ —	\$ 0.1	\$ 0.4	\$ 108.1	\$ 87.7	\$ 1.6	\$ 1.4	
Restricted cash included in:									
Special Deposits	52.5	4.6	6.2	32.5	72.1	3.5	13.0	47.5	
Marketable Securities	46.0	0.4	—	0.6	25.9	0.4	0.1	0.6	
Other Long-Term Assets	3.2	—	—	3.2	3.2	—	—	3.2	
Cash and Restricted Cash reported on the Statements of Cash Flows	\$ 117.1	\$ 5.0	\$ 6.3	\$ 36.7	\$ 209.3	\$ 91.6	\$ 14.7	\$ 52.7	

Special Deposits represent cash collections related to the PSNH RRB customer charges that are held in trust and required ISO-NE cash deposits, and are included in Current Assets on the balance sheets. Restricted cash included in Marketable Securities represents money market funds held in trusts to fund certain non-qualified executive benefits and restricted trusts to fund CYAPC and YAEC's spent nuclear fuel storage obligations.

#### P. Related Parties

Eversource Service, Eversource's service company, provides centralized accounting, administrative, engineering, financial, information technology, legal, operational, planning, purchasing, tax, and other services to Eversource's companies. The Rocky River Realty Company, Renewable Properties, Inc. and Properties, Inc., three other Eversource subsidiaries, construct, acquire or lease some of the property and facilities used by Eversource's companies.

As of both December 31, 2019 and 2018, CL&P, NSTAR Electric and PSNH had long-term receivables from Eversource Service in the amounts of \$25.0 million, \$5.5 million and \$3.8 million, respectively, which were included in Other Long-Term Assets on the balance sheets. These amounts related to the funding of investments held in trust by Eversource Service in connection with certain postretirement benefits for CL&P, NSTAR Electric and PSNH employees and have been eliminated in consolidation on the Eversource financial statements.

Included in the CL&P, NSTAR Electric and PSNH balance sheets as of December 31, 2019 and 2018 were Accounts Receivable from Affiliated Companies and Accounts Payable to Affiliated Companies relating to transactions between CL&P, NSTAR Electric and PSNH and other subsidiaries that are wholly-owned by Eversource. These amounts have been eliminated in consolidation on the Eversource financial statements.

#### Q. Acquisition of Assets of Columbia Gas of Massachusetts

On February 26, 2020, Eversource and NiSource entered into an asset purchase agreement (the Agreement) pursuant to which Eversource would acquire the assets that comprise NiSource's local gas distribution business in Massachusetts, which is doing business as Columbia Gas of Massachusetts (CMA). The purchase price of \$1.1 billion includes a target working capital amount that would be adjusted to reflect actual working capital as of the closing date. The acquisition and resulting rate plan both require DPU and other approvals.

The liabilities to be assumed by Eversource under the Agreement specifically exclude any liabilities (past or future) arising out of or related to the fires and explosions that occurred on September 13, 2018 in Lawrence, Andover and North Andover, Massachusetts related to the delivery of natural gas by CMA, including certain subsequent events, all as described and in the DPU's Order on Scope dated December 23, 2019 (D.P.U. 19-141) (the Greater Lawrence Incident or GLI), and any further emergency events prior to the closing of the acquisition related to the restoration and reconstruction with respect to the GLI, including any losses arising out of or related to any litigation, demand, cause of action, claim, suit, investigation, proceeding, indemnification agreements or rights.

## 2. REGULATORY ACCOUNTING

Eversource's utility companies are subject to rate regulation that is based on cost recovery and meets the criteria for application of accounting guidance for rate-regulated operations, which considers the effect of regulation on the timing of the recognition of certain revenues and expenses. The regulated companies' financial statements reflect the effects of the rate-making process. The rates charged to the customers of Eversource's regulated companies are designed to collect each company's costs to provide service, plus a return on investment.

The application of accounting guidance for rate-regulated enterprises results in recording regulatory assets and liabilities. Regulatory assets represent the deferral of incurred costs that are probable of future recovery in customer rates. Regulatory assets are amortized as the incurred costs are recovered through customer rates. Regulatory liabilities represent either revenues received from customers to fund expected costs that have not yet been incurred or probable future refunds to customers.

Management believes it is probable that each of the regulated companies will recover its respective investments in long-lived assets, including regulatory assets. If management were to determine that it could no longer apply the accounting guidance applicable to rate-regulated enterprises to any of the regulated companies' operations, or if management could not conclude it is probable that costs would be recovered from customers in future rates, the costs would be charged to net income in the period in which the determination is made.

*Regulatory Assets:* The components of regulatory assets were as follows:

<i>(Millions of Dollars)</i>	As of December 31,							
	2019				2018			
	Eversource	CL&P	NSTAR Electric	PSNH	Eversource	CL&P	NSTAR Electric	PSNH
Benefit Costs	\$ 2,382.9	\$ 539.0	\$ 629.8	\$ 218.2	\$ 1,914.8	\$ 424.7	\$ 544.4	\$ 169.6
Income Taxes, Net	725.8	458.8	108.0	12.8	728.6	454.4	105.9	8.3
Securitized Stranded Costs	565.3	—	—	565.3	608.4	—	—	608.4
Storm Restoration Costs, Net	540.6	274.6	200.6	65.4	576.0	302.6	212.9	60.5
Regulatory Tracker Mechanisms	411.5	78.3	207.1	65.8	316.0	33.2	169.1	67.3
Derivative Liabilities	334.5	329.2	—	—	356.5	356.5	—	—
Goodwill-related	331.5	—	284.6	—	348.4	—	299.1	—
Asset Retirement Obligations	97.2	30.8	50.3	3.6	89.2	32.3	42.2	3.3
Other Regulatory Assets	125.4	25.2	55.2	14.7	208.0	27.0	64.6	12.1
Total Regulatory Assets	5,514.7	1,735.9	1,535.6	945.8	5,145.9	1,630.7	1,438.2	929.5
Less: Current Portion	651.1	178.6	285.6	84.1	514.8	125.2	241.7	67.2
Total Long-Term Regulatory Assets	\$ 4,863.6	\$ 1,557.3	\$ 1,250.0	\$ 861.7	\$ 4,631.1	\$ 1,505.5	\$ 1,196.5	\$ 862.3

**Benefit Costs:** Eversource's Pension, SERP and PBOP Plans are accounted for in accordance with accounting guidance on defined benefit pension and other PBOP plans. The liability (or asset) recorded by the regulated companies to recognize the funded status of their retiree benefit plans is offset by a regulatory asset (or offset by a regulatory liability in the case of a benefit plan asset) in lieu of a charge to Accumulated Other Comprehensive Income/(Loss), reflecting ultimate recovery from customers through rates. The regulatory asset (or regulatory liability) is amortized as the actuarial gains and losses and prior service cost are amortized to net periodic benefit cost for the pension and PBOP plans. All amounts are remeasured annually. Regulatory accounting is also applied to the portions of Eversource's service company costs that support the regulated companies, as these amounts are also recoverable. As these regulatory assets or regulatory liabilities do not represent a cash outlay for the regulated companies, no carrying charge is recovered from customers. See Note 11A, "Employee Benefits - Pensions and Postretirement Benefits Other Than Pension," for further information on regulatory benefit plan amounts recognized and amortized during the year.

CL&P, NSTAR Electric and PSNH recover benefit costs related to their distribution and transmission operations from customers in rates as allowed by their applicable regulatory commissions. NSTAR Electric recovers qualified pension and PBOP expenses related to its distribution operations through a rate reconciling mechanism that fully tracks the change in net pension and PBOP expenses each year.

**Income Taxes, Net:** The tax effect of temporary book-tax differences (differences between the periods in which transactions affect income in the financial statements and the periods in which they affect the determination of taxable income, including those differences relating to uncertain tax positions) is accounted for in accordance with the rate-making treatment of the applicable regulatory commissions and accounting guidance for income taxes. Differences in income taxes between the accounting guidance and the rate-making treatment of the applicable regulatory commissions are recorded as regulatory assets. As these assets are offset by deferred income tax liabilities, no carrying charge is collected. The amortization period of these assets varies depending on the nature and/or remaining life of the underlying assets and liabilities. For further information regarding income taxes, see Note 12, "Income Taxes," to the financial statements.

**Securitized Stranded Costs:** In 2018, a subsidiary of PSNH issued \$635.7 million of securitized RRBs to finance PSNH's unrecovered remaining costs associated with the divestiture of its generation assets. Securitized regulatory assets, which are not earning an equity return, are being recovered over the amortization period of the associated RRBs. The PSNH RRBs are expected to be repaid by February 1, 2033. For further information, see Note 10, "Rate Reduction Bonds and Variable Interest Entities."

**Storm Restoration Costs, Net:** The storm restoration cost deferrals relate to costs incurred for storm events at CL&P, NSTAR Electric and PSNH that each company expects to recover from customers. A storm must meet certain criteria to qualify for deferral and recovery with the criteria specific to each state jurisdiction and utility company. Once a storm qualifies for recovery, all qualifying expenses incurred during storm restoration efforts are deferred and recovered from customers. Costs for storms that do not meet the specific criteria are expensed as incurred. In addition to storm restoration costs, CL&P and PSNH are each allowed to recover pre-staging storm costs. Management believes storm restoration costs deferred were prudently incurred and meet the criteria for specific cost recovery in Connecticut, Massachusetts and New Hampshire, and that recovery from customers is probable through the applicable regulatory recovery processes. Each electric utility company either recovers a carrying charge on its deferred storm restoration cost regulatory asset balance or the regulatory asset balance is included in rate base.

In 2019, several significant storms caused extensive damage to our electric distribution systems and customer outages. These storms resulted in deferred storm restoration costs of approximately \$126 million (\$62 million for CL&P, \$48 million for NSTAR Electric, and \$16 million for PSNH), which were reflected in Storm Restoration Costs, Net in the table above as of December 31, 2019.

**Storm Filings:** On November 16, 2018, CL&P filed for recovery of \$153 million of storm costs incurred from October 2017 through May 2018, with recovery over six years. Through the course of the proceeding, CL&P updated its request to \$145.5 million to reflect final invoicing and capitalization amounts. On April 17, 2019, PURA authorized recovery of \$141.0 million as part of storm cost recovery and the remainder to be recorded to plant or other balance sheet accounts. CL&P began recovery of the \$141.0 million in distribution rates effective May 1, 2019.

On March 26, 2019, the NHPUC approved the recovery of \$38.1 million, plus carrying charges, of storm costs incurred from December 2013 through April 2016 and the transfer of funding from PSNH's major storm reserve to recover those costs. The costs of these storms (excluding the equity return component of the carrying charges) were deferred as regulatory assets, and the funding reserve collected from customers was accrued as a regulatory liability. As a result of the duration of time between incurring storm costs in December 2013 through April 2016 and final approval from the NHPUC in 2019, PSNH recognized \$5.2 million (pre-tax) for the equity return component of the carrying charges within Other Income, Net on the statement of income in 2019, which has been collected from customers. Also included in the March 26, 2019 NHPUC approval is a prospective requirement for PSNH to annually net its storm funding reserve collected from customers against deferred storm costs.

In addition, on June 27, 2019, the NHPUC approved a temporary rate settlement that allowed PSNH to recover approximately \$68.5 million in unrecovered storm costs over a five-year period beginning August 1, 2019, with debt carrying charges.

**Regulatory Tracker Mechanisms:** The regulated companies' approved rates are designed to recover costs incurred to provide service to customers. The regulated companies recover certain of their costs on a fully-reconciling basis through regulatory commission-approved tracking mechanisms. The differences between the costs incurred (or the rate recovery allowed) and the actual revenues are recorded as regulatory assets (for undercollections) or as regulatory liabilities (for overcollections) to be included in future customer rates each year. Carrying charges are recovered in rates on all material regulatory tracker mechanisms.

CL&P, NSTAR Electric and PSNH each recover, on a fully reconciling basis, the costs associated with the procurement of energy, transmission related costs from FERC-approved transmission tariffs, energy efficiency programs, low income assistance programs, certain uncollectible accounts receivable for hardship customers, and restructuring and stranded costs as a result of deregulation (including securitized RRB charges), and additionally for the Massachusetts utilities, pension and PBOP benefits and net metering for distributed generation. Energy procurement costs at NSTAR Electric include the costs related to its solar power facilities.

CL&P, NSTAR Electric, Yankee Gas and NSTAR Gas each have a regulatory commission approved revenue decoupling mechanism. Distribution revenues are decoupled from customer sales volumes, where applicable, which breaks the relationship between sales volumes and revenues. Each company reconciles its annual base distribution rate recovery amount to the pre-established levels of baseline distribution delivery service revenues. Any difference between the allowed level of distribution revenue and the actual amount realized during a 12-month period is adjusted through rates in the following period.

**Derivative Liabilities:** Regulatory assets are recorded as an offset to derivative liabilities and relate to the fair value of contracts used to purchase energy and energy-related products that will be recovered from customers in future rates. These assets are excluded from rate base and are being recovered as the actual settlements occur over the duration of the contracts. See Note 4, "Derivative Instruments," to the financial statements for further information on these contracts.

**Goodwill-related:** The goodwill regulatory asset originated from a 1999 transaction, and the DPU allowed its recovery in NSTAR Electric and NSTAR Gas rates. This regulatory asset is currently being amortized and recovered from customers in rates without a carrying charge over a 40-year period, and as of December 31, 2019, there were 20 years of amortization remaining.

**Asset Retirement Obligations:** The costs associated with the depreciation of the regulated companies' ARO assets and accretion of the ARO liabilities are recorded as regulatory assets in accordance with regulatory accounting guidance. The regulated companies' ARO assets, regulatory assets and liabilities offset and are excluded from rate base. These costs are being recovered over the life of the underlying property, plant and equipment.

**Other Regulatory Assets:** Other Regulatory Assets primarily include contractual obligations associated with the spent nuclear fuel storage costs of the CYAPC, YAEC and MYAPC decommissioned nuclear power facilities, environmental remediation costs, losses associated with the reacquisition or redemption of long-term debt, certain uncollectible accounts receivable for hardship customers, certain merger-related costs allowed for recovery, water tank painting costs, and various other items.

**Regulatory Costs in Long-Term Assets:** Eversource's regulated companies had \$146.0 million (including \$51.8 million for CL&P, \$55.7 million for NSTAR Electric and \$18.0 million for PSNH) and \$122.9 million (including \$42.1 million for CL&P, \$49.3 million for NSTAR Electric and \$12.2 million for PSNH) of additional regulatory costs as of December 31, 2019 and 2018, respectively, that were included in long-term assets on the balance sheets. These amounts represent incurred costs for which recovery has not yet been specifically approved by the applicable regulatory agency. However, based on regulatory policies or past precedent on similar costs, management believes it is probable that these costs will ultimately be approved and recovered from customers in rates.

**Equity Return on Regulatory Assets:** For rate-making purposes, the regulated companies recover the carrying costs related to their regulatory assets. For certain regulatory assets, the carrying cost recovered includes an equity return component. This equity return, which is not recorded on the balance sheets, totaled \$0.5 million and \$0.7 million for CL&P as of December 31, 2019 and 2018, respectively, and \$6.5 million and \$12.0 million for PSNH as of December 31, 2019 and 2018, respectively. These carrying costs will be recovered from customers in future rates.

*Regulatory Liabilities:* The components of regulatory liabilities were as follows:

	As of December 31,							
	2019				2018			
	Eversource	CL&P	NSTAR Electric	PSNH	Eversource	CL&P	NSTAR Electric	PSNH
<i>(Millions of Dollars)</i>								
EDIT due to Tax Cuts and Jobs Act	\$ 2,844.6	\$ 1,022.8	\$ 1,071.2	\$ 392.8	\$ 2,883.0	\$ 1,031.0	\$ 1,103.7	\$ 396.4
Cost of Removal	559.8	64.6	330.6	16.3	521.0	39.9	307.1	22.1
Benefit Costs	84.5	—	72.2	—	91.2	—	76.9	—
Regulatory Tracker Mechanisms	325.1	94.8	165.6	57.0	309.0	89.5	163.7	48.3
AFUDC - Transmission	73.2	46.0	27.2	—	70.7	47.4	23.3	—
Revenue Subject to Refund due to Tax Cuts and Jobs Act	14.6	—	—	6.0	24.6	—	—	12.6
Other Regulatory Liabilities	117.4	19.6	59.0	7.1	80.2	24.0	29.2	4.2
Total Regulatory Liabilities	4,019.2	1,247.8	1,725.8	479.2	3,979.7	1,231.8	1,703.9	483.6
Less: Current Portion	361.2	82.8	209.2	65.8	370.2	109.6	190.6	55.5
Total Long-Term Regulatory Liabilities	\$ 3,658.0	\$ 1,165.0	\$ 1,516.6	\$ 413.4	\$ 3,609.5	\$ 1,122.2	\$ 1,513.3	\$ 428.1

**EDIT due to Tax Cuts and Jobs Act:** Pursuant to the "Tax Cuts and Jobs Act" (the Act), which became law on December 22, 2017, Eversource had remeasured its existing deferred federal income tax balances to reflect the decrease in the U.S. federal corporate income tax rate from 35 percent to 21 percent. The remeasurement resulted in provisional regulated excess accumulated deferred income tax (excess ADIT or EDIT) liabilities that will benefit our customers in future periods and were recognized as regulatory liabilities on the balance sheet. EDIT liabilities related to property, plant, and equipment are subject to IRS normalization rules and will be returned to customers using the same timing as the remaining useful lives of the underlying assets that gave rise to the ADIT liabilities.

Eversource's regulated companies are in the process of, or will be, refunding the EDIT liabilities to customers based on orders issued by applicable state regulatory commissions. For CL&P (effective May 1, 2019) and Yankee Gas (effective November 15, 2018), the refund of EDIT liabilities was incorporated into base distribution rates. For NSTAR Electric (effective January 1, 2019) and NSTAR Gas (effective February 1, 2019), the refund of EDIT liabilities occurred in rates through a new reconciling factor. For PSNH, EDIT refunds will be addressed as part of the permanent distribution rate case filing. The EDIT balance related to PSNH's divested generation assets was included as a component of the securitization of the stranded generation assets and began to be refunded to customers, effective August 1, 2018. For our transmission companies, on November 21, 2019, the FERC issued its final rule requiring public utilities with transmission formula rates to make adjustments to ADIT and EDIT. Eversource expects to submit a filing demonstrating its compliance with the final rule in the second half of 2020.

**Cost of Removal:** Eversource's regulated companies currently recover amounts in rates for future costs of removal of plant assets over the lives of the assets. The estimated cost to remove utility assets from service is recognized as a component of depreciation expense, and the cumulative amount collected from customers but not yet expended is recognized as a regulatory liability.

**AFUDC - Transmission:** Regulatory liabilities were recorded by CL&P and NSTAR Electric for AFUDC accrued on certain reliability-related transmission projects to reflect local rate base recovery. These regulatory liabilities will be amortized over the depreciable life of the related transmission assets.

**Revenue Subject to Refund due to Tax Cuts and Jobs Act:** Eversource established a regulatory liability with a corresponding reduction to revenue, to reflect the difference between the 35 percent federal corporate income tax rate included in rates charged to customers and the 21 percent federal corporate income tax rate, effective January 1, 2018 as a result of the Tax Cuts and Jobs Act, until rates billed to customers reflected the lower federal tax rate. Effective May 1, 2018, CL&P adjusted distribution rates billed to customers to reflect the lower federal income tax rate prospectively and, as of December 31, 2018, fully refunded its regulatory liability associated with the higher federal corporate income tax rate billed to customers in the period between January 1, 2018 through April 30, 2018. Effective November 15, 2018, Yankee Gas adjusted distribution rates to reflect the lower federal income tax rate prospectively and to refund its regulatory liability associated with the higher federal corporate income tax rate billed to customers in the period between January 1, 2018 through November 14, 2018. Effective July 1, 2019, PSNH adjusted temporary distribution rates to reflect the lower federal income tax rate prospectively and to refund its regulatory liability associated with the higher federal corporate income tax rate billed to customers in the period between January 1, 2018 through June 30, 2019. For NSTAR Electric and NSTAR Gas, a December 2018 DPU order indicated that the DPU would not require a revision to base distribution rates for any potential refunds associated with the higher federal corporate income tax rate billed to customers in the period between January 1, 2018 to the effective dates of each company's rate changes (effective February 1, 2018 for NSTAR Electric and July 1, 2018 for NSTAR Gas).

Effective January 1, 2018, local transmission service rates were updated to reflect the lower U.S. federal corporate income tax rate that resulted from the act. On June 28, 2018, FERC granted a one-time tariff waiver of tariff provisions related to the federal corporate income tax rate so that effective June 1, 2018, the regional transmission service rates also reflected the reduced federal corporate income tax rate at 21 percent.

**FERC ROE Complaints:** As of December 31, 2019, Eversource has a reserve established for the second ROE complaint in the pending FERC ROE complaint proceedings, which was recorded as a regulatory liability and is reflected within Regulatory Tracker Mechanisms in the table above. The cumulative pre-tax reserve (excluding interest) as of December 31, 2019 totaled \$39.1 million for Eversource (including \$21.4 million for CL&P, \$14.6 million for NSTAR Electric and \$3.1 million for PSNH). See Note 13E, "Commitments and Contingencies – FERC ROE Complaints," for further information on developments in the pending ROE complaint proceedings.

### 3. PROPERTY, PLANT AND EQUIPMENT AND ACCUMULATED DEPRECIATION

Utility property, plant and equipment is recorded at original cost. Original cost includes materials, labor, construction overheads and AFUDC for regulated property. The cost of repairs and maintenance is charged to Operations and Maintenance expense as incurred.

The following tables summarize property, plant and equipment by asset category:

Eversource (Millions of Dollars)	As of December 31,	
	2019	2018
Distribution - Electric	\$ 15,880.0	\$ 15,071.1
Distribution - Natural Gas	3,931.1	3,546.2
Transmission - Electric	10,958.4	10,153.9
Distribution - Water	1,726.5	1,639.8
Solar	200.2	164.1
Utility	32,696.2	30,575.1
Other <sup>(1)</sup>	1,025.6	778.6
Property, Plant and Equipment, Gross	33,721.8	31,353.7
Less: Accumulated Depreciation		
Utility	(7,483.5)	(7,126.2)
Other	(387.4)	(336.7)
Total Accumulated Depreciation	(7,870.9)	(7,462.9)
Property, Plant and Equipment, Net	25,850.9	23,890.8
Construction Work in Progress	1,734.6	1,719.6
Total Property, Plant and Equipment, Net	\$ 27,585.5	\$ 25,610.4

(Millions of Dollars)	As of December 31,					
	2019			2018		
	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH
Distribution - Electric	\$ 6,485.5	\$ 7,163.7	\$ 2,271.1	\$ 6,176.4	\$ 6,756.4	\$ 2,178.6
Transmission - Electric	5,043.0	4,411.9	1,498.7	4,700.5	4,065.9	1,338.7
Solar	—	200.2	—	—	164.1	—
Property, Plant and Equipment, Gross	11,528.5	11,775.8	3,769.8	10,876.9	10,986.4	3,517.3
Less: Accumulated Depreciation	(2,385.7)	(2,895.3)	(799.9)	(2,302.6)	(2,702.0)	(772.9)
Property, Plant and Equipment, Net	9,142.8	8,880.5	2,969.9	8,574.3	8,284.4	2,744.4
Construction Work in Progress	483.0	592.3	159.6	335.4	510.3	135.7
Total Property, Plant and Equipment, Net	\$ 9,625.8	\$ 9,472.8	\$ 3,129.5	\$ 8,909.7	\$ 8,794.7	\$ 2,880.1

<sup>(1)</sup> These assets are primarily comprised of computer software, hardware and equipment at Eversource Service and buildings at The Rocky River Realty Company.

In 2019, Eversource recorded an impairment charge for the NPT project costs, which had been recorded within both Construction Work in Progress and the Transmission - Electric asset categories. For further information regarding the impairment of NPT, see Note 1D, "Summary of Significant Accounting Policies - Impairment of Northern Pass Transmission," to the financial statements.

Depreciation of utility assets is calculated on a straight-line basis using composite rates based on the estimated remaining useful lives of the various classes of property (estimated useful life for PSNH distribution and the water utilities). The composite rates, which are subject to approval by the appropriate state regulatory agency, include a cost of removal component, which is collected from customers over the lives of the plant assets and is recognized as a regulatory liability. Depreciation rates are applied to property from the time it is placed in service.

Upon retirement from service, the cost of the utility asset is charged to the accumulated provision for depreciation. The actual incurred removal costs are applied against the related regulatory liability.

The depreciation rates for the various classes of utility property, plant and equipment aggregate to composite rates as follows:

(Percent)	2019	2018	2017
Eversource	3.0%	2.9%	3.0%
CL&P	2.8%	2.8%	2.8%
NSTAR Electric	2.8%	2.8%	2.9%
PSNH	2.8%	2.8%	3.1%

The following table summarizes average remaining useful lives of depreciable assets:

(Years)	As of December 31, 2019			
	Eversource	CL&P	NSTAR Electric	PSNH
Distribution - Electric	34.3	35.3	33.7	33.2
Distribution - Natural Gas	43.2	—	—	—
Transmission - Electric	40.4	36.8	44.9	42.1
Distribution - Water	33.5	—	—	—
Solar	24.2	—	24.2	—
Other <sup>(1)</sup>	11.2	—	—	—

<sup>(1)</sup> The estimated useful life of computer software, hardware and equipment primarily ranges from 5 to 15 years and of buildings is 40 years.

#### 4. DERIVATIVE INSTRUMENTS

The electric and natural gas companies purchase and procure energy and energy-related products, which are subject to price volatility, for their customers. The costs associated with supplying energy to customers are recoverable from customers in future rates. These regulated companies manage the risks associated with the price volatility of energy and energy-related products through the use of derivative and non-derivative contracts.

Many of the derivative contracts meet the definition of, and are designated as, normal and qualify for accrual accounting under the applicable accounting guidance. The costs and benefits of derivative contracts that meet the definition of normal are recognized in Operating Expenses on the statements of income, as applicable, as electricity or natural gas is delivered.

Derivative contracts that are not designated as normal are recorded at fair value as current or long-term Derivative Assets or Derivative Liabilities on the balance sheets. For the electric and natural gas companies, regulatory assets or regulatory liabilities are recorded to offset the fair values of derivatives, as contract settlement amounts are recovered from, or refunded to, customers in their respective energy supply rates.

The gross fair values of derivative assets and liabilities with the same counterparty are offset and reported as net Derivative Assets or Derivative Liabilities, with current and long-term portions, on the balance sheets. The following table presents the gross fair values of contracts, categorized by risk type, and the net amounts recorded as current or long-term derivative assets or liabilities:

(Millions of Dollars)	Fair Value Hierarchy	As of December 31,					
		2019			2018		
		Commodity Supply and Price Risk Management	Netting <sup>(1)</sup>	Net Amount Recorded as a Derivative	Commodity Supply and Price Risk Management	Netting <sup>(1)</sup>	Net Amount Recorded as a Derivative
<b>Current Derivative Assets:</b>							
CL&P	Level 3	\$ 12.2	\$ (0.4)	\$ 11.8	\$ 9.6	\$ (3.4)	\$ 6.2
Other	Level 2	—	—	—	1.5	(0.9)	0.6
<b>Long-Term Derivative Assets:</b>							
CL&P	Level 3	67.5	(2.1)	65.4	74.2	(2.3)	71.9
<b>Current Derivative Liabilities:</b>							
CL&P	Level 3	(67.8)	—	(67.8)	(55.1)	—	(55.1)
Other	Level 2	(5.2)	—	(5.2)	—	—	—
<b>Long-Term Derivative Liabilities:</b>							
CL&P	Level 3	(338.6)	—	(338.6)	(379.5)	—	(379.5)
Other	Level 2	(0.1)	—	(0.1)	—	—	—

<sup>(1)</sup> Amounts represent derivative assets and liabilities that Eversource elected to record net on the balance sheets. These amounts are subject to master netting agreements or similar agreements for which the right of offset exists.

The business activities that result in the recognition of derivative assets also create exposure to various counterparties. As of December 31, 2019, CL&P's derivative assets were exposed to counterparty credit risk and contracted with investment grade entities.

For further information on the fair value of derivative contracts, see Note 1I, "Summary of Significant Accounting Policies – Fair Value Measurements," and Note 1J, "Summary of Significant Accounting Policies – Derivative Accounting," to the financial statements.

#### Derivative Contracts at Fair Value with Offsetting Regulatory Amounts

**Commodity Supply and Price Risk Management:** As required by regulation, CL&P, along with UI, has capacity-related contracts with generation facilities. CL&P has a sharing agreement with UI, with 80 percent of the costs or benefits of each contract borne by or allocated to CL&P and 20 percent borne by or allocated to UI. The combined capacities of these contracts as of December 31, 2019 and 2018 were 676 MW and 787 MW, respectively. The capacity contracts extend through 2026 and obligate both CL&P and UI to make or receive payments on a monthly basis to or from the generation facilities based on the difference between a set capacity price and the capacity market price received in the ISO-NE capacity markets. In addition, CL&P has a contract to purchase 0.1 million MWh of energy per year through 2020.

As of December 31, 2019 and 2018, Eversource had New York Mercantile Exchange (NYMEX) financial contracts for natural gas futures in order to reduce variability associated with the price of 9.6 million and 12.5 million MMBtu of natural gas, respectively.

For the years ended December 31, 2019, 2018 and 2017, there were losses of \$20.7 million, \$25.0 million and \$29.0 million, respectively, deferred as regulatory costs, which reflect the change in fair value associated with Eversource's derivative contracts.

#### Fair Value Measurements of Derivative Instruments

Derivative contracts classified as Level 2 in the fair value hierarchy relate to the financial contracts for natural gas futures. Prices are obtained from broker quotes and are based on actual market activity. The contracts are valued using NYMEX natural gas prices. Valuations of these contracts also incorporate discount rates using the yield curve approach.

The fair value of derivative contracts classified as Level 3 utilizes significant unobservable inputs. The fair value is modeled using income techniques, such as discounted cash flow valuations adjusted for assumptions related to exit price. Significant observable inputs for valuations of these contracts include energy and energy-related product prices in future years for which quoted prices in an active market exist. Fair value measurements categorized in Level 3 of the fair value hierarchy are prepared by individuals with expertise in valuation techniques, pricing of energy and energy-related products, and accounting requirements. The future capacity prices for periods that are not quoted in an active market or established at auction are based on available market data and are escalated based on estimates of inflation in order to address the full term of the contract.

Valuations of derivative contracts using a discounted cash flow methodology include assumptions regarding the timing and likelihood of scheduled payments and also reflect non-performance risk, including credit, using the default probability approach based on the counterparty's credit rating for assets and the Company's credit rating for liabilities. Valuations incorporate estimates of premiums or discounts that would be required by a market participant to arrive at an exit price, using historical market transactions adjusted for the terms of the contract.

The following is a summary of Level 3 derivative contracts and the range of the significant unobservable inputs utilized in the valuations over the duration of the contracts:

CL&P	As of December 31,									
	2019					2018				
	Range			Period Covered	Range			Period Covered		
Capacity Prices	\$ 3.01	—	7.34	per kW-Month	2023 - 2026	\$ 4.30	—	7.44	per kW-Month	2022 - 2026
Forward Reserve	0.80	—	1.90	per kW-Month	2020 - 2024	0.75	—	1.78	per kW-Month	2019 - 2024

Exit price premiums of 2.1 percent through 13.6 percent are also applied to these contracts and reflect the uncertainty and illiquidity premiums that would be required based on the most recent market activity available for similar type contracts.

Significant increases or decreases in future capacity or forward reserve prices in isolation would decrease or increase, respectively, the fair value of the derivative liability. Any increases in risk premiums would increase the fair value of the derivative liability. Changes in these fair values are recorded as a regulatory asset or liability and do not impact net income.

*Valuations using significant unobservable inputs:* The following table presents changes in the Level 3 category of derivative assets and derivative liabilities measured at fair value on a recurring basis. The derivative assets and liabilities are presented on a net basis.

CL&P (Millions of Dollars)	For the Years Ended December 31,	
	2019	2018
<u>Derivatives, Net:</u>		
Fair Value as of Beginning of Period	\$ (356.5)	\$ (362.3)
Net Realized/Unrealized Losses Included in Regulatory Assets	(15.0)	(32.0)
Settlements	42.3	37.8
Fair Value as of End of Period	\$ (329.2)	\$ (356.5)

## 5. MARKETABLE SECURITIES

Eversource holds marketable securities that are primarily used to fund certain non-qualified executive benefits. The trusts that hold marketable securities are not subject to regulatory oversight by state or federal agencies. CYAPC and YAEC maintain legally restricted trusts, each of which holds marketable securities, to fund the spent nuclear fuel removal obligations of their nuclear fuel storage facilities.

*Equity Securities:* Unrealized gains and losses on equity securities held in Eversource's non-qualified executive benefit trust are recorded in Other Income, Net on the statements of income. The fair value of these equity securities as of December 31, 2019 and 2018 was \$45.7 million and \$44.0 million, respectively. For the years ended December 31, 2019 and 2018, there were unrealized gains of \$9.8 million and unrealized losses of \$4.3 million recorded in Other Income, Net related to these equity securities, respectively.

Eversource's equity securities also include CYAPC's and YAEC's marketable securities held in spent nuclear fuel trusts, which had fair values of \$182.8 million and \$200.0 million as of December 31, 2019 and 2018, respectively. Unrealized gains and losses for these spent nuclear fuel trusts

are subject to regulatory accounting treatment and are recorded in Marketable Securities with the corresponding offset to Other Long-Term Liabilities on the balance sheets, with no impact on the statements of income.

*Available-for-Sale Debt Securities:* The following is a summary of the available-for-sale debt securities, which are recorded at fair value and are included in current and long-term Marketable Securities on the balance sheets.

Eversource (Millions of Dollars)	As of December 31,							
	2019				2018			
	Amortized Cost	Pre-Tax Unrealized Gains	Pre-Tax Unrealized Losses	Fair Value	Amortized Cost	Pre-Tax Unrealized Gains	Pre-Tax Unrealized Losses	Fair Value
Debt Securities	\$ 228.4	\$ 5.8	\$ (0.1)	\$ 234.1	\$ 190.0	\$ 0.4	\$ (4.0)	\$ 186.4

Eversource's debt securities include CYAPC's and YAEC's marketable securities held in spent nuclear fuel trusts in the amounts of \$198.1 million and \$143.9 million as of December 31, 2019 and 2018, respectively.

Unrealized gains and losses on available-for-sale debt securities held in Eversource's non-qualified benefit trust are recorded in Accumulated Other Comprehensive Income. There have been no significant unrealized losses, other-than-temporary impairments, or credit losses for the years ended December 31, 2019 or 2018. Factors considered in determining whether a credit loss exists include the duration and severity of the impairment, adverse conditions specifically affecting the issuer, and the payment history, ratings and rating changes of the security. For asset-backed debt securities, underlying collateral and expected future cash flows are also evaluated.

As of December 31, 2019, the contractual maturities of available-for-sale debt securities were as follows:

Eversource (Millions of Dollars)	Amortized Cost	Fair Value
Less than one year <sup>(1)</sup>	\$ 59.2	\$ 59.3
One to five years	40.5	41.4
Six to ten years	33.6	34.8
Greater than ten years	95.1	98.6
Total Debt Securities	\$ 228.4	\$ 234.1

<sup>(1)</sup> Amounts in the Less than one year category include securities in the CYAPC and YAEC spent nuclear fuel trusts, which are restricted and are classified in long-term Marketable Securities on the balance sheets.

*Realized Gains and Losses:* Realized gains and losses are recorded in Other Income, Net for Eversource's benefit trust and are offset in Other Long-Term Liabilities for CYAPC and YAEC. Eversource utilizes the specific identification basis method for the Eversource non-qualified benefit trust, and the average cost basis method for the CYAPC and YAEC spent nuclear fuel trusts to compute the realized gains and losses on the sale of marketable securities.

*Fair Value Measurements:* The following table presents the marketable securities recorded at fair value on a recurring basis by the level in which they are classified within the fair value hierarchy:

Eversource (Millions of Dollars)	As of December 31,	
	2019	2018
Level 1:		
Mutual Funds and Equities	\$ 228.5	\$ 244.0
Money Market Funds	46.0	25.9
Total Level 1	\$ 274.5	\$ 269.9
Level 2:		
U.S. Government Issued Debt Securities (Agency and Treasury)	\$ 96.8	\$ 79.6
Corporate Debt Securities	44.0	39.5
Asset-Backed Debt Securities	12.9	14.0
Municipal Bonds	26.7	19.2
Other Fixed Income Securities	7.7	8.2
Total Level 2	\$ 188.1	\$ 160.5
Total Marketable Securities	\$ 462.6	\$ 430.4

U.S. government issued debt securities are valued using market approaches that incorporate transactions for the same or similar bonds and adjustments for yields and maturity dates. Corporate debt securities are valued using a market approach, utilizing recent trades of the same or similar instruments and also incorporating yield curves, credit spreads and specific bond terms and conditions. Asset-backed debt securities include collateralized mortgage obligations, commercial mortgage backed securities, and securities collateralized by auto loans, credit card loans or receivables. Asset-backed debt securities are valued using recent trades of similar instruments, prepayment assumptions, yield curves, issuance and maturity dates, and tranche information. Municipal bonds are valued using a market approach that incorporates reported trades and benchmark

yields. Other fixed income securities are valued using pricing models, quoted prices of securities with similar characteristics, and discounted cash flows.

## 6. INVESTMENTS IN UNCONSOLIDATED AFFILIATES

Investments in entities that are not consolidated are included in long-term assets on the balance sheets and earnings impacts from these equity investments are included in Other Income, Net on the statements of income. Eversource's investments included the following:

<i>(Millions of Dollars)</i>	Ownership Interest	Investment Balance as of December 31,	
		2019	2018
Offshore Wind Business - North East Offshore and Bay State Wind	50%	\$ 649.3	\$ 234.3
Natural Gas Pipeline - Algonquin Gas Transmission, LLC	15%	127.8	155.0
Renewable Energy Investment Fund	90%	72.4	54.1
Other	various	22.1	20.9
Total Investments in Unconsolidated Affiliates		\$ 871.6	\$ 464.3

For the years ended December 31, 2019, 2018 and 2017, Eversource had equity in earnings, net of impairment, of unconsolidated affiliates of \$42.2 million, \$3.8 million, and \$27.4 million, respectively. Eversource received dividends from its equity method investees of \$48.9 million, \$22.3 million and \$20.0 million, respectively, for the years ended December 31, 2019, 2018 and 2017.

Investments in affiliates where Eversource has the ability to exercise significant influence, but not control, over an investee are initially recognized as an equity method investment at cost. Any differences between the cost of an investment and the amount of underlying equity in net assets of an investee are considered basis differences, and are determined based upon the estimated fair values of the investee's identifiable assets and liabilities. The carrying amount of Eversource's offshore wind investments exceeded its share of underlying equity in net assets by \$240.3 million and \$7.2 million, respectively, as of December 31, 2019 and 2018. As of December 31, 2019, these basis differences are primarily comprised of \$168.3 million of equity method goodwill that is not being amortized, intangible assets for PPAs, which will be amortized over the term of the PPAs, and capitalized interest.

*Offshore Wind Business:* Eversource's offshore wind business includes ownership interests in North East Offshore and Bay State Wind, which together hold PPAs and contracts for the Revolution Wind, South Fork Wind and Sunrise Wind projects, as well as offshore leases through BOEM. Eversource's offshore wind projects are being developed and constructed through a joint and equal partnership with Ørsted. On February 8, 2019, Eversource and Ørsted entered into an equal partnership to acquire key offshore wind assets in the Northeast. Eversource has a 50 percent ownership interest in North East Offshore, which holds the Revolution Wind and South Fork Wind projects, as well as a 257-square-mile lease off the coasts of Massachusetts and Rhode Island. Eversource also has a 50 percent ownership interest in Bay State Wind, which holds the Sunrise Wind project. Bay State Wind's separate 300-square-mile ocean lease is located approximately 25 miles south of the coast of Massachusetts adjacent to the North East Offshore area.

*NSTAR Electric:* As of December 31, 2019 and 2018, NSTAR Electric's investments included a 14.5 percent ownership interest in two companies that transmit hydro-electricity imported from the Hydro-Quebec system in Canada of \$8.2 million and \$7.6 million, respectively.

*Impairment of Equity Method Investments:* Equity method investments are assessed for impairment when conditions exist that indicate that the fair value of the investment is less than book value. If the decline in value is considered to be other-than-temporary, the investment is written down to its estimated fair value, which establishes a new cost basis in the investment. Impairment evaluations involve a significant degree of judgment and estimation, including identifying circumstances that indicate an impairment may exist and developing undiscounted future cash flows.

During the year ended December 31, 2018, Eversource recorded an other-than-temporary impairment of \$32.9 million within Other Income, Net on our statement of income, related to Access Northeast, a natural gas pipeline and storage project, which represented the full carrying value of our equity method investment. On April 1, 2019, pursuant to a provision in the partnership agreement jointly entered into by Eversource, Enbridge, Inc. and National Grid plc, through Algonquin Gas Transmission, LLC, the Access Northeast project was terminated.

## 7. ASSET RETIREMENT OBLIGATIONS

Eversource, including CL&P, NSTAR Electric and PSNH, recognizes a liability for the fair value of an ARO on the obligation date if the liability's fair value can be reasonably estimated, even if it is conditional on a future event. Settlement dates and future costs are reasonably estimated when sufficient information becomes available. Management has identified various categories of AROs, primarily CYAPC's and YAEC's obligation to dispose of spent nuclear fuel and high level waste, and also certain assets containing asbestos and hazardous contamination. Management has performed fair value calculations reflecting expected probabilities for settlement scenarios.

The fair value of an ARO is recorded as a liability in Other Long-Term Liabilities with a corresponding amount included in Property, Plant and Equipment, Net on the balance sheets. The ARO assets are depreciated, and the ARO liabilities are accreted over the estimated life of the obligation and the corresponding credits are recorded as accumulated depreciation and ARO liabilities, respectively. As the electric and natural gas companies are rate-regulated on a cost-of-service basis, these companies apply regulatory accounting guidance and both the depreciation and accretion costs associated with these companies' AROs are recorded as increases to Regulatory Assets on the balance sheets.

A reconciliation of the beginning and ending carrying amounts of ARO liabilities is as follows:

(Millions of Dollars)	As of December 31,							
	2019				2018			
	Eversource	CL&P	NSTAR Electric	PSNH	Eversource	CL&P	NSTAR Electric	PSNH
Balance as of Beginning of Year	\$ 466.2	\$ 33.5	\$ 72.4	\$ 4.0	\$ 419.1	\$ 31.5	\$ 44.6	\$ 25.0
Liabilities Incurred During the Year	30.3	—	30.3	—	11.3	—	11.3	—
Liabilities Settled During the Year	(21.3)	(3.6)	—	—	(36.6)	—	—	(21.5)
Accretion	27.1	2.2	3.5	0.2	25.5	2.0	2.2	0.5
Revisions in Estimated Cash Flows	(12.8)	(0.1)	(8.7)	—	46.9	—	14.3	—
Balance as of End of Year	\$ 489.5	\$ 32.0	\$ 97.5	\$ 4.2	\$ 466.2	\$ 33.5	\$ 72.4	\$ 4.0

The ARO balance includes the current portion of \$1.0 million for Eversource and NSTAR Electric as of December 31, 2019, which is included in Other Current Liabilities on the balance sheets.

Eversource's amounts include CYAPC and YAEC's AROs of \$337.7 million and \$339.9 million as of December 31, 2019 and 2018, respectively. The fair value of the ARO for CYAPC and YAEC includes uncertainties of the fuel off-load dates related to the DOE's timing of performance regarding its obligation to dispose of the spent nuclear fuel and high level waste and other assumptions, including discount rates. The incremental asset recorded as an offset to the ARO liability was fully depreciated since the plants have no remaining useful life. Any changes in the ARO liability are recorded with a corresponding offset to the related regulatory asset. The assets held in the CYAPC and YAEC spent nuclear fuel trusts are restricted for settling the ARO and all other nuclear fuel storage obligations. For further information on the assets held in the spent nuclear fuel trusts, see Note 5, "Marketable Securities," to the financial statements.

The increase in the ARO balance at NSTAR Electric for the year ended December 31, 2019 was due to the recording of a new liability associated with the installation of a 115kV distribution cable across Boston Harbor to Deer Island that was placed into service in 2019. See Note 13F, "Commitments and Contingencies - Eversource and NSTAR Electric Boston Harbor Civil Action," to the financial statements for further information on the HEEC distribution cable.

## 8. SHORT-TERM DEBT

*Short-Term Debt Borrowing Limits:* The amount of short-term borrowings that may be incurred by CL&P and NSTAR Electric is subject to periodic approval by the FERC. Because the NHPUC has jurisdiction over PSNH's short-term debt, PSNH is not currently required to obtain FERC approval for its short-term borrowings. On October 25, 2019, the FERC granted authorization that allows CL&P to issue total short-term borrowings in an aggregate principal amount not to exceed \$600 million outstanding at any one time, through December 31, 2021. On December 18, 2019, the FERC granted authorization that allows NSTAR Electric to issue total short-term borrowings in an aggregate principal amount not to exceed \$655 million outstanding at any one time, through December 31, 2021.

