

EMBRAER BRAZILIAN AVIATION CO

Form 20-F

June 30, 2003

As filed with the Securities and Exchange Commission on June 30, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 20-F

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g)
OF THE SECURITIES EXCHANGE ACT OF 1934**
OR

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended: December 31, 2002

OR

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

For the transition period from [] to []

Commission file number 1-15102

EMBRAER-EMPRESA BRASILEIRA DE AERONÁUTICA S.A.

(Exact name of Registrant as specified in its charter)

EMBRAER Brazilian Aviation Company Inc.

(Translation of Registrant's name into English)

Federative Republic of Brazil
(Jurisdiction of Incorporation)

Avenida Brigadeiro Faria Lima, 2170
12227-901 São José dos Campos, São Paulo, Brazil
(Address of principal executive offices)

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

Title of each class:

Preferred shares, without par value
American Depositary Shares (as evidenced by American Depositary
Receipts), each representing four preferred shares

Name of each exchange on which registered:

New York Stock Exchange*
New York Stock Exchange

*

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Not for trading purposes, but only in connection with the registration of American Depositary Shares pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None.

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None.

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

242,544,448 common shares, without par value

470,429,907 preferred shares, without par value

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

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INTRODUCTION

In this annual report, Embraer, we, us or our refer to Embraer-Empresa Brasileira de Aeronáutica S.A. and its consolidated subsidiaries (unless the context otherwise requires). All references herein to the *real*, *reais*, or R\$ are to the Brazilian *real*, the official currency of Brazil. All references to US\$, dollars, or U.S. dollars are to United States dollars.

Presentation of Financial and Other Data

Financial Data

Our audited financial statements at and for the years ended December 31, 2000, 2001 and 2002 are included in this annual report and have been audited by Deloitte Touche Tohmatsu.

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP. Because we export approximately 97.7% of our production and operate in an industry that uses the U.S. dollar as its currency of reference, management believes that the U.S. dollar is our functional currency and the most appropriate currency in which to present our financial statements. Accordingly, we decided to present our primary U.S. GAAP financial statements in U.S. dollars. As a result, amounts for all periods presented have been remeasured or translated into U.S. dollars in accordance with the methodology set forth in Statement of Financial Accounting Standards No. 52 (SFAS 52).

Prior to 2001, we presented our financial statements in accordance with accounting principles generally accepted in Brazil, or Brazilian GAAP, stated in Brazilian *reais* and adjusted for the effects of inflation. Previously, amounts of net income and shareholders' equity under Brazilian GAAP were reconciled to those that would have been reported under U.S. GAAP. Our financial statements and financial data presented herein and prepared in accordance with U.S. GAAP do not reflect the effects of inflation.

Pursuant to SFAS 52 as it applies to us, non-monetary assets and liabilities, including inventories, property, plant and equipment, accumulated depreciation and shareholders' equity are remeasured at historical rates of exchange, while monetary assets and liabilities denominated in currencies other than U.S. dollars are remeasured at period-end rates. Export sales invoiced in currencies other than the U.S. dollar are remeasured at the respective exchange rate on the date of sale. Cost of sales and services, depreciation and other expenses relating to assets remeasured at historical exchange rates are calculated based on the U.S. dollar values of such assets, and other non-U.S. dollar statement of income accounts are remeasured at the rate prevailing on the date of the charge or credit to income.

In our 2000, 2001 and 2002 financial statements, gains or losses resulting from the remeasurement of the financial statements and from foreign currency transactions have been reported in the consolidated statement of income as single line items. See Note 2.a to our consolidated financial statements.

Effective January 1, 2002, we decided to reclassify certain costs related to information technology, support, training and education as general and administrative expenses, instead of as cost of sales and services. All amounts for prior periods presented in this annual report have been restated to give effect to this reclassification. These reclassified costs equaled US\$9.8 million in 1998, US\$11.4 million in 1999, US\$21.3 million in 2000, US\$30.5 million in 2001 and US\$32.2 million in 2002. Effective January 1, 2002, we also began netting research and development related contributions that we receive from certain of our suppliers against our research and development expense, instead of recording these contributions as other operating income. All amounts for prior periods presented in this annual report have been restated to give effect to this reclassification. These reclassified amounts equaled US\$14.1 million in 2001 and US\$1.0 million in 2002.

For certain purposes, such as providing reports to our Brazilian shareholders, filing financial statements with the Comissão de Valores Mobiliários, or CVM, the Brazilian securities commission, and determining dividend payments and other distributions and tax liabilities in Brazil, we have prepared and will continue to be required to prepare financial statements in accordance with Law No. 6,404 of December 15, 1976, as amended, or the Brazilian

Corporate Law. Our financial statements prepared in accordance with the Brazilian Corporate Law are not adjusted to account for the effects of inflation.

As a result of the remeasurement of amounts to the functional currency and other adjustments related to the differences in accounting principles between U.S. GAAP and Brazilian GAAP, the amounts of net income and shareholders' equity as reported in our consolidated financial statements presented herein differ from those included in our statutory accounting records.

Other Data

Some of the financial data contained in this annual report reflects the effect of rounding. Aircraft ranges are indicated in nautical miles. One nautical mile is equal to approximately 1.15 ordinary or statute miles, or approximately 1.85 kilometers. Aircraft speeds are indicated in nautical miles per hour, or knots, or in Mach, which is a measure of the speed of sound. The term "regional jets" refers to narrow body jet aircraft with 20-110 passenger seats. The term "mid-capacity jets" refers to the 70-110 seat segment of regional jets.