PSNH is authorized by regulation of the NHPUC to incur short-term borrowings up to 10 percent of net fixed plant plus an additional \$60 million until further ordered by the NHPUC. As of December 31, 2019, PSNH's short-term debt authorization under the 10 percent of net fixed plant test plus \$60 million totaled approximately \$354 million.

CL&P's certificate of incorporation contains preferred stock provisions restricting the amount of unsecured debt that CL&P may incur, including limiting unsecured indebtedness with a maturity of less than 10 years to 10 percent of total capitalization. As of December 31, 2019, CL&P had \$738.1 million of unsecured debt capacity available under this authorization.

Yankee Gas and NSTAR Gas are not required to obtain approval from any state or federal authority to incur short-term debt.

*Commercial Paper Programs and Credit Agreements:* Eversource parent has a \$1.45 billion commercial paper program allowing Eversource parent to issue commercial paper as a form of short-term debt. Eversource parent, CL&P, PSNH, NSTAR Gas, Yankee Gas and Aquarion Water Company of Connecticut are also parties to a five-year \$1.45 billion revolving credit facility. Effective December 9, 2019, the revolving credit facility's termination date was extended for one additional year to December 6, 2024. The revolving credit facility serves to backstop Eversource parent's \$1.45 billion commercial paper program.

NSTAR Electric has a \$650 million commercial paper program allowing NSTAR Electric to issue commercial paper as a form of short-term debt. NSTAR Electric is also a party to a five-year \$650 million revolving credit facility. Effective December 9, 2019, the revolving credit facility's termination date was extended for one additional year to December 6, 2024. The revolving credit facility serves to backstop NSTAR Electric's \$650 million commercial paper program.

The amount of borrowings outstanding and available under the commercial paper programs were as follows:

(Millions of Dollars)	Borrowings Outstanding as of December 31,		Available Borrowing Capacity as of December 31,		Weighted-Average Interest Rate as of December 31,	
	2019	2018	2019	2018	2019	2018
	Eversource Parent Commercial Paper Program	\$ 1,224.9	\$ 631.5	\$ 225.1	\$ 818.5	1.98%
NSTAR Electric Commercial Paper Program	10.5	278.5	639.5	371.5	1.63%	2.50%

There were no borrowings outstanding on either the Eversource parent or NSTAR Electric revolving credit facilities as of December 31, 2019 or 2018.

Amounts outstanding under the commercial paper programs and revolving credit facilities are included in Notes Payable and classified in current liabilities on the Eversource and NSTAR Electric balance sheets as all borrowings are outstanding for no more than 364 days at one time. As a result of the Eversource parent long-term debt issuance on January 10, 2020, the net proceeds of which were used to repay short-term borrowings outstanding under its commercial paper program, \$346.3 million of commercial paper borrowings under the Eversource parent commercial paper program were classified as Long-Term Debt as of December 31, 2019.

Under the credit facilities described above, Eversource and its subsidiaries must comply with certain financial and non-financial covenants, including a consolidated debt to total capitalization ratio. As of December 31, 2019 and 2018, Eversource and its subsidiaries were in compliance with these covenants. If Eversource or its subsidiaries were not in compliance with these covenants, an event of default would occur requiring all outstanding borrowings by such borrower to be repaid, and additional borrowings by such borrower would not be permitted under its respective credit facility.

The Company expects the future operating cash flows of Eversource, CL&P, NSTAR Electric and PSNH, along with existing borrowing availability and access to both debt and equity markets, will be sufficient to meet any working capital and future operating requirements, and capital investment forecasted opportunities.

*Intercompany Borrowings:* Eversource parent uses its available capital resources to provide loans to its subsidiaries to assist in meeting their short-term borrowing needs. Eversource parent records intercompany interest income from its loans to subsidiaries, which is eliminated in consolidation. Intercompany loans from Eversource parent to its subsidiaries are eliminated in consolidation on Eversource's balance sheets. As of December 31, 2019, there were intercompany loans from Eversource parent to CL&P of \$63.8 million, to PSNH of \$27.0 million, and to a subsidiary of NSTAR Electric of \$30.3 million. As of December 31, 2018, there were intercompany loans from Eversource parent to PSNH of \$57.0 million. Intercompany loans from Eversource parent are included in Notes Payable to Eversource Parent and classified in current liabilities on the respective subsidiary's balance sheets.

## 9. LONG-TERM DEBT

Details of long-term debt outstanding are as follows:

CL&P (Millions of Dollars)	As of December 31,	
	2019	2018
First Mortgage Bonds:		
7.875% 1994 Series D due 2024	\$ 139.8	\$ 139.8
5.750% 2004 Series B due 2034	130.0	130.0
5.625% 2005 Series B due 2035	100.0	100.0
6.350% 2006 Series A due 2036	250.0	250.0
5.750% 2007 Series B due 2037	150.0	150.0
6.375% 2007 Series D due 2037	100.0	100.0
5.500% 2009 Series A due 2019	—	250.0
2.500% 2013 Series A due 2023	400.0	400.0
4.300% 2014 Series A due 2044	475.0	475.0
4.150% 2015 Series A due 2045	350.0	350.0
3.200% 2017 Series A due 2027	500.0	300.0
4.000% 2018 Series A due 2048	800.0	500.0
Total First Mortgage Bonds	3,394.8	3,144.8
Pollution Control Revenue Bonds:		
4.375% Fixed Rate Tax Exempt due 2028	120.5	120.5
Less Amounts due Within One Year	—	(250.0)
Unamortized Premiums and Discounts, Net	27.8	10.2
Unamortized Debt Issuance Costs	(25.0)	(21.5)
CL&P Long-Term Debt	\$ 3,518.1	\$ 3,004.0

NSTAR Electric (Millions of Dollars)	As of December 31,	
	2019	2018
Debtures:		
5.750% due 2036	\$ 200.0	\$ 200.0
5.500% due 2040	300.0	300.0
2.375% due 2022	400.0	400.0
4.400% due 2044	300.0	300.0
3.250% due 2025	250.0	250.0
2.700% due 2026	250.0	250.0
3.200% due 2027	700.0	700.0
3.250% due 2029	400.0	—
<b>Total Debtures</b>	<b>2,800.0</b>	<b>2,400.0</b>
Notes:		
5.900% Senior Notes Series B due 2034	50.0	50.0
6.700% Senior Notes Series D due 2037	40.0	40.0
5.100% Senior Notes Series E due 2020	95.0	95.0
3.500% Senior Notes Series F due 2021	250.0	250.0
3.880% Senior Notes Series G due 2023	80.0	80.0
2.750% Senior Notes Series H due 2026	50.0	50.0
<b>Total Notes</b>	<b>565.0</b>	<b>565.0</b>
Less Amounts due Within One Year	(95.0)	—
Unamortized Premiums and Discounts, Net	(4.1)	(2.5)
Unamortized Debt Issuance Costs	(18.8)	(17.7)
<b>NSTAR Electric Long-Term Debt</b>	<b>\$ 3,247.1</b>	<b>\$ 2,944.8</b>

PSNH (Millions of Dollars)	As of December 31,	
	2019	2018
First Mortgage Bonds:		
5.600% Series M due 2035	\$ 50.0	\$ 50.0
4.500% Series P due 2019	—	150.0
4.050% Series Q due 2021	122.0	122.0
3.200% Series R due 2021	160.0	160.0
3.500% Series S due 2023	325.0	325.0
3.600% Series T due 2049	300.0	—
<b>Total First Mortgage Bonds</b>	<b>957.0</b>	<b>807.0</b>
Less Amounts due Within One Year	—	(150.0)
Unamortized Premiums and Discounts, Net	(0.7)	—
Unamortized Debt Issuance Costs	(4.7)	(1.8)
<b>PSNH Long-Term Debt</b>	<b>\$ 951.6</b>	<b>\$ 655.2</b>

	As of December 31,	
	2019	2018
<b>OTHER</b> (Millions of Dollars)		
Yankee Gas - First Mortgage Bonds: 2.230% - 8.480% due 2020 - 2049	\$ 620.0	\$ 470.0
NSTAR Gas - First Mortgage Bonds: 3.740% - 9.950% due 2020 - 2049	460.0	385.0
Aquarion - Senior Note 4.000% due 2024	360.0	360.0
Aquarion - Unsecured Notes 0% - 6.430% due 2021 - 2049	335.3	289.5
Aquarion - Secured Debt 4.100% - 9.640% due 2021 - 2035	68.8	70.7
Eversource Parent - Debentures 4.500% due 2019	—	350.0
Eversource Parent - Senior Notes 2.500% - 4.250% due 2021 - 2029	4,000.0	4,000.0
Pre-1983 Spent Nuclear Fuel Obligation (CYAPC)	11.6	39.5
Fair Value Adjustment <sup>(1)</sup>	109.1	144.7
Less Fair Value Adjustment - Current Portion <sup>(1)</sup>	(31.3)	(36.2)
Less Amounts due in One Year	(201.1)	(401.1)
Commercial Paper Classified as Long-Term Debt (See Note 8, Short-Term Debt)	346.3	—
Unamortized Premiums and Discounts, Net	(4.1)	(4.2)
Unamortized Debt Issuance Costs	(20.6)	(23.2)
<b>Total Other Long-Term Debt</b>	<b>\$ 6,054.0</b>	<b>\$ 5,644.7</b>
<b>Total Eversource Long-Term Debt</b>	<b>\$ 13,770.8</b>	<b>\$ 12,248.7</b>

<sup>(1)</sup> The fair value adjustment amount is the purchase price adjustments, net of amortization, required to record long-term debt at fair value on the dates of the 2012 merger with NSTAR and the 2017 acquisition of Aquarion.

*Long-Term Debt Issuances and Repayments:* The following table summarizes long-term debt issuances and repayments:

(Millions of Dollars)	Issue Date	Issuance/ (Repayment)	Maturity Date	Use of Proceeds for Issuance/ Repayment Information
<b>CL&amp;P:</b>				
4.00% 2018 Series A First Mortgage Bonds <sup>(1)</sup>	April 2019	\$ 300.0	April 2048	Paid short-term borrowings that were used to pay long-term debt that matured on February 1, 2019 and fund capital expenditures and working capital
3.20% 2017 Series A First Mortgage Bonds <sup>(2)</sup>	September 2019	200.0	March 2027	Paid short-term borrowings and fund capital expenditures and working capital
5.50% 2009 Series A First Mortgage Bonds	February 2009	(250.0)	February 2019	Paid at maturity on February 1, 2019
<b>NSTAR Electric:</b>				
3.25% 2019 Debentures	May 2019	400.0	May 2029	Paid short-term borrowings that were used to fund investments in eligible green expenditures
<b>PSNH:</b>				
3.60% 2019 Series T First Mortgage Bonds	June 2019	300.0	July 2049	Paid long-term debt that matured in December 2019, paid short-term borrowings and fund capital expenditures and working capital
4.50% 2009 Series P First Mortgage Bonds	December 2009	(150.0)	December 2019	Paid at maturity on December 1, 2019
<b>Other:</b>				
Eversource Parent 4.50% Debentures	November 2009	(350.0)	November 2019	Paid at maturity on November 15, 2019
Eversource Parent 3.45% Series P Senior Notes	January 2020	350.0	January 2050	Paid short-term borrowings
NSTAR Gas 3.74% Series Q First Mortgage Bonds	July 2019	75.0	August 2049	Paid short-term borrowings and fund capital expenditures and working capital
Yankee Gas 2.23% Series P First Mortgage Bonds	September 2019	100.0	October 2024	Paid short-term borrowings and for general corporate purposes
Yankee Gas 3.30% Series Q First Mortgage Bonds	September 2019	100.0	October 2049	Paid short-term borrowings and for general corporate purposes
Yankee Gas 5.26% Series H First Mortgage Bonds	November 2004	(50.0)	November 2019	Paid at maturity on November 1, 2019
Aquarion 3.54% Senior Notes	December 2019	45.0	December 2049	Paid short-term borrowings

<sup>(1)</sup> These bonds are part of the same series issued by CL&P in March 2018. The aggregate outstanding principal amount of these bonds is now \$800 million.

(2) These bonds are part of the same series issued by CL&P in March 2017. The aggregate outstanding principal amount of these bonds is now \$500 million.

*Long-Term Debt Issuance Authorizations:* On February 27, 2019, the DPU approved NSTAR Electric's request for authorization to issue up to \$800 million in long-term debt through December 31, 2020. On April 26, 2019, the NHPUC approved PSNH's request for authorization to issue up to \$300 million in long-term debt through December 31, 2019. On August 14, 2019, PURA approved CL&P's request for authorization to issue up to \$675 million in long-term debt through December 31, 2022. On December 11, 2019, PURA approved Aquarion Water Company of Connecticut's request for authorization to issue up to \$45 million of long-term debt. On January 27, 2020, the DPU approved NSTAR Gas' request for authorization to issue up to \$270 million in long-term debt through December 31, 2021.

*Long-Term Debt Provisions:* The utility plant of CL&P, PSNH, Yankee Gas, NSTAR Gas and a portion of Aquarion is subject to the lien of each company's respective first mortgage bond indenture. The Eversource parent, NSTAR Electric and a portion of Aquarion debt is unsecured. Additionally, the long-term debt agreements provide that Eversource and certain of its subsidiaries must comply with certain covenants as are customarily included in such agreements, including equity requirements for NSTAR Electric, NSTAR Gas and Aquarion. Under the equity requirements, NSTAR Electric's and Aquarion's senior notes must maintain a certain consolidated indebtedness to capitalization ratio as of the end of any fiscal quarter and NSTAR Gas' outstanding long-term debt must not exceed equity.

CL&P's obligation to repay the Pollution Control Revenue Bonds (PCRBs) is secured by first mortgage bonds. The first mortgage bonds contain similar terms and provisions as the applicable series of PCRBs. If CL&P fails to meet its obligations under the first mortgage bonds, then the holder of the first mortgage bonds (the issuer of the PCRBs) would have rights under the first mortgage bonds. CL&P's tax-exempt PCRBs will be subject to redemption at par on or after September 1, 2021.

Certain secured and unsecured long-term debt securities are callable at redemption price or are subject to make-whole provisions.

Eversource, NSTAR Electric, Yankee Gas and Aquarion have certain long-term debt agreements that contain cross-default provisions. No other debt issuances contain cross-default provisions as of December 31, 2019.

*CYAPC's Pre-1983 Spent Nuclear Fuel Obligation:* Under the Nuclear Waste Policy Act of 1982, the DOE is responsible for the selection and development of repositories for, and the disposal of, spent nuclear fuel and high-level radioactive waste. CYAPC is obligated to pay the DOE for the costs to dispose of spent nuclear fuel and high-level radioactive waste generated prior to April 7, 1983 (pre-1983 Spent Nuclear Fuel) and recorded an accrual for the full liability thereof to the DOE. This liability accrues interest costs at the 3-month Treasury bill yield rate. For nuclear fuel used to generate electricity prior to April 7, 1983, payment may be made any time prior to the first delivery of spent fuel to the DOE. Fees for disposal of nuclear fuel burned on or after April 7, 1983 were billed to member companies and paid to the DOE.

As of December 31, 2019 and 2018, as a result of consolidating CYAPC, Eversource has consolidated \$11.6 million and \$39.5 million, respectively, in pre-1983 spent nuclear fuel obligations to the DOE. In December 2019 and 2018, CYAPC paid \$29 million and \$145 million, respectively, to the DOE to partially settle this obligation. The obligation includes accumulated interest costs of \$8.6 million and \$29.0 million as of December 31, 2019 and 2018, respectively. CYAPC maintains a trust to fund amounts due to the DOE for the disposal of pre-1983 spent nuclear fuel. For further information, see Note 5, "Marketable Securities," to the financial statements.

*Long-Term Debt Maturities:* Long-term debt maturities on debt outstanding for the years 2020 through 2024 and thereafter are shown below. These amounts exclude PSNH rate reduction bonds, CYAPC pre-1983 spent nuclear fuel obligation, net unamortized premiums, discounts and debt issuance costs, and other fair value adjustments as of December 31, 2019:

(Millions of Dollars)	Eversource	CL&P	NSTAR Electric	PSNH
2020	\$ 296.1	\$ —	\$ 95.0	\$ —
2021	1,033.6	—	250.0	282.0
2022	1,188.9	—	400.0	—
2023	1,665.2	400.0	80.0	325.0
2024	1,049.8	139.8	—	—
Thereafter	8,447.8	2,975.5	2,540.0	350.0
Total	\$ 13,681.4	\$ 3,515.3	\$ 3,365.0	\$ 957.0

## 10. RATE REDUCTION BONDS AND VARIABLE INTEREST ENTITIES

*Rate Reduction Bonds:* On May 8, 2018, PSNH Funding, a wholly-owned subsidiary of PSNH, issued \$635.7 million of securitized RRBs in multiple tranches with a weighted average interest rate of 3.66 percent, and final maturity dates ranging from 2026 to 2035. The RRBs are expected to be repaid by February 1, 2033. RRB payments consist of principal and interest and are paid semi-annually, beginning on February 1, 2019. The RRBs were issued pursuant to a finance order issued by the NHPUC on January 30, 2018 to recover remaining costs resulting from the divestiture of PSNH's generation assets.

The proceeds were used by PSNH Funding to purchase PSNH's stranded cost asset-recovery property, including its vested property right to bill, collect and adjust a non-bypassable stranded cost recovery charge from PSNH's retail customers. The collections are used to pay principal, interest and other costs in connection with the RRBs. The RRBs are secured by the stranded cost asset-recovery property. Cash collections from the stranded cost recovery charges and funds on deposit in trust accounts are the sole source of funds to satisfy the debt obligation. PSNH is not the owner of the RRBs, and PSNH Funding's assets and revenues are not available to pay PSNH's creditors. The RRBs are non-recourse senior secured obligations of PSNH Funding and are not insured or guaranteed by PSNH or Eversource Energy.

PSNH Funding was formed solely to issue RRBs to finance PSNH's unrecovered remaining costs associated with the divestiture of its generation assets. PSNH Funding is considered a VIE primarily because the equity capitalization is insufficient to support its operations. PSNH has the power to direct the significant activities of the VIE and is most closely associated with the VIE as compared to other interest holders. Therefore, PSNH is considered the primary beneficiary and consolidates PSNH Funding in its consolidated financial statements. The following tables summarize the impact of PSNH Funding on PSNH's balance sheets and income statements:

(Millions of Dollars)

Balance Sheet:	As of December 31, 2019	As of December 31, 2018
Restricted Cash - Current Portion (included in Current Assets)	\$ 32.5	\$ 47.5
Restricted Cash - Long-Term Portion (included in Other Long-Term Assets)	3.2	3.2
Securitized Stranded Cost (included in Regulatory Assets)	565.3	608.4
Other Regulatory Liabilities (included in Regulatory Liabilities)	5.6	5.8
Accrued Interest (included in Other Current Liabilities)	8.6	14.4
Rate Reduction Bonds - Current Portion	43.2	52.3
Rate Reduction Bonds - Long-Term Portion	540.1	583.3

(Millions of Dollars)

Income Statement:	For the Year Ended December 31, 2019	For the Year Ended December 31, 2018
Amortization of RRB Principal (included in Amortization of Regulatory Assets, Net)	\$ 43.0	\$ 27.3
Interest Expense on RRB Principal (included in Interest Expense)	21.1	14.4

*Variable Interest Entities - Other:* The Company's variable interests outside of the consolidated group include contracts that are required by regulation and provide for regulatory recovery of contract costs and benefits through customer rates. Eversource, CL&P and NSTAR Electric hold variable interests in VIEs through agreements with certain entities that own single renewable energy or peaking generation power plants, with other independent power producers and with transmission businesses. Eversource, CL&P and NSTAR Electric do not control the activities that are economically significant to these VIEs or provide financial or other support to these VIEs. Therefore, Eversource, CL&P and NSTAR Electric do not consolidate these VIEs.

## 11. EMPLOYEE BENEFITS

### A. Pension Benefits and Postretirement Benefits Other Than Pension

Eversource provides defined benefit retirement plans (Pension Plans) that cover eligible employees and are subject to the provisions of ERISA, as amended by the Pension Protection Act of 2006. Eversource's policy is to annually fund the Pension Plans in an amount at least equal to an amount that will satisfy all federal funding requirements. In addition to the Pension Plans, Eversource maintains non-qualified defined benefit retirement plans (SERP Plans) which provide benefits in excess of Internal Revenue Code limitations to eligible participants consisting of current and retired employees.

Eversource also provides defined benefit postretirement plans (PBOP Plans) that provide life insurance and a health reimbursement arrangement created for the purpose of reimbursing retirees and dependents for health insurance premiums and certain medical expenses to eligible employees that meet certain age and service eligibility requirements. The benefits provided under the PBOP Plans are not vested, and the Company has the right to modify any benefit provision subject to applicable laws at that time. Eversource annually funds postretirement costs through tax deductible contributions to external trusts.

The Pension, SERP and PBOP Plans cover eligible employees, including, among others, employees of the regulated companies. Because the regulated companies recover retiree benefit costs from customers through rates, regulatory assets are recorded in lieu of recording an adjustment to Accumulated Other Comprehensive Income/(Loss) as an offset to the funded status of the Pension, SERP and PBOP Plans. Regulatory accounting is also applied to the portions of the Eversource Service retiree benefit costs that support the regulated companies, as these costs are also recovered from customers. Adjustments to the Pension, SERP and PBOP Plans' funded status for the unregulated companies are recorded on an after-tax basis to Accumulated Other Comprehensive Income/(Loss). For further information, see Note 2, "Regulatory Accounting," and Note 17, "Accumulated Other Comprehensive Income/(Loss)," to the financial statements.

**Funded Status:** The Pension, SERP and PBOP Plans are accounted for under the multiple-employer approach, with each operating company's balance sheet reflecting its share of the funded status of the plans. Although Eversource maintains marketable securities in a benefit trust, the SERP Plans do not contain any assets. For further information, see Note 5, "Marketable Securities," to the financial statements. The following tables provide information on the plan benefit obligations, fair values of plan assets, and funded status:

	<b>Pension and SERP</b>							
	<b>As of December 31,</b>							
	<b>2019</b>				<b>2018</b>			
	<b>Eversource</b>	<b>CL&amp;P</b>	<b>NSTAR Electric</b>	<b>PSNH</b>	<b>Eversource</b>	<b>CL&amp;P</b>	<b>NSTAR Electric</b>	<b>PSNH</b>
<i>(Millions of Dollars)</i>								
<b>Change in Benefit Obligation:</b>								
Benefit Obligation as of Beginning of Year	\$ (5,520.0)	\$ (1,160.4)	\$ (1,236.5)	\$ (610.7)	\$ (5,936.5)	\$ (1,275.2)	\$ (1,351.0)	\$ (642.2)
Service Cost	(67.7)	(18.0)	(14.6)	(7.1)	(84.8)	(21.4)	(17.4)	(11.2)
Interest Cost	(219.0)	(45.7)	(49.0)	(24.0)	(196.4)	(41.8)	(43.5)	(22.0)
Actuarial Gain/(Loss)	(815.3)	(176.6)	(181.0)	(84.5)	414.9	106.1	98.6	39.2
Benefits Paid - Pension	273.0	60.2	67.1	30.3	261.8	59.6	66.9	26.2
Benefits Paid - Lump Sum	20.0	—	12.9	—	14.2	—	7.1	—
Benefits Paid - SERP	7.3	0.3	0.1	0.4	6.8	0.3	0.3	0.2
Employee Transfers	—	8.9	3.7	3.0	—	12.0	2.5	(0.9)
Benefit Obligation as of End of Year	\$ (6,321.7)	\$ (1,331.3)	\$ (1,397.3)	\$ (692.6)	\$ (5,520.0)	\$ (1,160.4)	\$ (1,236.5)	\$ (610.7)
<b>Change in Pension Plan Assets:</b>								
Fair Value of Pension Plan Assets as of Beginning of Year	\$ 4,573.9	\$ 918.4	\$ 1,222.1	\$ 506.6	\$ 4,739.5	\$ 963.0	\$ 1,260.8	\$ 539.5
Employer Contributions	112.5	24.0	0.4	15.4	185.6	41.2	56.5	—
Actual Return on Pension Plan Assets	575.2	112.9	150.0	62.9	(75.2)	(14.2)	(18.7)	(7.6)
Benefits Paid - Pension	(273.0)	(60.2)	(67.1)	(30.3)	(261.8)	(59.6)	(66.9)	(26.2)
Benefits Paid - Lump Sum	(20.0)	—	(12.9)	—	(14.2)	—	(7.1)	—
Employee Transfers	—	(8.9)	(3.7)	(3.0)	—	(12.0)	(2.5)	0.9
Fair Value of Pension Plan Assets as of End of Year	\$ 4,968.6	\$ 986.2	\$ 1,288.8	\$ 551.6	\$ 4,573.9	\$ 918.4	\$ 1,222.1	\$ 506.6
Funded Status as of December 31st	\$ (1,353.1)	\$ (345.1)	\$ (108.5)	\$ (141.0)	\$ (946.1)	\$ (242.0)	\$ (14.4)	\$ (104.1)

As of December 31, 2019, there was a decrease in the discount rate used to calculate the pension funded status, which resulted in an increase to Eversource's pension liability of \$813.1 million, which was partially offset by changes in actual plan experience and changes in other assumptions. As of December 31, 2018, there was an increase in the discount rate used to calculate the pension funded status, which resulted in a decrease to Eversource's pension liability of approximately \$465 million, which was partially offset by changes in actual plan experience and changes in other assumptions.

The pension and SERP Plans' funded status includes the current portion of the SERP liability totaling \$8.7 million and \$8.9 million as of December 31, 2019 and 2018, respectively, which is included in Other Current Liabilities on the balance sheets.

As of December 31, 2019 and 2018, the accumulated benefit obligation for the Pension and SERP Plans is as follows:

<i>(Millions of Dollars)</i>	<b>Eversource</b>	<b>CL&amp;P</b>	<b>NSTAR Electric</b>	<b>PSNH</b>
2019	\$ 5,963.4	\$ 1,205.4	\$ 1,340.8	\$ 646.7
2018	5,070.8	1,031.0	1,144.7	543.1

	<b>PBOP</b>							
	<b>As of December 31,</b>							
	<b>2019</b>				<b>2018</b>			
	<b>Eversource</b>	<b>CL&amp;P</b>	<b>NSTAR Electric</b>	<b>PSNH</b>	<b>Eversource</b>	<b>CL&amp;P</b>	<b>NSTAR Electric</b>	<b>PSNH</b>
<i>(Millions of Dollars)</i>								
<b>Change in Benefit Obligation:</b>								
Benefit Obligation as of Beginning of Year	\$ (841.5)	\$ (161.7)	\$ (246.3)	\$ (91.9)	\$ (948.6)	\$ (178.4)	\$ (278.6)	\$ (101.1)
Service Cost	(7.8)	(1.4)	(1.7)	(0.7)	(10.0)	(1.9)	(2.0)	(1.1)
Interest Cost	(32.7)	(6.3)	(9.5)	(3.4)	(30.7)	(5.8)	(8.7)	(3.4)
Actuarial Gain/(Loss)	(67.0)	(13.4)	(15.2)	(3.1)	102.5	14.4	28.4	8.6
Benefits Paid	50.0	10.8	15.4	5.6	45.3	10.1	14.5	4.9
Employee Transfers	—	(0.7)	(1.0)	0.5	—	(0.1)	0.1	0.2
Benefit Obligation as of End of Year	\$ (899.0)	\$ (172.7)	\$ (258.3)	\$ (93.0)	\$ (841.5)	\$ (161.7)	\$ (246.3)	\$ (91.9)
<b>Change in Plan Assets:</b>								
Fair Value of Plan Assets as of Beginning of Year	\$ 849.6	\$ 120.6	\$ 379.1	\$ 71.2	\$ 922.2	\$ 135.9	\$ 405.5	\$ 79.0
Actual Return on Plan Assets	127.0	17.1	57.0	10.0	(36.6)	(5.2)	(17.4)	(2.9)
Employer Contributions	9.3	—	6.0	—	9.3	—	5.2	—
Benefits Paid	(50.0)	(10.8)	(15.4)	(5.6)	(45.3)	(10.1)	(14.5)	(4.9)
Employee Transfers	—	(0.6)	(2.3)	0.4	—	—	0.3	—
Fair Value of Plan Assets as of End of Year	\$ 935.9	\$ 126.3	\$ 424.4	\$ 76.0	\$ 849.6	\$ 120.6	\$ 379.1	\$ 71.2
Funded Status as of December 31st	\$ 36.9	\$ (46.4)	\$ 166.1	\$ (17.0)	\$ 8.1	\$ (41.1)	\$ 132.8	\$ (20.7)

The Eversource PBOP funded status includes prepaid assets of \$62.7 million and \$33.4 million recorded in Other Long-Term Assets and liabilities of \$25.8 million and \$25.3 million included in Accrued Pension, SERP and PBOP on the balance sheets as of December 31, 2019 and 2018, respectively.

As of December 31, 2019, there was a decrease in the discount rate used to calculate the PBOP funded status, which resulted in an increase to the Eversource PBOP liability of \$88.6 million. As of December 31, 2018, there was an increase in the discount rate used to calculate the funded status, which resulted in a decrease to the Eversource PBOP liability of approximately \$88 million.

The following actuarial assumptions were used in calculating the Pension, SERP and PBOP Plans' year end funded status:

	<b>Pension and SERP</b>				<b>PBOP</b>							
	<b>As of December 31,</b>				<b>As of December 31,</b>							
	<b>2019</b>		<b>2018</b>		<b>2019</b>		<b>2018</b>					
Discount Rate	3.04%	—	3.35%	4.22%	—	4.45%	3.26%	—	3.28%	4.38%	—	4.41%
Compensation/Progression Rate	3.50%	—	4.00%	3.50%	—	4.00%	N/A					

For the Eversource Service PBOP Plan, the health care cost trend rate is not applicable. For the Aquarion PBOP Plan, the health care trend rate is a range of 3.5 percent to 6.5 percent, with an ultimate rate of 3.5 percent to 5 percent in 2019 and 2023, for post-65 and pre-65 retirees, respectively.

*Expense:* Eversource charges net periodic benefit expense/(income) for the Pension, SERP and PBOP Plans to its subsidiaries based on the actual participant demographic data for each subsidiary's participants. The actual investment return in the trust is allocated to each of the subsidiaries annually in proportion to the investment return expected to be earned during the year. The Company utilizes the spot rate methodology to estimate the discount rate for the service and interest cost components of benefit expense, which provides a more precise measurement by matching projected cash flows to the corresponding spot rates on the yield curve.

The components of net periodic benefit expense/(income) for the Pension, SERP and PBOP Plans, prior to amounts capitalized as Property, Plant and Equipment or deferred as regulatory assets for future recovery, are shown below. The service cost component of net periodic benefit expense/(income), less the capitalized portion, is included in Operations and Maintenance expense on the statements of income. The remaining components of net periodic benefit expense/(income), less the deferred portion, are included in Other Income, Net on the statements of income. Pension, SERP and PBOP expense reflected in the statements of cash flows for CL&P, NSTAR Electric and PSNH does not include the intercompany allocations or the corresponding capitalized and deferred portion, as these amounts are cash settled on a short-term basis.

<i>(Millions of Dollars)</i>	Pension and SERP				PBOP			
	For the Year Ended December 31, 2019				For the Year Ended December 31, 2019			
	Eversource	CL&P	NSTAR Electric	PSNH	Eversource	CL&P	NSTAR Electric	PSNH
Service Cost	\$ 67.7	\$ 18.0	\$ 14.6	\$ 7.1	\$ 7.8	\$ 1.4	\$ 1.7	\$ 0.7
Interest Cost	219.0	45.7	49.0	24.0	32.7	6.3	9.5	3.4
Expected Return on Plan Assets	(367.1)	(73.2)	(97.1)	(40.7)	(66.8)	(9.2)	(30.2)	(5.4)
Actuarial Loss	143.2	26.9	44.7	10.6	8.3	1.3	3.3	0.3
Prior Service Cost/(Credit)	0.9	—	0.3	—	(23.5)	1.1	(16.9)	0.4
Total Net Periodic Benefit Expense/(Income)	\$ 63.7	\$ 17.4	\$ 11.5	\$ 1.0	\$ (41.5)	\$ 0.9	\$ (32.6)	\$ (0.6)
Intercompany Allocations	N/A	\$ 8.5	\$ 8.0	\$ 2.3	N/A	\$ (0.9)	\$ (1.2)	\$ (0.4)

<i>(Millions of Dollars)</i>	Pension and SERP				PBOP			
	For the Year Ended December 31, 2018				For the Year Ended December 31, 2018			
	Eversource	CL&P	NSTAR Electric	PSNH	Eversource	CL&P	NSTAR Electric	PSNH
Service Cost	\$ 84.8	\$ 21.4	\$ 17.4	\$ 11.2	\$ 10.0	\$ 1.9	\$ 2.0	\$ 1.1
Interest Cost	196.4	41.8	43.5	22.0	30.7	5.8	8.7	3.4
Expected Return on Plan Assets	(391.6)	(79.1)	(104.9)	(43.6)	(72.4)	(10.4)	(32.5)	(6.0)
Actuarial Loss	145.7	29.1	41.1	11.6	10.3	1.6	2.3	0.7
Prior Service Cost/(Credit)	4.3	1.1	0.2	0.4	(23.6)	1.1	(16.9)	0.5
Total Net Periodic Benefit Expense/(Income)	\$ 39.6	\$ 14.3	\$ (2.7)	\$ 1.6	\$ (45.0)	\$ —	\$ (36.4)	\$ (0.3)
Intercompany Allocations	N/A	\$ 6.1	\$ 6.5	\$ 1.9	N/A	\$ (1.0)	\$ (1.3)	\$ (0.4)

<i>(Millions of Dollars)</i>	Pension and SERP				PBOP			
	For the Year Ended December 31, 2017				For the Year Ended December 31, 2017			
	Eversource	CL&P	NSTAR Electric	PSNH	Eversource	CL&P	NSTAR Electric	PSNH
Service Cost	\$ 71.3	\$ 18.5	\$ 15.5	\$ 9.7	\$ 9.5	\$ 1.9	\$ 1.7	\$ 1.3
Interest Cost	188.0	41.6	42.7	21.2	27.1	5.3	8.7	3.0
Expected Return on Plan Assets	(334.1)	(71.7)	(87.6)	(40.0)	(63.7)	(9.7)	(28.6)	(5.5)
Actuarial Loss	135.2	27.7	41.1	11.6	9.1	1.0	3.4	0.6
Prior Service Cost/(Credit)	4.5	1.5	0.6	0.5	(21.6)	1.1	(17.0)	0.6
Total Net Periodic Benefit Expense/(Income)	\$ 64.9	\$ 17.6	\$ 12.3	\$ 3.0	\$ (39.6)	\$ (0.4)	\$ (31.8)	\$ —
Intercompany Allocations	N/A	\$ 9.8	\$ 9.1	\$ 3.3	N/A	\$ (0.7)	\$ (1.1)	\$ (0.5)

The following actuarial assumptions were used to calculate Pension, SERP and PBOP expense amounts:

	Pension and SERP						PBOP					
	For the Years Ended December 31,						For the Years Ended December 31,					
	2019		2018		2017		2019		2018		2017	
Discount Rate	2.63%	- 3.55%	3.85%	- 4.62%	3.20%	- 3.90%	3.85%	- 4.65%	3.28%	- 3.94%	3.48%	- 4.64%
Expected Long-Term Rate of Return	8.25%		8.25%		8.25%		8.25%		8.25%		8.25%	
Compensation/Progression Rate	3.50%	- 4.00%	3.50%	- 4.00%	3.50%		N/A		N/A		N/A	

For the Aquarion Pension and PBOP Plans, the expected long-term rate of return was 7 percent for the years ended December 31, 2019 and 2018. For the Aquarion PBOP Plan, the health care trend rate was a range of 3.5 percent to 6.75 percent for the year ended December 31, 2019, and 7 percent for the year ended December 31, 2018.

The following is a summary of the changes in plan assets and benefit obligations recognized in Regulatory Assets and Other Comprehensive Income (OCI) as well as amounts in Regulatory Assets and OCI that were reclassified as net periodic benefit expense during the years presented:

	Pension and SERP				PBOP			
	Regulatory Assets		OCI		Regulatory Assets		OCI	
	For the Years Ended December 31,				For the Years Ended December 31,			
	2019	2018	2019	2018	2019	2018	2019	2018
(Millions of Dollars)								
Actuarial Losses/(Gains) Arising During the Year	\$ 591.6	\$ 48.6	\$ 15.4	\$ 0.7	\$ 4.6	\$ 6.4	\$ 2.3	\$ (1.2)
Actuarial Losses Reclassified as Net Periodic Benefit Expense	(137.8)	(140.1)	(5.4)	(5.6)	(8.0)	(9.9)	(0.3)	(0.4)
Actuarial Losses Securitized as Stranded Costs <sup>(1)</sup>	—	(36.7)	—	—	—	(0.8)	—	—
Prior Service Cost Arising During the Year	—	—	—	—	—	1.3	—	—
Prior Service (Cost)/Credit Reclassified as Net Periodic Benefit (Expense)/Income	(0.7)	(3.9)	(0.2)	(0.4)	25.1	23.6	(1.6)	—
Prior Service Cost Securitized as Stranded Costs <sup>(1)</sup>	—	(0.1)	—	—	—	(1.3)	—	—

<sup>(1)</sup> These amounts were reclassified to securitized regulatory assets in connection with the divestiture of PSNH's generation business. For further information see Note 2, "Regulatory Accounting" to the financial statements.

The following is a summary of the remaining Regulatory Assets and Accumulated Other Comprehensive Income amounts that have not been recognized as components of net periodic benefit expense as of December 31, 2019 and 2018, as well as the amounts that are expected to be recognized as components in 2020:

	Regulatory Assets as of December 31,		Expected 2020 Expense/(Income)	AOCI as of December 31,		Expected 2020 Expense
	2019	2018		2019	2018	
(Millions of Dollars)						
<b>Pension and SERP</b>						
Actuarial Loss	\$ 2,261.4	\$ 1,807.6	\$ 190.3	\$ 90.8	\$ 80.8	\$ 7.2
Prior Service Cost	5.6	6.3	0.9	0.9	1.1	0.2
<b>PBOP</b>						
Actuarial Loss	\$ 203.9	\$ 207.3	\$ 8.3	\$ 7.0	\$ 5.0	\$ 0.2
Prior Service (Credit)/Cost	(172.5)	(197.6)	(21.4)	1.0	2.6	0.2

The difference between the actual return and calculated expected return on plan assets for the Pension and PBOP Plans is reflected as a component of unamortized actuarial gains or losses, which are recorded in Regulatory Assets or Accumulated Other Comprehensive Income/(Loss). Unamortized actuarial gains or losses are amortized as a component of pension and PBOP expense over the estimated average future employee service period.

**Estimated Future Benefit Payments:** The following benefit payments, which reflect expected future service, are expected to be paid by the Pension, SERP and PBOP Plans:

(Millions of Dollars)	2020	2021	2022	2023	2024	2025 - 2029
Pension and SERP	\$ 320.1	\$ 328.7	\$ 337.5	\$ 346.5	\$ 352.4	\$ 1,813.1
PBOP	58.1	57.9	57.3	56.8	56.2	264.7

**Eversource Contributions:** Based on the current status of the Pension Plans and federal pension funding requirements, Eversource currently expects to make contributions of \$105.0 million in 2020, of which \$23.2 million and \$19.5 million will be contributed by CL&P and PSNH, respectively. The remaining \$57.3 million is expected to be contributed by other Eversource subsidiaries, primarily Eversource Service. Eversource currently estimates contributing \$2.9 million to the PBOP Plans in 2020.

**Fair Value of Pension and PBOP Plan Assets:** Pension and PBOP funds are held in external trusts. Trust assets, including accumulated earnings, must be used exclusively for Pension and PBOP payments. Eversource's investment strategy for its Pension and PBOP Plans is to maximize the long-term rates of return on these plans' assets within an acceptable level of risk. The investment strategy for each asset category includes a diversification of asset types, fund strategies and fund managers and it establishes target asset allocations that are routinely reviewed and periodically rebalanced. PBOP assets are comprised of assets held in the PBOP Plan trust, as well as specific assets within the Pension Plan trust (401(h) assets). The investment policy and strategy of the 401(h) assets is consistent with that of the defined benefit pension plan. Eversource's expected long-term rates of return on Pension and PBOP Plan assets are based on target asset allocation assumptions and related expected long-term rates of return. In developing its expected long-term rate of return assumptions for the Pension and PBOP Plans, Eversource evaluated input from consultants, as well as long-term inflation assumptions and historical returns. Management has assumed long-term rates of return of 8.25 percent for the Eversource Service Pension and PBOP Plan assets and a 7 percent long-term rate of return for the Aquarion Plans to estimate its 2020 Pension and PBOP costs.

These long-term rates of return are based on the assumed rates of return for the target asset allocations as follows:

	As of December 31,			
	2019		2018	
	Eversource Pension Plan and Tax-Exempt Assets Within PBOP Plan		Eversource Pension Plan and Tax-Exempt Assets Within PBOP Plan	
	Target Asset Allocation	Assumed Rate of Return	Target Asset Allocation	Assumed Rate of Return
<b>Equity Securities:</b>				
United States	15.0%	8.5%	15.0%	8.5%
Global	10.0%	8.75%	10.0%	8.75%
Non-United States	8.0%	8.5%	8.0%	8.5%
Emerging Markets	4.0%	10.0%	4.0%	10.0%
<b>Debt Securities:</b>				
Fixed Income	13.0%	4.0%	13.0%	4.0%
Public High Yield Fixed Income	4.0%	6.5%	4.0%	6.5%
Private Debt	15.0%	9.0%	15.0%	9.0%
Private Equity	15.0%	12.0%	15.0%	12.0%
Real Assets	16.0%	7.5%	16.0%	7.5%

The taxable assets within the Eversource PBOP Plan have a target asset allocation of 70 percent equity securities and 30 percent fixed income securities. The target asset allocation for the Aquarion Pension Plan is 54 percent equity, 36 percent debt and 10 percent other. The target asset allocation for the Aquarion PBOP Plan is 54 percent equity, 41 percent debt and 5 percent other.

The following table presents, by asset category, the Pension and PBOP Plan assets recorded at fair value on a recurring basis by the level in which they are classified within the fair value hierarchy:

	Pension Plan							
	Fair Value Measurements as of December 31,							
	2019				2018			
Asset Category:	Level 1	Level 2	Uncategorized	Total	Level 1	Level 2	Uncategorized	Total
Equity Securities <sup>(1)</sup>	\$ 592.6	\$ —	\$ 1,349.9	\$ 1,942.5	\$ 443.4	\$ —	\$ 1,377.8	\$ 1,821.2
Fixed Income <sup>(2)</sup>	99.4	303.0	1,222.8	1,625.2	85.5	160.8	1,265.5	1,511.8
Private Equity	16.9	—	971.4	988.3	6.1	—	834.0	840.1
Real Assets <sup>(3)</sup>	58.7	—	615.0	673.7	62.9	—	569.1	632.0
<b>Total</b>	<b>\$ 767.6</b>	<b>\$ 303.0</b>	<b>\$ 4,159.1</b>	<b>\$ 5,229.7</b>	<b>\$ 597.9</b>	<b>\$ 160.8</b>	<b>\$ 4,046.4</b>	<b>\$ 4,805.1</b>
Less: 401(h) PBOP Assets <sup>(4)</sup>				(261.1)				(231.2)
<b>Total Pension Assets</b>				<b>\$ 4,968.6</b>				<b>\$ 4,573.9</b>

	PBOP Plan							
	Fair Value Measurements as of December 31,							
	2019				2018			
Asset Category:	Level 1	Level 2	Uncategorized	Total	Level 1	Level 2	Uncategorized	Total
Equity Securities <sup>(1)</sup>	\$ 158.0	\$ —	\$ 187.0	\$ 345.0	\$ 91.9	\$ —	\$ 210.5	\$ 302.4
Fixed Income <sup>(2)</sup>	15.8	39.6	148.1	203.5	22.0	40.3	123.0	185.3
Private Equity	—	—	26.5	26.5	—	—	32.7	32.7
Real Assets <sup>(3)</sup>	51.2	—	48.6	99.8	27.5	—	70.5	98.0
<b>Total</b>	<b>\$ 225.0</b>	<b>\$ 39.6</b>	<b>\$ 410.2</b>	<b>\$ 674.8</b>	<b>\$ 141.4</b>	<b>\$ 40.3</b>	<b>\$ 436.7</b>	<b>\$ 618.4</b>
Add: 401(h) PBOP Assets <sup>(4)</sup>				261.1				231.2
<b>Total PBOP Assets</b>				<b>\$ 935.9</b>				<b>\$ 849.6</b>

<sup>(1)</sup> United States, Global, Non-United States and Emerging Markets equity securities that are uncategorized include investments in commingled funds and hedge funds that are overlaid with equity index swaps and futures contracts.

<sup>(2)</sup> Fixed Income investments that are uncategorized include investments in commingled funds, fixed income funds that invest in a variety of opportunistic and fixed income strategies, and hedge funds that are overlaid with fixed income futures.

<sup>(3)</sup> Real assets include real estate funds and hedge funds.

<sup>(4)</sup> The assets of the Pension Plan include a 401(h) account that has been allocated to provide health and welfare postretirement benefits under the PBOP Plan.

The Company values assets based on observable inputs when available. Equity securities, exchange traded funds and futures contracts classified as Level 1 in the fair value hierarchy are priced based on the closing price on the primary exchange as of the balance sheet date.

Fixed income securities, such as government issued securities and corporate bonds, are included in Level 2 and are valued using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. The pricing models utilize observable inputs such as recent trades for the same or similar instruments, yield curves, discount margins and bond structures. Swaps are valued using pricing models that incorporate interest rates and equity and fixed income index closing prices to determine a net present value of the cash flows.

Certain investments, such as commingled funds, private equity investments, real estate funds and hedge funds are valued using the net asset value (NAV) as a practical expedient. These investments are structured as investment companies offering shares or units to multiple investors for the purpose of providing a return. Commingled funds are recorded at NAV provided by the asset manager, which is based on the market prices of the underlying equity securities. Private Equity investments, Fixed Income partnership funds and Real Assets are valued using the NAV provided by the partnerships, which are based on discounted cash flows of the underlying investments, real estate appraisals or public market comparables of the underlying investments, or the NAV of underlying assets held in hedge funds. Assets valued at NAV are uncategorized in the fair value hierarchy.

## B. Defined Contribution Plans

Eversource maintains defined contribution plans on behalf of eligible participants. The Eversource 401k Plan provides for employee and employer contributions up to statutory limits. For eligible employees, the Eversource 401k Plan provides employer matching contributions of either 100 percent up to a maximum of three percent of eligible compensation or 50 percent up to a maximum of eight percent of eligible compensation. The Eversource 401k Plan also contains a K-Vantage feature for the benefit of eligible participants, which provides an additional annual employer contribution based on age and years of service. K-Vantage participants are not eligible to actively participate in the Eversource Pension Plan.

The total Eversource 401k Plan employer matching contributions, including the K-Vantage contributions, were as follows:

<i>(Millions of Dollars)</i>	<u>Eversource</u>	<u>CL&amp;P</u>	<u>NSTAR Electric</u>	<u>PSNH</u>
2019	\$ 41.6	\$ 5.5	\$ 10.3	\$ 3.5
2018	38.4	5.0	9.7	3.3
2017	34.5	4.6	8.5	3.7

## C. Share-Based Payments

Share-based compensation awards are recorded using a fair-value based method at the date of grant. Eversource, CL&P, NSTAR Electric and PSNH record compensation expense related to these awards, as applicable, for shares issued or sold to their respective employees and officers, as well as for the allocation of costs associated with shares issued or sold to Eversource's service company employees and officers that support CL&P, NSTAR Electric and PSNH.

*Eversource Incentive Plans:* Eversource maintains long-term equity-based incentive plans in which Eversource, CL&P, NSTAR Electric and PSNH employees, officers and board members are eligible to participate. The incentive plans authorize Eversource to grant up to 6,700,000 new shares for various types of awards, including RSUs and performance shares, to eligible employees, officers, and board members. As of December 31, 2019 and 2018, Eversource had 3,302,526 and 3,720,650 common shares, respectively, available for issuance under these plans.

Eversource accounts for its various share-based plans as follows:

- RSUs - Eversource records compensation expense, net of estimated forfeitures, on a straight-line basis over the requisite service period based upon the fair value of Eversource's common shares at the date of grant. The par value of RSUs is reclassified to Common Stock from Capital Surplus, Paid In as RSUs become issued as common shares.
- Performance Shares - Eversource records compensation expense, net of estimated forfeitures, on a straight-line basis over the requisite service period. Performance shares vest based upon the extent to which Company goals are achieved. Vesting of outstanding performance shares is based upon both the Company's EPS growth over the requisite service period and the total shareholder return as compared to the Edison Electric Institute (EEI) Index during the requisite service period. The fair value of performance shares is determined at the date of grant using a lattice model.

*RSUs:* Eversource granted RSUs under the annual long-term incentive programs that are subject to three-year graded vesting schedules for employees, and one-year graded vesting schedules, or immediate vesting, for board members. RSUs are paid in shares, reduced by amounts sufficient to satisfy withholdings for income taxes, subsequent to vesting. A summary of RSU transactions is as follows:

	<u>RSUs (Units)</u>	<u>Weighted Average Grant-Date Fair Value</u>
Outstanding as of December 31, 2018	782,365	\$ 50.25
Granted	271,144	\$ 67.91
Shares Issued	(263,219)	\$ 55.34
Forfeited	(16,127)	\$ 63.31
Outstanding as of December 31, 2019	<u>774,163</u>	<u>\$ 54.43</u>

The weighted average grant-date fair value of RSUs granted for the years ended December 31, 2019, 2018 and 2017 was \$67.91, \$56.69 and \$55.97, respectively. As of December 31, 2019 and 2018, the number and weighted average grant-date fair value of unvested RSUs was 439,293 and \$63.06 per share, and 424,119 and \$56.57 per share, respectively. During 2019, there were 236,359 RSUs at a weighted average grant-date fair value of \$57.47 per share that vested during the year and were either paid or deferred. As of December 31, 2019, 334,870 RSUs were fully vested and deferred and an additional 417,328 are expected to vest.

*Performance Shares:* Eversource granted performance shares under the annual long-term incentive programs that vest based upon the extent to which Company goals are achieved at the end of three-year performance measurement periods. Performance shares are paid in shares, after the performance measurement period. A summary of performance share transactions is as follows:

	Performance Shares (Units)	Weighted Average Grant-Date Fair Value
Outstanding as of December 31, 2018	499,564	\$ 56.08
Granted	165,022	\$ 68.33
Shares Issued	(162,959)	\$ 55.69
Forfeited	(14,720)	\$ 58.20
Outstanding as of December 31, 2019	486,907	\$ 60.30

The weighted average grant-date fair value of performance shares granted for the years ended December 31, 2019, 2018 and 2017 was \$68.33, \$56.77 and \$55.70, respectively. As of December 31, 2019 and 2018, the number and weighted average grant-date fair value of unvested performance shares was 427,894 and \$60.38 per share, and 366,995 and \$56.17 per share, respectively. During 2019, there were 88,664 performance shares at a weighted average grant-date fair value of \$58.13 per share that vested during the year and were either paid or deferred. As of December 31, 2019, 59,013 performance shares were fully vested and deferred.

*Compensation Expense:* The total compensation expense and associated future income tax benefits recognized by Eversource, CL&P, NSTAR Electric and PSNH for share-based compensation awards were as follows:

Eversource (Millions of Dollars)	For the Years Ended December 31,		
	2019	2018	2017
Compensation Expense	\$ 27.3	\$ 21.4	\$ 19.7
Future Income Tax Benefit	7.0	5.4	8.0

(Millions of Dollars)	For the Years Ended December 31,								
	2019			2018			2017		
	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH
Compensation Expense	\$ 9.8	\$ 9.7	\$ 3.3	\$ 7.8	\$ 7.7	\$ 2.9	\$ 7.0	\$ 7.0	\$ 3.2
Future Income Tax Benefit	2.5	2.5	0.8	2.0	1.9	0.7	2.9	2.8	1.3

As of December 31, 2019, there was \$24.4 million of total unrecognized compensation expense related to nonvested share-based awards for Eversource, including \$5.3 million for CL&P, \$5.3 million for NSTAR Electric and \$2.1 million for PSNH. This cost is expected to be recognized ratably over a weighted-average period of 1.75 years for Eversource, 1.79 years for CL&P and NSTAR Electric, and 1.78 years for PSNH.

An income tax rate of 25 percent was used to estimate the tax effect on total share-based payments determined under the fair-value based method for all awards. Beginning in 2019, the Company began issuing treasury shares to settle fully vested RSUs and performance shares under the Company's incentive plans.

For the years ended December 31, 2019, 2018 and 2017, excess tax benefits associated with the distribution of stock compensation awards reduced income tax expense by \$1.5 million, \$1.5 million, and \$2.9 million, respectively, which increased cash flows from operating activities on the statements of cash flows.

#### D. Other Retirement Benefits

Eversource provides retirement and other benefits for certain current and past company officers. These benefits are accounted for on an accrual basis and expensed over a period equal to the service lives of the employees. The actuarially-determined liability for these benefits is included in Other Current and Long-Term Liabilities on the balance sheets. The related expense, which includes the allocation of expense associated with Eversource's service company officers that support CL&P, NSTAR Electric and PSNH, is included in Operations and Maintenance Expense on the income statements. The liability and expense amounts are as follows:

Eversource (Millions of Dollars)	As of and For the Years Ended December 31,		
	2019	2018	2017
Actuarially-Determined Liability	\$ 52.0	\$ 49.1	\$ 53.4
Other Retirement Benefits Expense	2.7	2.7	2.8

As of and For the Years Ended December 31,

<i>(Millions of Dollars)</i>	2019			2018			2017		
	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH
Actuarially-Determined Liability	\$ 0.2	\$ 0.1	\$ 1.7	\$ 0.3	\$ 0.1	\$ 1.7	\$ 0.3	\$ 0.1	\$ 1.9
Other Retirement Benefits Expense	1.0	0.9	0.4	1.1	1.1	0.4	1.0	1.0	0.5

## 12. INCOME TAXES

The components of income tax expense are as follows:

<i>(Millions of Dollars)</i>	For the Years Ended December 31,		
	2019	2018	2017
<b>Eversource</b>			
<i>(Millions of Dollars)</i>			
Current Income Taxes:			
Federal	\$ 56.9	\$ 106.5	\$ 58.9
State	10.5	10.6	31.6
Total Current	67.4	117.1	90.5
Deferred Income Taxes, Net:			
Federal	138.4	122.6	433.0
State	71.4	52.2	58.6
Total Deferred	209.8	174.8	491.6
Investment Tax Credits, Net	(3.7)	(2.9)	(3.2)
Income Tax Expense	\$ 273.5	\$ 289.0	\$ 578.9

<i>(Millions of Dollars)</i>	For the Years Ended December 31,								
	2019			2018			2017		
	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH
Current Income Taxes:									
Federal	\$ 68.4	\$ 82.6	\$ 22.9	\$ 54.2	\$ 79.3	\$ 12.2	\$ 50.9	\$ 107.8	\$ 18.6
State	15.4	18.2	2.2	20.9	30.0	(0.5)	17.4	25.6	6.2
Total Current	83.8	100.8	25.1	75.1	109.3	11.7	68.3	133.4	24.8
Deferred Income Taxes, Net:									
Federal	35.2	0.1	5.8	48.5	27.9	15.4	123.9	88.1	52.7
State	18.8	27.0	10.1	6.4	13.5	20.5	(4.6)	22.4	11.2
Total Deferred	54.0	27.1	15.9	54.9	41.4	35.9	119.3	110.5	63.9
Investment Tax Credits, Net	(0.8)	(2.6)	—	(0.9)	(1.8)	—	(1.0)	(1.8)	—
Income Tax Expense	\$ 137.0	\$ 125.3	\$ 41.0	\$ 129.1	\$ 148.9	\$ 47.6	\$ 186.6	\$ 242.1	\$ 88.7

A reconciliation between income tax expense and the expected tax expense at the statutory rate is as follows:

<i>(Millions of Dollars, except percentages)</i>	For the Years Ended December 31,		
	2019	2018	2017
Income Before Income Tax Expense	\$ 1,190.1	\$ 1,329.5	\$ 1,574.4
Statutory Federal Income Tax Expense at 21% in 2019 and 2018, and 35% in 2017	249.9	279.2	551.0
Tax Effect of Differences:			
Depreciation	1.9	(30.8)	(10.8)
Investment Tax Credit Amortization	(3.7)	(2.9)	(3.2)
State Income Taxes, Net of Federal Impact	24.6	44.4	47.7
Dividends on ESOP	(5.1)	(5.1)	(8.4)
Tax Asset Valuation Allowance/Reserve Adjustments	40.1	5.2	7.0
Excess Stock Benefit	(1.5)	(1.5)	(2.9)
EDIT Amortization	(37.4)	(5.0)	—
Other, Net	4.7	5.5	(1.5)
Income Tax Expense	\$ 273.5	\$ 289.0	\$ 578.9
Effective Tax Rate	23.0%	21.7%	36.8%

**For the Years Ended December 31,**

<i>(Millions of Dollars, except percentages)</i>	2019			2018			2017		
	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH
	Income Before Income Tax Expense	\$ 547.8	\$ 557.3	\$ 175.0	\$ 506.8	\$ 532.0	\$ 163.5	\$ 563.4	\$ 616.8
Statutory Federal Income Tax Expense at 21% in 2019 and 2018, and 35% in 2017	115.0	117.0	36.8	106.4	111.7	34.3	197.2	215.9	78.6
Tax Effect of Differences:									
Depreciation	(0.2)	(3.0)	(0.8)	(1.2)	(2.8)	0.1	(5.2)	(3.0)	1.1
Investment Tax Credit Amortization	(0.8)	(2.6)	—	(0.9)	(1.8)	—	(1.0)	(1.8)	—
State Income Taxes, Net of Federal Impact	2.5	35.7	9.8	14.5	33.2	15.8	4.5	31.2	11.3
Tax Asset Valuation Allowance/Reserve Adjustments	24.5	—	—	7.1	1.2	—	(9.5)	—	—
Excess Stock Benefit	(0.5)	(0.5)	(0.2)	(0.1)	(0.1)	(0.1)	(0.7)	(0.7)	(0.3)
EDIT Amortization	(5.8)	(22.9)	(4.0)	—	—	(4.4)	—	—	—
Other, Net	2.3	1.6	(0.6)	3.3	7.5	1.9	1.3	0.5	(2.0)
Income Tax Expense	\$ 137.0	\$ 125.3	\$ 41.0	\$ 129.1	\$ 148.9	\$ 47.6	\$ 186.6	\$ 242.1	\$ 88.7
Effective Tax Rate	25.0%	22.5%	23.4%	25.5%	28.0%	29.1%	33.1%	39.2%	39.5%

Eversource, CL&P, NSTAR Electric and PSNH file a consolidated federal income tax return and unitary, combined and separate state income tax returns. These entities are also parties to a tax allocation agreement under which taxable subsidiaries do not pay any more taxes than they would have otherwise paid had they filed a separate company tax return, and subsidiaries generating tax losses, if any, are paid for their losses when utilized.

Deferred tax assets and liabilities are recognized for the future tax effects of temporary differences between the carrying amounts and the tax basis of assets and liabilities. The tax effect of temporary differences is accounted for in accordance with the rate-making treatment of the applicable regulatory commissions and relevant accounting authoritative literature. The tax effects of temporary differences that give rise to the net accumulated deferred income tax obligations are as follows:

<i>(Millions of Dollars)</i>	As of December 31,							
	2019				2018			
	Eversource	CL&P	NSTAR Electric	PSNH	Eversource	CL&P	NSTAR Electric	PSNH
Deferred Tax Assets:								
Employee Benefits	\$ 509.4	\$ 125.4	\$ 54.8	\$ 46.7	\$ 388.2	\$ 94.5	\$ 35.0	\$ 31.1
Derivative Liabilities	105.0	103.6	—	—	111.4	111.4	—	—
Regulatory Deferrals - Liabilities	267.0	37.1	165.7	19.0	299.3	38.6	195.5	16.1
Allowance for Uncollectible Accounts	56.7	25.7	17.7	2.8	54.0	23.1	17.8	3.0
Tax Effect - Tax Regulatory Liabilities	830.4	333.5	280.9	111.3	830.3	336.8	288.9	111.7
Net Operating Loss Carryforwards	9.1	—	—	—	28.5	—	—	0.6
Purchase Accounting Adjustment	58.7	—	—	—	64.2	—	—	—
Other	190.4	92.0	35.8	20.0	166.2	81.1	15.6	33.4
Total Deferred Tax Assets	2,026.7	717.3	554.9	199.8	1,942.1	685.5	552.8	195.9
Less: Valuation Allowance	43.0	24.9	—	—	19.5	10.7	—	—
Net Deferred Tax Assets	\$ 1,983.7	\$ 692.4	\$ 554.9	\$ 199.8	\$ 1,922.6	\$ 674.8	\$ 552.8	\$ 195.9
Deferred Tax Liabilities:								
Accelerated Depreciation and Other Plant-Related Differences	\$ 3,901.0	\$ 1,362.2	\$ 1,391.9	\$ 428.9	\$ 3,724.2	\$ 1,293.3	\$ 1,342.4	\$ 410.6
Property Tax Accruals	76.8	36.8	29.0	4.7	73.2	35.4	26.3	5.2
Regulatory Amounts:								
Regulatory Deferrals - Assets	1,155.6	340.7	276.2	260.9	1,025.9	320.1	277.4	213.8
Tax Effect - Tax Regulatory Assets	238.2	171.7	11.7	8.3	238.9	167.0	9.7	8.1
Goodwill Regulatory Asset - 1999 Merger	90.6	—	77.8	—	95.2	—	81.7	—
Derivative Assets	19.7	19.7	—	—	20.1	19.9	—	—
Other	257.6	5.9	125.6	3.2	251.1	5.9	109.8	39.4
Total Deferred Tax Liabilities	\$ 5,739.5	\$ 1,937.0	\$ 1,912.2	\$ 706.0	\$ 5,428.6	\$ 1,841.6	\$ 1,847.3	\$ 677.1

**2017 Federal Legislation:** On December 22, 2017, the Tax Cuts and Jobs Act became law, which amended existing federal tax rules and included numerous provisions that impacted corporations. In particular, the act reduced the U.S. federal corporate income tax rate from 35 percent to 21 percent effective January 1, 2018. For our regulated companies, the most significant changes are (1) the benefit of incurring a lower federal income tax expense and (2) the reduction in ADIT liabilities (now excess ADIT or EDIT), which are estimated to be approximately \$2.8 billion and are included in regulatory liabilities as of December 31, 2019. In 2019, Eversource refunded \$51.5 million (\$7.9 million at CL&P, \$31.5 million at NSTAR Electric, \$5.6 million at PSNH, \$1.4 million at Yankee Gas and \$5.1 million at NSTAR Gas) to customers. See Note 2, "Regulatory Accounting," to the financial statements for further information.

**2019 Federal Legislation:** On December 20, 2019, the "Further Consolidated Appropriations Act, 2020," became law, which provided a one-year extension of the production tax credit or the investment tax credit for renewable wind projects under Section 45 of the Internal Revenue Code of 1986 on which construction begins before January 1, 2021. If construction begins on a qualifying wind project in 2020, the project will qualify for a production tax credit of \$15 per MWh or an 18 percent investment tax credit.

**Carryforwards:** The following table provides the amounts and expiration dates of state tax credit and loss carryforwards and federal tax credit and net operating loss carryforwards:

(Millions of Dollars)	As of December 31,									
	2019					2018				
	Eversource	CL&P	NSTAR Electric	PSNH	Expiration Range	Eversource	CL&P	NSTAR Electric	PSNH	Expiration Range
Federal Net Operating Loss	\$ 19.8	\$ —	\$ —	\$ —	2033 - 2037	\$ 103.6	\$ —	\$ —	\$ —	2033 - 2037
Federal Charitable Contribution	—	—	—	—	2020 - 2022	2.2	—	—	—	2020 - 2022
State Net Operating Loss	65.5	—	—	—	2020 - 2038	80.7	—	—	—	2019 - 2038
State Tax Credit	168.1	122.3	—	—	2019 - 2024	148.9	107.0	—	—	2018 - 2023
State Charitable Contribution	9.9	—	—	—	2019 - 2023	9.6	—	—	—	2019 - 2023

In 2019, the company increased its valuation allowance reserve for state credits by \$18.5 million (\$14.2 million for CL&P), net of tax, to reflect an update for expired tax credits. In 2018, the Company increased its valuation allowance reserve for state credits by \$5.2 million (\$4.4 million for CL&P), net of tax, to reflect an update for expired tax credits.

For 2019 and 2018, state credit and state loss carryforwards have been partially reserved by a valuation allowance of \$43.0 million and \$19.5 million (net of tax), respectively.

**Unrecognized Tax Benefits:** A reconciliation of the activity in unrecognized tax benefits, all of which would impact the effective tax rate if recognized, is as follows:

(Millions of Dollars)	Eversource	CL&P
Balance as of January 1, 2017	\$ 48.4	\$ 15.3
Gross Increases - Current Year	11.4	4.7
Gross Decreases - Prior Year	(0.9)	(0.5)
Lapse of Statute of Limitations	(7.2)	(1.4)
Balance as of December 31, 2017	51.7	18.1
Gross Increases - Current Year	9.2	3.2
Gross Decreases - Prior Year	(6.5)	(0.9)
Lapse of Statute of Limitations	(8.5)	(2.2)
Balance as of December 31, 2018	45.9	18.2
Gross Increases - Current Year	12.1	4.0
Gross Increases - Prior Year	3.4	3.3
Lapse of Statute of Limitations	(6.4)	(2.4)
Balance as of December 31, 2019	\$ 55.0	\$ 23.1

**Interest and Penalties:** Interest on uncertain tax positions is recorded and generally classified as a component of Other Interest Expense on the statements of income. However, when resolution of uncertainties results in the Company receiving interest income, any related interest benefit is recorded in Other Income, Net on the statements of income. No penalties have been recorded. The amount of interest expense/(income) on uncertain tax positions recognized and the related accrued interest payable/(receivable) are as follows:

(Millions of Dollars)	Other Interest Expense/(Income)			Accrued Interest Expense	
	For the Years Ended December 31,			As of December 31,	
	2019	2018	2017	2019	2018
Eversource	\$ —	\$ (1.7)	\$ —	\$ 0.1	\$ 0.1

*Tax Positions:* During 2019 and 2018, Eversource did not resolve any of its uncertain tax positions.

*Open Tax Years:* The following table summarizes Eversource, CL&P, NSTAR Electric and PSNH's tax years that remain subject to examination by major tax jurisdictions as of December 31, 2019:

Description	Tax Years
Federal	2019
Connecticut	2016 - 2019
Massachusetts	2016 - 2019
New Hampshire	2017 - 2019

Eversource does not estimate to have an earnings impact related to unrecognized tax benefits during the next twelve months.

### 13. COMMITMENTS AND CONTINGENCIES

#### A. Environmental Matters

Eversource, CL&P, NSTAR Electric and PSNH are subject to environmental laws and regulations intended to mitigate or remove the effect of past operations and improve or maintain the quality of the environment. These laws and regulations require the removal or the remedy of the effect on the environment of the disposal or release of certain specified hazardous substances at current and former operating sites. Eversource, CL&P, NSTAR Electric and PSNH have an active environmental auditing and training program and each believes it is substantially in compliance with all enacted laws and regulations.

Environmental reserves are accrued when assessments indicate it is probable that a liability has been incurred and an amount can be reasonably estimated. The approach used estimates the liability based on the most likely action plan from a variety of available remediation options, including no action required or several different remedies ranging from establishing institutional controls to full site remediation and monitoring. These liabilities are estimated on an undiscounted basis and do not assume that the amounts are recoverable from insurance companies or other third parties. The environmental reserves include sites at different stages of discovery and remediation and do not include any unasserted claims.

These reserve estimates are subjective in nature as they take into consideration several different remediation options at each specific site. The reliability and precision of these estimates can be affected by several factors, including new information concerning either the level of contamination at the site, the extent of Eversource's, CL&P's, NSTAR Electric's and PSNH's responsibility for remediation or the extent of remediation required, recently enacted laws and regulations or changes in cost estimates due to certain economic factors. It is possible that new information or future developments could require a reassessment of the potential exposure to required environmental remediation. As this information becomes available, management will continue to assess the potential exposure and adjust the reserves accordingly.

The amounts recorded as environmental reserves are included in Other Current Liabilities and Other Long-Term Liabilities on the balance sheets and represent management's best estimate of the liability for environmental costs, and take into consideration site assessment, remediation and long-term monitoring costs. The environmental reserves also take into account recurring costs of managing hazardous substances and pollutants, mandated expenditures to remediate contaminated sites and any other infrequent and non-recurring clean-up costs. A reconciliation of the activity in the environmental reserves is as follows:

(Millions of Dollars)	Eversource	CL&P	NSTAR Electric	PSNH
Balance as of January 1, 2018	\$ 54.9	\$ 4.7	\$ 2.7	\$ 5.7
Additions	23.5	1.9	9.7	—
Payments/Reductions	(13.7)	(1.2)	(1.5)	(0.3)
Balance as of December 31, 2018	64.7	5.4	10.9	5.4
Additions	26.5	7.0	0.5	2.8
Payments/Reductions	(10.2)	(1.0)	(3.4)	(0.7)
Balance as of December 31, 2019	\$ 81.0	\$ 11.4	\$ 8.0	\$ 7.5

The number of environmental sites for which remediation or long-term monitoring, preliminary site work or site assessment is being performed are as follows:

	Eversource	CL&P	NSTAR Electric	PSNH
2019	57	15	15	9
2018	60	15	16	9

The increase in the reserve balance was due primarily to changes in cost estimates at certain MGP sites at the natural gas companies, at CL&P and at PSNH, for which additional remediation will be required.

Included in the number of sites and reserve amounts above are former MGP sites that were operated several decades ago and manufactured natural gas from coal and other processes, which resulted in certain by-products remaining in the environment that may pose a potential risk to human health and the environment, for which Eversource may have potential liability. The reserve balances related to these former MGP sites were \$67.9 million and \$50.1 million as of December 31, 2019 and 2018, respectively, and related primarily to the natural gas business segment.

As of December 31, 2019, for 6 environmental sites (1 for CL&P) that are included in the Company's reserve for environmental costs, the information known and the nature of the remediation options allow for the Company to estimate the range of losses for environmental costs. As of December 31, 2019, \$35.9 million (including \$0.4 million for CL&P) had been accrued as a liability for these sites, which represents the low end of the range of the liabilities for environmental costs. Management believes that additional losses of up to approximately \$35 million (\$0.5 million at CL&P) may be incurred in executing current remediation plans for these sites.

As of December 31, 2019, for 15 environmental sites (7 for CL&P and 4 for NSTAR Electric) that are included in the Company's reserve for environmental costs, management cannot reasonably estimate the exposure to loss in excess of the reserve, or range of loss, as these sites are under investigation and/or there is significant uncertainty as to what remedial actions, if any, the Company may be required to undertake. As of December 31, 2019, \$7.4 million (including \$2.3 million for CL&P and \$1.9 million for NSTAR Electric) had been accrued as a liability for these sites. As of December 31, 2019, for the remaining 36 environmental sites (including 7 for CL&P, 11 for NSTAR Electric and 9 for PSNH) that are included in the Company's reserve for environmental costs, the \$37.7 million accrual (including \$8.7 million for CL&P, \$6.1 million for NSTAR Electric and \$7.5 million for PSNH) represents management's best estimate of the probable liability and no additional loss is anticipated at this time.

PSNH, NSTAR Gas and Yankee Gas have rate recovery mechanisms for MGP related environmental costs, therefore, changes in their respective environmental reserves do not impact Net Income. CL&P is allowed to defer certain environmental costs for future recovery. NSTAR Electric does not have a separate environmental cost recovery regulatory mechanism.

## B. Long-Term Contractual Arrangements

*Estimated Future Annual Costs:* The estimated future annual costs of significant executed, non-cancelable, long-term contractual arrangements in effect as of December 31, 2019 are as follows:

<b>Eversource</b>							
<i>(Millions of Dollars)</i>							
	2020	2021	2022	2023	2024	Thereafter	Total
Renewable Energy	\$ 614.6	\$ 594.3	\$ 651.7	\$ 629.1	\$ 624.8	\$ 3,590.6	\$ 6,705.1
Purchased Power and Capacity	73.5	69.0	75.1	81.6	75.9	71.5	446.6
Peaker CfDs	22.4	23.0	16.9	20.1	15.5	29.8	127.7
Natural Gas Procurement	266.2	255.3	202.8	166.7	165.7	1,093.3	2,150.0
Transmission Support Commitments	22.1	—	—	—	—	—	22.1
<b>Total</b>	<b>\$ 998.8</b>	<b>\$ 941.6</b>	<b>\$ 946.5</b>	<b>\$ 897.5</b>	<b>\$ 881.9</b>	<b>\$ 4,785.2</b>	<b>\$ 9,451.5</b>

<b>CL&amp;P</b>							
<i>(Millions of Dollars)</i>							
	2020	2021	2022	2023	2024	Thereafter	Total
Renewable Energy	\$ 457.3	\$ 459.6	\$ 514.4	\$ 516.2	517.4	2,790.6	\$ 5,255.5
Purchased Power and Capacity	69.8	65.3	71.4	78.0	72.9	55.5	412.9
Peaker CfDs	22.4	23.0	16.9	20.1	15.5	29.8	127.7
Transmission Support Commitments	8.7	—	—	—	—	—	8.7
<b>Total</b>	<b>\$ 558.2</b>	<b>\$ 547.9</b>	<b>\$ 602.7</b>	<b>\$ 614.3</b>	<b>\$ 605.8</b>	<b>\$ 2,875.9</b>	<b>\$ 5,804.8</b>

<b>NSTAR Electric</b>							
<i>(Millions of Dollars)</i>							
	2020	2021	2022	2023	2024	Thereafter	Total
Renewable Energy	\$ 95.5	\$ 91.2	\$ 91.4	\$ 66.6	\$ 63.8	\$ 418.1	\$ 826.6
Purchased Power and Capacity	3.1	3.1	3.1	3.0	3.0	16.0	31.3
Transmission Support Commitments	8.7	—	—	—	—	—	8.7
<b>Total</b>	<b>\$ 107.3</b>	<b>\$ 94.3</b>	<b>\$ 94.5</b>	<b>\$ 69.6</b>	<b>\$ 66.8</b>	<b>\$ 434.1</b>	<b>\$ 866.6</b>

<b>PSNH</b>							
<i>(Millions of Dollars)</i>							
	2020	2021	2022	2023	2024	Thereafter	Total
Renewable Energy	\$ 61.8	\$ 43.5	\$ 45.9	\$ 46.3	\$ 43.6	\$ 381.9	\$ 623.0
Purchased Power and Capacity	0.6	0.6	0.6	0.6	—	—	2.4
Transmission Support Commitments	4.7	—	—	—	—	—	4.7
<b>Total</b>	<b>\$ 67.1</b>	<b>\$ 44.1</b>	<b>\$ 46.5</b>	<b>\$ 46.9</b>	<b>\$ 43.6</b>	<b>\$ 381.9</b>	<b>\$ 630.1</b>

*Renewable Energy:* Renewable energy contracts include non-cancellable commitments under contracts of CL&P, NSTAR Electric and PSNH for the purchase of energy and capacity from renewable energy facilities. Such contracts extend through 2039 for CL&P, 2040 for NSTAR Electric and 2033 for PSNH.

On December 28, 2018, under Public Act 17-3, "An Act Concerning Zero Carbon Procurement," DEEP selected the Millstone Nuclear Power Station generation facility and Seabrook Nuclear Power Plant, along with smaller generation facilities, in DEEP's zero-carbon request for proposal. CL&P and UI were directed by DEEP to enter into ten-year contracts to purchase a combined total of approximately 9 million MWh annually from the Millstone generation facility. On March 15, 2019, CL&P and UI each signed a ten-year contract with the owner of Millstone Nuclear Power Station in order to purchase a combined amount of approximately 50 percent of the facility's output (approximately 40 percent by CL&P). The Millstone Nuclear Power Station has a 2,112 MW nameplate capacity. PURA approved the contracts on September 18, 2019. Energy deliveries and payments under these contracts began in the fourth quarter of 2019.

CL&P and UI were also directed by DEEP to enter into eight-year contracts to purchase a combined amount of approximately 18 percent of the facility's output (approximately 15 percent by CL&P), from the Seabrook Nuclear Power Plant beginning January 1, 2022. The Seabrook Nuclear Power Plant has an approximate 1,250 MW nameplate capacity. On November 22, 2019, CL&P and UI each signed an eight-year contract with the owner of the Seabrook Nuclear Power Plant. PURA approved the contracts on November 27, 2019.

The total estimated cost of the Millstone Nuclear Power Station and Seabrook Nuclear Power Plant energy purchase contracts are \$4.1 billion and are reflected in the table above. CL&P sells the energy purchased under these contracts into the market and uses the proceeds from these energy sales to offset the contract costs. As the net costs under these contracts are recovered from customers in future rates, the contracts do not have an impact on the net income of CL&P. These new contracts do not meet the definition of a derivative, and accordingly, the costs of these contracts are being accounted for as incurred.

The contractual obligations table above does not include long-term commitments signed by CL&P and NSTAR Electric, as required by the PURA and DPU, respectively, for the purchase of renewable energy and related products that are contingent on the future construction of energy facilities.

*Purchased Power and Capacity:* These contracts include capacity CfDs of CL&P through 2026, and various IPP contracts or purchase obligations for electricity which extend through 2024 for CL&P, 2031 for NSTAR Electric and 2023 for PSNH.

CL&P, along with UI, has three capacity CfDs for a total of approximately 676 MW of capacity consisting of two generation units and one demand response project. The capacity CfDs extend through 2026 and obligate both CL&P and UI to make or receive payments on a monthly basis to or from the generation facilities based on the difference between a set contractual capacity price and the capacity market prices received by the generation facilities in the ISO-NE capacity markets. CL&P has a sharing agreement with UI, whereby UI shares 20 percent of the costs and benefits of these contracts. CL&P's portion of the costs and benefits of these contracts will be paid by, or refunded to, CL&P's customers.

The contractual obligations table above does not include CL&P's, NSTAR Electric's or PSNH's standard/basic service contracts for the purchase of energy supply, the amounts of which vary with customers' energy needs.

*Peaker CfDs:* CL&P, along with UI, has three peaker CfDs for a total of approximately 500 MW of peaking capacity through 2042. CL&P has a sharing agreement with UI, whereby CL&P is responsible for 80 percent and UI for 20 percent of the net costs or benefits of these CfDs. The Peaker CfDs pay the generation facility owner the difference between capacity, forward reserve and energy market revenues and a cost-of-service payment stream for 30 years. The ultimate cost or benefit to CL&P under these contracts will depend on the costs of plant operation and the prices that the projects receive for capacity and other products in the ISO-NE markets. CL&P's portion of the amounts paid or received under the Peaker CfDs will be recoverable from, or refunded to, CL&P's customers.

*Natural Gas Procurement:* Eversource's natural gas distribution businesses have long-term contracts for the purchase, transportation and storage of natural gas as part of its portfolio of supplies, which extend through 2038.

*Transmission Support Commitments:* Along with other New England utilities, CL&P, NSTAR Electric and PSNH entered into agreements in 1985 to support transmission and terminal facilities that were built to import electricity from the Hydro-Québec system in Canada. CL&P, NSTAR Electric and PSNH are obligated to pay, over a 30-year period ending in 2020, their proportionate shares of the annual operation and maintenance expenses and capital costs of those facilities. Future transmission support agreements beginning in the second half of 2020 are under negotiation.

The total costs incurred under these agreements were as follows:

Eversource (Millions of Dollars)	For the Years Ended December 31,		
	2019	2018	2017
Renewable Energy	\$ 320.8	\$ 218.5	\$ 235.5
Purchased Power and Capacity	62.1	72.0	103.9
Peaker CfDs	13.0	20.9	38.7
Natural Gas Procurement	448.5	432.4	377.0
Transmission Support Commitments	21.8	23.4	19.8
Coal, Wood and Other <sup>(1)</sup>	—	—	47.7

For the Years Ended December 31,

(Millions of Dollars)	2019			2018			2017		
	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH
Renewable Energy	\$ 160.6	\$ 89.9	\$ 70.3	\$ 63.2	\$ 89.8	\$ 65.5	\$ 51.0	\$ 123.7	\$ 60.8
Purchased Power and Capacity	50.4	5.1	6.6	49.4	4.4	18.2	81.0	4.0	18.9
Peaker CfDs	13.0	—	—	20.9	—	—	38.7	—	—
Transmission Support Commitments	8.6	8.6	4.6	9.2	9.2	5.0	7.8	7.8	4.2
Coal, Wood and Other <sup>(1)</sup>	—	—	—	—	—	—	—	—	47.7

<sup>(1)</sup> PSNH previously entered into various arrangements for the purchase of coal, wood and the transportation services for fuel supply for its electric generating assets. In 2018, Eversource and PSNH completed the sales of PSNH's thermal and hydroelectric generation assets. Upon sale, the remaining future contractual obligations were transferred to the respective buyers. See Note 14, "Generation Asset Sale," for further information.

### C. Spent Nuclear Fuel Obligations - Yankee Companies

CL&P, NSTAR Electric and PSNH have plant closure and fuel storage cost obligations to the Yankee Companies, which have each completed the physical decommissioning of their respective nuclear power facilities and are now engaged in the long-term storage of their spent fuel. The Yankee Companies fund these costs through litigation proceeds received from the DOE and, to the extent necessary, through wholesale, FERC-approved rates charged under power purchase agreements with several New England utilities, including CL&P, NSTAR Electric and PSNH. CL&P, NSTAR Electric and PSNH, in turn recover these costs from their customers through state regulatory commission-approved retail rates. The Yankee Companies collect amounts that management believes are adequate to recover the remaining plant closure and fuel storage cost estimates for the respective plants. Management believes CL&P and NSTAR Electric will recover their shares of these obligations from their customers. PSNH has recovered its total share of these costs from its customers.

#### *Spent Nuclear Fuel Litigation:*

The Yankee Companies have filed complaints against the DOE in the Court of Federal Claims seeking monetary damages resulting from the DOE's failure to accept delivery of, and provide for a permanent facility to store, spent nuclear fuel pursuant to the terms of the 1983 spent fuel and high-level waste disposal contracts between the Yankee Companies and the DOE. The court previously awarded the Yankee Companies damages for Phases I, II and III of litigation resulting from the DOE's failure to meet its contractual obligations. These Phases covered damages incurred in the years 1998 through 2012, and the awarded damages have been received by the Yankee Companies with certain amounts of the damages refunded to their customers.

*DOE Phase IV Damages* - On May 22, 2017, each of the Yankee Companies filed a fourth set of lawsuits against the DOE in the Court of Federal Claims. The Yankee Companies sought monetary damages totaling \$104.4 million for CYAPC, YAEC and MYAPC, resulting from the DOE's failure to begin accepting spent nuclear fuel for disposal covering the years from 2013 to 2016 ("DOE Phase IV"). On February 21, 2019, the Yankee Companies received a partial summary judgment and partial final judgment in their favor for the undisputed amount of monetary damages of \$103.2 million. The court awarded CYAPC, YAEC, and MYAPC damages of \$40.7 million, \$28.1 million and \$34.4 million, respectively. The DOE did not appeal the court's judgment and the decision became final on April 23, 2019. On June 12, 2019, each of the Yankee Companies received the damages proceeds. On June 12, 2019, the court accepted an offer of judgment in the amount of \$0.5 million to settle the disputed amount of approximately \$1 million in Phase IV contested damages. The Yankee Companies received the \$0.5 million payment in July 2019. CYAPC's and YAEC's proceeds received were classified as operating activities on the Eversource consolidated statement of cash flows.

In September 2019, the Yankee Companies made a required informational filing with FERC as to the use of proceeds, for which approval was received in the fourth quarter of 2019. In December 2019, YAEC and MYAPC returned proceeds of \$5.4 million and \$21.0 million, respectively, to its member companies, of which the Eversource utilities (CL&P, NSTAR Electric and PSNH) received a total of \$2.8 million from YAEC and \$5.0 million from MYAPC. The Eversource utilities will ultimately refund these proceeds to utility customers. Also, in December 2019, CYAPC paid \$29.0 million to the DOE to partially settle its pre-1983 spent nuclear fuel obligation.

### D. Guarantees and Indemnifications

In the normal course of business, Eversource parent provides credit assurances on behalf of its subsidiaries, including CL&P, NSTAR Electric and PSNH, in the form of guarantees. Management does not anticipate a material impact to net income or cash flows as a result of these various guarantees and indemnifications. The following table summarizes Eversource parent's exposure to guarantees and indemnifications of its subsidiaries and affiliates to external parties as of December 31, 2019:

Company	Description	Maximum Exposure (in millions)	Expiration Dates
Various	Surety Bonds <sup>(1)</sup>	\$ 29.2	2020 - 2021
Rocky River Realty Company and Eversource Service	Lease Payments for Real Estate	6.5	2024
Bay State Wind LLC	Real Estate Purchase	2.5	2020
Sunrise Wind LLC	Offshore Wind <sup>(2)</sup>	2.2	—

<sup>(1)</sup> Surety bond expiration dates reflect termination dates, the majority of which will be renewed or extended. Certain surety bonds contain credit ratings triggers that would require Eversource parent to post collateral in the event that the unsecured debt credit ratings of Eversource parent are downgraded.

- (2) On October 25, 2019, Eversource parent issued a guaranty on behalf of its 50 percent-owned affiliate, Sunrise Wind LLC, whereby Eversource parent will guaranty Sunrise Wind LLC's performance of certain obligations, in an amount not to exceed \$15.4 million, under the Offshore Wind Renewable Energy Certificate Purchase and Sale Agreement (the Agreement). The Agreement was executed on October 25, 2019, by and between NYSEERDA and Sunrise Wind LLC. Obligations of Eversource parent under the guaranty expire at such time as the guaranteed obligations have been fully performed. The Company regularly reviews performance risk under this arrangement, and in the event it becomes probable that Eversource parent will be required to perform under the guarantee, the amount of probable payment will be recorded. As of December 31, 2019, the fair value of the guarantee was immaterial.

Eversource parent issued a guaranty on behalf of its subsidiary, NPT, under which, beginning at the time the Northern Pass Transmission line would go into commercial operation, Eversource parent would guarantee the financial obligations of NPT under the TSA with HQ in an amount not to exceed \$25 million. Eversource parent's obligations under the guaranty expire upon the full, final and indefeasible payment of the guaranteed obligations. In the second quarter of 2019, Eversource concluded that construction of the NPT project was no longer probable. For further information regarding the impairment of NPT, see Note 1D, "Summary of Significant Accounting Policies - Impairment of Northern Pass Transmission," to the financial statements. While this guaranty is currently outstanding, it is expected to be extinguished in connection with the final dissolution of NPT.

#### **E. FERC ROE Complaints**

Four separate complaints were filed at the FERC by combinations of New England state attorneys general, state regulatory commissions, consumer advocates, consumer groups, municipal parties and other parties (collectively, the Complainants). In each of the first three complaints, filed on October 1, 2011, December 27, 2012, and July 31, 2014, respectively, the Complainants challenged the NETOs' base ROE of 11.14 percent that had been utilized since 2005 and sought an order to reduce it prospectively from the date of the final FERC order and for the separate 15-month complaint periods. In the fourth complaint, filed April 29, 2016, the Complainants challenged the NETOs' base ROE billed of 10.57 percent and the maximum ROE for transmission incentive (incentive cap) of 11.74 percent, asserting that these ROEs were unjust and unreasonable.

The ROE originally billed during the period October 1, 2011 (beginning of the first complaint period) through October 15, 2014 consisted of a base ROE of 11.14 percent and incentives up to 13.1 percent. On October 16, 2014, the FERC set the base ROE at 10.57 percent and the incentive cap at 11.74 percent for the first complaint period. This was also effective for all prospective billings to customers beginning October 16, 2014. This FERC order was vacated on April 14, 2017 by the U.S. Court of Appeals for the D.C. Circuit (the Court).

All amounts associated with the first complaint period have been refunded, which totaled \$38.9 million (pre-tax and excluding interest) at Eversource and reflected both the base ROE and incentive cap prescribed by the FERC order. The refund consisted of \$22.4 million for CL&P, \$13.7 million for NSTAR Electric and \$2.8 million for PSNH.

Eversource has recorded a reserve of \$39.1 million (pre-tax and excluding interest) for the second complaint period as of December 31, 2019. This reserve represents the difference between the billed rates during the second complaint period and a 10.57 percent base ROE and 11.74 percent incentive cap. The reserve consisted of \$21.4 million for CL&P, \$14.6 million for NSTAR Electric and \$3.1 million for PSNH as of December 31, 2019.

On October 16, 2018, FERC issued an order on all four complaints describing how it intends to address the issues that were remanded by the Court. FERC proposed a new framework to determine (1) whether an existing ROE is unjust and unreasonable and, if so, (2) how to calculate a replacement ROE. Initial briefs were filed by the NETOs, Complainants and FERC Trial Staff on January 11, 2019 and reply briefs were filed on March 8, 2019. The NETOs' brief was supportive of the overall ROE methodology determined in the October 16, 2018 order provided the FERC does not change the proposed methodology or alter its implementation in a manner that has a material impact on the results.

The FERC order included illustrative calculations for the first complaint using FERC's proposed frameworks with financial data from that complaint. Those illustrative calculations indicated that for the first complaint period, for the NETOs, which FERC concludes are of average financial risk, the preliminary just and reasonable base ROE is 10.41 percent and the preliminary incentive cap on total ROE is 13.08 percent.

If the results of the illustrative calculations were included in a final FERC order for each of the complaint periods, then a 10.41 percent base ROE and a 13.08 percent incentive cap would not have a significant impact on our financial statements for all of the complaint periods. These preliminary calculations are not binding and do not represent what we believe to be the most likely outcome of a final FERC order.

On November 21, 2019, FERC issued an order concerning the transmission ROEs for the Midcontinent ISO transmission owners (MISO). In that order, FERC adopted another new methodology for determining base ROEs for MISO, which differed significantly from the methodology and framework set forth in its October 16, 2018 FERC order on the NETOs' ROE dockets. On December 23, 2019, the NETOs filed a Supplemental Paper Hearing Brief and a Motion to supplement the record in the NETO ROE dockets to respond to the new methodology proposed in the MISO order, as there is uncertainty to whether it may be applied to the NETOs' cases. On January 21, 2020, the FERC issued an order granting rehearing for further consideration to give the FERC more time to act on the substantive issues of the MISO ROE proceedings. Further changes to the methodology by FERC are possible as a result of the arguments in both the MISO and NETO proceedings. Given the significant uncertainty relating to the October 2018 FERC order, the November 2019 FERC order to MISO, and the FERC's rehearing of the MISO order, the Company is unable to predict the potential effect of the MISO order on the NETO complaints or the outcome of the four complaints and concluded that there is no reasonable basis for a change to the reserve or recognized ROEs for any of the complaint periods at this time. Further, the Company cannot reasonably estimate a range of gain or loss for any of the four complaint proceedings.

Eversource, CL&P, NSTAR Electric and PSNH currently record revenues at the 10.57 percent base ROE and incentive cap at 11.74 percent established in the October 16, 2014 FERC order.

A change of 10 basis points to the base ROE used to establish the reserves would impact Eversource's after-tax earnings by an average of approximately \$3 million for each of the four 15-month complaint periods.

#### **F. Eversource and NSTAR Electric Boston Harbor Civil Action**

On July 15, 2016, the United States Attorney on behalf of the United States Army Corps of Engineers filed a civil action in the United States District Court for the District of Massachusetts under provisions of the Rivers and Harbors Act of 1899 and the Clean Water Act against NSTAR Electric, HEEC, and the Massachusetts Water Resources Authority (together with NSTAR Electric and HEEC, the Defendants). The action alleged that the Defendants failed to comply with certain permitting requirements related to the placement of the HEEC-owned electric distribution cable beneath Boston Harbor. The action sought an order to compel HEEC to comply with cable depth requirements in the United States Army Corps of Engineers' permit or alternatively to remove the electric distribution cable and cease unauthorized work in U.S. waterways. The action also sought civil penalties and other costs.

The parties reached a settlement pursuant to which HEEC agreed to install a new 115kV distribution cable across Boston Harbor to Deer Island, utilizing a different route, and remove portions of the existing cable. Upon the installation and completion of the new cable and the removal of the portions of the existing cable, all issues surrounding the current permit from the United States Army Corps of Engineers are expected to be resolved, and such litigation is expected to be dismissed with prejudice. Construction of the new distribution cable was completed in August 2019 and removal of the portions of the existing cable was completed in January 2020.

NSTAR Electric agreed to provide a rate base credit of \$17.5 million to the Massachusetts Water Resources Authority for the new cable. This negotiated credit resulted in the initial \$17.5 million of construction costs on the new cable being expensed as incurred, all of which was fully expensed in 2018. In connection with the new cable that was placed into service, a corresponding ARO was recognized for approximately \$32 million within Other Long-Term Liabilities on the Eversource and NSTAR Electric balance sheets as of December 31, 2019. For further information on the ARO, see Note 7, "Asset Retirement Obligations," to the financial statements.

#### **G. Litigation and Legal Proceedings**

Eversource, including CL&P, NSTAR Electric and PSNH, are involved in legal, tax and regulatory proceedings regarding matters arising in the ordinary course of business, which involve management's assessment to determine the probability of whether a loss will occur and, if probable, its best estimate of probable loss. The Company records and discloses losses when these losses are probable and reasonably estimable, and discloses matters when losses are probable but not estimable or when losses are reasonably possible. Legal costs related to the defense of loss contingencies are expensed as incurred.

### **14. GENERATION ASSET SALE**

On January 10, 2018, PSNH completed the sale of its thermal generation assets. The original purchase price of \$175 million was adjusted to reflect working capital adjustments, closing date adjustments and proration of taxes and fees prior to closing. As a result of these adjustments, net proceeds from the sale of the thermal assets totaled \$116.8 million. On August 26, 2018, PSNH completed the sale of its hydroelectric generation assets. The original purchase price of \$83 million was adjusted to reflect contractual adjustments totaling \$5.8 million, resulting in net proceeds of \$77.2 million. The difference between the carrying value of the hydroelectric generation assets and the sale proceeds resulted in a gain of \$17.3 million. An estimated gain from the sale of these assets was included as an offset to the total remaining costs associated with the sale of generation assets that were securitized on May 8, 2018.

On May 8, 2018, PSNH Funding issued \$635.7 million of securitized RRBs to finance PSNH's unrecovered remaining costs resulting from the divestiture of its generation assets, which included the deferred costs resulting from the sale of the thermal generation assets. These RRBs are secured by a non-bypassable charge recoverable from PSNH customers. PSNH recorded regulatory assets and other deferred costs in connection with the generation asset divestiture and the securitization of remaining costs, which are probable of recovery through collection of the non-bypassable charge. As of December 31, 2019 and 2018, unamortized securitized stranded costs totaled \$565.3 million and \$608.4 million, respectively, and are included in Regulatory Assets on the Eversource and PSNH balance sheets. For further information on the securitized RRB issuance, see Note 10, "Rate Reduction Bonds and Variable Interest Entities."

On November 27, 2019, PSNH filed a motion for the commencement of audit of divestiture-related costs. PSNH's actual balance of costs eligible for recovery as divestiture-related costs is \$654.0 million, which is above the \$635.7 million amount securitized in May 2018. PSNH proposed to recover this balance through the SCRC tracker mechanism and believes the amount deferred is probable of recovery. These deferred costs are recorded in Other Long-Term Assets on the balance sheet.

For the year ended December 31, 2018, pre-tax income associated with the hydroelectric assets prior to the sale on August 26, 2018 was \$9.9 million. For the year ended December 31, 2017, pre-tax income associated with PSNH's generation assets was \$60.0 million. As of December 31, 2018, all generation assets had been sold.

## 15. LEASES

Eversource, including CL&P, NSTAR Electric and PSNH, has entered into lease agreements as a lessee for the use of land, office space, service centers, vehicles, information technology, and equipment. These lease agreements are classified as either finance or operating leases and the liability and right-of-use asset are recognized on the balance sheet at lease commencement. Leases with an initial term of 12 months or less are not recorded on the balance sheet and are recognized as lease expense on a straight-line basis over the lease term.

Eversource determines whether or not a contract contains a lease based on whether or not it provides Eversource with the use of a specifically identified asset for a period of time, as well as both the right to direct the use of that asset and receive the significant economic benefits of the asset. Eversource has elected the practical expedient to not separate non-lease components from lease components and instead to account for both as a single lease component, with the exception of the information technology asset class where the lease and non-lease components are separated.

The provisions of Eversource, CL&P, NSTAR Electric and PSNH lease agreements contain renewal options. The renewal options range from one year to twenty years. The renewal period is included in the measurement of the lease liability if it is reasonably certain that Eversource will exercise these renewal options.

For leases entered into or modified after the January 1, 2019 implementation date, the discount rate utilized for classification and measurement purposes as of the inception date of the lease is based on each company's collateralized incremental interest rate to borrow over a comparable term for an individual lease because the rate implicit in the lease is not determinable.

CL&P and PSNH entered into certain contracts for the purchase of energy that qualify as leases. These contracts do not have minimum lease payments and therefore are not recognized as a lease liability on the balance sheet and are not reflected in the future minimum lease payments table below. Expense related to these contracts is included as variable lease cost in the table below. The expense and long-term obligation for these contracts are also included in Note 13B, "Commitments and Contingencies - Long-Term Contractual Arrangements," to the financial statements.

The components of lease cost, prior to amounts capitalized, are as follows:

	For the Year Ended December 31, 2019			
	Eversource	CL&P	NSTAR Electric	PSNH
<i>(Millions of Dollars)</i>				
Financing Lease Cost:				
Amortization of Right-of-use-Assets	\$ 1.7	\$ 0.7	\$ 0.2	\$ 0.1
Interest on Lease Liabilities	1.2	0.6	0.6	—
Total Finance Lease Cost	2.9	1.3	0.8	0.1
Operating Lease Cost	11.7	0.5	3.4	0.1
Variable Lease Cost	60.5	13.3	—	47.2
Total Lease Cost	\$ 75.1	\$ 15.1	\$ 4.2	\$ 47.4

Operating lease rental payments charged to expense in 2018 and 2017 (which exclude CL&P's and PSNH's energy purchase contracts) were as follows:

	Eversource	CL&P	NSTAR Electric	PSNH
<i>(Millions of Dollars)</i>				
2018	\$ 10.8	\$ 10.9	\$ 11.8	\$ 2.5
2017	10.5	11.7	11.3	3.3

Operating lease cost, net of the capitalized portion, is included in Operations and Maintenance (or Purchased Power, Fuel and Transmission expense for transmission segment leases) on the statements of income. Amortization of finance lease assets is included in Depreciation on the statements of income. Interest expense on finance leases is included in Interest Expense on the statements of income.

Supplemental balance sheet information related to leases is as follows:

<i>(Millions of Dollars)</i>	Balance Sheet Classification	As of December 31, 2019			
		Eversource	CL&P	NSTAR Electric	PSNH
<b>Operating Leases:</b>					
Operating Lease Right-of-use-Assets, Net	Other Long-Term Assets	\$ 49.9	\$ 0.7	\$ 24.2	\$ 0.4
<b>Operating Lease Liabilities</b>					
Operating Lease Liabilities - Current Portion	Other Current Liabilities	\$ 8.6	\$ 0.5	\$ 0.7	\$ 0.1
Operating Lease Liabilities - Long-Term	Other Long-Term Liabilities	41.3	0.2	23.5	0.3
Total Operating Lease Liabilities		\$ 49.9	\$ 0.7	\$ 24.2	\$ 0.4
<b>Finance Leases:</b>					
Finance Lease Right-of-use-Assets, Net	Property, Plant and Equipment, Net	\$ 8.2	\$ 1.9	\$ 3.3	\$ 0.9
<b>Finance Lease Liabilities</b>					
Finance Lease Liabilities - Current Portion	Other Current Liabilities	\$ 2.4	\$ 1.6	\$ —	\$ 0.1
Finance Lease Liabilities - Long-Term	Other Long-Term Liabilities	8.1	1.4	4.4	0.8
Total Finance Lease Liabilities		\$ 10.5	\$ 3.0	\$ 4.4	\$ 0.9

The finance lease payments that NSTAR Electric will make over the next twelve months are entirely interest-related, due to escalating payments. As such, none of the finance lease payments over the next twelve months will reduce the finance lease liability.

Other information related to leases is as follows (in millions of dollars, unless otherwise noted):

	Eversource	CL&P	NSTAR Electric	PSNH
<b>As of December 31, 2019</b>				
<b>Weighted-Average Remaining Lease Term (Years):</b>				
Operating Leases	12	2	20	9
Finance Leases	12	2	22	9
<b>Weighted-Average Discount Rate (Percentage):</b>				
Operating Leases	3.9%	2.5%	4.1%	3.7%
Finance Leases	4.0%	10.5%	2.9%	3.5%

	Eversource	CL&P	NSTAR Electric	PSNH
<b>For the Year Ended December 31, 2019</b>				
<b>Cash Paid for Amounts Included in the Measurement of Lease Liabilities:</b>				
Operating Cash Flows from Operating Leases	\$ 11.4	\$ 0.4	\$ 1.6	\$ 0.1
Operating Cash Flows from Finance Leases	1.2	0.6	0.6	—
Financing Cash Flows from Finance Leases	2.6	1.4	—	0.1
<b>Supplemental Non-Cash Information on Lease Liabilities:</b>				
Right-of-use-Assets Obtained in Exchange for New Operating Lease Liabilities	2.9	1.0	0.1	0.2
Right-of-use-Assets Obtained in Exchange for New Finance Lease Liabilities	2.0	—	—	—

Future minimum lease payments, excluding variable costs, under long-term leases, as of December 31, 2019 are as follows:

<i>(Millions of Dollars)</i>	Operating Leases				Finance Leases			
	Eversource	CL&P	NSTAR Electric	PSNH	Eversource	CL&P	NSTAR Electric	PSNH
<b>Year Ending December 31,</b>								
2020	\$ 10.2	\$ 0.5	\$ 1.8	\$ 0.1	\$ 3.4	\$ 2.0	\$ 0.6	\$ 0.1
2021	9.0	0.2	1.6	0.1	2.9	1.5	0.6	0.1
2022	7.4	—	1.6	0.1	1.5	—	0.6	0.1
2023	4.9	—	1.6	—	0.8	—	0.6	0.1
2024	2.8	—	1.7	—	0.8	—	0.7	0.1
Thereafter	28.9	0.1	28.7	0.2	13.1	—	12.6	0.5
Future lease payments	63.2	0.8	37.0	0.5	22.5	3.5	15.7	1.0
Less amount representing interest	13.3	0.1	12.8	0.1	12.0	0.5	11.3	0.1
Present value of future minimum lease payments	\$ 49.9	\$ 0.7	\$ 24.2	\$ 0.4	\$ 10.5	\$ 3.0	\$ 4.4	\$ 0.9

At December 31, 2018, future minimum rental payments, excluding executory costs, such as property taxes, state use taxes, insurance, and maintenance were as follows:

<b>Operating Leases</b> (Millions of Dollars)	<b>Eversource</b>		<b>CL&amp;P</b>		<b>NSTAR Electric</b>		<b>PSNH</b>	
2019	\$	11.5	\$	1.5	\$	7.2	\$	0.5
2020		9.8		1.4		6.0		0.4
2021		8.7		1.2		5.3		0.4
2022		7.2		1.1		4.4		0.4
2023		4.7		0.5		3.1		0.2
Thereafter		32.7		0.2		29.5		0.3
Future minimum lease payments	\$	74.6	\$	5.9	\$	55.5	\$	2.2

<b>Capital Leases</b> (Millions of Dollars)	<b>Eversource</b>		<b>CL&amp;P</b>		<b>NSTAR Electric</b>		<b>PSNH</b>	
2019	\$	3.4	\$	2.0	\$	0.5	\$	0.1
2020		3.4		2.0		0.5		0.1
2021		2.9		1.5		0.5		0.1
2022		1.5		—		0.6		0.1
2023		0.7		—		0.6		0.1
Thereafter		13.9		—		13.4		0.5
Future minimum lease payments		25.8		5.5		16.1		1.0
Less amount representing interest		13.8		1.0		12.4		0.1
Present value of future minimum lease payments	\$	12.0	\$	4.5	\$	3.7	\$	0.9

## 16. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each of the following financial instruments:

*Preferred Stock, Long-Term Debt and Rate Reduction Bonds:* The fair value of CL&P's and NSTAR Electric's preferred stock is based upon pricing models that incorporate interest rates and other market factors, valuations or trades of similar securities and cash flow projections. The fair value of long-term debt and RRB debt securities is based upon pricing models that incorporate quoted market prices for those issues or similar issues adjusted for market conditions, credit ratings of the respective companies and treasury benchmark yields. The fair values provided in the table below are classified as Level 2 within the fair value hierarchy. Carrying amounts and estimated fair values are as follows:

(Millions of Dollars)	<b>Eversource</b>		<b>CL&amp;P</b>		<b>NSTAR Electric</b>		<b>PSNH</b>	
	<b>Carrying Amount</b>	<b>Fair Value</b>						
<b>As of December 31, 2019:</b>								
Preferred Stock Not Subject to Mandatory Redemption	\$ 155.6	\$ 162.0	\$ 116.2	\$ 117.8	\$ 43.0	\$ 44.2	\$ —	\$ —
Long-Term Debt	14,098.2	15,170.2	3,518.1	4,058.0	3,342.1	3,659.9	951.6	1,005.7
Rate Reduction Bonds	583.3	625.9	—	—	—	—	583.3	625.9
<b>As of December 31, 2018:</b>								
Preferred Stock Not Subject to Mandatory Redemption	\$ 155.6	\$ 156.8	\$ 116.2	\$ 113.8	\$ 43.0	\$ 43.0	\$ —	\$ —
Long-Term Debt	13,086.1	13,154.9	3,254.0	3,429.2	2,944.8	3,024.1	805.2	819.5
Rate Reduction Bonds	635.7	645.8	—	—	—	—	635.7	645.8

*Derivative Instruments and Marketable Securities:* Derivative instruments and investments in marketable securities are carried at fair value. For further information, see Note 4, "Derivative Instruments," and Note 5, "Marketable Securities," to the financial statements.

See Note 11, "Summary of Significant Accounting Policies – Fair Value Measurements," for the fair value measurement policy and the fair value hierarchy.

## 17. ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)

The changes in accumulated other comprehensive income/(loss) by component, net of tax, are as follows:

Eversource (Millions of Dollars)	For the Year Ended December 31, 2019				For the Year Ended December 31, 2018			
	Qualified Cash Flow Hedging Instruments	Unrealized Gains/(Losses) on Marketable Securities	Defined Benefit Plans	Total	Qualified Cash Flow Hedging Instruments	Unrealized Losses on Marketable Securities	Defined Benefit Plans	Total
Balance as of January 1st	\$ (4.4)	\$ (0.5)	\$ (55.1)	\$ (60.0)	\$ (6.2)	\$ —	\$ (60.2)	\$ (66.4)
OCI Before Reclassifications	—	1.2	(13.3)	(12.1)	—	(0.5)	0.3	(0.2)
Amounts Reclassified from AOCI	1.4	—	5.6	7.0	1.8	—	4.8	6.6
Net OCI	1.4	1.2	(7.7)	(5.1)	1.8	(0.5)	5.1	6.4
Balance as of December 31st	\$ (3.0)	\$ 0.7	\$ (62.8)	\$ (65.1)	\$ (4.4)	\$ (0.5)	\$ (55.1)	\$ (60.0)

Eversource's qualified cash flow hedging instruments represent interest rate swap agreements on debt issuances that were settled in prior years. The settlement amount was recorded in AOCI and is being amortized into Net Income over the term of the underlying debt instrument. CL&P, NSTAR Electric and PSNH continue to amortize interest rate swaps settled in prior years from AOCI into Interest Expense over the remaining life of the associated long-term debt. Such interest rate swaps are not material to their respective financial statements.

Defined benefit plan OCI amounts before reclassifications relate to actuarial gains and losses that arose during the year and were recognized in AOCI. The unamortized actuarial gains and losses and prior service costs on the defined benefit plans are amortized from AOCI into Other Income, Net over the average future employee service period, and are reflected in amounts reclassified from AOCI. The related tax effects recognized in AOCI were net deferred tax assets of \$4.4 million and \$4.1 million in 2019 and 2017, respectively, and deferred tax liabilities of \$0.2 million in 2018.

Eversource did not elect to reclassify the income tax effects of the Tax Cuts and Jobs Act from AOCI to Retained Earnings as permitted by ASU 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220)*.

The following table sets forth the amounts reclassified from AOCI by component and the impacted line item on the statements of income:

Eversource (Millions of Dollars)	Amounts Reclassified from AOCI			Statements of Income Line Item Impacted
	For the Years Ended December 31,			
	2019	2018	2017	
Qualified Cash Flow Hedging Instruments	\$ (2.5)	\$ (2.8)	\$ (3.3)	Interest Expense
Tax Effect	1.1	1.0	1.3	Income Tax Expense
Qualified Cash Flow Hedging Instruments, Net of Tax	\$ (1.4)	\$ (1.8)	\$ (2.0)	
Defined Benefit Plan Costs:				
Amortization of Actuarial Losses	\$ (5.7)	\$ (6.0)	\$ (6.2)	Other Income, Net <sup>(1)</sup>
Amortization of Prior Service Cost	(1.8)	(0.4)	(1.1)	Other Income, Net <sup>(1)</sup>
Total Defined Benefit Plan Costs	(7.5)	(6.4)	(7.3)	
Tax Effect	1.9	1.6	2.8	Income Tax Expense
Defined Benefit Plan Costs, Net of Tax	\$ (5.6)	\$ (4.8)	\$ (4.5)	
Total Amounts Reclassified from AOCI, Net of Tax	\$ (7.0)	\$ (6.6)	\$ (6.5)	

<sup>(1)</sup> These amounts are included in the computation of net periodic Pension, SERP and PBOP costs. See Note 1M, "Summary of Significant Accounting Policies – Other Income, Net" and Note 11A, "Employee Benefits – Pension Benefits and Postretirement Benefits Other Than Pension," for further information.

As of December 31, 2019, it is estimated that a pre-tax amount of \$2.5 million (\$0.7 million for NSTAR Electric and \$1.8 million for PSNH) will be reclassified from AOCI as a decrease to Net Income over the next 12 months as a result of the amortization of the interest rate swap agreements which have been settled. In addition, it is estimated that a pre-tax amount of \$7.8 million will be reclassified from AOCI as a decrease to Net Income over the next 12 months as a result of the amortization of Pension, SERP and PBOP costs.

## 18. DIVIDEND RESTRICTIONS

Eversource parent's ability to pay dividends may be affected by certain state statutes, the ability of its subsidiaries to pay common dividends and the leverage restriction tied to its consolidated total debt to total capitalization ratio requirement in its revolving credit agreement. Pursuant to the joint revolving credit agreement of Eversource, CL&P, PSNH, NSTAR Gas, Yankee Gas and Aquarion Water Company of Connecticut, and to the NSTAR Electric revolving credit agreement, each company is required to maintain consolidated total indebtedness to total capitalization ratio of no greater than 65 percent at the end of each fiscal quarter. As of December 31, 2019, all companies were in compliance with such covenant and in compliance with all such provisions of the revolving credit agreements that may restrict the payment of dividends as of December 31, 2019.

The Retained Earnings balances subject to dividend restrictions were \$4.2 billion for Eversource, \$1.8 billion for CL&P, \$2.3 billion for NSTAR Electric and \$490.3 million for PSNH as of December 31, 2019.

CL&P, NSTAR Electric and PSNH are subject to Section 305 of the Federal Power Act that makes it unlawful for a public utility to make or pay a dividend from any funds "properly included in its capital account." Management believes that this Federal Power Act restriction, as applied to CL&P, NSTAR Electric and PSNH, would not be construed or applied by the FERC to prohibit the payment of dividends from retained earnings for lawful and legitimate business purposes. In addition, certain state statutes may impose additional limitations on such companies and on NSTAR Gas, Yankee Gas, Aquarion Water Company of Connecticut, Aquarion Water Company of Massachusetts and Aquarion Water Company of New Hampshire. Such state law restrictions do not restrict the payment of dividends from retained earnings or net income.

## 19. COMMON SHARES

The following table sets forth the Eversource parent common shares and the shares of common stock of CL&P, NSTAR Electric and PSNH that were authorized and issued, as well as the respective per share par values:

	Shares			
	Par Value	Authorized as of December 31, 2019 and 2018	Issued as of December 31,	
			2019	2018
Eversource	\$ 5	380,000,000	345,858,402	333,878,402
CL&P	\$ 10	24,500,000	6,035,205	6,035,205
NSTAR Electric	\$ 1	100,000,000	200	200
PSNH	\$ 1	100,000,000	301	301

*Common Share Issuance and Forward Sale Agreement:* On June 4, 2019, Eversource completed an equity offering of 17,940,000 common shares, consisting of 5,980,000 common shares issued directly by the Company and 11,960,000 common shares issuable pursuant to a forward sale agreement with an investment bank. The issuance of 5,980,000 common shares resulted in proceeds of \$426.9 million, net of issuance costs.

Under the forward sale agreement, a total of 11,960,000 common shares were borrowed from third parties and sold by the underwriters. The forward sale agreement allows Eversource, at its election and prior to May 29, 2020, to physically settle the forward sale agreement by issuing common shares in exchange for net proceeds at the then-applicable forward sale price specified by the agreement (initially, \$71.48 per share) or, alternatively, to settle the forward sale agreement in whole or in part through the delivery or receipt of shares or cash. The forward sale price is subject to adjustment daily based on a floating interest rate factor and will decrease in respect of certain fixed amounts specified in the agreement, such as dividends.

On December 30, 2019, Eversource physically settled a portion of the forward sale agreement by delivering 6,000,000 common shares in exchange for net proceeds of \$425.4 million. The forward sale price used to determine the cash proceeds received by Eversource was calculated based on the initial forward sale price of \$71.48 per share, as adjusted in accordance with the forward sale agreement.

The 2019 issuances of 11,980,000 common shares resulted in proceeds of \$852.3 million, net of issuance costs, and were reflected in shareholders' equity and as financing activities on the statement of cash flows.

Eversource's intent is to physically settle the forward sale agreement by issuing common shares. As of December 31, 2019, if Eversource had elected to net settle the forward sale agreement, Eversource would have been required to pay \$84.4 million under a cash settlement or would have been required to deliver 992,189 common shares under a net share settlement.

Issuances of shares under the forward sale agreement are classified as equity transactions. Accordingly, no amounts relating to the forward sale agreement have or will be recorded in the financial statements until settlements take place. Prior to any settlements, the only impact to the financial statements is the inclusion of incremental shares within the calculation of diluted EPS using the treasury stock method. See Note 22, "Earnings Per Share," to the financial statements for information on the forward sale agreement's impact on the calculation of diluted EPS.

Eversource used the net proceeds received upon the direct issuance of common shares and the net proceeds received upon partial settlement of the forward sale agreement to repay short-term debt under the commercial paper program, to fund capital spending and clean energy initiatives, and for general corporate purposes.

*Treasury Shares:* As of December 31, 2019 and 2018, there were 15,977,757 and 16,992,594 Eversource common shares held as treasury shares, respectively. As of December 31, 2019 and 2018, there were 329,880,645 and 316,885,808 Eversource common shares outstanding, respectively.

Beginning in 2019, Eversource began issuing treasury shares to satisfy awards under the Company's incentive plans, shares issued under the dividend reinvestment and share purchase plan, and matching contributions under the Eversource 401k Plan.

## 20. PREFERRED STOCK NOT SUBJECT TO MANDATORY REDEMPTION

The CL&P and NSTAR Electric preferred stock is not subject to mandatory redemption and is presented as a noncontrolling interest of a subsidiary in Eversource's financial statements.

CL&P is authorized to issue up to 9,000,000 shares of preferred stock, par value \$50 per share, and NSTAR Electric is authorized to issue 2,890,000 shares of preferred stock, par value \$100 per share. Holders of preferred stock of CL&P and NSTAR Electric are entitled to receive cumulative dividends in preference to any payment of dividends on the common stock. Upon liquidation, holders of preferred stock of CL&P and NSTAR Electric are entitled to receive a liquidation preference before any distribution to holders of common stock in an amount equal to the par value of the preferred stock plus accrued and unpaid dividends. If the net assets were to be insufficient to pay the liquidation preference in full, then the net assets would be distributed ratably to all holders of preferred stock. The preferred stock of CL&P and NSTAR Electric is subject to optional redemption by the CL&P and NSTAR Electric Boards of Directors at any time.

Details of preferred stock not subject to mandatory redemption are as follows (in millions, except in redemption price and shares):

Series	Redemption Price Per Share	Shares Outstanding as of December 31,		As of December 31,	
		2019	2018	2019	2018
<b>CL&amp;P</b>					
\$1.90	Series of 1947	\$ 52.50	163,912	163,912	\$ 8.2 \$ 8.2
\$2.00	Series of 1947	\$ 54.00	336,088	336,088	16.8 16.8
\$2.04	Series of 1949	\$ 52.00	100,000	100,000	5.0 5.0
\$2.20	Series of 1949	\$ 52.50	200,000	200,000	10.0 10.0
3.90%	Series of 1949	\$ 50.50	160,000	160,000	8.0 8.0
\$2.06	Series E of 1954	\$ 51.00	200,000	200,000	10.0 10.0
\$2.09	Series F of 1955	\$ 51.00	100,000	100,000	5.0 5.0
4.50%	Series of 1956	\$ 50.75	104,000	104,000	5.2 5.2
4.96%	Series of 1958	\$ 50.50	100,000	100,000	5.0 5.0
4.50%	Series of 1963	\$ 50.50	160,000	160,000	8.0 8.0
5.28%	Series of 1967	\$ 51.43	200,000	200,000	10.0 10.0
\$3.24	Series G of 1968	\$ 51.84	300,000	300,000	15.0 15.0
6.56%	Series of 1968	\$ 51.44	200,000	200,000	10.0 10.0
Total CL&P			2,324,000	2,324,000	\$ 116.2 \$ 116.2
<b>NSTAR Electric</b>					
4.25%	Series of 1956	\$ 103.625	180,000	180,000	\$ 18.0 \$ 18.0
4.78%	Series of 1958	\$ 102.80	250,000	250,000	25.0 25.0
Total NSTAR Electric			430,000	430,000	\$ 43.0 \$ 43.0
Fair Value Adjustment due to Merger with NSTAR					(3.6) (3.6)
<b>Other</b>					
6.00%	Series of 1958	\$ 100.00	23	23	\$ — \$ —
<b>Total Eversource - Noncontrolling Interest - Preferred Stock of Subsidiaries</b>					<b>\$ 155.6 \$ 155.6</b>

## 21. COMMON SHAREHOLDERS' EQUITY AND NONCONTROLLING INTERESTS

Dividends on the preferred stock of CL&P and NSTAR Electric totaled \$7.5 million for each of the years ended December 31, 2019, 2018 and 2017. These dividends were presented as Net Income Attributable to Noncontrolling Interests on the Eversource statements of income. Noncontrolling Interest – Preferred Stock of Subsidiaries on the Eversource balance sheets totaled \$155.6 million as of December 31, 2019 and 2018. On the Eversource balance sheets, Common Shareholders' Equity was fully attributable to Eversource parent and Noncontrolling Interest – Preferred Stock of Subsidiaries was fully attributable to the noncontrolling interest.

For the years ended December 31, 2019, 2018 and 2017, there was no change in ownership of the common equity of CL&P and NSTAR Electric.

## 22. EARNINGS PER SHARE

Basic EPS is computed based upon the weighted average number of common shares outstanding during each period. Diluted EPS is computed on the basis of the weighted average number of common shares outstanding plus the potential dilutive effect of certain share-based compensation awards and the equity forward sale agreement, as if they were converted into outstanding common shares. The dilutive effect of unvested RSU and performance share awards, as well as the equity forward sale agreement, is calculated using the treasury stock method. RSU and performance share awards are included in basic weighted average common shares outstanding as of the date that all necessary vesting conditions have been satisfied.

As described in Note 19, "Common Shares," earnings per share dilution, if any, related to the forward sale agreement will be determined under the treasury stock method until settlement of the forward sale agreement. Under this method, the number of Eversource common shares used in calculating diluted EPS is deemed to be increased by the excess, if any, of the number of shares that would be issued upon physical settlement of the forward sale agreement less the number of shares that would be purchased by Eversource in the market (based on the average market price during the same reporting period) using the proceeds receivable upon settlement (based on the adjusted forward sale price at the end of that reporting period). Share dilution occurs when the average market price of Eversource's common shares is higher than the adjusted forward sale price.

The following table sets forth the components of basic and diluted EPS:

Eversource (Millions of Dollars, except share information)	For the Years Ended December 31,		
	2019	2018	2017
Net Income Attributable to Common Shareholders	\$ 909.1	\$ 1,033.0	\$ 988.0
Weighted Average Common Shares Outstanding:			
Basic	321,416,086	317,370,369	317,411,097
Dilutive Effect of:			
Share-Based Compensation Awards and Other	762,215	623,565	620,483
Equity Forward Sale Agreement	763,335	—	—
Total Dilutive Effect	1,525,550	623,565	620,483
Diluted	322,941,636	317,993,934	318,031,580
Basic EPS	\$ 2.83	\$ 3.25	\$ 3.11
Diluted EPS	\$ 2.81	\$ 3.25	\$ 3.11

## 23. REVENUES

On January 1, 2018, Eversource, including CL&P, NSTAR Electric and PSNH, adopted ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)" using the modified retrospective approach. The core principle of this accounting guidance is that revenue is recognized when promised goods or services (referred to as performance obligations) are transferred to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. A five-step model is used for recognizing and measuring revenue from contracts with customers, which includes identifying the contract with the customer, identifying the performance obligations promised within the contract, determining the transaction price (the amount of consideration to which the company expects to be entitled), allocating the transaction price to the performance obligations and recognizing revenue when (or as) the performance obligation is satisfied.

The following table presents operating revenues disaggregated by revenue source:

Eversource (Millions of Dollars)	For the Year Ended December 31, 2019						
	Electric Distribution	Natural Gas Distribution	Electric Transmission	Water Distribution	Other	Eliminations	Total
Revenues from Contracts with Customers							
Retail Tariff Sales							
Residential	\$ 3,723.7	\$ 555.1	\$ —	\$ 132.3	\$ —	\$ —	\$ 4,411.1
Commercial	2,584.8	347.6	—	63.9	—	(4.3)	2,992.0
Industrial	331.8	96.9	—	4.5	—	(11.6)	421.6
Total Retail Tariff Sales Revenues	6,640.3	999.6	—	200.7	—	(15.9)	7,824.7
Wholesale Transmission Revenues	—	—	1,293.3	—	61.3	(1,085.2)	269.4
Wholesale Market Sales Revenues	215.7	55.4	—	4.1	—	—	275.2
Other Revenues from Contracts with Customers	54.8	2.8	13.2	7.0	967.2	(969.0)	76.0
Reserve for Revenues Subject to Refund	1.3	6.2	—	(2.8)	—	—	4.7
Total Revenues from Contracts with Customers	6,912.1	1,064.0	1,306.5	209.0	1,028.5	(2,070.1)	8,450.0
Alternative Revenue Programs	45.9	(4.9)	81.8	4.6	—	(74.2)	53.2
Other Revenues	18.5	3.1	0.7	1.0	—	—	23.3
Total Operating Revenues	\$ 6,976.5	\$ 1,062.2	\$ 1,389.0	\$ 214.6	\$ 1,028.5	\$ (2,144.3)	\$ 8,526.5

**For the Year Ended December 31, 2018**

Eversource (Millions of Dollars)	Electric Distribution	Natural Gas Distribution	Electric Transmission	Water Distribution	Other	Eliminations	Total
<b>Revenues from Contracts with Customers</b>							
<b>Retail Tariff Sales</b>							
Residential	\$ 3,766.6	\$ 542.5	\$ —	\$ 130.7	\$ —	\$ —	\$ 4,439.8
Commercial	2,634.7	334.8	—	63.3	—	(4.5)	3,028.3
Industrial	351.9	96.0	—	4.4	—	(10.0)	442.3
Total Retail Tariff Sales Revenues	6,753.2	973.3	—	198.4	—	(14.5)	7,910.4
Wholesale Transmission Revenues	—	—	1,308.9	—	47.3	(1,092.2)	264.0
Wholesale Market Sales Revenues	179.5	57.5	—	4.1	—	—	241.1
Other Revenues from Contracts with Customers	65.9	(2.2)	12.6	7.2	889.0	(891.0)	81.5
Reserve for Revenues Subject to Refund	(12.3)	(8.3)	—	(3.7)	—	—	(24.3)
Total Revenues from Contracts with Customers	6,986.3	1,020.3	1,321.5	206.0	936.3	(1,997.7)	8,472.7
Alternative Revenue Programs	(47.0)	(1.2)	(35.2)	5.4	—	31.9	(46.1)
Other Revenues	17.9	3.1	—	0.6	—	—	21.6
Total Operating Revenues	\$ 6,957.2	\$ 1,022.2	\$ 1,286.3	\$ 212.0	\$ 936.3	\$ (1,965.8)	\$ 8,448.2

**For the Years Ended December 31,**

(Millions of Dollars)	2019			2018		
	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH
<b>Revenues from Contracts with Customers</b>						
<b>Retail Tariff Sales</b>						
Residential	\$ 1,837.1	\$ 1,322.1	\$ 564.5	\$ 1,828.2	\$ 1,380.9	\$ 557.5
Commercial	922.9	1,349.4	314.6	928.1	1,391.5	316.9
Industrial	138.3	115.8	77.7	147.7	124.9	79.3
Total Retail Tariff Sales Revenues	2,898.3	2,787.3	956.8	2,904.0	2,897.3	953.7
Wholesale Transmission Revenues	587.1	517.3	188.9	620.6	488.8	199.5
Wholesale Market Sales Revenues	105.1	73.1	37.5	48.3	76.1	56.6
Other Revenues from Contracts with Customers	36.4	18.7	15.6	35.0	28.9	15.5
Reserve for Revenues Subject to Refund	—	—	1.3	—	—	(12.3)
Total Revenues from Contracts with Customers	3,626.9	3,396.4	1,200.1	3,607.9	3,491.1	1,213.0
Alternative Revenue Programs	77.5	41.6	8.6	(65.9)	0.9	(17.3)
Other Revenues	10.3	7.0	1.9	8.5	8.3	1.1
Eliminations	(482.1)	(400.4)	(144.7)	(454.3)	(387.4)	(149.2)
Total Operating Revenues	\$ 3,232.6	\$ 3,044.6	\$ 1,065.9	\$ 3,096.2	\$ 3,112.9	\$ 1,047.6

*Retail Tariff Sales:* Regulated utilities provide products and services to their regulated customers under rates, pricing, payment terms and conditions of service, regulated by each state regulatory agency. The arrangement whereby a utility provides commodity service to a customer for a price approved by the respective state regulatory commission is referred to as a tariff sale contract, and the tariff governs all aspects of the provision of regulated services by utilities. The majority of revenue for Eversource, CL&P, NSTAR Electric and PSNH is derived from regulated retail tariff sales for the sale and distribution of electricity, natural gas and water to residential, commercial and industrial retail customers.

The utility's performance obligation for the regulated tariff sales is to provide electricity, natural gas or water to the customer as demanded. The promise to provide the commodity represents a single performance obligation, as it is a promise to transfer a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer. Revenue is recognized over time as the customer simultaneously receives and consumes the benefits provided by the utility, and the utility satisfies its performance obligation. Revenue is recognized based on the output method as there is a directly observable output to the customer (electricity, natural gas or water units delivered to the customer and immediately consumed). Each Eversource utility is entitled to be compensated for performance completed to date (service taken by the customer) until service is terminated.

In regulated tariff sales, the transaction prices are the rates approved by the respective state regulatory commissions. In general, rates can only be changed through formal proceedings with the state regulatory commissions. These rates are designed to recover the costs to provide service to customers and include a return on investment. Regulatory commission-approved tracking mechanisms are included in these rates and are also used to recover, on a fully-reconciling basis, certain costs, such as the procurement of energy supply, retail transmission charges, energy efficiency program costs, net metering for distributed generation, and restructuring and stranded costs. These tracking mechanisms result in rates being changed periodically to ensure recovery of actual costs incurred.

Customers may elect to purchase electricity from each Eversource electric utility or may contract separately with a competitive third party supplier. Revenue is not recorded for the sale of the electricity commodity to customers who have contracted separately with these suppliers, only the delivery to a customer, as the utility is acting as an agent on behalf of the third party supplier.

*Wholesale Transmission Revenues:* The Eversource electric transmission-owning companies (CL&P, NSTAR Electric and PSNH) each own and maintain transmission facilities that are part of an interstate power transmission grid over which electricity is transmitted throughout New England. CL&P, NSTAR Electric and PSNH, as well as most other New England utilities, are parties to a series of agreements that provide for coordinated planning and operation of the region's transmission facilities and the rules by which they acquire transmission services. The Eversource electric transmission-owning companies have a combination of FERC-approved regional and local formula rates that work in tandem to recover all their transmission costs. These rates are part of the ISO-NE Tariff. Regional rates recover the costs of higher voltage transmission facilities that benefit the region and are collected from all New England transmission customers, including the Eversource distribution businesses. Eversource's local rates recover the companies' total transmission revenue requirements, less revenues received from regional rates and other sources, and are collected from Eversource's distribution businesses and other transmission customers. The distribution businesses of Eversource, in turn, recover the FERC approved charges from retail customers through annual or semiannual tracking mechanisms, which are retail tariff sales.

The utility's performance obligation for regulated wholesale transmission sales is to provide transmission services to the customer as demanded. The promise to provide transmission service represents a single performance obligation. The transaction prices are the transmission rate formulas as defined by the ISO-NE Tariff and are regulated and established by FERC. Wholesale transmission revenue is recognized over time as the performance obligation is completed, which occurs as transmission services are provided to customers. The revenue is recognized based on the output method. Each Eversource utility is entitled to be compensated for performance completed to date (e.g., use of the transmission system by the customer).

*Wholesale Market Sales Revenues:* Wholesale market sales transactions include sales of energy and energy-related products into the ISO-NE wholesale electricity market, sales of natural gas to third party marketers, and also the sale of RECs to various counterparties. ISO-NE oversees the region's wholesale electricity market and administers the transactions and terms and conditions, including payment terms, which are established in the ISO-NE tariff, between the buyers and sellers in the market. Pricing is set by the wholesale market. The wholesale transactions in the ISO-NE market occur on a day-ahead basis or a real-time basis (daily) and are, therefore, short-term. Transactions are tracked and reported by ISO-NE net by the hour, which is the net hourly position of energy sales and purchases by each market participant. Beginning in the first quarter of 2018, the performance obligation for ISO-NE energy transactions is defined to be the net by hour transaction. Revenue is recognized when the performance obligation for these energy sales transactions is satisfied, when the sale occurs and the energy is transferred to the customer. For sales of natural gas, transportation, and natural gas pipeline capacity to third party marketers, revenue is recognized when the performance obligation is satisfied at the point in time the sale occurs and the natural gas or related product is transferred to the marketer. RECs are sold to various counterparties, and revenue is recognized when the performance obligation is satisfied upon transfer of title to the customer through the New England Power Pool Generation Information System.

*Other Revenues from Contracts with Customers:* Other revenues from contracts with customers primarily include property rentals that are not deemed leases. These revenues are generally recognized on a straight-line basis over time as the service is provided to the customer. Other revenues also include revenues from Eversource's service company, which is eliminated in consolidation.

*Reserve for Revenues Subject to Refund:* Current base rates include an estimate of income taxes, which was based on the U.S. federal corporate income tax rate in effect at the time of the rate proceeding. Eversource established a regulatory liability, recorded as a reduction to revenue, to reflect the difference between the 35 percent federal corporate income tax rate included in rates charged to customers and the 21 percent federal corporate income tax rate, effective January 1, 2018 as a result of the Tax Cuts and Jobs Act, until rates billed to customers reflect the lower federal tax rate. Effective May 1, 2018, CL&P adjusted distribution rates billed to customers to reflect the lower federal income tax rate prospectively and, as of December 31, 2018, fully refunded its regulatory liability associated with the higher federal corporate income tax rate billed to customers in the period between January 1, 2018 through April 30, 2018. Effective November 15, 2018, Yankee Gas adjusted distribution rates to reflect the lower federal income tax rate prospectively and to refund its regulatory liability associated with the higher federal corporate income tax rate billed to customers in the period between January 1, 2018 through November 14, 2018. Effective July 1, 2019, PSNH adjusted temporary distribution rates to reflect the lower federal income tax rate prospectively and to refund its regulatory liability associated with the higher federal corporate income tax rate billed to customers in the period between January 1, 2018 through June 30, 2019. For NSTAR Electric and NSTAR Gas, a December 2018 DPU order indicated that the DPU would not require a revision to base distribution rates for any potential refunds associated with the higher federal corporate income tax rate billed to customers in the period between January 1, 2018 to the effective dates of each company's rate changes (effective February 1, 2018 for NSTAR Electric and July 1, 2018 for NSTAR Gas).

*Alternative Revenue Programs:* In accordance with accounting guidance for rate-regulated operations, certain of Eversource's utilities' rate making mechanisms qualify as alternative revenue programs (ARPs) if they meet specified criteria, in which case revenues may be recognized prior to billing based on allowed levels of collection in rates. Eversource's utility companies recognize revenue and record a regulatory asset or liability once the condition or event allowing for the automatic adjustment of future rates occurs. ARP revenues include both the recognition of the deferral adjustment to ARP revenues, when the regulator-specified condition or event allowing for additional billing or refund has occurred, and an equal and offsetting reversal of the ARP deferral to revenues as those amounts are reflected in the price of service in subsequent periods.

Eversource's ARPs include the revenue decoupling mechanism and the annual reconciliation adjustment to transmission formula rates, described below.

- Certain Eversource electric, natural gas and water companies, including CL&P and NSTAR Electric, have revenue decoupling mechanisms approved by a regulatory commission (decoupled companies). Decoupled companies' distribution revenues are not directly based on sales volumes. The decoupled companies reconcile their annual base distribution rate recovery to pre-established levels of baseline distribution delivery service revenues, with any difference between the allowed level of distribution revenue and the actual amount realized adjusted through subsequent rates.
- The transmission formula rates provide for the annual reconciliation and recovery or refund of estimated costs to actual costs. The financial impacts of differences between actual and estimated costs are deferred for future recovery from, or refund to, transmission

customers. This transmission deferral reconciles billed transmission revenues to the revenue requirement for our transmission businesses.

*Other Revenues:* Other Revenues include certain fees charged to customers that are not considered revenue from contracts with customers and lease revenues under lessor accounting guidance. Lease revenues totaled \$4.4 million at Eversource, \$1.0 million at CL&P, and \$2.7 million at NSTAR Electric for the year ended December 31, 2019.

*Intercompany Eliminations:* Intercompany eliminations are primarily related to the Eversource electric transmission revenues that are derived from ISO-NE regional transmission charges to the distribution businesses of CL&P, NSTAR Electric and PSNH that recover the costs of the wholesale transmission business, and revenues from Eversource's service company. Intercompany revenues and expenses between the Eversource wholesale transmission businesses and the Eversource distribution businesses and from Eversource's service company are eliminated in consolidation and included in "Eliminations" in the table above.

*Receivables:* Receivables, Net on the balance sheet include trade receivables from our retail customers and receivables arising from ISO-NE billing related to wholesale transmission contracts and wholesale market transactions, sales of natural gas and capacity to marketers, sales of RECs, and property rentals. In general, retail tariff customers and wholesale transmission customers are billed monthly and the payment terms are generally due and payable upon receipt of the bill.

*Unbilled Revenues:* Unbilled Revenues on the balance sheet represent estimated amounts due from retail customers for electricity, natural gas or water delivered to customers but not yet billed. The utility company has satisfied its performance obligation and the customer has received and consumed the commodity as of the balance sheet date, and therefore, the utility company records revenue for those services in the period the services were provided. Only the passage of time is required before the company is entitled to payment for the satisfaction of the performance obligation. Payment from customers is due monthly as services are rendered and amounts are billed. Actual amounts billed to customers when meter readings become available may vary from the estimated amount.

Unbilled revenues are recognized by allocating estimated unbilled sales volumes to the respective customer classes, and then applying an estimated rate by customer class to those sales volumes. Unbilled revenue estimates reflect seasonality, weather, customer usage patterns, customer rates in effect for customer classes, and the timing of customer billing. The companies that have a decoupling mechanism record a regulatory deferral to reflect the actual allowed amount of revenue associated with their respective decoupled distribution rate design.

*Practical Expedients:* Eversource has elected practical expedients in the accounting guidance that allow the company to record revenue in the amount that the company has a right to invoice, if that amount corresponds directly with the value to the customer of the company's performance to date, and not to disclose related unsatisfied performance obligations. Retail and wholesale transmission tariff sales fall into this category, as these sales are recognized as revenue in the period the utility provides the service and completes the performance obligation, which is the same as the monthly amount billed to customers. There are no other material revenue streams for which Eversource has unsatisfied performance obligations.

## **24. SEGMENT INFORMATION**

Eversource is organized into the Electric Distribution, Electric Transmission, Natural Gas Distribution and Water Distribution reportable segments and Other based on a combination of factors, including the characteristics of each segments' services, the sources of operating revenues and expenses and the regulatory environment in which each segment operates. These reportable segments represent substantially all of Eversource's total consolidated revenues. Revenues from the sale of electricity, natural gas and water primarily are derived from residential, commercial and industrial customers and are not dependent on any single customer. The Electric Distribution reportable segment includes the results of PSNH's generation facilities prior to sales in January and August 2018, and NSTAR Electric's solar power facilities. On December 4, 2017, Eversource acquired Aquarion, and its water distribution business was deemed a reportable segment beginning in 2018. Eversource's reportable segments are determined based upon the level at which Eversource's chief operating decision maker assesses performance and makes decisions about the allocation of company resources.

The remainder of Eversource's operations is presented as Other in the tables below and primarily consists of 1) the equity in earnings of Eversource parent from its subsidiaries and intercompany interest income, both of which are eliminated in consolidation, and interest expense related to the debt of Eversource parent, 2) the revenues and expenses of Eversource Service, most of which are eliminated in consolidation, 3) the operations of CYAPC and YAEC, 4) Eversource Water Ventures, Inc., parent company of Aquarion, 5) the results of other unregulated subsidiaries, which are not part of its core business, and 6) Eversource parent's equity ownership interests that are not consolidated, which primarily include the offshore wind business, a natural gas pipeline owned by Enbridge, Inc., and a renewable energy investment fund.

In the ordinary course of business, Yankee Gas and NSTAR Gas purchase natural gas transmission services from the Enbridge, Inc. natural gas pipeline project described above. These affiliate transaction costs total \$62.5 million annually and are classified as Purchased Power, Fuel and Transmission on the Eversource statements of income.

Each of Eversource's subsidiaries, including CL&P, NSTAR Electric and PSNH, has one reportable segment.

Cash flows used for investments in plant included in the segment information below are cash capital expenditures that do not include amounts incurred but not paid, cost of removal, AFUDC related to equity funds, and the capitalized portions of pension and PBOP expense.

Eversource's segment information is as follows:

For the Year Ended December 31, 2019

<b>Eversource</b> <i>(Millions of Dollars)</i>	<b>Electric Distribution</b>	<b>Natural Gas Distribution</b>	<b>Electric Transmission</b>	<b>Water Distribution</b>	<b>Other</b>	<b>Eliminations</b>	<b>Total</b>
Operating Revenues	\$ 6,976.5	\$ 1,062.2	\$ 1,389.0	\$ 214.6	\$ 1,028.5	\$ (2,144.3)	\$ 8,526.5
Depreciation and Amortization	(651.3)	(68.3)	(253.3)	(46.9)	(63.2)	2.3	(1,080.7)
Impairment of Northern Pass Transmission	—	—	(239.6)	—	—	—	(239.6)
Other Operating Expenses	(5,525.1)	(830.8)	(411.2)	(101.0)	(891.3)	2,143.7	(5,615.7)
Operating Income	800.1	163.1	484.9	66.7	74.0	1.7	1,590.5
Interest Expense	(206.4)	(47.4)	(125.7)	(34.6)	(170.3)	51.2	(533.2)
Interest Income	13.3	0.1	1.5	—	48.7	(50.8)	12.8
Other Income, Net	46.8	1.6	29.2	0.4	1,041.5	(999.5)	120.0
Income Tax (Expense)/Benefit	(135.9)	(21.2)	(130.5)	2.4	11.7	—	(273.5)
Net Income	517.9	96.2	259.4	34.9	1,005.6	(997.4)	916.6
Net Income Attributable to Noncontrolling Interests	(4.6)	—	(2.9)	—	—	—	(7.5)
Net Income Attributable to Common Shareholders	\$ 513.3	\$ 96.2	\$ 256.5	\$ 34.9	\$ 1,005.6	\$ (997.4)	\$ 909.1
Total Assets (as of)	\$ 22,541.9	\$ 4,345.5	\$ 10,904.0	\$ 2,351.7	\$ 20,469.6	\$ (19,488.8)	\$ 41,123.9
Cash Flows Used for Investments in Plant	\$ 1,104.2	\$ 460.2	\$ 987.0	\$ 118.0	\$ 242.1	\$ —	\$ 2,911.5

For the Year Ended December 31, 2018

<b>Eversource</b> <i>(Millions of Dollars)</i>	<b>Electric Distribution</b>	<b>Natural Gas Distribution</b>	<b>Electric Transmission</b>	<b>Water Distribution</b>	<b>Other</b>	<b>Eliminations</b>	<b>Total</b>
Operating Revenues <sup>(1)</sup>	\$ 6,957.2	\$ 1,022.2	\$ 1,286.3	\$ 212.0	\$ 936.3	\$ (1,965.8)	\$ 8,448.2
Depreciation and Amortization	(671.8)	(75.0)	(231.8)	(46.5)	(49.1)	2.2	(1,072.0)
Other Operating Expenses <sup>(1)</sup>	(5,548.6)	(787.6)	(375.5)	(99.8)	(831.5)	1,966.7	(5,676.3)
Operating Income	736.8	159.6	679.0	65.7	55.7	3.1	1,699.9
Interest Expense	(202.8)	(44.1)	(120.6)	(34.3)	(129.3)	32.3	(498.8)
Interest Income	18.7	—	2.4	—	30.3	(33.3)	18.1
Other Income/(Loss), Net	67.5	7.1	31.1	(0.4)	1,185.3	(1,180.3)	110.3
Income Tax (Expense)/Benefit	(160.2)	(29.4)	(161.8)	(0.1)	62.5	—	(289.0)
Net Income	460.0	93.2	430.1	30.9	1,204.5	(1,178.2)	1,040.5
Net Income Attributable to Noncontrolling Interests	(4.6)	—	(2.9)	—	—	—	(7.5)
Net Income Attributable to Common Shareholders	\$ 455.4	\$ 93.2	\$ 427.2	\$ 30.9	\$ 1,204.5	\$ (1,178.2)	\$ 1,033.0
Total Assets (as of)	\$ 21,389.1	\$ 3,904.9	\$ 10,285.0	\$ 2,253.0	\$ 17,874.2	\$ (17,464.9)	\$ 38,241.3
Cash Flows Used for Investments in Plant <sup>(2)</sup>	\$ 961.3	\$ 351.5	\$ 976.2	\$ 102.3	\$ 178.6	\$ —	\$ 2,569.9

For the Year Ended December 31, 2017

<b>Eversource</b> <i>(Millions of Dollars)</i>	<b>Electric Distribution</b>	<b>Natural Gas Distribution</b>	<b>Electric Transmission</b>	<b>Water Distribution</b>	<b>Other</b>	<b>Eliminations</b>	<b>Total</b>
Operating Revenues <sup>(1)</sup>	\$ 5,542.9	\$ 947.3	\$ 1,301.7	\$ 15.9	\$ 931.0	\$ (986.8)	\$ 7,752.0
Depreciation and Amortization	(542.6)	(72.9)	(209.4)	(3.7)	(37.4)	2.2	(863.8)
Other Operating Expenses <sup>(1)</sup>	(4,072.6)	(716.4)	(382.8)	(8.3)	(806.6)	986.7	(5,000.0)
Operating Income	927.7	158.0	709.5	3.9	87.0	2.1	1,888.2
Interest Expense	(186.3)	(43.1)	(115.1)	(3.1)	(90.0)	15.8	(421.8)
Interest Income	7.3	0.1	1.8	0.1	15.7	(16.7)	8.3
Other Income, Net	41.6	3.8	27.3	—	1,113.0	(1,086.0)	99.7
Income Tax Expense	(288.3)	(44.2)	(228.7)	(2.1)	(15.5)	(0.1)	(578.9)
Net Income/(Loss)	502.0	74.6	394.8	(1.2)	1,110.2	(1,084.9)	995.5
Net Income Attributable to Noncontrolling Interests	(4.6)	—	(2.9)	—	—	—	(7.5)
Net Income/(Loss) Attributable to Common Shareholders	\$ 497.4	\$ 74.6	\$ 391.9	\$ (1.2)	\$ 1,110.2	\$ (1,084.9)	\$ 988.0
Cash Flows Used for Investments in Plant	\$ 1,020.7	\$ 298.2	\$ 867.6	\$ 16.0	\$ 145.6	\$ —	\$ 2,348.1

- (1) Effective January 1, 2018, upon implementation of the new revenue accounting guidance, the electric distribution segment is presented gross and intercompany transmission billings are presented in the eliminations column, as Eversource believes that the electric distribution segment acts as a principal, rather than an agent, in its contracts with retail customers. Retail customers contract directly with the electric distribution utility and do not differentiate between distribution and transmission services. Therefore, the electric distribution segment revenues, which are derived from retail customer billings, are presented gross of the eliminations. Prior to 2018, the electric distribution segment presented intercompany electric transmission billings net, based on indicators of net presentation prior to the new revenue guidance. See Note 23 "Revenues," to the financial statements regarding accounting for revenues.
- (2) See Note 1B, "Summary of Significant Accounting Policies - Basis of Presentation," for information regarding the correction of cash investments in plant reported in 2018.

## 25. ACQUISITION OF AQUARION AND GOODWILL

### A. Acquisition of Aquarion

On December 4, 2017, Eversource acquired Aquarion for a purchase price of \$1.675 billion, consisting of approximately \$880 million in cash and \$795 million of assumed Aquarion debt. Aquarion is a holding company that owns three separate regulated water utility subsidiaries engaged in the water collection, treatment and distribution business that operate in Connecticut, Massachusetts and New Hampshire. These regulated utilities collect, treat and distribute water to residential, commercial and industrial customers, to other utilities for resale, and for private and municipal fire protection. Aquarion and its subsidiaries became wholly-owned subsidiaries of Eversource, and Eversource's consolidated financial information includes Aquarion and its subsidiaries' activity beginning December 4, 2017. The approximate \$880 million cash purchase price included the \$745 million equity purchase price plus a \$135 million shareholder loan that was repaid at closing.

*Pro Forma Financial Information:* The following unaudited pro forma financial information reflects the pro forma combined results of operations of Eversource and Aquarion and reflects the amortization of purchase price adjustments assuming the acquisition had taken place on January 1, 2017. The unaudited pro forma financial information has been presented for illustrative purposes only and is not necessarily indicative of the consolidated results of operations that would have been achieved or the future consolidated results of operations of Eversource.

<i>(Pro forma amounts in millions, except share amounts)</i>	<b>For the Year Ended December 31, 2017</b>	
Operating Revenues	\$	7,947.7
Net Income Attributable to Common Shareholders		1,019.1
Basic EPS		3.21
Diluted EPS		3.20

*Aquarion Revenues and Pre-Tax Income:* The impact of Aquarion on Eversource's accompanying consolidated statement of income included operating revenues of \$15.9 million and pre-tax income of \$1.1 million for the year ended December 31, 2017.

### B. Goodwill

In a business combination, the excess of the purchase price over the estimated fair values of the assets acquired and liabilities assumed is recognized as goodwill. Goodwill is evaluated for impairment at least annually and more frequently if indicators of impairment arise. In accordance with the accounting standards, if the fair value of a reporting unit is less than its carrying value (including goodwill), the goodwill is tested for impairment. Goodwill is not subject to amortization, however is subject to a fair value based assessment for impairment at least annually and whenever facts or circumstances indicate that there may be an impairment. A resulting write-down, if any, would be charged to Operating Expenses.

Eversource's reporting units for the purpose of testing goodwill are Electric Distribution, Electric Transmission, Natural Gas Distribution and Water Distribution. These reporting units are consistent with the operating segments underlying the reportable segments identified in Note 24, "Segment Information," to the financial statements.

Eversource completed its annual goodwill impairment test for Electric Distribution, Electric Transmission, Natural Gas Distribution and Water Distribution reporting units as of October 1, 2019 and determined that no impairment existed. There were no events subsequent to October 1, 2019 that indicated impairment of goodwill. The annual goodwill assessment included an evaluation of the Company's share price and credit ratings, analyst reports, financial performance, cost and risk factors, long-term strategy, growth and future projections, as well as macroeconomic, industry and market conditions. This evaluation required the consideration of several factors that impact the fair value of the reporting units, including conditions and assumptions that affect the future cash flows of the reporting units. Key considerations include discount rates, utility sector market performance and merger transaction multiples, and internal estimates of future cash flows and net income.

The following table presents goodwill by reportable segment as of December 31, 2019 and 2018:

<i>(Billions of Dollars)</i>	<b>Electric Distribution</b>		<b>Electric Transmission</b>		<b>Natural Gas Distribution</b>		<b>Water Distribution</b>		<b>Total</b>	
Goodwill	\$	2.5	\$	0.6	\$	0.4	\$	0.9	\$	4.4

## 26. QUARTERLY FINANCIAL DATA (UNAUDITED)

Eversource (Millions of Dollars, except per share information)	Quarter Ended							
	2019				2018			
	March 31,	June 30, <sup>(2)</sup>	September 30,	December 31,	March 31,	June 30,	September 30,	December 31,
Operating Revenues	\$ 2,415.8	\$ 1,884.5	\$ 2,175.8	\$ 2,050.4	\$ 2,288.0	\$ 1,853.9	\$ 2,271.4	\$ 2,034.9
Operating Income	494.7	151.0	509.2	435.6	442.5	391.4	466.0	400.0
Net Income	310.6	33.3	320.8	251.9	271.4	244.6	291.3	233.2
Net Income Attributable to Common Shareholders	308.7	31.5	318.9	250.0	269.5	242.8	289.4	231.3
Basic EPS <sup>(1)</sup>	\$ 0.97	\$ 0.10	\$ 0.98	\$ 0.77	\$ 0.85	\$ 0.76	\$ 0.91	\$ 0.73
Diluted EPS <sup>(1)</sup>	\$ 0.97	\$ 0.10	\$ 0.98	\$ 0.76	\$ 0.85	\$ 0.76	\$ 0.91	\$ 0.73

<sup>(1)</sup> The summation of quarterly EPS data may not equal annual data due to rounding.

<sup>(2)</sup> In the second quarter of 2019, Eversource recorded an impairment charge related to NPT of \$239.6 million within Operating Income on the statement of income. For further information, see Note 1D, "Summary of Significant Accounting Policies - Impairment of Northern Pass Transmission," to the financial statements.

(Millions of Dollars)	Quarter Ended							
	2019				2018			
	March 31,	June 30,	September 30,	December 31,	March 31,	June 30,	September 30,	December 31,
<b>CL&amp;P</b>								
Operating Revenues	\$ 849.2	\$ 740.8	\$ 853.9	\$ 788.7	\$ 785.0	\$ 694.9	\$ 865.0	\$ 751.3
Operating Income	171.8	166.8	190.3	152.7	157.2	163.1	172.7	142.8
Net Income	110.5	104.8	111.7	83.9	98.6	99.7	100.3	79.1
<b>NSTAR Electric</b>								
Operating Revenues	\$ 797.6	\$ 681.9	\$ 878.7	\$ 686.4	\$ 770.1	\$ 690.7	\$ 939.5	\$ 712.6
Operating Income	137.8	134.2	219.4	135.5	119.0	133.6	205.5	126.0
Net Income	94.0	89.7	154.9	93.4	77.1	87.9	140.6	77.5
<b>PSNH</b>								
Operating Revenues	\$ 276.4	\$ 240.9	\$ 280.4	\$ 268.2	\$ 267.4	\$ 235.1	\$ 290.2	\$ 254.9
Operating Income	49.7	46.3	64.5	56.0	55.8	46.9	56.5	37.2
Net Income	32.8	26.9	40.9	33.4	35.1	25.8	40.7	14.3

### Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

No events that would be described in response to this item have occurred with respect to Eversource, CL&P, NSTAR Electric or PSNH.

#### Item 9A. Controls and Procedures

Management, on behalf of Eversource, CL&P, NSTAR Electric and PSNH, is responsible for the preparation, integrity, and fair presentation of the accompanying Financial Statements and other sections of this combined Annual Report on Form 10-K. Eversource's internal controls over financial reporting were audited by Deloitte & Touche LLP.

Management, on behalf of Eversource, CL&P, NSTAR Electric and PSNH, is responsible for establishing and maintaining adequate internal controls over financial reporting. The internal control framework and processes have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. There are inherent limitations of internal controls over financial reporting that could allow material misstatements due to error or fraud to occur and not be prevented or detected on a timely basis by employees during the normal course of business. Additionally, internal controls over financial reporting may become inadequate in the future due to changes in the business environment. Under the supervision and with the participation of the principal executive officer and principal financial officer, an evaluation of the effectiveness of internal controls over financial reporting was conducted based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation under the framework in COSO, management concluded that internal controls over financial reporting at Eversource, CL&P, NSTAR Electric and PSNH were effective as of December 31, 2019.

Management, on behalf of Eversource, CL&P, NSTAR Electric and PSNH, evaluated the design and operation of the disclosure controls and procedures as of December 31, 2019 to determine whether they are effective in ensuring that the disclosure of required information is made timely and in accordance with the Securities Exchange Act of 1934 and the rules and regulations of the SEC. This evaluation was made under management's supervision and with management's participation, including the principal executive officer and principal financial officer as of the end of the period covered by this Annual Report on Form 10-K. There are inherent limitations of disclosure controls and procedures, including the possibility of human error and the circumventing or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. The principal executive officer and principal financial

officer have concluded, based on their review, that the disclosure controls and procedures of Eversource, CL&P, NSTAR Electric and PSNH are effective to ensure that information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 (i) is recorded, processed, summarized, and reported within the time periods specified in SEC rules and regulations and (ii) is accumulated and communicated to management, including the principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

There have been no changes in internal controls over financial reporting for Eversource, CL&P, NSTAR Electric and PSNH during the quarter ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, internal controls over financial reporting.

## Item 9B. Other Information

No information is required to be disclosed under this item as of December 31, 2019, as this information has been previously disclosed in applicable reports on Form 8-K during the fourth quarter of 2019.

## PART III

### Item 10. Directors, Executive Officers and Corporate Governance

The information in Item 10 is provided as of February 26, 2020, except where otherwise indicated.

Certain information required by this Item 10 is omitted for NSTAR Electric and PSNH pursuant to Instruction I(2)(c) to Form 10-K, Omission of Information by Certain Wholly Owned Subsidiaries.

#### Eversource Energy

In addition to the information provided below concerning the executive officers of Eversource Energy, incorporated herein by reference is the information to be contained in the sections captioned “Election of Trustees,” “Governance of Eversource Energy” and the related subsections, “Selection of Trustees,” and “Delinquent Section 16(a) Reports” of Eversource Energy’s definitive proxy statement for solicitation of proxies, expected to be filed with the SEC on or about March 26, 2020.

Set forth below is certain information concerning Eversource Energy’s executive officers:

Name	Age	Title
James J. Judge	64	Chairman of the Board, President and Chief Executive Officer and a Trustee of Eversource Energy; Chairman and director of CL&P
Philip J. Lembo	64	Executive Vice President and Chief Financial Officer of Eversource Energy and CL&P; director of CL&P
Gregory B. Butler	62	Executive Vice President and General Counsel of Eversource Energy and CL&P; director of CL&P
Christine M. Carmody	57	Executive Vice President-Human Resources and Information Technology of Eversource Energy
Joseph R. Nolan, Jr.	56	Executive Vice President-Strategy, Customer and Corporate Relations of Eversource Energy
Werner J. Schweiger	60	Executive Vice President and Chief Operating Officer of Eversource Energy; Chief Executive Officer and director of CL&P
Jay S. Buth	50	Vice President, Controller and Chief Accounting Officer of Eversource Energy and CL&P

*James J. Judge.* Mr. Judge has served as Chairman of the Board, President and Chief Executive Officer of Eversource Energy since May 3, 2017. Previously, Mr. Judge served as President and Chief Executive Officer, and a Trustee, of Eversource Energy from May 4, 2016 until May 3, 2017, and as Executive Vice President and Chief Financial Officer of Eversource Energy from April 10, 2012 until May 4, 2016. Mr. Judge has served as Chairman of CL&P since May 4, 2016, and as a director of CL&P since April 10, 2012. Based on his experience described above, Mr. Judge has the skills and qualifications necessary to serve as a director of CL&P.

*Philip J. Lembo.* Mr. Lembo has served as Chief Financial Officer of Eversource Energy and CL&P since May 4, 2016. He previously served as Treasurer of Eversource Energy from April 10, 2012 until May 3, 2017, and as Treasurer of CL&P from April 10, 2012 until March 31, 2017. Mr. Lembo has served as Executive Vice President of Eversource Energy and CL&P since August 8, 2016. Previously, he served as Senior Vice President of Eversource Energy and CL&P from May 4, 2016 until August 8, 2016, and as Vice President of Eversource Energy and CL&P from April 10, 2012 until May 4, 2016. Mr. Lembo has served as a director of CL&P since May 4, 2016. Based on his experience described above, Mr. Lembo has the skills and qualifications necessary to serve as a director of CL&P.

*Gregory B. Butler.* Mr. Butler has served as General Counsel of Eversource Energy since May 1, 2001, and of CL&P since March 9, 2006. He has served as Executive Vice President of Eversource Energy and CL&P since August 8, 2016. Previously, Mr. Butler served as Senior Vice President of Eversource Energy from December 1, 2005 to August 8, 2016, and of CL&P from March 9, 2006 until August 8, 2016. He has served as a director of CL&P since April 22, 2009. Based on his experience described above, Mr. Butler has the skills and qualifications necessary to serve as a director of CL&P.

*Christine M. Carmody.* Ms. Carmody has served as Executive Vice President-Human Resources and Information Technology of Eversource Energy since August 8, 2016. Previously Ms. Carmody served as Senior Vice President-Human Resources of Eversource Energy from May 4, 2016 until August 8, 2016; and of Eversource Service from April 10, 2012 until August 8, 2016.

*Joseph R. Nolan, Jr.* Mr. Nolan has served as Executive Vice President-Strategy, Customer and Corporate Relations of Eversource Energy since February 5, 2020. Previously Mr. Nolan served as Executive Vice President-Customer and Corporate Relations of Eversource Energy from August 8, 2016 to February 5, 2020. He served as Senior Vice President-Corporate Relations of Eversource Energy from May 4, 2016 until August 8, 2016, and of Eversource Service from April 10, 2012 until August 8, 2016.

*Werner J. Schweiger.* Mr. Schweiger has served as Executive Vice President and Chief Operating Officer of Eversource Energy since September 2, 2014, and as Chief Executive Officer of CL&P since August 11, 2014. Mr. Schweiger has served as a director of CL&P since May 28, 2013. He previously served as President of CL&P from June 2, 2015 until June 27, 2016. Based on his experience described above, Mr. Schweiger has the skills and qualifications necessary to serve as a director of CL&P.

*Jay S. Buth.* Mr. Buth has served as Vice President, Controller and Chief Accounting Officer of Eversource Energy and CL&P since April 10, 2012.

There are no family relationships between any director or executive officer and any other trustee, director or executive officer of Eversource Energy or CL&P and none of the above executive officers or directors serves as an executive officer or director pursuant to any agreement or understanding with any other person. Our executive officers hold the offices set forth opposite their names until the next annual meeting of the Board of Trustees, in the case of Eversource Energy, and the Board of Directors, in the case of CL&P, and until their successors have been elected and qualified.

## **CL&P**

**The information required by this Item 10 for CL&P has been omitted from this report but is set forth in the Annual Report on Form 10-K for 2019 filed with the SEC on a combined basis with Eversource Energy on February 27, 2020. Such report is also available in the Investors section at [www.eversource.com](http://www.eversource.com).**

## **Item 11. Executive Compensation**

### **Eversource Energy**

The information required by this Item 11 for Eversource Energy is incorporated herein by reference to certain information contained in Eversource Energy's definitive proxy statement for solicitation of proxies, which is expected to be filed with the SEC on or about March 26, 2020, under the sections captioned "Compensation Discussion and Analysis," plus related subsections, and "Compensation Committee Report," plus related subsections following such Report.

### **NSTAR ELECTRIC and PSNH**

Certain information required by this Item 11 has been omitted for NSTAR Electric and PSNH pursuant to Instruction I(2)(c) to Form 10-K, Omission of Information by Certain Wholly-Owned Subsidiaries.

## **CL&P**

**The information required by this Item 11 for CL&P has been omitted from this report but is set forth in the Annual Report on Form 10-K for 2019 filed with the SEC on a combined basis with Eversource Energy on February 27, 2020. Such report is also available in the Investors section at [www.eversource.com](http://www.eversource.com).**

## **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

### **Eversource Energy**

In addition to the information below under "Securities Authorized for Issuance Under Equity Compensation Plans," incorporated herein by reference is the information contained in the sections "Common Share Ownership of Certain Beneficial Owners" and "Common Share Ownership of Trustees and Management" of Eversource Energy's definitive proxy statement for solicitation of proxies, expected to be filed with the SEC on or about March 26, 2020.

### **NSTAR ELECTRIC and PSNH**

Certain information required by this Item 12 has been omitted for NSTAR Electric and PSNH pursuant to Instruction I(2)(c) to Form 10-K, Omission of Information by Certain Wholly-Owned Subsidiaries.

## **CL&P**

**The information required by this Item 12 for CL&P has been omitted from this report but is set forth in the Annual Report on Form 10-K for 2019 filed with the SEC on a combined basis with Eversource Energy on February 27, 2020. Such report is also available in the Investors section at [www.eversource.com](http://www.eversource.com).**

## SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table sets forth the number of Eversource Energy common shares issuable under Eversource Energy equity compensation plans, as well as their weighted exercise price, as of December 31, 2019, in accordance with the rules of the SEC:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights <sup>(1)</sup>	Weighted-average exercise price of outstanding options, warrants and rights <sup>(2)</sup>	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column <sup>(1)</sup> )
Equity compensation plans approved by security holders	1,261,070	\$—	3,302,526
Equity compensation plans not approved by security holders <sup>(3)</sup>	—	—	—
Total	1,261,070	\$—	3,302,526

(1) Includes 774,163 common shares for distribution in respect of restricted share units, and 486,907 performance shares issuable at target, all pursuant to the terms of our Incentive Plan.

(2) The weighted-average exercise price does not take into account restricted share units or performance shares, which have no exercise price.

(3) Securities set forth in this table are authorized for issuance under compensation plans that have been approved by shareholders of Eversource Energy or the former shareholders of NSTAR.

### Item 13. Certain Relationships and Related Transactions, and Director Independence

#### Eversource Energy

Incorporated herein by reference is the information contained in the sections captioned "Trustee Independence" and "Related Person Transactions" of Eversource Energy's definitive proxy statement for solicitation of proxies, expected to be filed with the SEC on or about March 26, 2020.

#### NSTAR ELECTRIC and PSNH

Certain information required by this Item 13 has been omitted for NSTAR Electric and PSNH pursuant to Instruction I(2)(c) to Form 10-K, Omission of Information by Certain Wholly-Owned Subsidiaries.

#### CL&P

The information required by this Item 13 for CL&P has been omitted from this report but is set forth in the Annual Report on Form 10-K for 2019 filed with the SEC on a combined basis with Eversource Energy on February 27, 2020. Such report is also available in the Investors section at [www.eversource.com](http://www.eversource.com).

### Item 14. Principal Accountant Fees and Services

#### Eversource Energy

Incorporated herein by reference is the information contained in the section "Relationship with Independent Auditors" of Eversource Energy's definitive proxy statement for solicitation of proxies, expected to be filed with the SEC on or about March 26, 2020.

#### CL&P, NSTAR ELECTRIC and PSNH

The information required by this Item 14 for CL&P, NSTAR Electric and PSNH has been omitted from this report but is set forth in the Annual Report on Form 10-K for 2019 filed with the SEC on a combined basis with Eversource Energy on February 27, 2020. Such report is also available in the Investors section at [www.eversource.com](http://www.eversource.com).

## PART IV

### Item 15. Exhibits and Financial Statement Schedules

(a) 1. Financial Statements:

The financial statements filed as part of this Annual Report on Form 10-K are set forth under Item 8, "Financial Statements and Supplementary Data."

2. Schedules

I. Financial Information of Registrant:

Eversource Energy (Parent) Balance Sheets as of December 31, 2019 and 2018 \*

Eversource Energy (Parent) Statements of Income for the Years Ended  
December 31, 2019, 2018 and 2017 \*

Eversource Energy (Parent) Statements of Comprehensive Income for the Years Ended  
December 31, 2019, 2018 and 2017 \*

Eversource Energy (Parent) Statements of Cash Flows for the Years Ended  
December 31, 2019, 2018 and 2017 \*

II. Valuation and Qualifying Accounts and Reserves for Eversource, CL&P, NSTAR Electric and PSNH  
for 2019, 2018 and 2017 \*

All other schedules of the companies for which inclusion is required in the applicable regulations of the SEC are permitted to be omitted under the related instructions or are not applicable, and therefore have been omitted.

3. Exhibit Index E-1

\* **The schedules have been omitted from this report because they are not required. They are set forth in the Annual Report on Form 10-K for 2019 filed with the SEC on a combined basis with Eversource Energy on February 27, 2020. Such report is also available in the Investors section at [www.eversource.com](http://www.eversource.com).**

### Item 16. Form 10-K Summary

Not applicable.

## EXHIBIT INDEX

Each document described below is incorporated by reference by the registrant(s) listed to the files identified, unless designated with a (\*), which exhibits are filed herewith. Management contracts and compensation plans or arrangements are designated with a (+).

**The portion of the Exhibit Index listing exhibits of CL&P, NSTAR Electric and PSNH has been omitted from this report but is set forth in the Annual Report on Form 10-K for 2019 filed with the SEC on a combined basis with Eversource Energy on February 27, 2020. Such report is also available in the Investors section at [www.eversource.com](http://www.eversource.com).**

<u>Exhibit Number</u>	<u>Description</u>
3.	Articles of Incorporation and By-Laws
3.1	Declaration of Trust of Eversource Energy, as amended through May 3, 2017 (Exhibit 3.1, Eversource Form 10-Q filed on May 5, 2017)
4.	Instruments defining the rights of security holders, including indentures
4.1	Indenture between Eversource Energy and The Bank of New York as Trustee dated as of April 1, 2002 (Exhibit A-3, Eversource Energy 35-CERT filed April 16, 2002, File No. 070-09535)
4.1.1	Fifth Supplemental Indenture between Eversource Energy and The Bank of New York Trust Company N.A., as Trustee, dated as of May 1, 2013, relating to \$450 million of Senior Notes, Series F, due 2023 (Exhibit 4.1, Eversource Energy Current Report on Form 8-K filed May 16, 2013, File No. 001-05324)
4.1.2	Sixth Supplemental Indenture between Eversource Energy and The Bank of New York Trust Company N.A., as Trustee, dated as of January 1, 2015, relating to \$300 million of Senior Notes, Series H, due 2025 (Exhibit 4.1, Eversource Energy Current Report on Form 8-K filed January 21, 2015, File No. 001-05324)
4.1.3	Seventh Supplemental Indenture between Eversource Energy and The Bank of New York Trust Company N.A., as Trustee, dated as of March 7, 2016, relating to \$250 million of Senior Notes, Series I, due 2021 and \$250 million of Senior Notes, Series J, due 2026 (Exhibit 4.1, Eversource Energy Current Report on Form 8-K filed March 15, 2016, File No. 001-05324)
4.1.4	Eighth Supplemental Indenture between Eversource Energy and The Bank of New York Trust Company N.A., as Trustee, dated as of March 10, 2017, relating to \$300 million of Senior Notes, Series K, Due 2022 (Exhibit 4.1, Eversource Energy Current Report on Form 8-K filed March 16, 2017, File No. 001-05324)
4.1.5	Ninth Supplemental Indenture between Eversource Energy and The Bank of New York Trust Company N.A., as Trustee, dated as of October 1, 2017, relating to \$450 million of Senior Notes, Series K, due 2022 and \$450 million of Senior Notes, Series L, due 2024 (Exhibit 4.1, Eversource Energy Current Report on Form 8-K filed October 12, 2017, File No. 001-05324)
4.1.6	Tenth Supplemental Indenture between Eversource Energy and The Bank of New York Trust Company N.A., as Trustee, dated as of January 1, 2018, relating to \$200 million of Senior Notes, Series I, Due 2021 and \$450 million of Senior Notes, Series M, Due 2028 (Exhibit 4.1, Eversource Energy Current Report on Form 8-K filed January 12, 2018, File No. 001-05324)
4.1.7	Eleventh Supplemental Indenture between Eversource Energy and The Bank of New York Trust Company N.A., as Trustee, dated as of December 1, 2018, relating to \$400 million of Senior Notes, Series N, Due 2023 and \$500 million of Senior Notes, Series O, Due 2029 (Exhibit 4.1, Eversource Energy Current Report on Form 8-K filed December 18, 2018, File No. 001-05324)
4.2	Indenture dated as of January 12, 2000, between Eversource Energy, as successor to NSTAR LLC, as successor to NSTAR, and Bank One Trust Company N.A. (Exhibit 4.1 to NSTAR Registration Statement on Form S-3, filed January 14, 2000, on File No. 333-94735)
4.2.1	Form of 4.50% Debenture Due 2019 (Exhibit 99.2, NSTAR Form 8-K filed November 16, 2009, File No. 001-14768)
*4.3	Eversource Energy Description of Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934

- (F) Eversource Energy, The Connecticut Light and Power Company and Public Service Company of New Hampshire
- 4.1 Amended and Restated Credit Agreement, dated December 8, 2017, by and among Eversource Energy, CL&P, NSTAR Gas, PSNH and Yankee Gas Services Company and the Banks named therein, pursuant to which Bank of America, N.A. serves as Administrative Agent (Exhibit 4.1, 2017 Eversource Form 10-K filed on February 26, 2018)

10. Material Contracts

- 10.1 Lease between The Rocky River Realty Company and Eversource Energy Service Company, dated as of July 1, 2008 (Exhibit 10.1, 2017 Eversource Form 10-K filed on February 26, 2018)
- \*+10.2 Eversource Energy Board of Trustees' Compensation Arrangement Summary
- +10.3 Amended and Restated Memorandum Agreement between Eversource Energy and Leon J. Olivier effective January 1, 2009 (Exhibit 10.9, 2008 Eversource Energy Form 10-K filed February 27, 2009, File No. 001-05324)
- +10.4 Eversource Supplemental Executive Retirement Program effective as of January 1, 2015 (Exhibit 10.5, 2015 Eversource Energy Form 10-K filed February 26, 2016, File No. 001-05324)
- +10.5 Composite Transmission Service Agreement, by and between Northern Pass Transmission LLC, as Owner and H.Q. Hydro Renewable Energy, Inc., as Purchaser dated October 4, 2010 and effective February 14, 2014 (Exhibit 10.5, 2013 Eversource Energy Form 10-K filed on February 25, 2014, File No. 001-05324)
- 10.6 Eversource Energy Deferred Compensation Plan for Executives effective as of January 1, 2014 (Exhibit 10.6, 2015 Eversource Energy Form 10-K filed February 26, 2016, File No. 001-05324)
- \*+10.6.1 Amendment No 1 to the Eversource Deferred Compensation Plan effective February 7, 2018
- +10.7 NSTAR Excess Benefit Plan, effective August 25, 1999 (Exhibit 10.1 1999 NSTAR Form 10-K/A filed September 29, 2000, File No. 001-14768)
- +10.7.1 NSTAR Excess Benefit Plan, incorporating the NSTAR 409A Excess Benefit Plan, as amended and restated effective January 1, 2008, dated December 24, 2008 (Exhibit 10.1.1 2008 NSTAR Form 10-K filed February 9, 2009, File No. 001-14768)
- +10.8 Amended and Restated Change in Control Agreement by and between James J. Judge and NSTAR, dated November 15, 2007 (Exhibit 10.9, 2007 NSTAR Form 10-K filed February 11, 2008, File No. 001-14768)
- +10.9 Amended and Restated Change in Control Agreement by and between Joseph R. Nolan, Jr. and NSTAR, dated November 15, 2007 (Exhibit 10.13, 2007 NSTAR Form 10-K filed February 11, 2008, File No. 001-14768)
- +10.10 Amended and Restated Change in Control Agreement by and between Werner J. Schweiger and NSTAR, dated November 15, 2007 (Exhibit 10.14, 2007 NSTAR Form 10-K filed February 11, 2008, File No. 001-14768)
- +10.11 Amended and Restated Change in Control Agreement by and between Senior Vice President and NSTAR, dated November 15, 2007 (Exhibit 10.15, 2007 NSTAR Form 10-K filed February 11, 2008, File No. 001-14768)
- +10.12 Master Trust Agreement between NSTAR and State Street Bank and Trust Company (Rabbi Trust), effective August 25, 1999 (Exhibit 10.5, NSTAR Form 10-Q for the Quarter Ended September 30, 2000 filed November 14, 2000, File No. 001-14768)
- +10.13 Currently effective Change in Control Agreement between NSTAR's Vice Presidents and NSTAR (in form) (Exhibit 10.17, 2009 NSTAR Form 10-K filed February 25, 2010, File No. 001-14768)
- 10.14 Forward Sale Agreement between Eversource Energy and Goldman Sachs & Co. LLC, dated as of May 30, 2019 (Exhibit 10.1, Eversource Energy Current Report on Form 8-K filed on July 3, 2019 (File No. 001-06392)

(B) Eversource Energy, The Connecticut Light and Power Company, NSTAR Electric Company and Public Service Company of New Hampshire

- 10.1 Amended and Restated Form of Service Contract between each of Eversource Energy, CL&P, NSTAR Electric Company and Eversource Energy Service Company dated as of January 1, 2014. (Exhibit 10.1, Eversource Energy Form 10-K filed on February 25, 2014, File No. 001-05324)

- 10.2 Transmission Operating Agreement between the Initial Participating Transmission Owners, Additional Participating Transmission Owners and ISO New England, Inc. dated as of February 1, 2005 (Exhibit 10.29, 2004 Eversource Energy Form 10-K filed March 17, 2005, File No. 001-05324)
  - 10.2.1 Rate Design and Funds Disbursement Agreement among the Initial Participating Transmission Owners, Additional Participating Transmission Owners and ISO New England, Inc., effective June 30, 2006 (Exhibit 10.22.1, 2006 Eversource Energy Form 10-K filed March 1, 2007, File No. 001-05324)
- 10.3 Eversource Energy's Third Amended and Restated Tax Allocation Agreement dated as of April 10, 2012, (Exhibit 10.1 Eversource Energy Form 10-Q for Quarter Ended June 30, 2012 filed August 7, 2012, File No. 001-05324)
- +10.4 Amended and Restated Incentive Plan Effective January 1, 2009 (Exhibit 10.3, Eversource Energy Form 10-Q for the Quarter Ended September 30, 2008 filed November 10, 2008, File No. 001-05324)
- +10.5 2018 Eversource Energy Incentive Plan (Exhibit 99.2, Eversource Energy Current Report on Form 8-K dated May 3, 2018)
- +10.6 Trust under Supplemental Executive Retirement Plan dated May 2, 1994 (Exhibit 10.33, 2002 Eversource Energy Form 10-K filed March 21, 2003, File No. 001-05324)
  - +10.6.1 First Amendment to Trust Under Supplemental Executive Retirement Plan, effective as of December 10, 2002 (Exhibit 10 (B) 10.19.1, 2003 Eversource Energy Form 10-K filed March 12, 2004, File No. 001-05324)
  - +10.6.2 Second Amendment to Trust Under Supplemental Executive Retirement Plan, effective as of November 12, 2008 (Exhibit 10.12.2, 2008 Eversource Energy Form 10-K filed February 27, 2009, File No. 001-05324)
- +10.7 Special Severance Program for Officers of Eversource Energy Companies as of January 1, 2009 (Exhibit 10.2 Eversource Energy Form 10-Q for Quarter Ended September 30, 2008 filed November 10, 2008, File No. 001-05324)
- +10.8 Amended and Restated Employment Agreement with Gregory B. Butler, effective January 1, 2009 (Exhibit 10.7, 2008 Eversource Energy 2010 Form 10-K filed February 27, 2009, File No. 001-05324)

(C) Eversource Energy, The Connecticut Light and Power Company, Public Service Company of New Hampshire and NSTAR Electric Company

- 10.1 Agreements among New England Utilities with respect to the Hydro-Quebec interconnection projects
  - 10.1.1 Composite conformed copy of Equity Funding Agreement for New England Hydro-Transmission Electric Company., dated as of June 1, 1985 (Massachusetts) (Exhibit 10.1.1, 2017 Eversource Form 10-K filed February 26, 2018)
  - 10.1.2 Composite conformed copy of Equity Funding Agreement of Equity Funding Agreement for New England Hydro-Transmission Electric Company, Inc., dated as of June 1, 1985 (New Hampshire) (Exhibit 10.1.2, 2017 Eversource Form 10-K filed February 26, 2018)
  - 10.1.3 Composite conformed copy of Phase II Massachusetts Transmission Facilities Support Agreement, dated as of June 1, 1985 (Exhibit 10.1.3, 2017 Eversource Form 10-K filed February 26, 2018)
  - 10.1.4 Composite conformed copy of Phase II New England Power AC Facilities Support Agreement dated June 1, 1985 (Exhibit 10.1.4, 2017 Eversource Form 10-K filed on February 26, 2018)
  - 10.1.5 Composite conformed copy of Phase II New Hampshire Transmission Facilities Support Agreement dated as of June 1, 1985 (Exhibit 10.1.5, Eversource 10-K filed on February 26, 2018)
- 10.2 Eversource Energy Service Company Transmission and Ancillary Service Wholesale Revenue Allocation Methodology among The Connecticut Light and Power Company, NSTAR Electric Company, Public Service Company of New Hampshire, Holyoke Water Power Company and Holyoke Power and Electric Company Trustee dated as of January 1, 2008 (Exhibit 10.1, Eversource Energy Form 10-Q for the Quarter Ended March 31, 2008 filed May 9, 2008, File No. 001-05324)

(D) Eversource Energy and The Connecticut Light and Power Company

10.1 CL&P Agreement Re: Connecticut NEEWS Projects by and between CL&P and The United Illuminating Company dated July 14, 2010 (Exhibit 10, CL&P Form 10-Q for the Quarter Ended June 30, 2010 filed August 6, 2010, File No. 000-00404)

- \*21. Subsidiaries of the Registrant
- \*23. Consents of Independent Registered Public Accounting Firm
- \*31. Rule 13a - 14(a)/15 d - 14(a) Certifications
  - 31 Certification by the Chief Executive Officer of Eversource Energy pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
    - 31.1 Certification by the Chief Financial Officer of Eversource Energy pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- \*32. 18 U.S.C. Section 1350 Certifications
  - 32 Certification by the Chief Executive Officer and Chief Financial Officer of Eversource Energy pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- \*101.INS Inline XBRL Instance Document - the instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document
- \*101.SCH Inline XBRL Taxonomy Extension Schema
- \*101.CAL Inline XBRL Taxonomy Extension Calculation
- \*101.DEF Inline XBRL Taxonomy Extension Definition
- \*101.LAB Inline XBRL Taxonomy Extension Labels
- \*101.PRE Inline XBRL Taxonomy Extension Presentation
- \*104 The cover page from the Annual Report on Form 10-K for the year ended December 31, 2019, formatted in Inline XBRL

**EVERSOURCE ENERGY**

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**EVERSOURCE ENERGY**

February 26, 2020

By: /s/ Jay S. Buth

Jay S. Buth

Vice President, Controller and Chief Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

**POWER OF ATTORNEY**

Each person whose signature appears below constitutes and appoints Gregory B. Butler, Philip J. Lembo and Jay S. Buth and each of them, his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ James J. Judge</u> James J. Judge	Chairman of the Board, President and Chief Executive Officer and a Trustee (Principal Executive Officer)	February 26, 2020
<u>/s/ Philip J. Lembo</u> Philip J. Lembo	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 26, 2020
<u>/s/ Jay S. Buth</u> Jay S. Buth	Vice President, Controller and Chief Accounting Officer	February 26, 2020
<u>/s/ Cotton M. Cleveland</u> Cotton M. Cleveland	Trustee	February 26, 2020
<u>/s/ Sanford Cloud, Jr.</u> Sanford Cloud, Jr.	Trustee	February 26, 2020

<u>Signature</u>	<u>Title</u>	<u>Date</u>
/s/ James S. DiStasio _____	Trustee	February 26, 2020
James S. DiStasio		
/s/ Francis A. Doyle _____	Trustee	February 26, 2020
Francis A. Doyle		
/s/ Linda Dorcena Forry _____	Trustee	February 26, 2020
Linda Dorcena Forry		
/s/ John Y. Kim _____	Trustee	February 26, 2020
John Y. Kim		
/s/ Kenneth R. Leibler _____	Trustee	February 26, 2020
Kenneth R. Leibler		
/s/ David H. Long _____	Trustee	February 26, 2020
David H. Long		
/s/ William C. Van Faasen _____	Trustee	February 26, 2020
William C. Van Faasen		
/s/ Frederica M. Williams _____	Trustee	February 26, 2020
Frederica M. Williams		

CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, James J. Judge, certify that:

1. I have reviewed this Annual Report on Form 10-K of Eversource Energy (the registrant);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2020

/s/ James J. Judge

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James J. Judge  
Chairman of the Board, President and Chief Executive Officer  
(Principal Executive Officer)

CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Philip J. Lembo, certify that:

1. I have reviewed this Annual Report on Form 10-K of Eversource Energy (the registrant);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2020

/s/ Philip J. Lembo

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Philip J. Lembo  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this Annual Report on Form 10-K of Eversource Energy (the registrant) for the period ending December 31, 2019 as filed with the Securities and Exchange Commission (the Report), we, James J. Judge, Chairman of the Board, President and Chief Executive Officer of the registrant, and Philip J. Lembo, Executive Vice President and Chief Financial Officer of the registrant, certify, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the registrant.

/s/ James J. Judge

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James J. Judge  
Chairman of the Board, President and Chief Executive Officer

/s/ Philip J. Lembo

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Philip J. Lembo  
Executive Vice President and Chief Financial Officer

Date: February 26, 2020

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the registrant and will be retained by the registrant and furnished to the Securities and Exchange Commission or its staff upon request.

# Eversource Energy Trustees

## **James J. Judge**

Chairman of the Board,  
President and Chief Executive Officer,  
Eversource Energy

## **Cotton M. Cleveland**

President, Mather Associates

## **Sanford Cloud, Jr.\***

Chairman and Chief Executive Officer,  
The Cloud Company, LLC

## **James S. DiStasio**

Retired Senior Vice Chairman and  
Americas Chief Operating Officer,  
Ernst & Young

## **Francis A. Doyle**

Chairman and Chief Executive Officer,  
Connell Limited Partnership

## **Linda Dorcena Forry**

Vice President, Diversity, Inclusion & Community  
for the Northeast,  
Suffolk Construction

## **John Y. Kim**

Managing Partner, Brewer Lane Ventures, LLC

## **Kenneth R. Leibler**

Chairman,  
The Putnam Mutual Funds

## **David H. Long**

Chairman, President and Chief Executive Officer,  
Liberty Mutual Holding Company Inc.

## **William C. Van Faasen**

Chairman Emeritus,  
Blue Cross Blue Shield of Massachusetts Inc.

## **Frederica M. Williams**

President and Chief Executive Officer,  
Whittier Street Health Center

\*Lead Trustee

# Eversource Energy Executive Officers

## **James J. Judge**

Chairman of the Board,  
President and Chief Executive Officer

## **Gregory B. Butler**

Executive Vice President and General Counsel

## **Christine M. Carmody**

Executive Vice President – Human Resources and  
Information Technology

## **Philip J. Lembo**

Executive Vice President and Chief Financial Officer

## **Joseph R. Nolan, Jr.**

Executive Vice President – Strategy, Customer and  
Corporate Relations

## **Werner J. Schweiger**

Executive Vice President and Chief Operating Officer

# Shareholder Information

## Shareholders

As of December 31, 2019, there were 33,628 common shareholders of record of Eversource Energy holding an aggregate of 329,880,645 common shares.

## Transfer Agent and Registrar

Computershare Investor Services  
P.O. Box 505005  
Louisville, KY 40233-5005  
1-800-999-7269

TDD for hearing impaired: 1-800-952-9245

## Shareholder Account Access

We have partnered with Computershare to offer you online access to your important shareowner communications in a single secure place. You can manage your account online via the Investor Center website, Computershare's web-based tool for shareholders, at [www.computershare.com/investor](http://www.computershare.com/investor). Through free around-the-clock access to the Investor Center website, you can view your account, access forms and request a variety of account transactions.

## Investor Relations

You may contact our Investor Relations Department:

Jeffrey Kotkin: 860-665-5154

Barbara Nieman: 860-665-3249

John Gavin: 781-441-8118

[www.eversource.com](http://www.eversource.com)

## Dividend Reinvestment Plan

Eversource offers a dividend reinvestment and share purchase plan. This plan is sponsored by the company and not only offers the reinvestment of dividends but provides both registered shareholders and interested first-time investors an affordable alternative for buying and selling Eversource common shares. To request an enrollment package, please call 1-800-999-7269 or log into: [www.computershare.com/investor](http://www.computershare.com/investor)

## Direct Deposit for Quarterly Dividends

Direct deposit provides the convenience of automatic and immediate access to your funds, while eliminating the possibility for mail delays and lost, stolen or destroyed checks. This service is free of charge to you. Please call 1-800-999-7269 to request an enrollment form.

## Common Share Dividend Payment Dates

Last business day of March, June, September and December.

## Common Share Information

The common shares of Eversource Energy are listed on the New York Stock Exchange. The ticker symbol is "ES." The high and low daily prices and dividends paid for the past two years, by quarters, are shown in the table below.

Year	Quarter	High	Low	Quarterly Dividend per Share
2019	First	\$72.26	\$63.10	\$0.535
	Second	\$77.87	\$69.09	\$0.535
	Third	\$85.93	\$74.77	\$0.535
	Fourth	\$86.55	\$78.58	\$0.535
2018	First	\$64.99	\$55.93	\$0.505
	Second	\$60.89	\$52.76	\$0.505
	Third	\$63.88	\$57.49	\$0.505
	Fourth	\$70.53	\$60.56	\$0.505

## Corporate Governance

For information on Corporate Governance at Eversource, go to our website, [www.eversource.com](http://www.eversource.com), and select "Investors" and see "Corporate Governance" options.



*Eversource would like to offer special thanks to Sandy Cloud, who is retiring from our Board of Trustees after 20 years of exceptional service to our company, including the last eight years as lead trustee. Sandy always offered wise counsel to this company's leadership as we pursued new opportunities and navigated challenges.*



#1 utility on the Forbes/JUST Capital Most Just Companies list, honoring our combination of corporate social responsibility and business success.



#1 energy company on Newsweek's list of Most Responsible Companies, recognizing our commitment to corporate social responsibility.



Rated by institutional investors as one of the top two US utilities in multiple categories related to executive leadership, sustainability, governance and investor relations.



One of only four energy companies on the Barron's 100 Most Sustainable Companies list, based on an evaluation of more than 230 performance indicators that address environmental, social and corporate governance issues.

**ATTACHMENT 7-8**

Redacted

**ATTACHMENT 8-1**

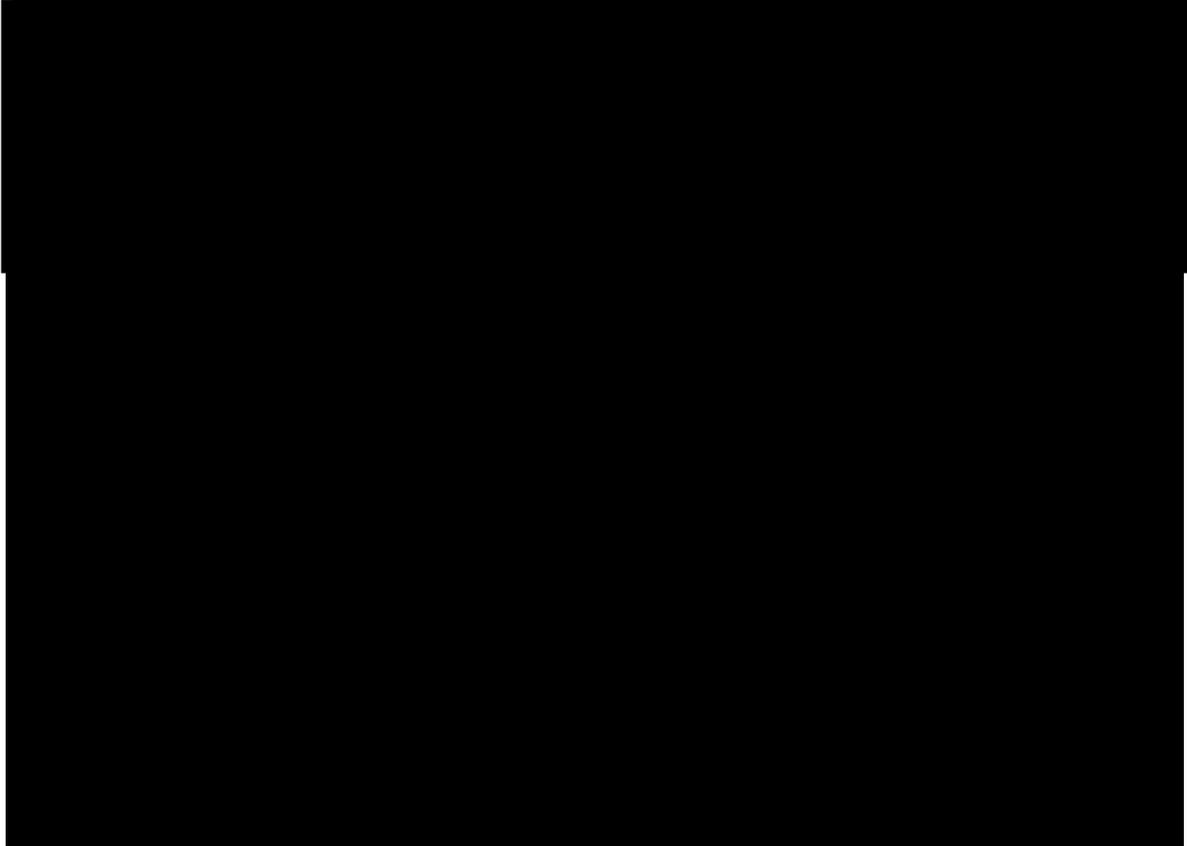
**Interconnection and  
Deliverability**

## 8 INTERCONNECTION AND DELIVERABILITY

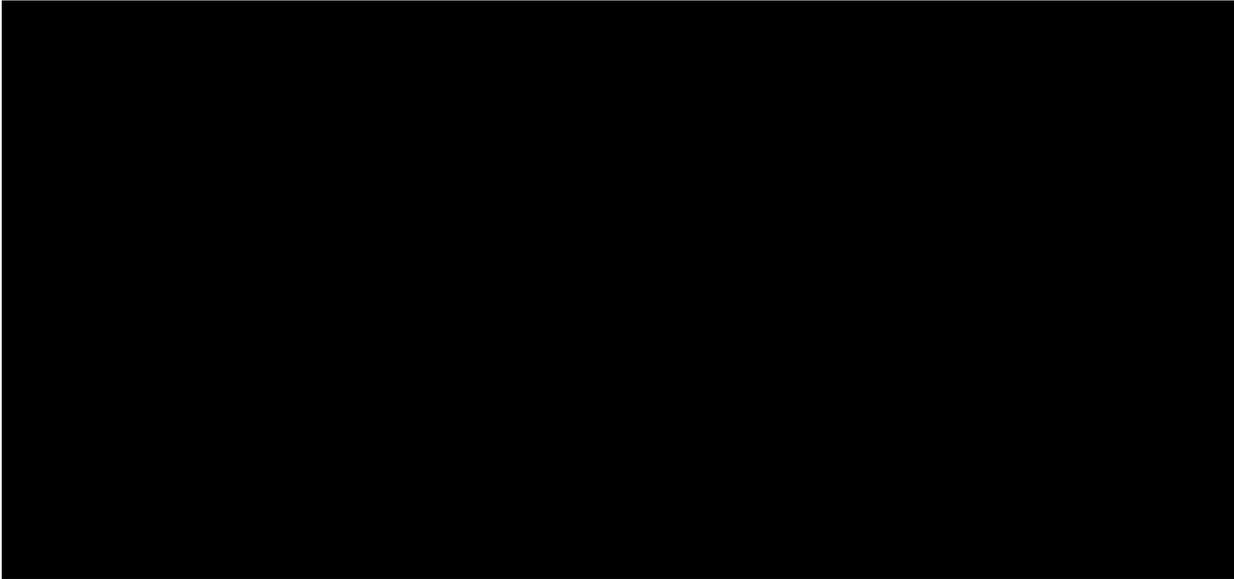


6.4.8 Proposers are required to demonstrate the Offshore Wind Generation Facility's interconnection status and deliverability capabilities. A narrative description of the interconnection and deliverability plan should be included in the Proposal Narrative. Detailed supporting information should be included in the required Interconnection and Deliverability Plan attachment. Proposers should provide the following information:

The Proposer takes a holistic view of interconnection and deliverability, from the Project's Lease Area [REDACTED] This includes consideration of the critical aspects of development: interconnection studies, onshore route site control, and the onshore permitting plan. This holistic approach applies not only to this Section 8 of the Proposal, but also to the Proposer's approach to site control (Section 4 of the Proposal) and permitting (Section 9 of the Proposal).

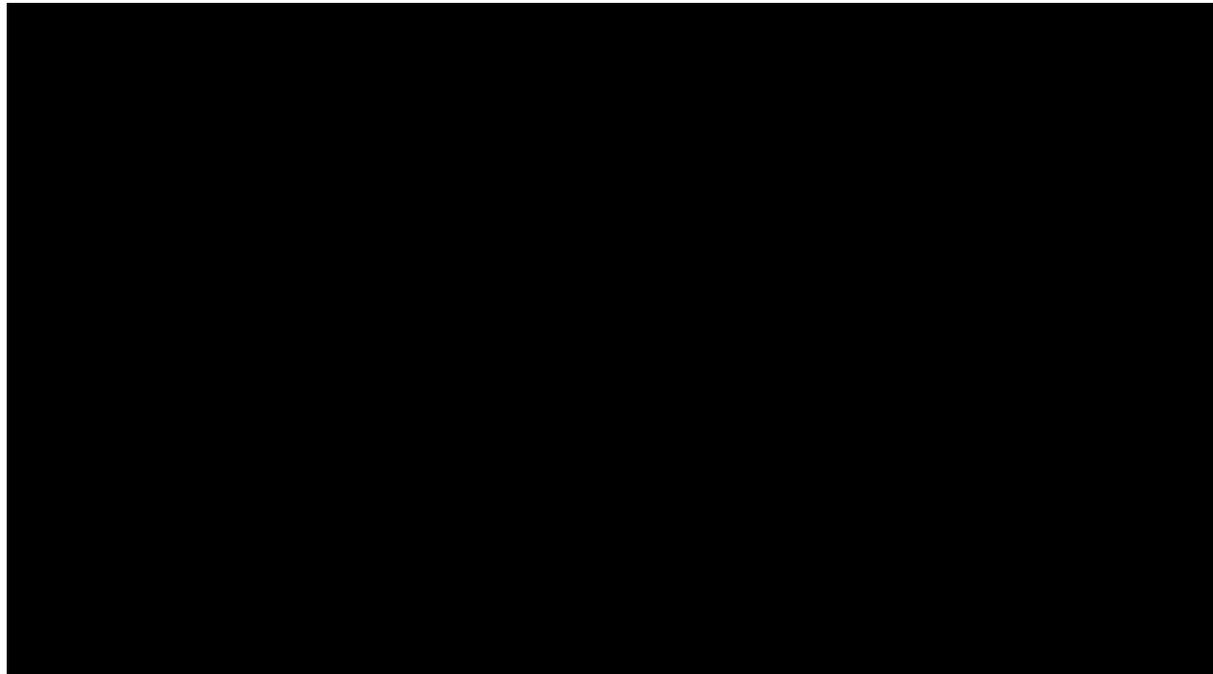


For the offshore transmission facilities, the Proposer was able to draw on proven designs, used extensively on other Ørsted offshore wind projects.



## 8.1 Interconnection Request to NYISO

1. a) Provide documentation to show evidence of the interconnection request to NYISO or any neighboring control areas for Capacity Resource Interconnection Service (CRIS) or for Energy Resource Interconnection Service, or similar interconnection standards in neighboring control areas.



[REDACTED]

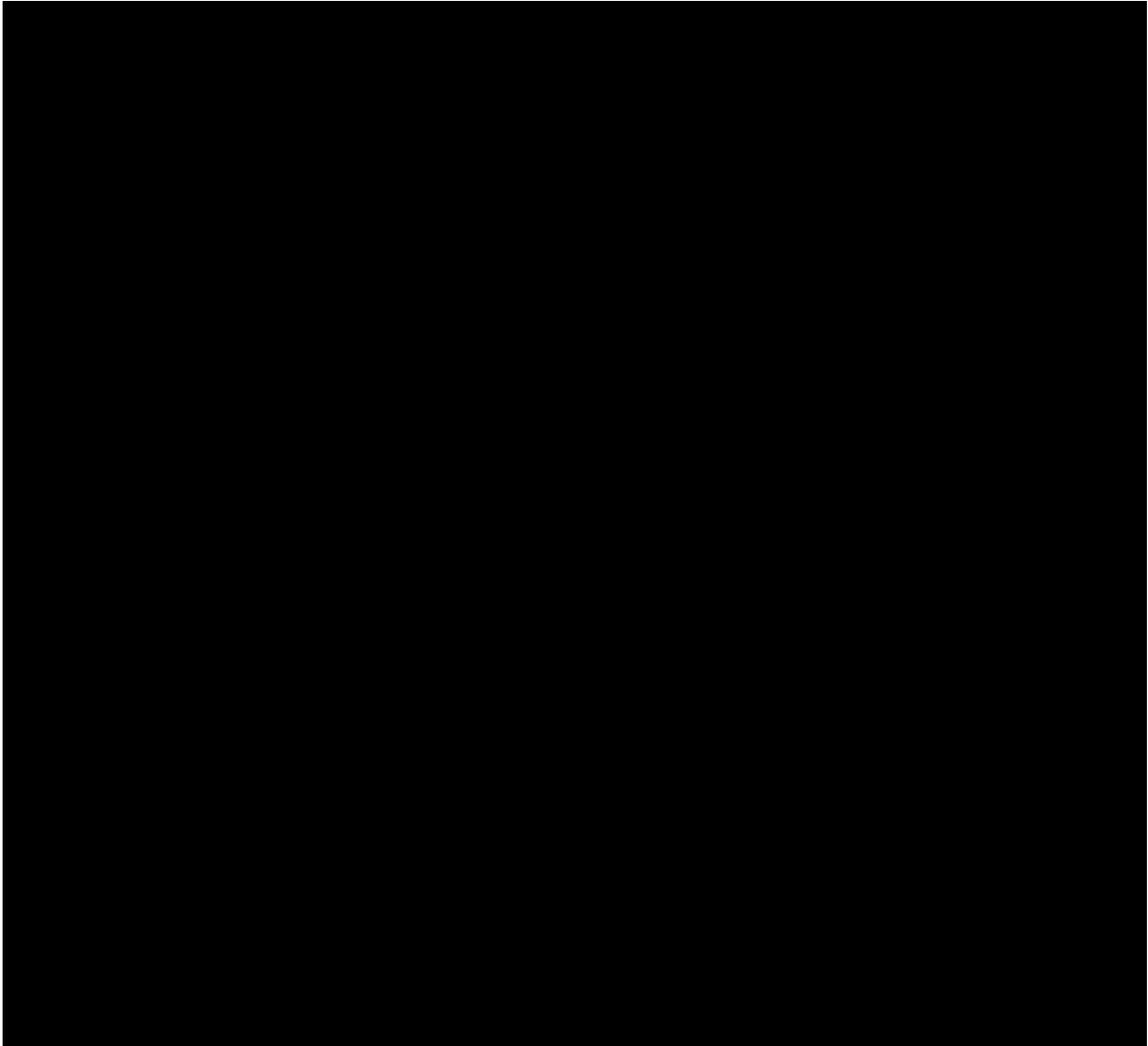
[REDACTED]

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b) For Proposals where capacity is to be delivered to NYCA, Proposers should describe any required transmission system upgrades and provide an estimate of the required transmission system upgrade costs under NYISO CRIS to meet deliverability requirements in NYISO. Evidence that Proposer has a pending, valid interconnection request is sufficient. Describe the status of any planned interconnection to the grid.

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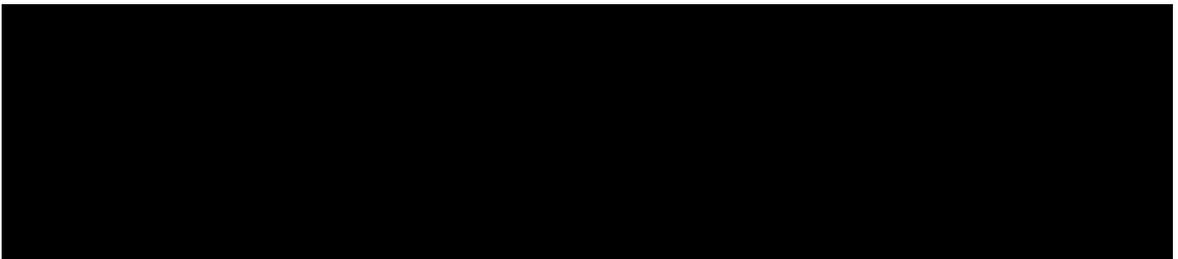
[REDACTED]



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c) Any interconnection studies undertaken by the applicable control area or third parties on behalf of Proposer must be provided.

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- 
- [REDACTED]
  - [REDACTED]
  - [REDACTED]

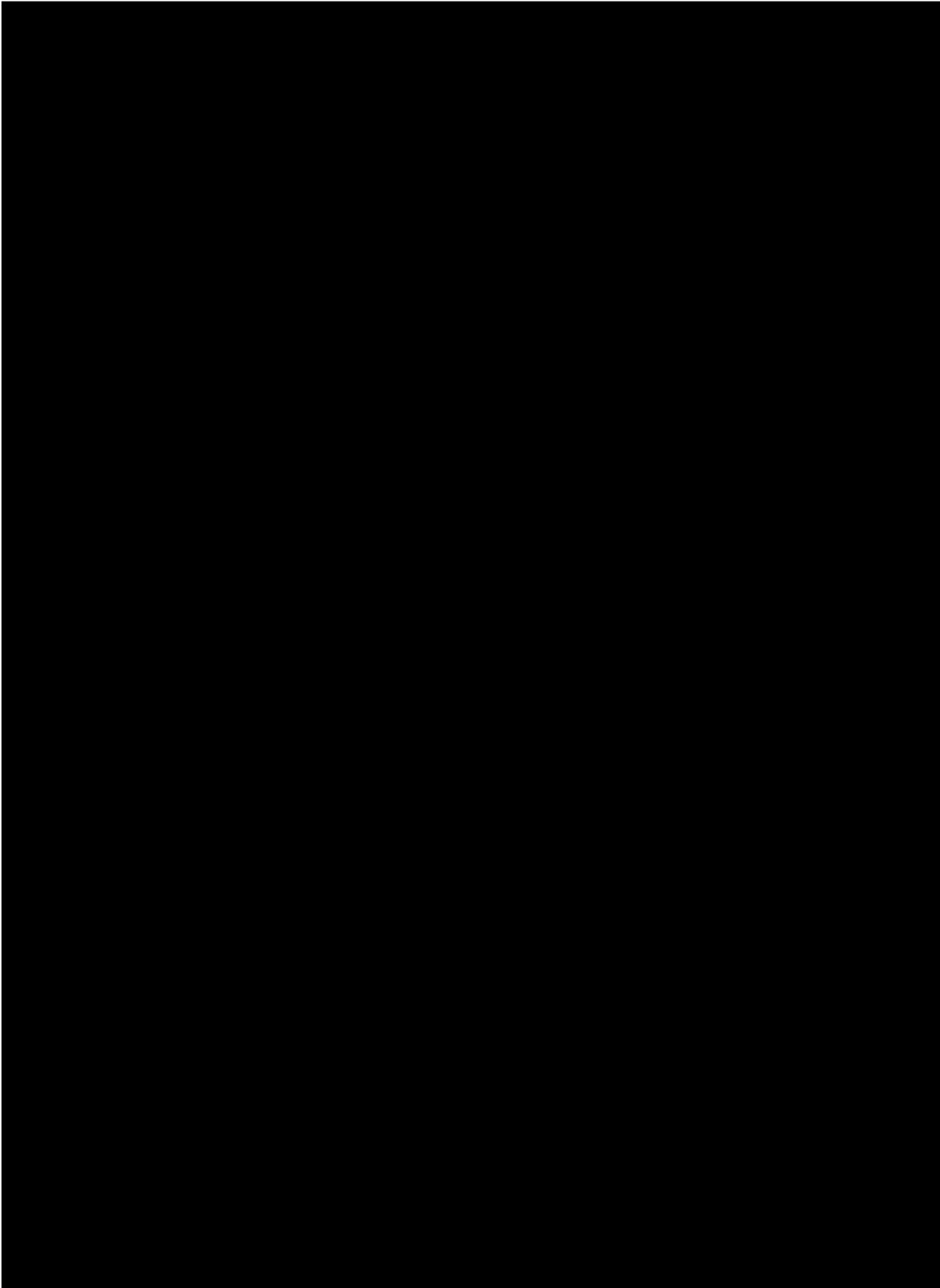
## 8.2 Electrical One-Line Diagram

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2. Provide a copy of an electrical one-line diagram showing the interconnection facilities and the relevant facilities of the transmission provider.
- 



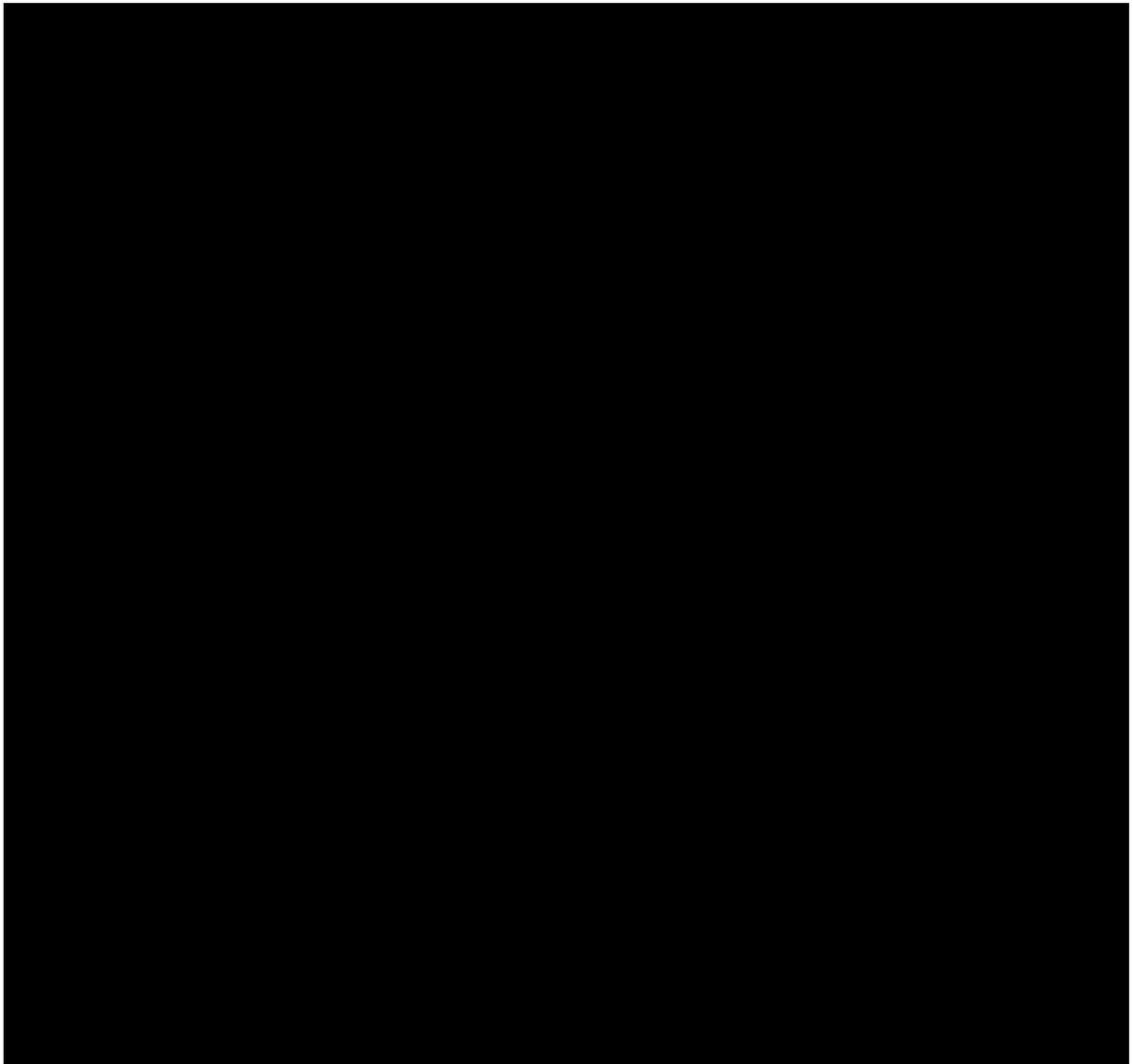
[REDACTED]

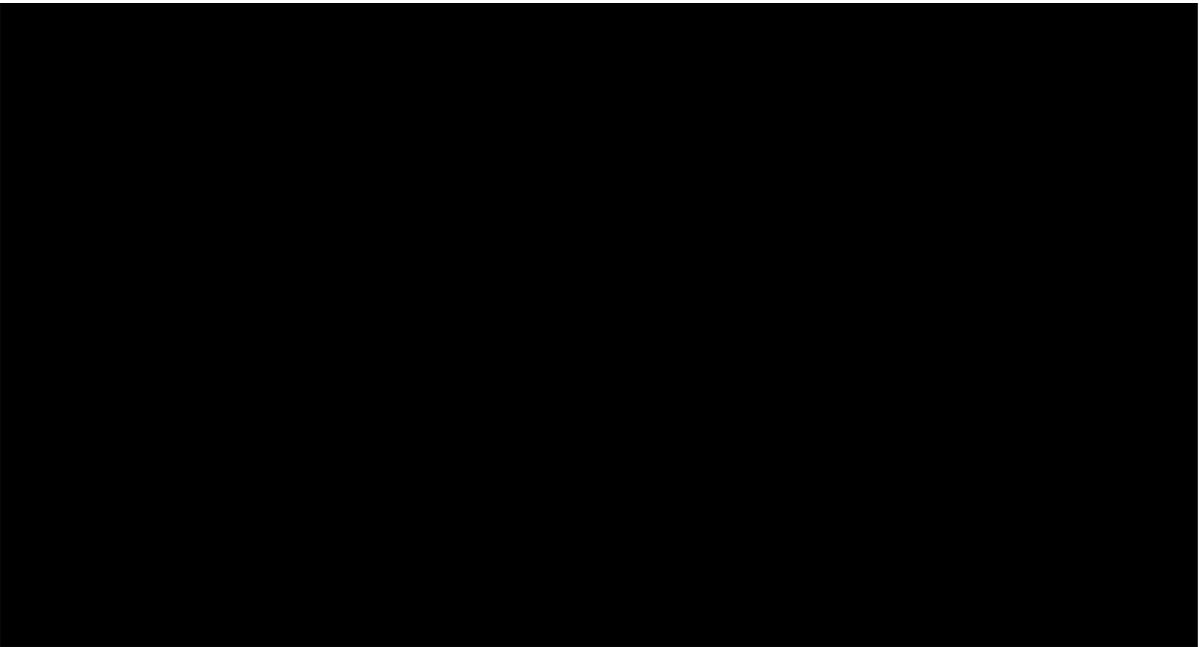


### 8.3 Interconnection and Transmission Upgrades

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3. Identify and provide an estimate of cost, supported by an independent third party, for all proposed or anticipated interconnection and transmission upgrades, including any transmission upgrades beyond the point of interconnection that are needed to ensure delivery of energy from the Offshore Wind Generation Facility into NYCA. Describe measures to identify and control the regulatory and operational risks related to the delivery of energy from the Offshore Wind Generation Facility.
- 

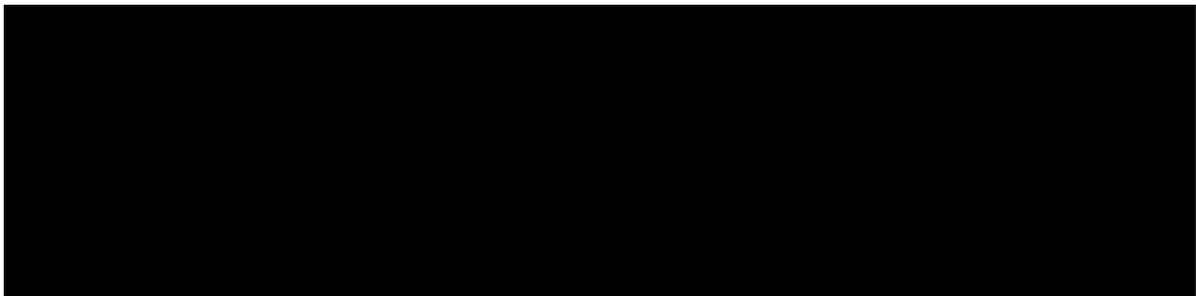




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Describe measures to identify and control the regulatory and operational risks related to the delivery of energy from the Offshore Wind Generation Facility.

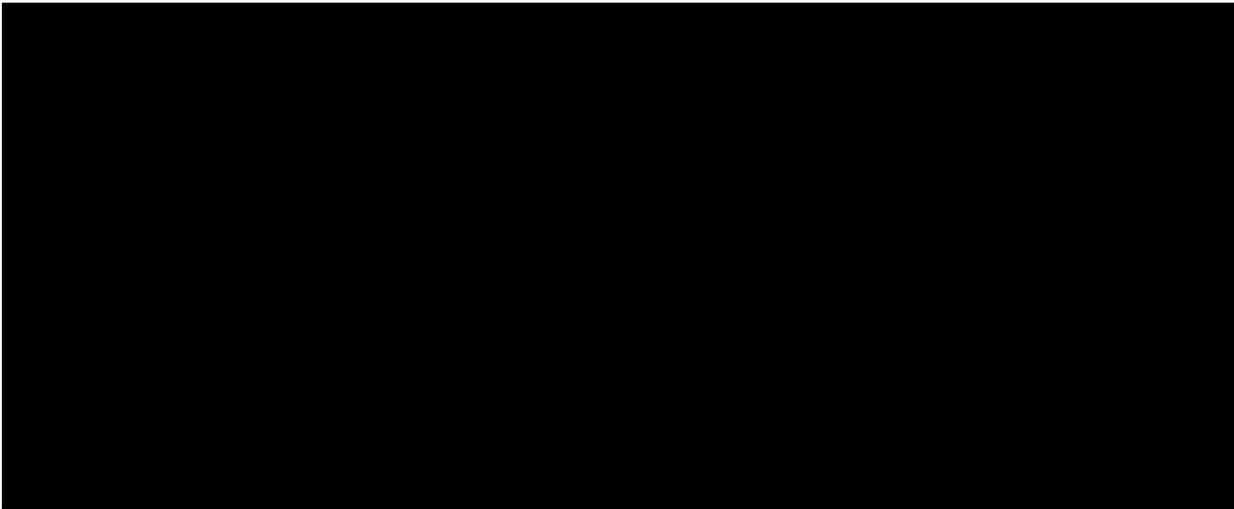
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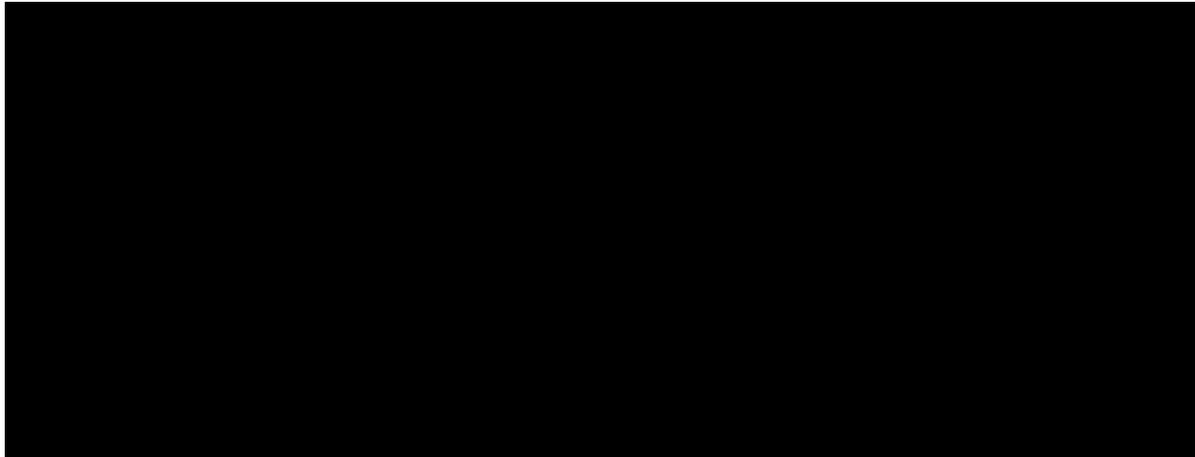
#### 8.4 Energy Delivery into NYCA

- 
4. Demonstrate that energy and associated ORECs generated by the facility can be delivered into the NYCA. For an Offshore Wind Generation Facility interconnecting in an adjacent Control Area, describe how Proposer intends to fulfill the External Project Delivery Requirement.
- 



#### 8.5 Injection Point Capacity

- 
5. Provide detail regarding the available capacity, at the time of submission, of the proposed Injection Point.
- 



**ATTACHMENT 8-2**

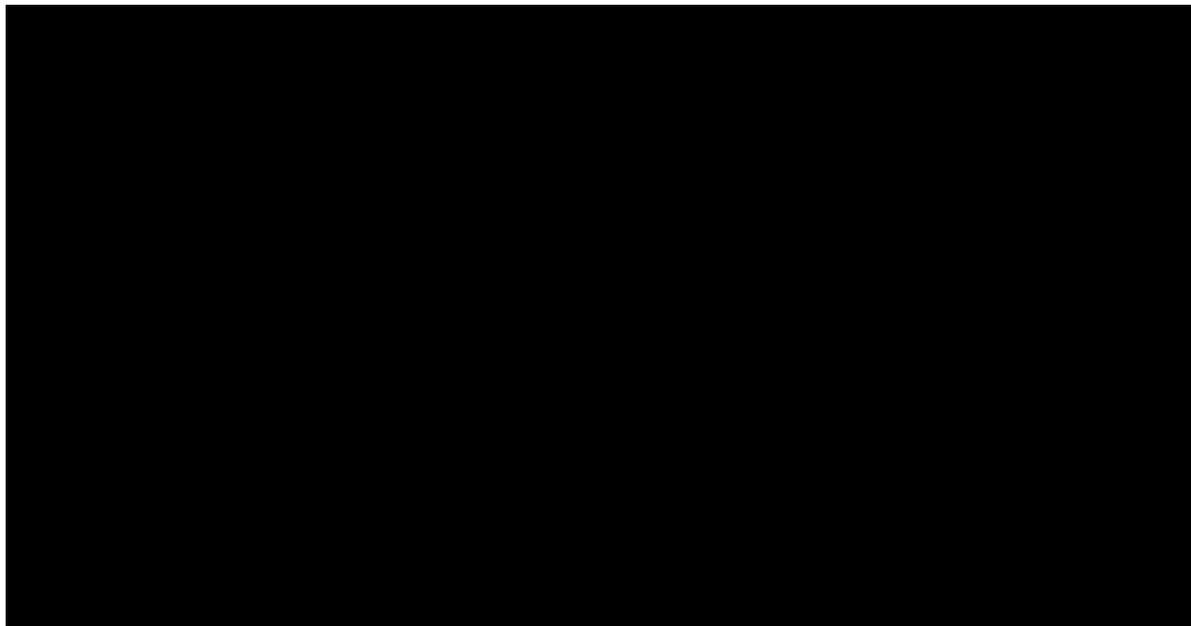
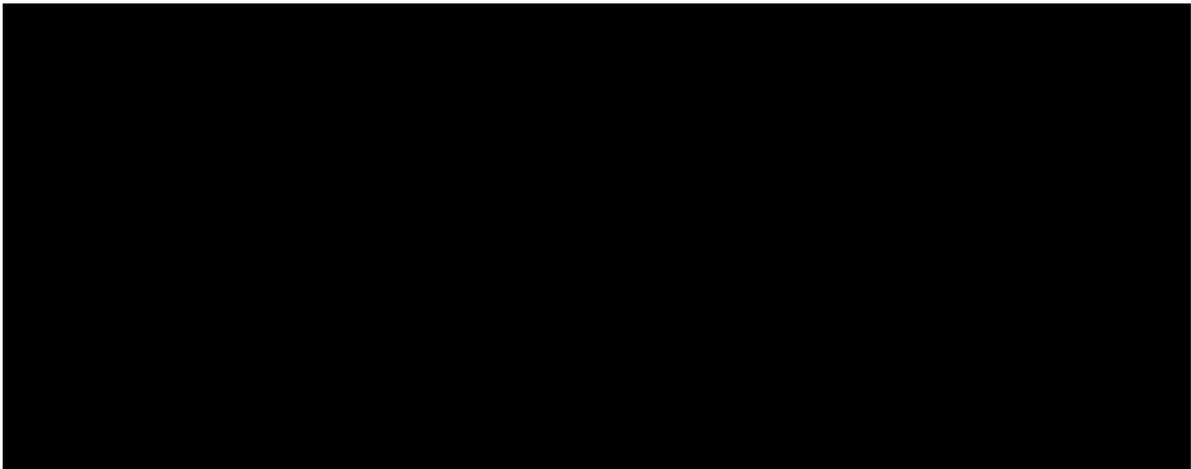
Interconnection and  
Deliverability – [REDACTED]

## 8 INTERCONNECTION AND DELIVERABILITY

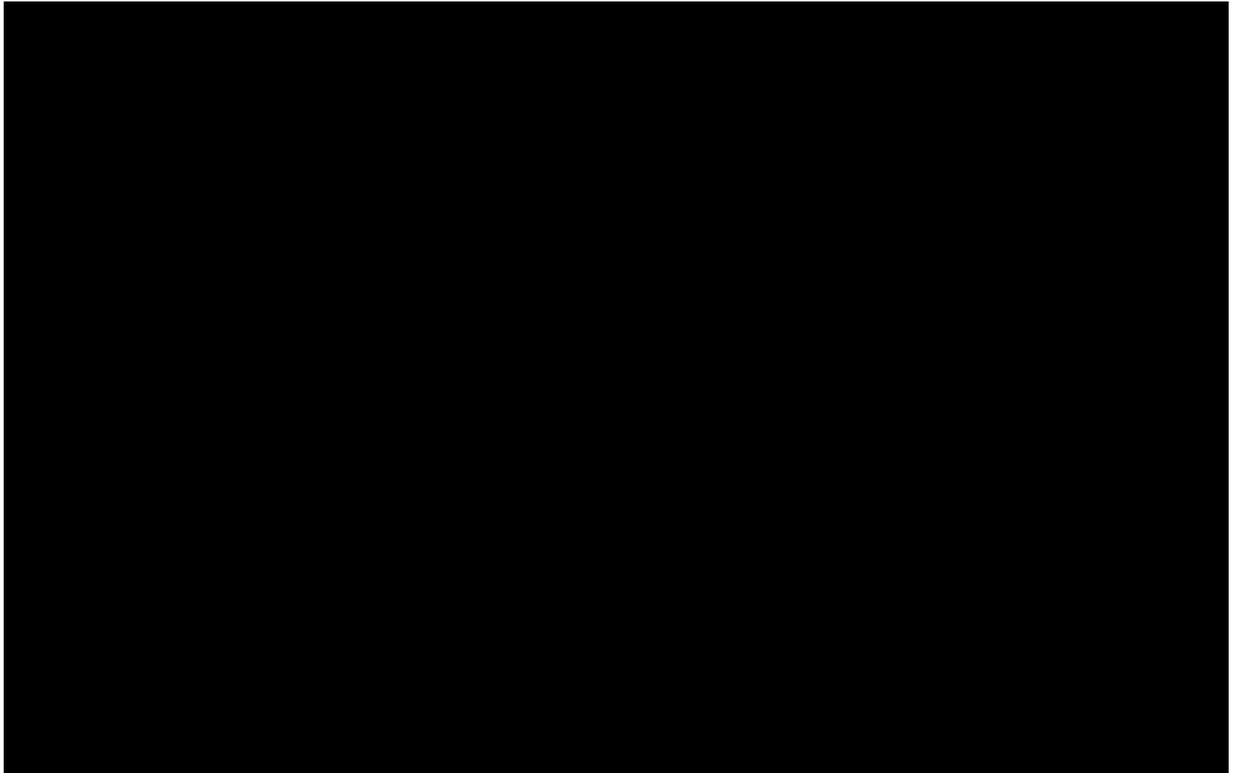


6.4.8 Proposers are required to demonstrate the Offshore Wind Generation Facility's interconnection status and deliverability capabilities. A narrative description of the interconnection and deliverability plan should be included in the Proposal Narrative. Detailed supporting information should be included in the required Interconnection and Deliverability Plan attachment. Proposers should provide the following information:

The Proposer takes a holistic view of interconnection and deliverability from the Project's Lease Area to the ██████████. This includes consideration of the critical aspects of development: interconnection studies, onshore route site control, and onshore permitting plan. This holistic approach applies not only to this Section 8 to the Proposal, but also to the Proposer's approach to site control (Section 4 to the Proposal) and permitting (Section 9 to the Proposal).



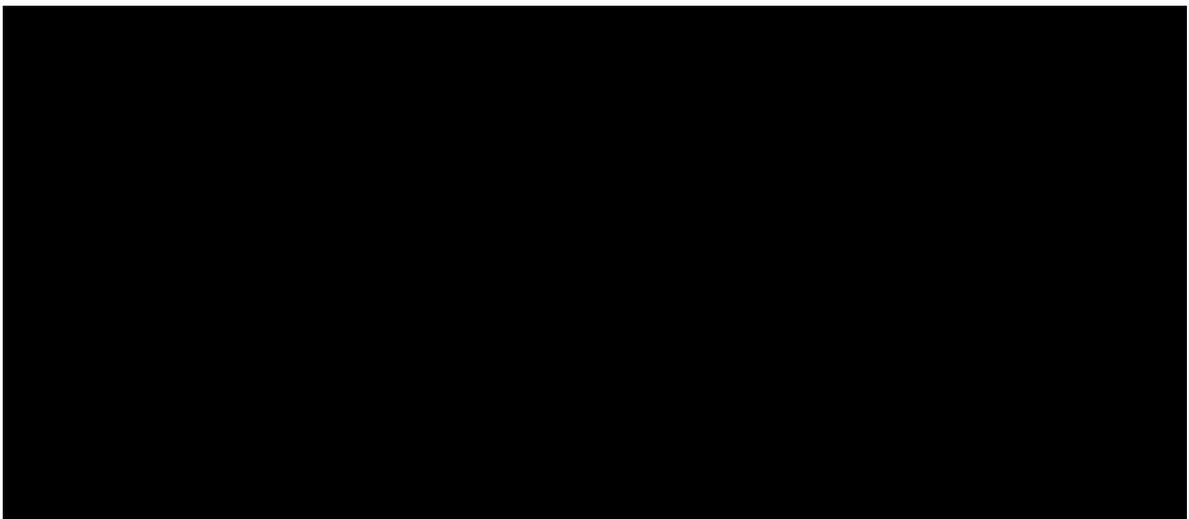
For the offshore transmission facilities, the Proposer was able to draw on proven designs, used extensively on other Ørsted offshore wind projects.



### 8.1 Interconnection Request to NYISO

---

1. a) Provide documentation to show evidence of the interconnection request to NYISO or any neighboring control areas for Capacity Resource Interconnection Service (CRIS) or for Energy Resource Interconnection Service, or similar interconnection standards in neighboring control areas.
- 



[REDACTED]

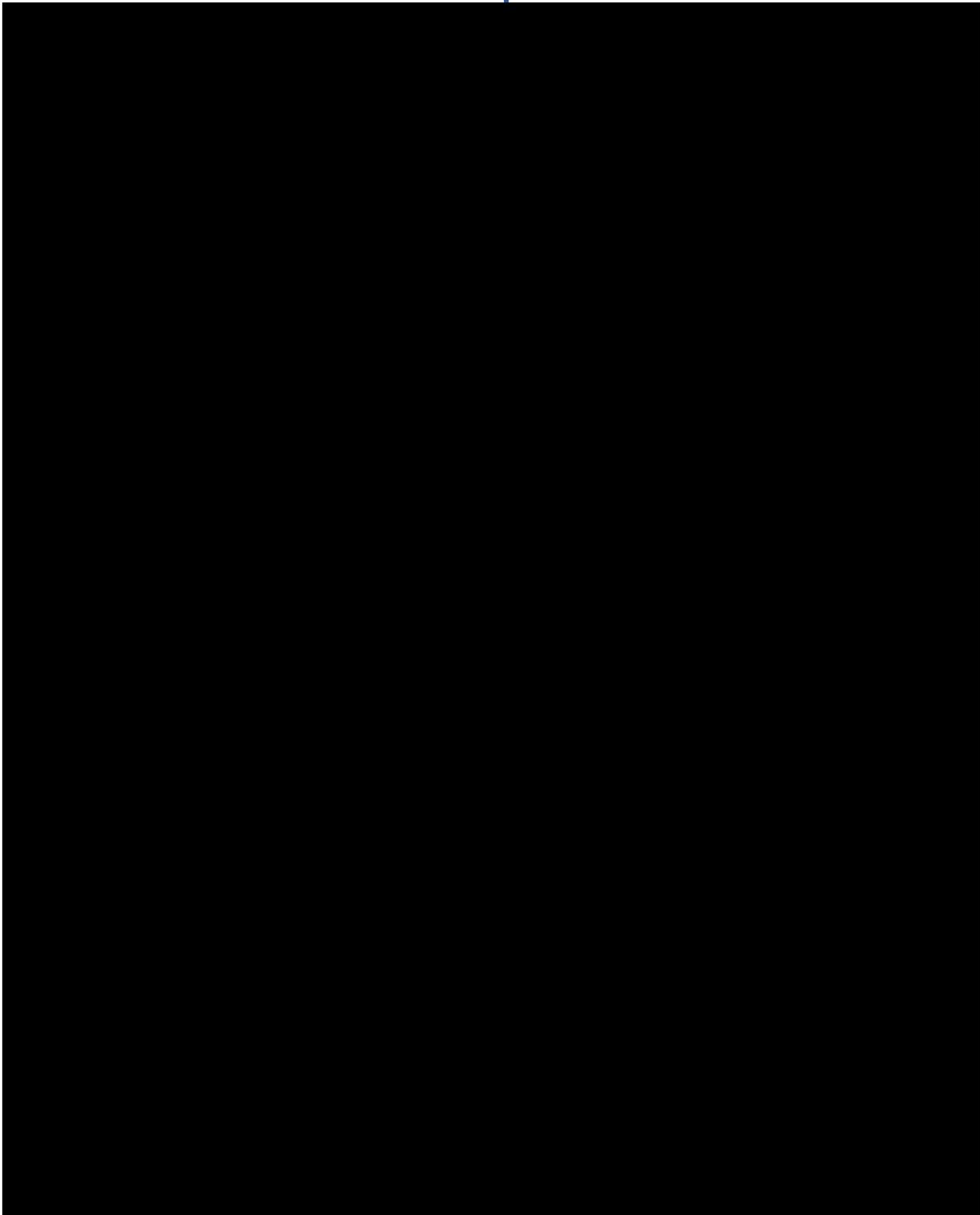
[REDACTED]

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b) For Proposals where capacity is to be delivered to NYCA, Proposers should describe any required transmission system upgrades and provide an estimate of the required transmission system upgrade costs under NYISO CRIS to meet deliverability requirements in NYISO. Evidence that Proposer has a pending, valid interconnection request is sufficient. Describe the status of any planned interconnection to the grid.

---

[REDACTED]



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c) Any interconnection studies undertaken by the applicable control area or third parties on behalf of Proposer must be provided.

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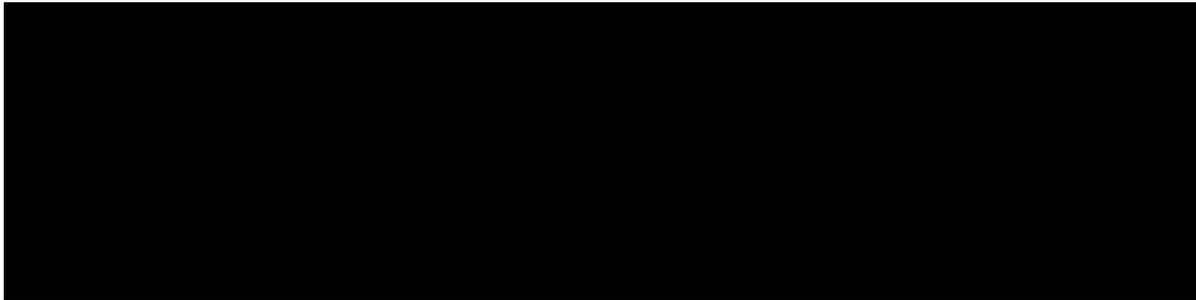


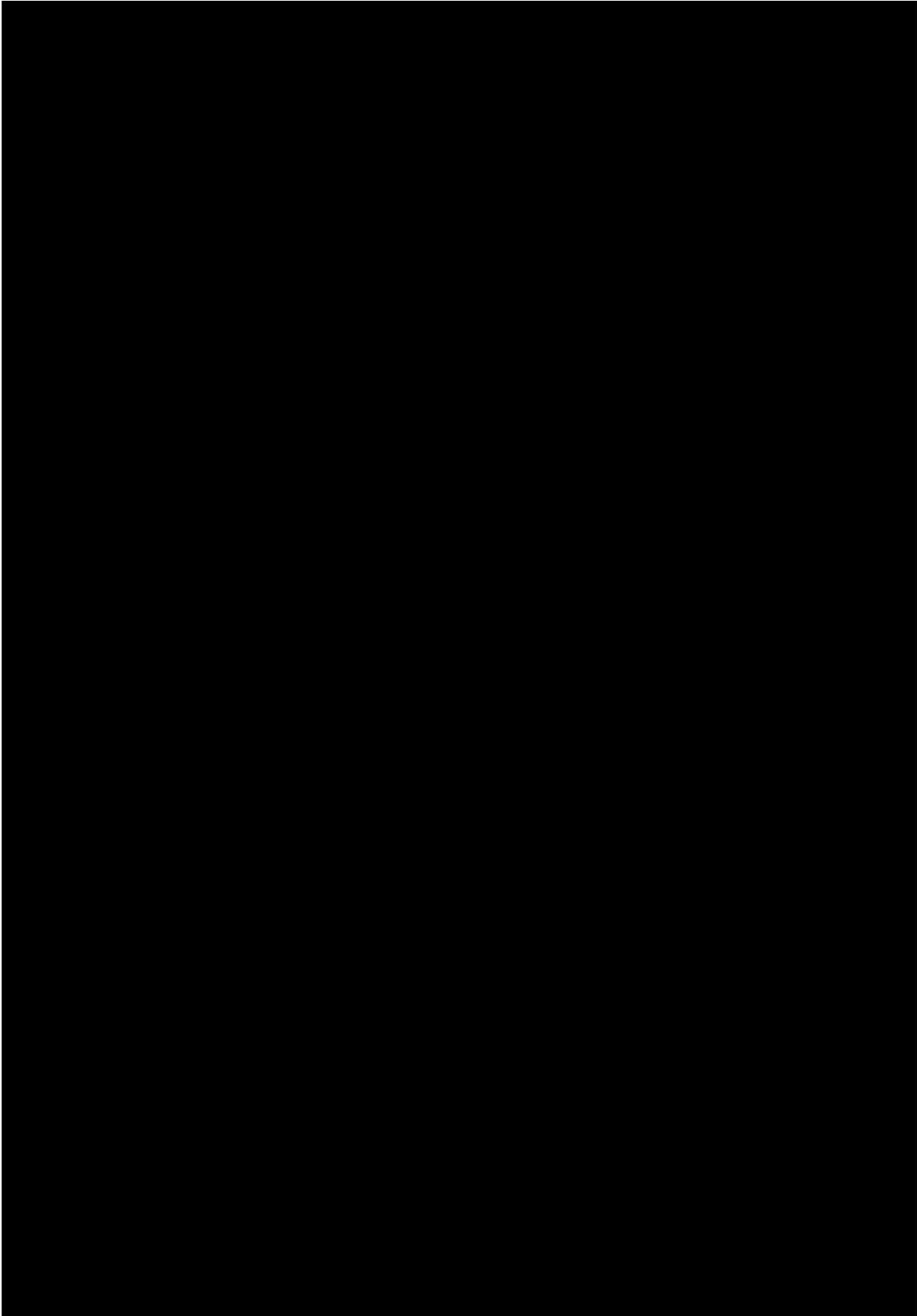
## 8.2 Electrical One-Line Diagram

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2. Provide a copy of an electrical one-line diagram showing the interconnection facilities and the relevant facilities of the transmission provider.

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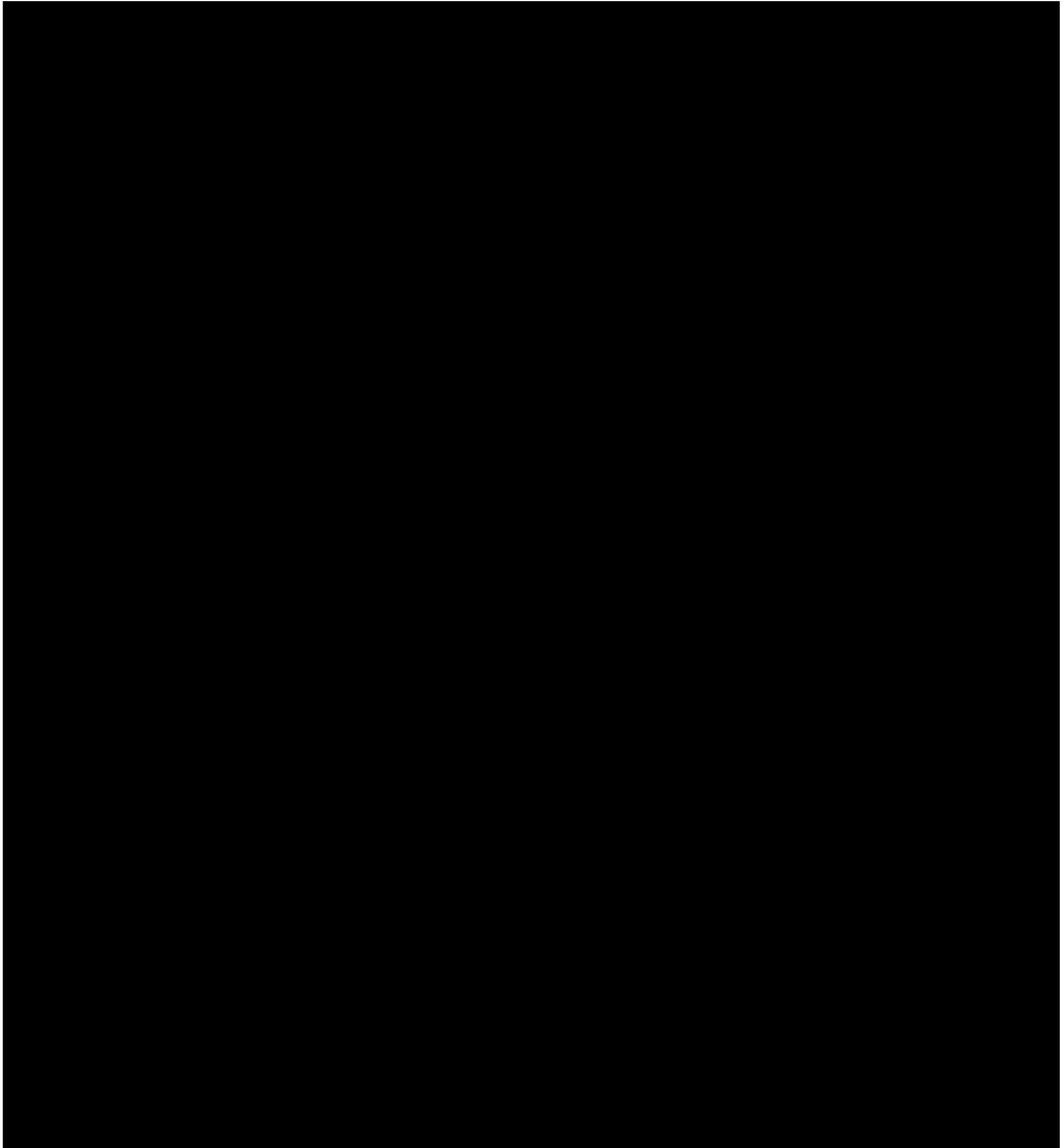


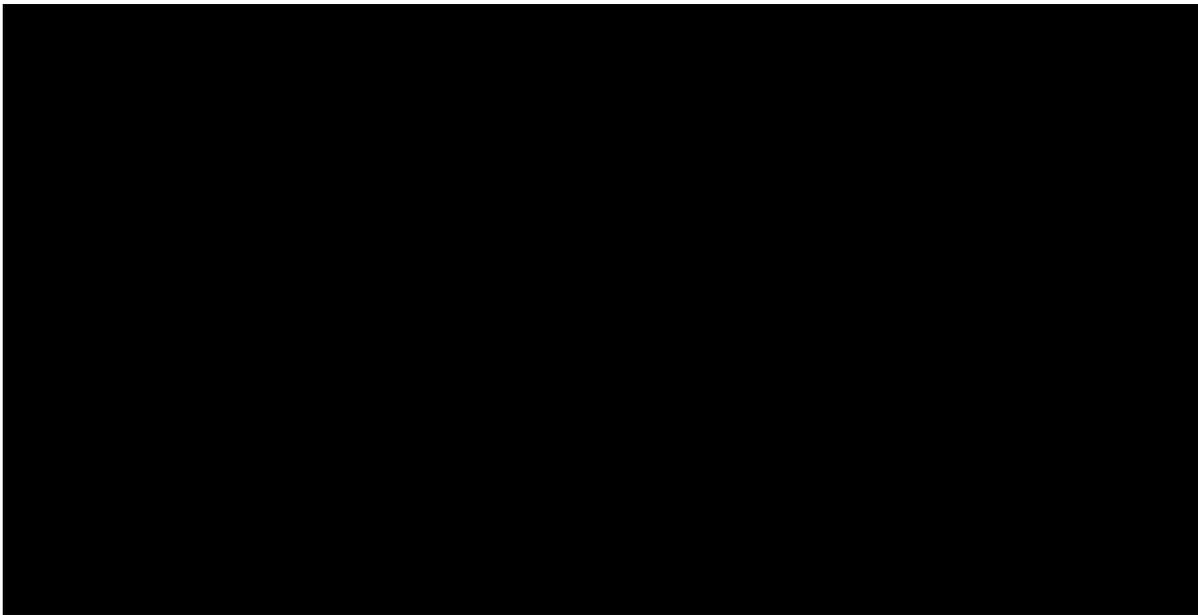


### 8.3 Interconnection and Transmission Upgrades

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3. Identify and provide an estimate of cost, supported by an independent third party, for all proposed or anticipated interconnection and transmission upgrades, including any transmission upgrades beyond the point of interconnection that are needed to ensure delivery of energy from the Offshore Wind Generation Facility into NYCA. Describe measures to identify and control the regulatory and operational risks related to the delivery of energy from the Offshore Wind Generation Facility.
- 

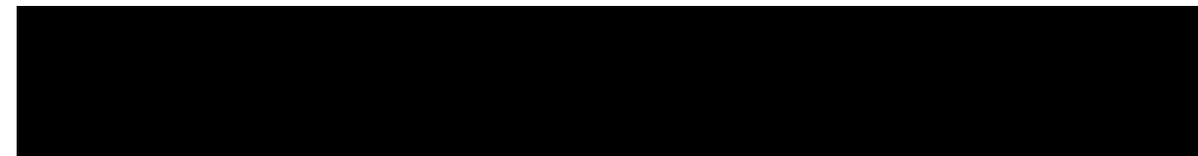


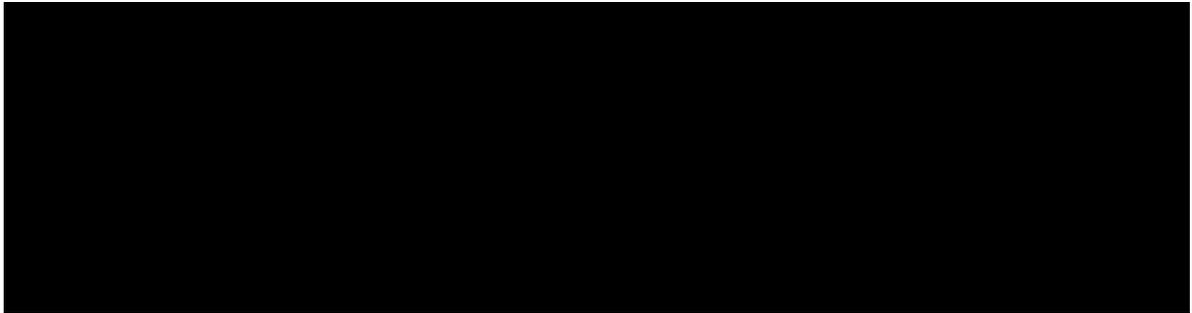


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Describe measures to identify and control the regulatory and operational risks related to the delivery of energy from the Offshore Wind Generation Facility.

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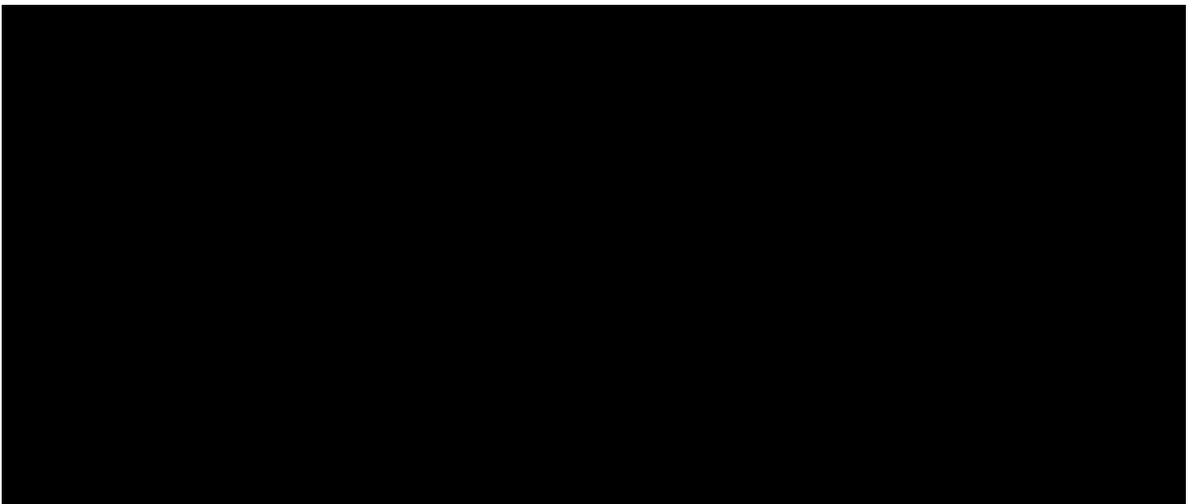




#### 8.4 Energy Delivery into NYCA

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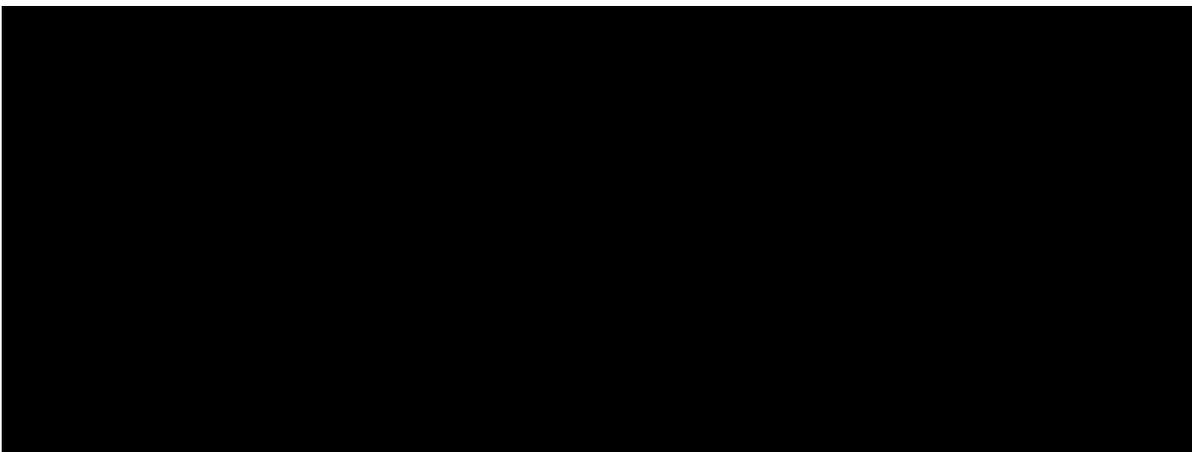
4. Demonstrate that energy and associated ORECs generated by the facility can be delivered into the NYCA. For an Offshore Wind Generation Facility interconnecting in an adjacent Control Area, describe how Proposer intends to fulfill the External Project Delivery Requirement.
- 



#### 8.5 Injection Point Capacity

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5. Provide detail regarding the available capacity, at the time of submission, of the proposed Injection Point.
- 



**ATTACHMENT 8-3.1**

Redacted

**ATTACHMENT 8-3.2**  
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**ATTACHMENT 8-4.1**

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**ATTACHMENT 8-4.2**  
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**ATTACHMENT 8-5**  
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**ATTACHMENT 8-6**  
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**ATTACHMENT 8-7**  
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**ATTACHMENT 9-1**

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**ATTACHMENT 9-2**

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**ATTACHMENT 10-1**

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**ATTACHMENT 10-2**  
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**ATTACHMENT 13-1**

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**ATTACHMENT 15-1**

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**ATTACHMENT 16-1**  
Visual Simulations Narrative

# **VISIBILITY AND VIEWSHED IMPACTS**

## **SUNRISE WIND 2 OFFSHORE WIND PROJECT**

Prepared for

**The New York State Energy Research and Development Authority  
(NYSERDA)**

October 20, 2020

**Sunrise  
Wind**

Powered by  
**Ørsted &  
Eversource**

Submitted by

**Bay State Wind LLC  
437 Madison Avenue, Suite 1903  
New York NY 10022**

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Portions of this Visibility Study contain confidential, proprietary, and/or commercially sensitive information which has been redacted from the "Public Version" of this Proposal. Bay State Wind LLC (d/b/a/ Sunrise Wind 2) has submitted a Confidential Version of this Visibility Study which includes the redacted information, and which should be treated as a non-public record that is exempt from disclosure to the extent permitted under applicable laws and/or as expressly set forth in the Request for Proposals.

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## Acronyms and Abbreviations

BOEM	Bureau of Ocean Energy Management
FAA	Federal Aviation Administration
ft	foot
GIS	geographic information system
km	kilometer
KOP	Key Observation Point
	
m	meter
mi	statute mile
Project	Sunrise Wind 2 Offshore Wind Project
WTG	wind turbine generator

# 1 PROJECT INFORMATION



## 1.1 Introduction

Tetra Tech, Inc. prepared this Visibility Study for the development of the Sunrise Wind 2 Offshore Wind Project (Project) in response to Section 6.4.16 Visibility and Viewshed Impacts of Request for Proposals ORECRFP20-1. [REDACTED]

[REDACTED]

The Project consists of an offshore wind farm to be located in [REDACTED] [REDACTED] to connect power produced by the wind farm to the regional electric transmission system. [REDACTED]

[REDACTED]

[REDACTED]

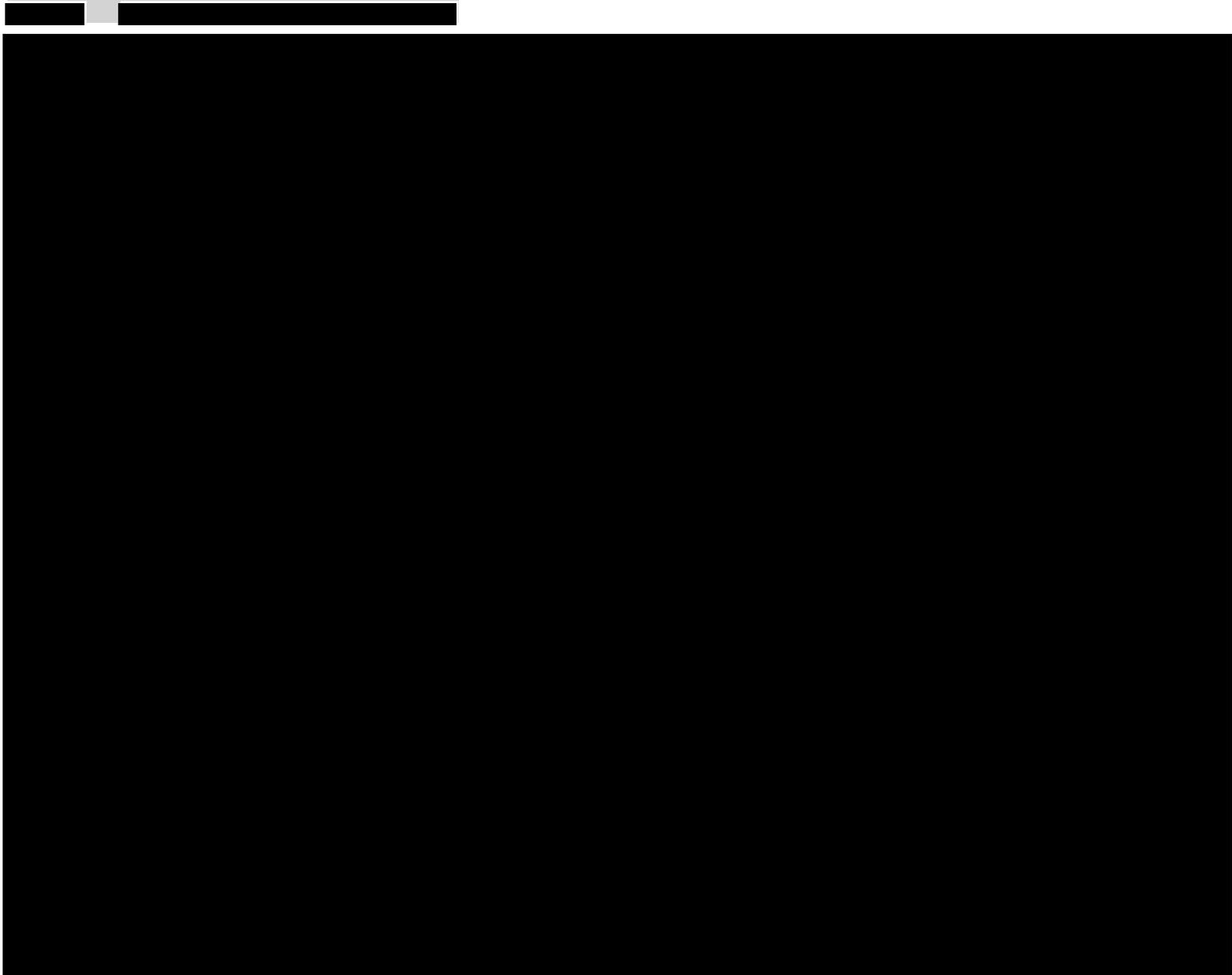
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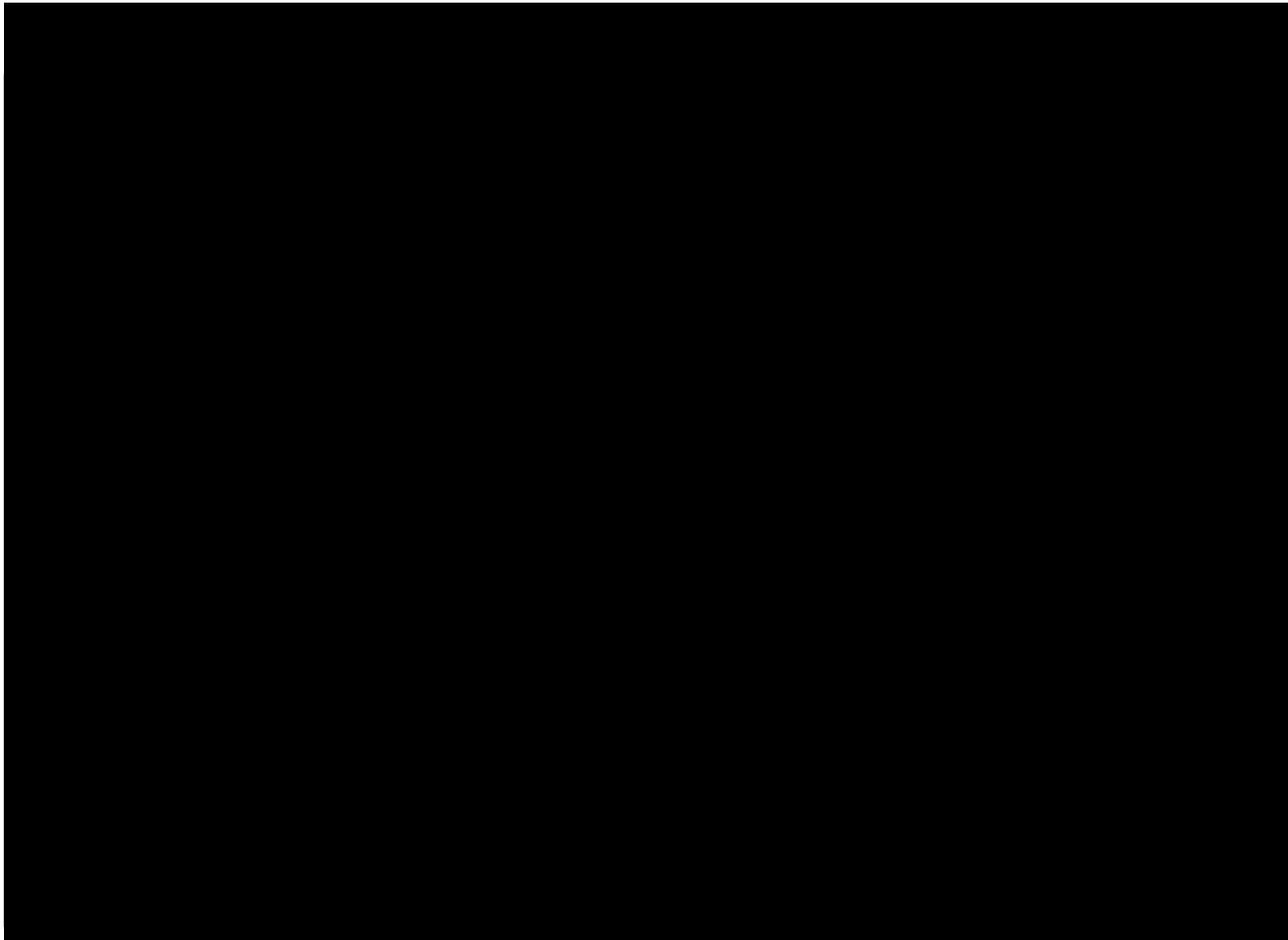
[REDACTED]

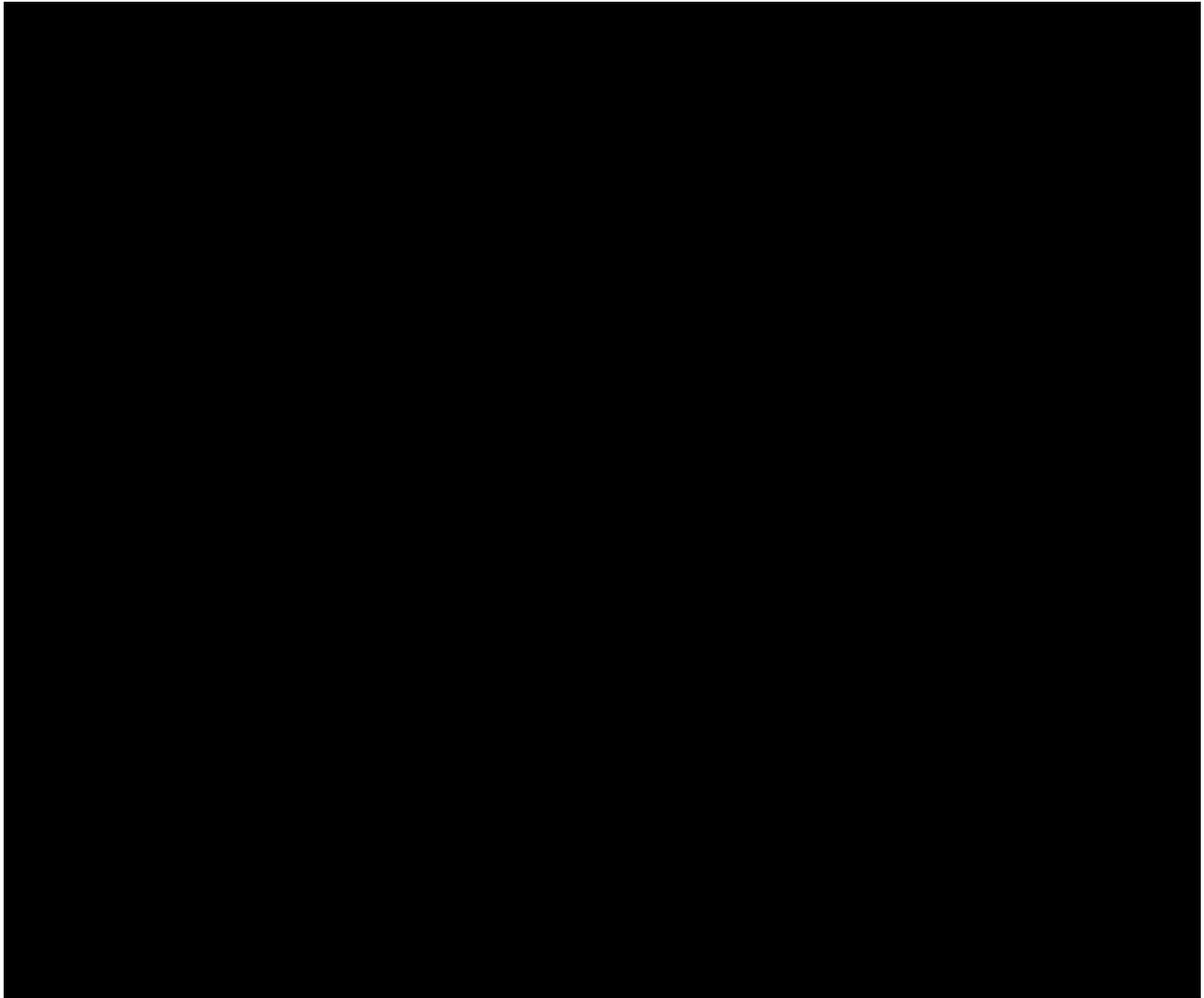
[REDACTED]

[REDACTED] The focus of this report is the portion of the Lease Area being developed for the Project, known as the Wind Farm Area. [REDACTED]

[REDACTED] Visibility of onshore facilities is not included as part of this document but will be analyzed during Project permitting.









## 2 VISIBILITY STUDY

### 2.1 Overview

The closest shoreline to the Project WTGs is the uninhabited Nomans Land Island, located approximately [REDACTED]

Nomans Land Island National Wildlife Refuge is a 628-acre island located in Dukes County, Massachusetts, 3 mi (4.8 km) southwest of Martha's Vineyard in the Atlantic Ocean. The U.S. Fish and Wildlife Service first began managing the eastern third of Nomans Land Island in 1970 under a Joint Management Agreement with the U.S. Navy, while they were actively using the island for military training purposes. In 1998, management of the entire island was transferred from the U.S. Navy to the U.S. Fish and Wildlife Service for the protection and management of migratory birds. Both the island and its surrounding waters have been closed to public access since the U.S. Navy began leasing it in the 1940s as an aerial bombardment and gunnery range.<sup>1</sup> The island is closed to public use and impacts to the local and state economy and historic and visual resources are therefore not expected.

This study analyzes visibility from publicly accessible locations on the southwestern shore of Martha's Vineyard and Nantucket, Massachusetts and the closest location in New York as representative sensitive viewing locations. A detailed visual impact assessment also will be completed for the Construction and Operations Plan per BOEM requirements which would include soliciting agency and stakeholder input as well as technical analysis.

### 2.2 Project Visibility

The Project is located in the open ocean [REDACTED] away from the shorelines of surrounding states. While the distance from which the Project will most often be viewed will minimize the visibility of the WTGs, the degree to which the WTGs will be visible or noticeable depends on several factors including:

- WTG height, distance from viewer, viewer elevation, and curvature of the earth;
- topography, vegetation, and buildings/developments that obscure the WTGs from certain viewpoints;
- atmospheric conditions, including haze and cloud cover;
- lighting angles;
- nighttime lighting; and
- viewing context.

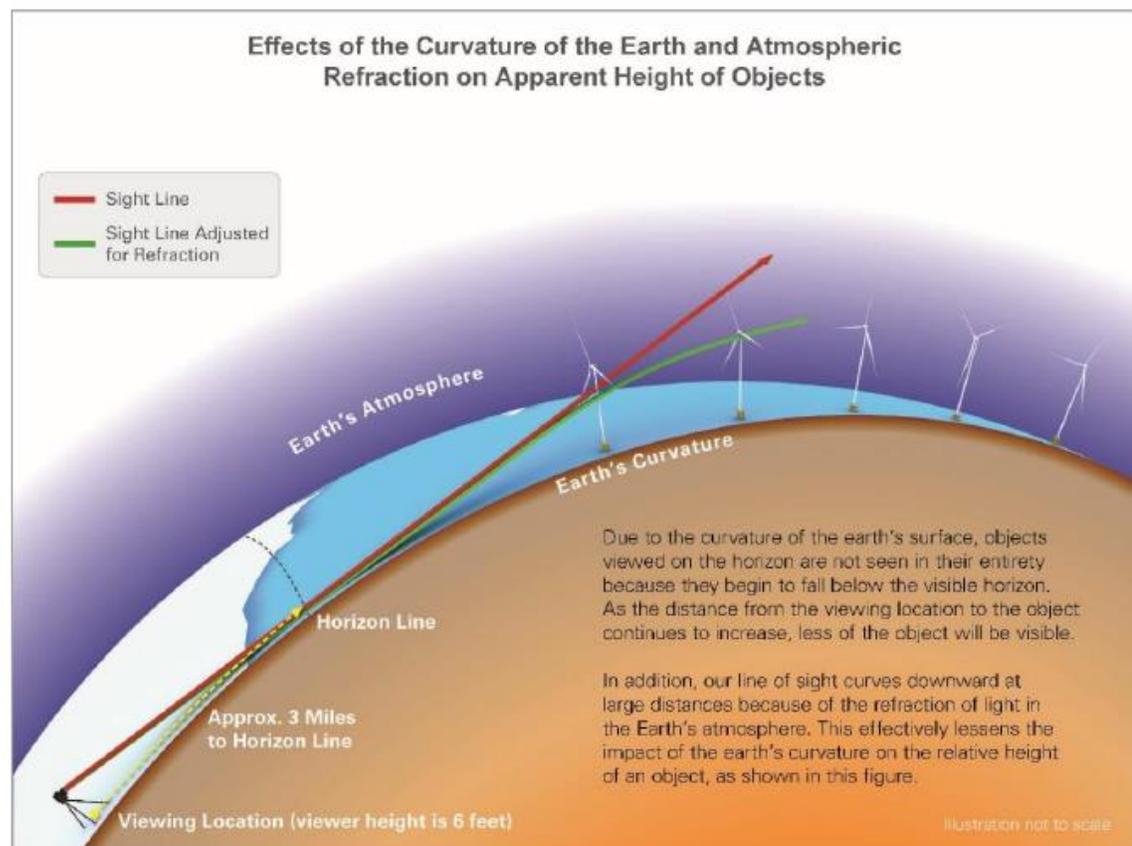
These factors are further described in the following sections.

<sup>1</sup> [https://www.fws.gov/refuge/Nomans\\_Land\\_Island/about.html](https://www.fws.gov/refuge/Nomans_Land_Island/about.html)

### 2.2.1 WTG Height/Curvature of the Earth and Atmospheric Refraction

In general, objects or features that are closer to a viewer's location will appear more detailed and more dominant. In the case of offshore wind projects in which WTGs are often located miles offshore, objects viewed on the horizon are often not seen in their entirety because they begin to fall below the visible horizon due to the curvature of the earth's surface. As the distance increases, less of the object will be visible. In addition, line of sight curves downward at large distances because of the refraction of light in the earth's atmosphere. This effectively lessens the impact of the earth's curvature on the relative height of an object. The effects of the earth's curvature and refraction are calculated with commonly used formulas for surveying work and reasonable assumptions for the average amount of refraction in the atmosphere. The effects of the curvature of the earth and atmospheric refraction on the apparent height of objects is shown in Figure 4.

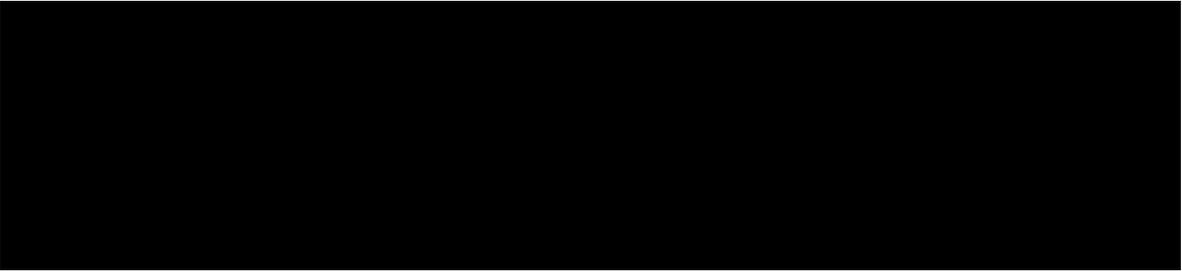
Figure 4. Curvature of the Earth and Atmospheric Refraction



### 2.2.2 Viewer Distance

Viewer distance from an area is a key factor in determining the level of visual effect, with perceived impact generally diminishing as distance between the viewer and the affected area increases (BOEM 2007). The Bureau of Land Management Visual Resource Management categorizes views into foreground/middle ground, background, and seldom

seen distance zones. These distance zones provide a frame of reference for classifying the degree to which details of the viewed Project will affect visual resources. The “foreground/middle ground” area, identified as occurring from 0 to 5 mi (8 km) from the Project, is considered to be the location from which Project element details will be visually clear (in the foreground) and where viewers still have the potential to distinguish individual forms, and texture and color are still identifiable but become muted and less detailed (middle ground). In the “background,” classified as the area from 5 to 15 mi (8 to 24 km), texture has disappeared, and color has flattened making objects appear “washed out”, however, landform ridgelines are still distinguishable. The “seldom seen” area includes lands visible beyond 15 mi (24 km) or lands hidden from view from key locations.



### 2.2.3 Angle of Observation

Angle of observation refers to the angle between the viewer’s line of sight and an object’s location. There are some areas that have superior views towards the Wind Farm Area from potentially sensitive viewpoints. When distance from the WTGs is consistent, viewers at higher elevations (superior views) will see larger portions of the WTGs when compared to viewers at beach level.

### 2.2.4 Meteorological Conditions

Two existing studies were consulted to determine the frequency of various meteorological conditions that would impact visibility of the offshore components in the Wind Farm Area. The New York State Offshore Wind Master Plan, Visibility Threshold Study (NYSERDA 2017) analyzed frequency of certain meteorological conditions and the impact of those conditions on visibility of wind turbines over distance. The NYSERDA study indicated that “...offshore wind energy projects would have minimal visual impact at a distance of 20 miles from shore and negligible impact beyond 25 miles”. As the Sunrise 2 Wind Farm Area is located more than [REDACTED] from New York and not anticipated to be visible, and the NYSERDA study focused on frequency of conditions and visibility within 30 miles, a second study was reviewed that assessed conditions in the geographic area most closely related to the Wind Farm Area.

In 2017, BOEM developed an analysis of the meteorological conditions associated with the offshore Massachusetts and Rhode Island Wind Energy Areas. The report was developed to help understand both the meteorological conditions experienced from select viewpoint locations on Martha’s Vineyard, Nantucket and the southern coast of Massachusetts and Rhode Island, and how they may influence the visibility of offshore wind energy projects. A total of 24 viewpoint locations were identified that represent points the public may frequent that could have a view of any offshore wind energy projects developed in the Wind Energy Areas (BOEM 2017). The analysis was based on hourly meteorological surface data collected at the National Weather Service measurement sites (also referred to as meteorological sites)

in Massachusetts and Rhode Island over a 10-year period. Data collected included wind speed and direction, cloud cover, cloud ceiling height, visibility, precipitation, and temperature (BOEM 2017). The BOEM report was reviewed to identify the typical or average weather conditions and visibility that occur within the Project area.

Based on data collected from the three meteorological sites used in the report (i.e., airport locations in Martha’s Vineyard, Nantucket, Massachusetts and Newport, Rhode Island) and the results of the analysis, clear conditions occurred between 51 and 56 percent of the daylight hours over the course of one year, with visibility during clear conditions averaging approximately 17 to 20 nautical miles (19 to 23 mi; 32 to 37 km). During nighttime hours, clear conditions occurred between 50 and 57 percent of the time over the course of one year, with visibility during clear conditions averaging approximately 16 to 20 nautical miles (18 to 23 mi; 30 to 37 km). Furthermore, visibility was generally found to be greater in wintertime and lower in summer. Figure 5 and Figure 6 provide a summary of the results of the meteorological conditions and visibility, respectively, observed at each of the meteorological sites.

**Figure 5. Summary of Meteorological Conditions – Distribution of Hourly Daylight/Nighttime Observations**

Conditions a/	Meteorological sites					
	Newport		Nantucket		Martha’s Vineyard	
	Daytime	Nighttime	Daytime	Nighttime	Daytime	Nighttime
Clear	56%	57%	51%	50%	53%	54%
Foggy	15%	13%	22%	21%	17%	15%
Rainy	7%	7%	6%	7%	7%	7%
Hazy	1%	1%	2%	1%	1%	1%
Cloudy	21%	22%	19%	21%	22%	23%

a/ Data in the table presents the annual distribution of the five meteorological conditions during daylight hours as a percentage. Each hour is characterized as either clear, foggy, rainy, hazy, or cloudy.  
Source: BOEM 2017.

**Figure 6. Summary of Average Daylight/Nighttime Visibility (nautical miles) at Meteorological Sites**

Conditions a/	Meteorological Sites					
	Newport		Nantucket		Martha’s Vineyard	
	Daytime	Nighttime	Daytime	Nighttime	Daytime	Nighttime
Clear	20	20	17	16	20	18
Foggy	3	3	3	3	3	3
Rainy	8	9	9	9	9	9
Hazy	4	4	4	4	5	5
Cloudy	12	13	12	13	13	13

a/ Data in the table presents the average annual visibility distance for clear, foggy, rainy, hazy, or cloudy conditions for daylight and nighttime hours.  
Source: BOEM 2017.

## 2.3 Visual Simulations

Visual simulations (simulations) were created to depict the Project components and their potential changes to the existing landscape. The simulations depict various weather conditions including clear, partly cloudy and overcast conditions in the early morning, mid-afternoon, late day and nighttime. The simulations were used to determine the level of contrast between the existing landscape and the expected landscape after the Project is commissioned. Simulations are included as Attachment 16-2 to the Proposal.

The simulations were created using geographic information system (GIS) software, Autodesk 3D Studio Max®, and rendering software combined with site photography to depict what would be seen if the Project is developed. To create the simulations, the location data captured by the GPS device for each photographed area were transferred to GIS software, where it was combined with GIS data of the preliminary layouts of Project components and facilities. A map showing the data was exported at true scale and imported into 3D Studio Max®. Using this scaled map as a base, 3D models of the offshore Project area were created to scale. These 3D models of the Project features, previously modeled to scale in 3D Studio Max®, were added in their appropriate locations and elevations. The views from the existing digital photographs were then matched in the 3D model using virtual cameras with the same focal length and field of view as the camera used to capture the photography. After date- and time-specific lighting was added to the 3D model, renderings from the virtual cameras were created. These renderings were then blended into the photographs in Adobe Photoshop software. Any necessary modifications to the existing landscape were completed in Photoshop as well. This process of creating a 3D model at true scale and rendering images using the same specifications used by the camera ensures that the spatial relationships of the landscape, Project features, and viewer perspective are accurate and match the existing site photographs. Each simulation was then scaled to be viewed at a specified distance to represent the actual size of the WTGs.

### 3 POTENTIAL EFFECTS TO VISUAL RESOURCES

Where visible and noticeable, the Project facilities have the potential to create visual effects. The Project will introduce several vertical objects (i.e., WTGs) [REDACTED] into a landscape setting dominated by open expanses of water and defined by the horizon line. The Wind Farm Area is located approximately [REDACTED]

[REDACTED]

[REDACTED] The farther away objects are from the viewer, the smaller they appear, features lose details and become less distinct, and surface textures become difficult to discern. In addition, objects viewed on the horizon are often not seen in their entirety because they begin to fall below the visible horizon due the curvature of the earth's surface.

It is anticipated that views of the Project from the southern coast of mainland Rhode Island and Massachusetts will be limited primarily to coastal beaches that have unobstructed views of the Atlantic Ocean. In seascapes, atmospheric haze reduces the practical visibility, sometimes significantly. Potential viewers located along the southern coast of Rhode Island and Massachusetts, [REDACTED]

[REDACTED] will theoretically only have views of the upper portion of the rotor blade of the above the horizon. It is anticipated that actual visibility at [REDACTED] will not be noticeable or perceived by viewers along the coast. From the southern coast of mainland Rhode Island and Massachusetts, under varying atmospheric conditions such as haze or fog, the WTGs will most likely not be visible.

Potential views of the Project from the south or west shores of Martha's Vineyard and Nantucket will also be limited primarily to locations at coastal beaches and bluffs. [REDACTED]

[REDACTED]

Visibility of turbines is not the only factor that needs to be considered when determining potential visual impacts of the Project. For example, potential visual effects not only consider how much of the turbine is visible, but distance of the turbine from the viewer, number of turbines visible, perceived scale of the turbines, spatial dominance<sup>2</sup>, and meteorological conditions.

At a distance of [REDACTED] it is anticipated that the WTGs will be noticeable to viewers along the coast. However, the degree to which the WTGs will be noticeable will vary depending upon atmospheric conditions. Under certain atmospheric conditions the WTGs located out on the horizon will be "skylined" or seen in front of a contrasting color such as blue sky or a sunset and will be more likely to draw the viewers' attention. The structures will potentially produce visual contrasts by virtue of their design attributes (form, color and line) and the reflectivity of their surfaces (USDI 2013). [REDACTED]

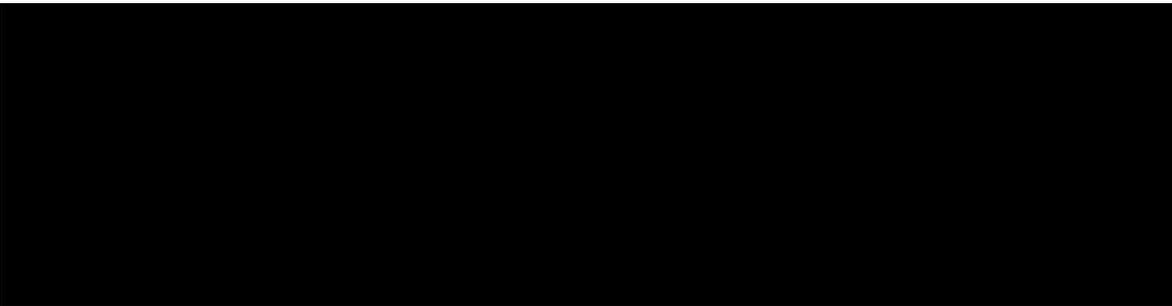
<sup>2</sup> Spatial dominance is the scale of an object relative to the visible expanse of the landscape which forms its setting. The Project will be a subordinate feature in the context of the expansive Atlantic Ocean setting.

[REDACTED] If the weather is overcast, hazy or foggy, the WTGs will produce less contrast because the white/light grey color of the WTGs will be similar to the white/grey color of the backdrop and will be less noticeable.

From areas along the southern coastline of Martha's Vineyard and Nantucket, the WTGs will be the tallest elements in the seascape setting. However, the perceived scale of the WTGs will be relatively small, amounting to fractions of an inch for viewers onshore. [REDACTED]

[REDACTED]

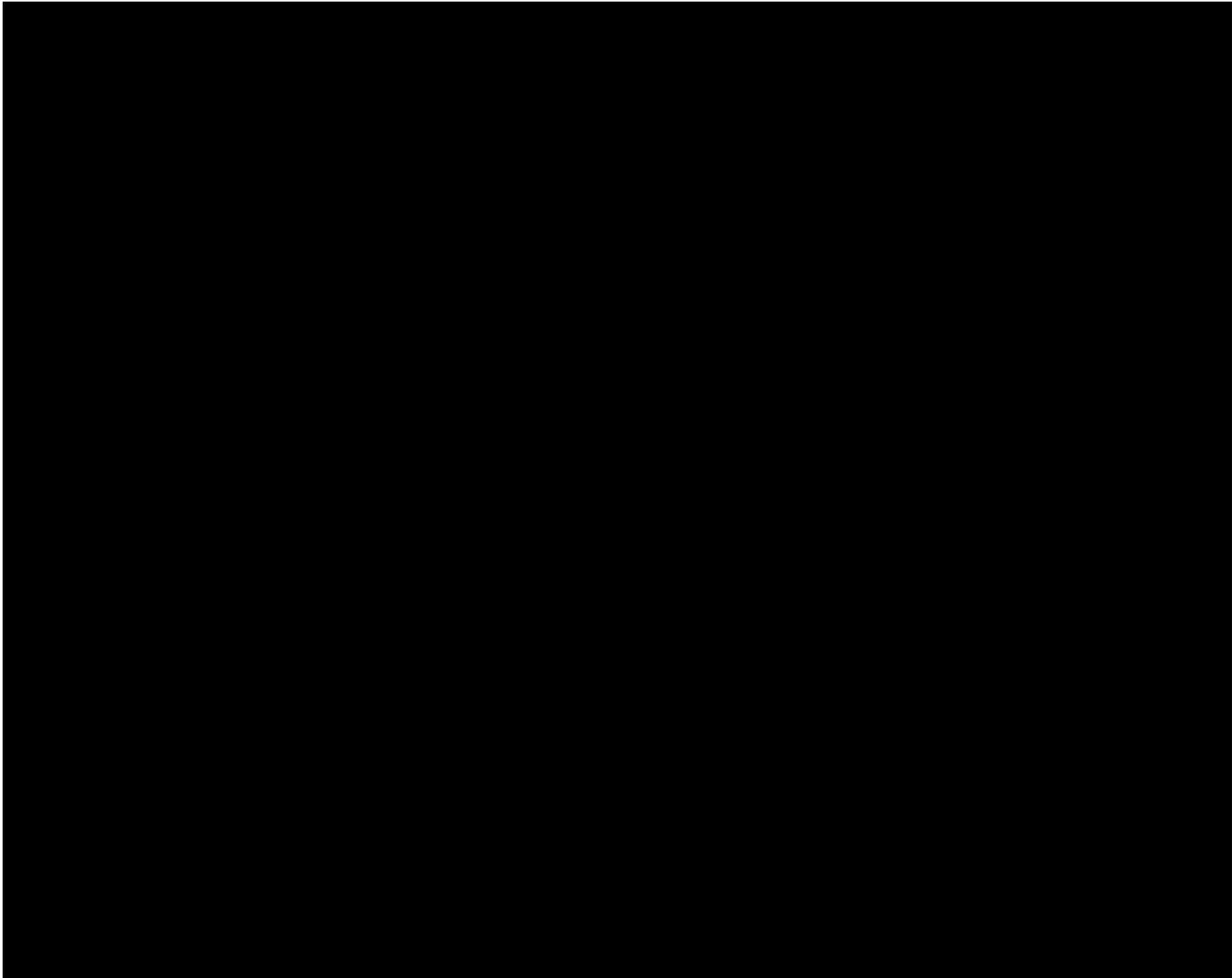
Typically, viewers located away from the coast, including residents, recreational users associated with parks, and motorists along local travel routes will not have views of the offshore Project area, because they will be screened by vegetation and/or urban development. Exceptions will be viewers with an elevated or superior viewing position who have unobstructed views toward the Wind Farm Area.



Construction impacts of the Project were not considered for the purposes of this study. The Construction Operations Plan and associated Visual Impact Assessment will be submitted to BOEM and will analyze those potential effects in detail.

### 3.1 Key Observation Points

Three Key Observation Points (KOPs) representing critical or typical viewpoints within, or along, an identified viewing location were selected and used to assess the visibility and potential visual effects of the proposed Project (see [REDACTED]). The sensitivity of viewers at each KOP is based on the following criteria: type of use, expected concern for aesthetics, and special status or designation. Identifying groups of individuals that will likely be sensitive to visual changes is an important part of the visual assessment process and helps to define specific locations from which to assess changes to the visual character of the landscape.



### 3.1.1 Camp Hero State Park/Montauk Lighthouse

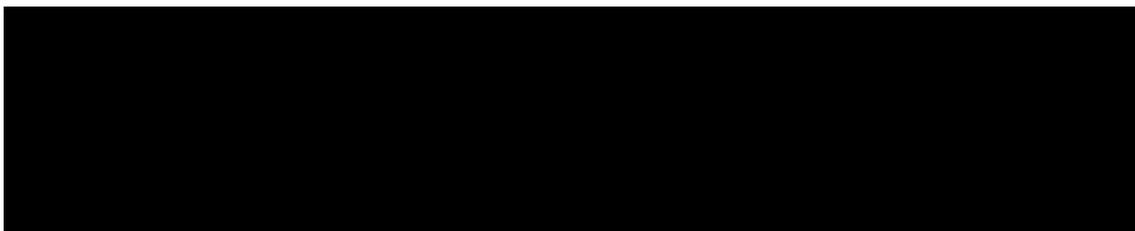
Camp Hero State Park/Montauk Lighthouse is in New York State at the easternmost point of Long Island and is located approximately [REDACTED] to the nearest WTG. This is a high trafficked area with recreational and tourist viewers. Vegetation at this location includes shoreline bluff and low herbaceous vegetation. Views of the horizon are unobstructed and open; however, the WTGs will not be visible due its distance to the Wind Farm Area.

Photographs from this location are provided in Attachment 16-2.

### 3.1.2 Squibnocket

Squibnocket Beach is on the southwestern coastline of Martha's Vineyard and is located [REDACTED]. Squibnocket Beach is located in, as well as owned and maintained by, the town of Chilmark. It is only open to residents and renters from June 15<sup>th</sup> through Labor Day. The landscape surrounding the beach includes Squibnocket Pond to the west, residential development to the north and west, and the Atlantic Ocean. The nearest WTG within the Wind Farm Area is located [REDACTED].

Squibnocket Beach is located in the Cape Cod/Long Island ecoregion. The landscape surrounding this location is typical of the ecoregion and is characterized by beaches, dunes, ponds, and tidal flats. Views from this location consist of flat, sandy beaches with scattered boulders and dunes along the coastline to the northeast and southwest in the foreground/middle ground. Vegetation includes grasses covering the dunes and rolling terrain in the middle ground and background. Trees are scattered along the tops of the dunes and around residential structures.



From this location, portions of [REDACTED] as depicted in the simulations provided in Attachment 16-2 to the Proposal.

### 3.1.3 Madaket Beach

Madaket Beach on the southwestern coast of Nantucket Island is located [REDACTED]. Madaket Beach is owned and maintained by the Town of Nantucket. The landscape surrounding this location includes open space to the north that is part of the Nantucket Land Bank holdings, beaches and dunes along the coastline and the Atlantic Ocean to the west and southwest. [REDACTED]

Located in the Cape Cod/Long Island ecoregion, the landscape is typical of the ecoregion and is characterized by beaches, dunes, coastal inlets and ponds, and grasslands. Views from this location consist of flat, sandy beaches and dunes along the coastline to the northwest and southeast, and the Atlantic Ocean to the west-southwest. Vegetation is limited

to grasses along the dunes. From this KOP, views toward the Wind Farm Area are unobstructed and dominated by the open expanse of the Atlantic Ocean with the horizon line as a main focal point. [REDACTED]

[REDACTED]

This location represents recreational users associated with the dunes, such as sunbathers, surfers, and people walking along the beach. [REDACTED]

[REDACTED]

From this location, portions of [REDACTED] as depicted in the simulations provided in Attachment 16-2 to the Proposal.

## 4 CONCLUSIONS

The level of change perceived by viewers will be dependent upon multiple factors, including distance between the viewer and the structure, the height of the WTGs, the elevation of the viewer, the curvature of the earth, and meteorological conditions. [REDACTED]

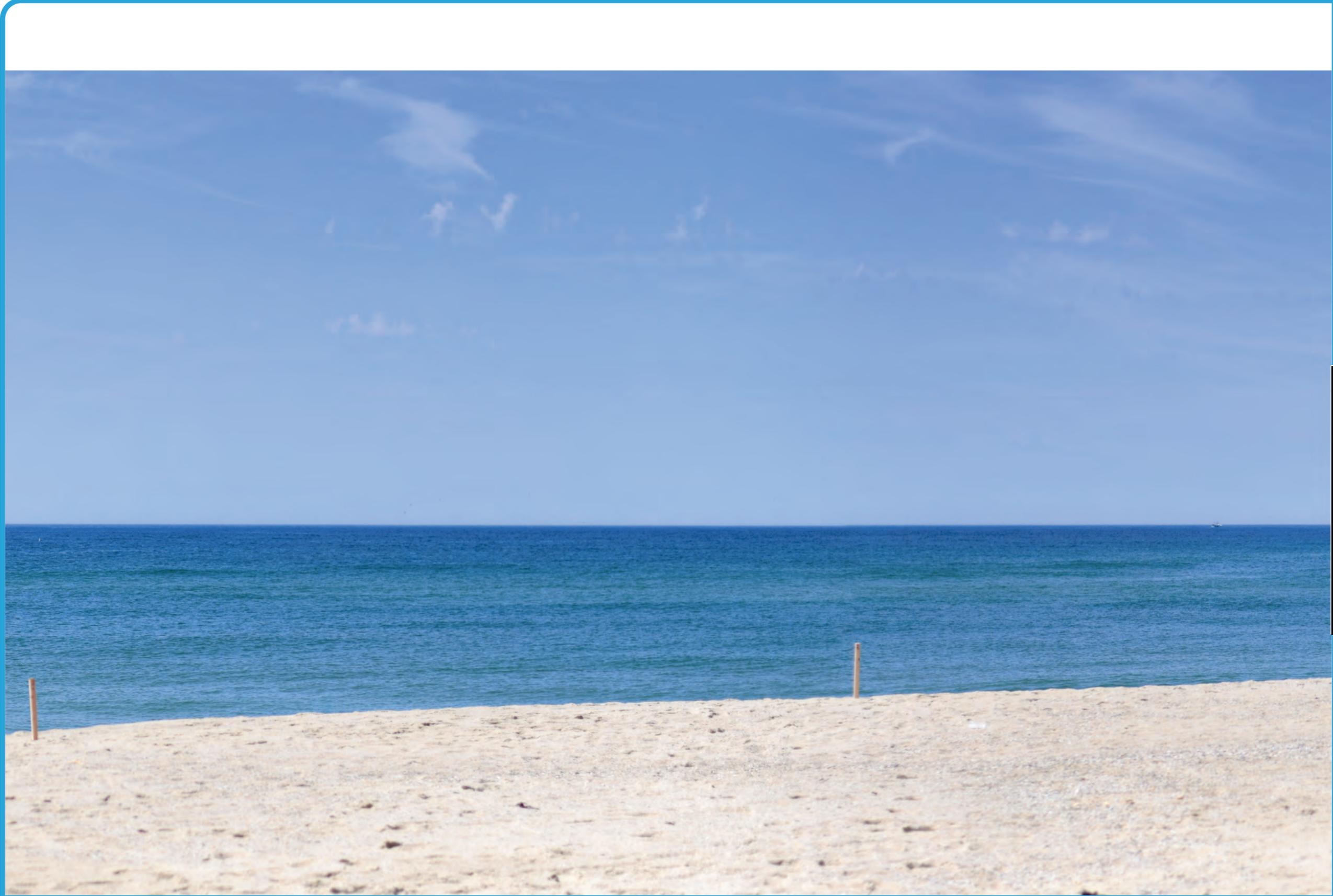
[REDACTED] Several measures to mitigate visual effects have been incorporated into the siting and design of the Project offshore components. In addition to the minimal visual impacts of the Project detailed in this report, the following mitigation measures have been or will be implemented:

- The offshore Project components will be located in a designated Lease Area identified by BOEM as suitable for commercial offshore wind development.
- The WTG design and appearance will align with mitigation measures recommended by BOEM (2007). All WTGs will be uniform in shape, color, size of rotor, nacelle and tower type.
- The WTGs [REDACTED] will be white/light gray which will help to minimize contrast with the sky under most conditions.

## 5 REFERENCES

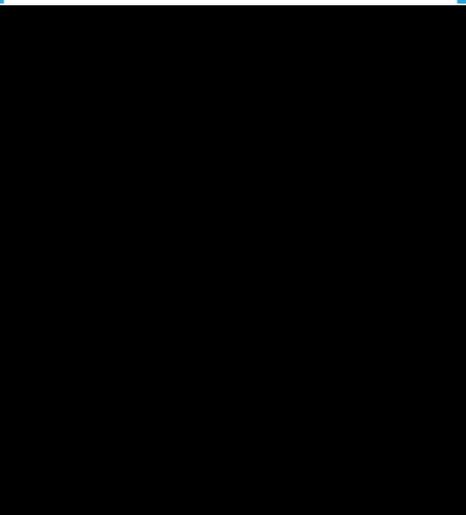
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- Sullivan, R.G., L.B. Kirchler, J. Cothren, S.L. Winters. 2013. Offshore Wind Turbine Visibility and Visual Impact Threshold Distances. Environmental Practice. Volume 14, Number 1. Pp. 33-49.
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ATTACHMENT 16-2  
Visual Simulations (Public)



Sunrise Wind 2  
Offshore Wind  
Project  
**EXISTING CONDITIONS**

Madaket Beach  
Nantucket, MA



**Simulation Data**

PHOTOGRAPH INFORMATION			
View Location	Madaket Beach	Latitude	41.270710 N
Date of Photograph	06/09/2018	Longitude	-70.202874 W
Time of Photograph	11:18 AM	Viewing Direction	Southwest
Weather Condition	Sunny	Observer Height	18 feet



**Viewing Instructions:**  
The simulations should be printed at 11-by-17 inches; full size with no scaling; and viewed at a distance of 24 inches.  
If viewed on a computer monitor, the document should be scaled to 100 percent and viewed at a distance of 24 inches.

Existing Conditions

Sunrise Wind 2  
Offshore Wind  
Project

Early Morning  
Clear

Madaket Beach

Nantucket, MA



Simulation Data

PHOTOGRAPH INFORMATION

View Location	Madaket Beach	Latitude	41.270710 N
Date of Photograph	06/09/2018	Longitude	-70.202874 W
Time of Photograph	Morning (Simulated)	Viewing Direction	Southwest
Weather Condition	Clear	Observer Height	18 feet

Turbines

Viewing Instructions:

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Simulated Conditions

Sunrise Wind 2  
Offshore Wind  
Project

Early Morning  
Partly Cloudy  
Madaket Beach

Nantucket, MA



Simulation Data

PHOTOGRAPH INFORMATION

View Location	Madaket Beach	Latitude	41.270710 N
Date of Photograph	06/09/2018	Longitude	-70.202874 W
Time of Photograph	Morning (Simulated)	Viewing Direction	Southwest
Weather Condition	Partly Cloudy	Observer Height	18 feet

Turbines

Viewing Instructions:

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Simulated Conditions

Sunrise Wind 2  
Offshore Wind  
Project

Early Morning  
Overcast

Madaket Beach

Nantucket, MA



Simulation Data

PHOTOGRAPH INFORMATION

View Location	Madaket Beach	Latitude	41.270710 N
Date of Photograph	06/09/2018	Longitude	-70.202874 W
Time of Photograph	Morning (Simulated)	Viewing Direction	Southwest
Weather Condition	Overcast	Observer Height	18 feet

Turbines



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Simulated Conditions

Sunrise Wind 2  
Offshore Wind  
Project

Mid-Afternoon  
Clear

Madaket Beach

Nantucket, MA



Simulation Data

PHOTOGRAPH INFORMATION

View Location	Madaket Beach	Latitude	41.270710 N
Date of Photograph	06/09/2018	Longitude	-70.202874 W
Time of Photograph	Afternoon	Viewing Direction	Southwest
Weather Condition	Clear	Observer Height	18 feet

Turbines

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Simulated Conditions

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Offshore Wind  
Project

Mid-Afternoon  
Partly Cloudy

Madaket Beach

Nantucket, MA



Simulated Conditions

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Sunrise Wind 2  
Offshore Wind  
Project

Mid-Afternoon  
Overcast

Madaket Beach

Nantucket, MA



Simulation Data

PHOTOGRAPH INFORMATION

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Sunrise Wind 2  
Offshore Wind  
Project

Late Day  
Clear

Madaket Beach

Nantucket, MA



Simulation Data

PHOTOGRAPH INFORMATION

View Location	Madaket Beach	Latitude	41.270710 N
Date of Photograph	06/09/2018	Longitude	-70.202874 W
Time of Photograph	Late Day <small>(simulated)</small>	Viewing Direction	Southwest
Weather Condition	Clear	Observer Height	18 feet

Turbines

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The simulations should be printed at 11-by-17 inches; full size with no scaling; and viewed at a distance of 24 inches.

If viewed on a computer monitor, the document should be scaled to 100 percent and viewed at a distance of 24 inches.

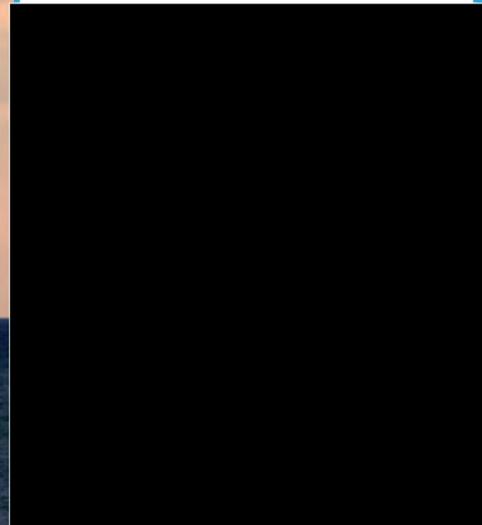
Simulated Conditions



**Sunrise Wind 2  
Offshore Wind  
Project**

**Late Day  
Partly Cloudy  
Madaket Beach**

Nantucket, MA



**Simulation Data**

PHOTOGRAPH INFORMATION			
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Simulated Conditions

Sunrise Wind 2  
Offshore Wind  
Project

Late Day  
Overcast

Madaket Beach

Nantucket, MA

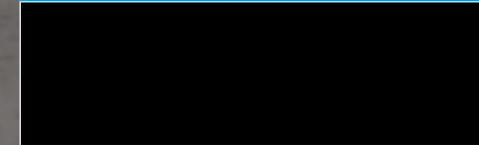


Simulation Data

PHOTOGRAPH INFORMATION

View Location	Madaket Beach	Latitude	41.270710 N
Date of Photograph	06/09/2018	Longitude	-70.202874 W
Time of Photograph	Late Day <small>(simulated)</small>	Viewing Direction	Southwest
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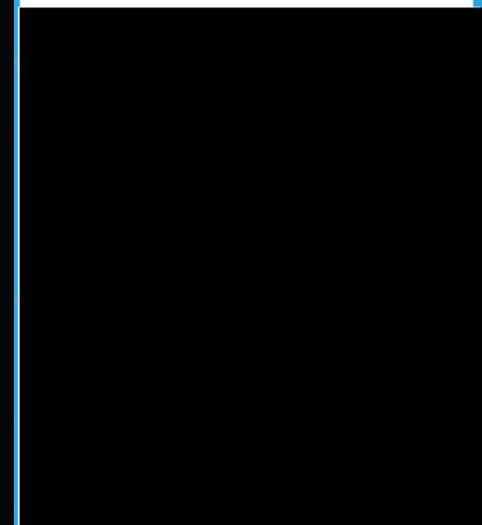
Simulated Conditions

Sunrise Wind 2  
Offshore Wind  
Project

Nighttime  
Clear

Madaket Beach

Nantucket, MA



Simulation Data

PHOTOGRAPH INFORMATION			
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Sunrise Wind 2  
Offshore Wind  
Project

Nighttime  
Clear

Madaket Beach

Nantucket, MA

Simulation of Sunrise Wind 2 Offshore Wind Project at Madaket Beach, Nantucket, MA, Nighttime, Clear

Sunrise 2 Wind will implement an Aircraft Detection Lighting System (or similar system) to turn on, and off, the aviation obstruction lights in response to detection of aircraft in proximity to the wind farm, pursuant to approval by the FAA, commercial and technical feasibility, and dialogue with stakeholders.

**Simulated Conditions**

**Simulation Data**

**PHOTOGRAPH INFORMATION**

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Time of Photograph	Night	Viewing Direction	Southwest
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Sunrise Wind 2  
Offshore Wind  
Project

EXISTING CONDITIONS

Squibnocket

Martha's Vineyard  
Aquinnah, MA



Simulation Data

PHOTOGRAPH INFORMATION

View Location	Squibnocket	Latitude	41.301414 N
Date of Photograph	09/17/2020	Longitude	-70.77579 W
Time of Photograph	11:22 AM	Viewing Direction	Southeast
Weather Condition	Overcast	Observer Height	10 feet

Turbines

Viewing Instructions:

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Sunrise Wind 2  
Offshore Wind  
Project

Early Morning  
Clear

Squibnocket

Martha's Vineyard  
Aquinnah, MA



Simulation Data

PHOTOGRAPH INFORMATION

View Location	Squibnocket	Latitude	41.301414 N
Date of Photograph	09/17/2020	Longitude	-70.77579 W
Time of Photograph	Morning (Simulated)	Viewing Direction	Southeast
Weather Condition	Clear	Observer Height	10 feet

Turbines

Viewing Instructions:

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Simulated Conditions

Sunrise Wind 2  
Offshore Wind  
Project

Early Morning  
Partly Cloudy  
Squibnocket

Martha's Vineyard  
Aquinnah, MA



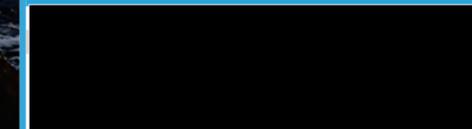
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Simulation Data

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Sunrise Wind 2  
Offshore Wind  
Project

Early Morning  
Overcast

Squibnocket

Martha's Vineyard  
Aquinnah, MA



Simulated Conditions

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Sunrise Wind 2  
Offshore Wind  
Project

Mid-Afternoon  
Clear

Squibnocket

Martha's Vineyard  
Aquinnah, MA



Simulated Conditions

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Sunrise Wind 2  
Offshore Wind  
Project

Mid-Afternoon  
Partly Cloudy  
Squibnocket

Martha's Vineyard  
Aquinnah, MA



Simulated Conditions

Simulation Data

PHOTOGRAPH INFORMATION

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Sunrise Wind 2  
Offshore Wind  
Project

Mid-Afternoon  
Overcast  
Squibnocket

Martha's Vineyard  
Aquinnah, MA



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Simulated Conditions

Sunrise Wind 2  
Offshore Wind  
Project

Late day  
Clear

Squibnocket

Martha's Vineyard  
Aquinnah, MA



Simulated Conditions

Simulation Data

PHOTOGRAPH INFORMATION

View Location	Squibnocket	Latitude	41.301414 N
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**Sunrise  
Wind**

Powered by  
Ørsted &  
Eversource

**Sunrise Wind 2  
Offshore Wind  
Project**

**Late Day  
Partly Cloudy  
Squibnocket**

**Martha's Vineyard  
Aquinnah, MA**

**Simulation Data**

**PHOTOGRAPH INFORMATION**

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**Simulated Conditions**

Sunrise Wind 2  
Offshore Wind  
Project

Late Day  
Overcast

Squibnocket

Martha's Vineyard  
Aquinnah, MA



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Simulated Conditions

Sunrise Wind 2  
Offshore Wind  
Project

Nighttime  
Clear

Squibnocket

Martha's Vineyard  
Aquinnah, MA

Simulation Data

PHOTOGRAPH INFORMATION

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Sunrise Wind 2  
Offshore Wind  
Project

Nighttime  
Clear

Squibnocket

Martha's Vineyard  
Aquinnah, MA



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**Simulation Data**

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**Turbines**



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Sunrise Wind 2  
Offshore Wind  
Project

EXISTING CONDITIONS

Montauk Point  
State Park  
Montauk Point  
Montauk, NY



Simulation Data

PHOTOGRAPH INFORMATION

View Location	Montauk Lighthouse	Latitude	41.070889 N
Date of Photograph	09/19/2020	Longitude	-71.856342 W
Time of Photograph	3:22 PM	Viewing Direction	East
Weather Condition	Clear	Observer Height	8 feet

Turbines

Viewing Instructions:

At a distance of over 50 miles, no turbines will be visible from this location and simulations with specific viewing instructions have not been provided. This photograph provides a view of the existing conditions at this location.

Sunrise Wind 2  
Offshore Wind  
Project

Early Morning  
Clear

Montauk Point  
State Park  
Turtle Cove  
Montauk, NY



Simulation Data

PHOTOGRAPH INFORMATION

View Location	Montauk Lighthouse	Latitude	41.070889 N
Date of Photograph	09/19/2020	Longitude	-71.856342 W
Time of Photograph	4:05 PM	Viewing Direction	East
Weather Condition	Clear	Observer Height	8 feet

Turbines

Viewing Instructions:

At a distance of over 50 miles, no turbines will be visible from this location and simulations with specific viewing instructions have not been provided. This photograph provides a view of the existing conditions at this location.

**Sunrise Wind 2  
Offshore Wind  
Project**

**Early Morning  
Partly Cloudy**

Montauk Point  
State Park  
Paumanok Path  
Montauk, NY



Existing Conditions

**Simulation Data**

**PHOTOGRAPH INFORMATION**

View Location	Montauk Lighthouse	Latitude	41.070889 N
Date of Photograph	09/19/2020	Longitude	-71.856342 W
Time of Photograph	4:29 PM	Viewing Direction	East
Weather Condition	Clear	Observer Height	8 feet

**Turbines**

**Viewing Instructions:**

At a distance of over 50 miles, no turbines will be visible from this location and simulations with specific viewing instructions have not been provided. This photograph provides a view of the existing conditions at this location.

**ATTACHMENT 16-3**

Redacted

**ATTACHMENT 17-1**  
Redacted

**ATTACHMENT 17-2**  
Redacted

**ATTACHMENT 17-3**  
Redacted

**ATTACHMENT 17-4**  
Redacted

**ATTACHMENT 17-5**  
Redacted

**ATTACHMENT 17-6**  
Redacted

**ATTACHMENT 17-7**  
**SOV Press Release**

# Edison Chouest Offshore affiliate executes long-term charter agreement with Ørsted and Eversource for provision of the first U.S. Jones Act compliant wind farm Service Operation Vessel

10.01.2020 07:00



**Cut Off, Louisiana** — Edison Chouest Offshore (ECO), Ørsted and Eversource announced today the execution of a long-term charter agreement for the provision of the first-ever U.S. flagged “Jones Act” compliant Service Operations Vessel (SOV). The SOV will be engineered, constructed and operated by ECO as an integral part of the operation and maintenance of the Revolution Wind, South Fork Wind and Sunrise Wind offshore wind farms in the northeast United States, which are dependent on obtaining the necessary federal permits from the Bureau of Ocean Energy Management (BOEM).

The SOV will be utilized during the operation & maintenance (O&M) phases of the wind farm projects, serving as an at sea base of operations to accommodate and transfer technicians, tools and parts safely to and from the individual Wind Turbine Generators. This vessel is a special-purpose design with focus on passenger comfort and safety, enhanced maneuverability and ship motions, extended offshore endurance and reduced emissions.

The vessel will be built at a combination of Edison Chouest’s shipyards in Florida, Mississippi and Louisiana, creating well over 300 new construction jobs. The construction of

this vessel will also have a broader economic impact on other U.S. states hosting suppliers of major components, with some notable beneficiaries being North Carolina and Illinois for steel and main engines, respectively. While the offshore wind industry is relatively new to the United States, states in the Gulf of Mexico region, who have a long history in offshore related industries, stand to immediately gain from the high transferability of existing jobs over to offshore wind. In addition to jobs created in Louisiana, the vessel will operate from New York once in operation.

“The offshore wind energy industry is generally well developed and understood, particularly in Europe where an enormous industry has developed over decades, but this industry is in an initial stage in the United States. There is an unprecedented opportunity, with twelve offshore wind projects planned, an additional ten offshore wind leases signed, and another six wind leases awaiting award. In aggregate, there is a pipeline of well over 25 thousand megawatts of power to be produced by over 1,700 wind turbines, across thirteen states, and in various stages of development that will require an incredible array of vessels, resources, knowledge, and capital commitment to install, operate, and repair,” says Mr. Gary Chouest, President of Edison Chouest Offshore. “We’re unique in the U.S. offshore marine vessel industry with our own in-house engineering group, our own shipyards, and a wealth of expertise in the offshore industry putting us in a dominant position in the industry with the unique capability to engineer, construct and operate specialized vessels for this market.”

The vessel will be over 260 feet long and capable of housing 60 passengers. Crew will enjoy access to passenger staterooms with private bathrooms, an exercise room, cinema/training room, internet café and multiple lounges. The SOV will include a below deck warehouse to palletize storage for wind farm tools, components and supplies with step-less access to an elevator. A Daughter Craft, with associated Launch and Recovery System and hydraulic height-compensating landing platform, will also be installed for infield turbine repair operations. In keeping with the environmental goals of the offshore wind industry, this vessel will operate on diesel electric power that meets EPA Tier 4 emission standards and will feature proprietary ECO Variable Frequency Drive (VFD) to reduce greenhouse gas emissions.

“This is an incredible moment for the American offshore wind industry,” said Thomas Brostrøm, CEO of Ørsted North America, Offshore. “It is hard to state what this moment means for this new, multi- billion-dollar industry. The SOV is not only a crucial part of our plans to build out and operate our Northeast Wind Farms, but it represents just how far reaching the economic impacts of offshore wind can be; offshore wind means massive investments for U.S. companies and jobs for American workers, even those in states without active projects.”

“Today’s news represents a key moment in the advancement of the offshore wind industry in the United States,” said Joe Nolan, Executive Vice President at Eversource Energy. “Not only is this new vessel a critical component of our plans to build and develop the next generation of clean energy in our country, it’s a testament to how far the industry has come in such a short time and what we can achieve moving forward. This new state of the art vessel will help us deliver on the promise of creating jobs, driving economic growth, and combating climate

change and will play a key role in our efforts to support states in meeting their commitment to decarbonization.”

“The Offshore Marine Service Association (OMSA) is thrilled that Ørsted and Eversource are investing in U.S. vessels,” said Aaron Smith, President of OMSA. “This is proof that the offshore wind will be an economic driver for the U.S. maritime industry and the U.S. maritime industry is fully capable of satisfying the needs of the offshore wind.”

###

### **About Edison Chouest Offshore**

Founded as Edison Chouest Boat Rental in 1960, ECO is recognized today as the most diverse and dynamic marine transportation solution provider in the world. ECO operates a growing fleet of almost 300 vessels, up to 525 feet in length, and serving an expanding global customer base. ECO is the largest provider of U.S. ‘Jones Act’ compliant offshore marine vessels, the largest provider of offshore marine service vessels to Central and South American markets, has the largest base of shipyards in the U.S., owns and manages world-class port terminal facilities and operates worldwide on all oceans, including the Arctic and Antarctic regions. Staying on the forefront of new technologies is an integral part of the ECO vision, as evidenced by recent advances in the areas of emissions reductions, subsea support services, integrated bridge systems, remote monitoring of vessel systems and global communications. Please visit Edison Chouest Offshore’s website at [www.chouest.com](http://www.chouest.com).

### **About Ørsted North America, Offshore**

The Ørsted vision is a world that runs entirely on green energy. Ørsted ranks #1 in Corporate Knights’ 2020 index of the Global 100 most sustainable corporations in the world and is recognized on the CDP Climate Change A List as a global leader on climate action.

In the United States, Ørsted operates the Block Island Wind Farm, America’s first offshore wind farm, and constructed the two-turbine Coastal Virginia Offshore Wind pilot project – the first turbines to be installed in federal waters. Ørsted has secured over 2,900 megawatts of additional capacity through five projects in the Northeast and Mid-Atlantic. Ørsted’s North American Offshore business is jointly headquartered in Boston, Massachusetts and Providence, Rhode Island and employs more than 150 people. To learn more visit [us.orssted.com](http://us.orssted.com) or follow us on Facebook, Instagram and Twitter (@OrstedUS).

### **About Eversource**

Eversource (NYSE: ES), celebrated as a national leader for its corporate citizenship, is the #1 energy company in Newsweek’s list of America’s Most Responsible Companies for 2020 and recognized as one of America’s Most JUST Companies and the #1 utility by Forbes and JUST Capital. Eversource transmits and delivers electricity to 1.25 million customers in 149 cities and towns, provides natural gas to 237,000 customers in 74 communities, and supplies water to approximately 199,000 customers in 52 communities across Connecticut. Eversource harnesses the commitment of approximately 8,300 employees across three states to build a single, united company around the mission of safely delivering reliable energy and water with superior customer service. The #1 energy efficiency provider in the nation, the company is empowering a clean energy future in the Northeast, with nationally-recognized energy

efficiency solutions and successful programs to integrate new clean energy resources like solar, offshore wind, electric vehicles and battery storage, into the electric system. For more information, please visit [eversource.com](http://eversource.com), and follow us on Twitter, Facebook, Instagram, and LinkedIn. For more information on our water services, visit [aquarionwater.com](http://aquarionwater.com).

**Contact:**

Edison Chouest Offshore

Dino Chouest

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Ørsted North America, Offshore

Cam Stoker

Email: [casto@orsted.com](mailto:casto@orsted.com)

Tel: +1 857-332-6215

Eversource Energy

John Olivieri

Email: [john.olivieri@eversource.com](mailto:john.olivieri@eversource.com)

Tel: +1 617-417-6188

**ATTACHMENT 17-8**  
Redacted

**ATTACHMENT 17-9**  
Redacted