We calculate the value of our backlog by considering all firm orders that have not yet been delivered. A firm order is a firm commitment from a customer, represented by a signed contract, customarily accompanied by a down payment, where we have reserved a place on one of our production lines. Every time we refer to our backlog in this annual report, we only make reference to firm orders, and not to options. When we refer in this annual report to the number or value of regional aircraft, we exclude one EMB 145 and two EMB 135s that were delivered to the Belgian government in 2001, one EMB 145 delivered to the Belgian government in 2002, and one EMB 135 aircraft that we delivered to the Greek government. These aircraft have been included in our defense data.

Special Note Regarding Forward-Looking Statements

This annual report includes forward-looking statements, within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the U.S. Securities Exchange Act of 1934, as amended, or the Exchange Act, principally in Items 3 through 5 of this annual report. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends affecting our business. These forward-looking statements are subject to risks, uncertainties and assumptions, including, among other things:

general economic, political and business conditions, both in Brazil and in our markets;

management's expectations and estimates concerning our future financial performance, financing plans and programs, and the effects of competition;

successful development and marketing of the EMBRAER 170/190 jet family, our line of corporate jets and our defense aircraft;

our level of debt;

anticipated trends in our industry;

our expenditure plans;

inflation and devaluation;

our ability to develop and deliver our products on a timely basis;

availability of sales financing for our existing and potential customers;

(iii)

existing and future governmental regulation; and

other risk factors as set forth under Item 3D. Risk Factors.

The words believes, may, will, estimates, continues, anticipates, intends, expects and similar words are intended to identify forward-looking statements. We undertake no obligation to update publicly or revise any forward-looking statements because of new information, future events or other factors. In light of these risks and uncertainties, the forward-looking events and circumstances discussed in this annual report might not occur. Our actual results could differ substantially from those anticipated in our forward-looking statements.

(iv)

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

3A. Selected Financial Data

The following table presents our selected financial and other data at and for each of the periods indicated. The selected financial data at and for the three years ended December 31, 2000, 2001 and 2002 are derived from our consolidated U.S. GAAP financial statements audited by Deloitte Touche Tohmatsu, independent public accountants, included elsewhere in this annual report. The selected financial data at and for the year ended December 31, 1999 has been derived from our U.S. GAAP financial statements audited by Deloitte Touche Tohmatsu, independent accountants. The selected financial data at and for the year ended December 31, 1998 has been derived from financial statements originally prepared in accordance with Brazilian GAAP and audited by Arthur Andersen S/C, independent public accountants. This 1998 financial statement data has been restated in accordance with U.S. GAAP and is unaudited.

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At and for the year ended December 31,

	1998	1999	2000	2001	2002
(in thousands, except per share /ADS data)					
Income Statement Data					
Net sales	US\$ 1,353,541	US\$ 1,837,277	US\$ 2,762,162	US\$ 2,926,995	US\$ 2,525,800
Cost of sales and services	(970,224)	(1,248,675)	(1,879,318)	(1,769,234)	(1,531,720)
Gross profit	383,317	588,602	882,844	1,157,761	994,080
<i>Operating expenses</i>					
Selling expenses	US\$ (99,256)	US\$ (119,234)	US\$ (193,420)	US\$ (212,057)	US\$ (211,015)
Research and development	(39,749)	(18,808)	(69,593)	(99,566)	(158,499)
General and administrative	(50,166)	(55,948)	(96,645)	(120,787)	(109,673)
Employee profit sharing	(14,703)	(20,437)	(41,770)	(43,746)	(25,222)
Stock compensation	(4,334)	(2,436)	(510)	(1,074)	
Other operating expense, net	(3,431)	(3,629)	(19,518)	(29,463)	(20,498)
Equity on income (loss) from affiliates		(142)	753	310	389
Total operating expenses	US\$ (211,639)	US\$ (220,634)	US\$ (420,703)	US\$ (506,383)	US\$ (524,518)
<i>Income from operations</i>	US\$ 171,678	US\$ 367,968	US\$ 462,141	US\$ 651,378	US\$ 469,562
<i>Non-operating income (expense)</i>					
Interest income (expense)	US\$ (17,859)	US\$ 14,779	US\$ (6,874)	US\$ 47,502	US\$ 80,456
Financial transaction loss, net	(3,536)	(65,226)	(24,637)	(148,637)	(135,647)
Other non-operating income (expense), net	3,591	(13,361)	5,955	(8,426)	(1,394)
Total non-operating income (expense)	US\$ (17,804)	US\$ (63,808)	US\$ (25,556)	US\$ (109,561)	US\$ (56,585)
<i>Income before income taxes</i>	US\$ 153,874	US\$ 304,160	US\$ 436,585	US\$ 541,817	US\$ 412,977
Provision for income taxes	US\$ (8,587)	US\$ (69,620)	US\$ (117,379)	US\$ (218,394)	US\$ (188,502)
<i>Income before minority interest</i>	US\$ 145,287	US\$ 234,540	US\$ 319,206	US\$ 323,423	US\$ 224,475
Minority interest			1,522	(423)	(1,883)
<i>Income before cumulative effect of accounting change</i>	US\$ 145,287	US\$ 234,540	US\$ 320,728	US\$ 323,000	US\$ 222,592
Cumulative effect of accounting change, net of tax				5,440	
<i>Net income</i>	US\$ 145,287	US\$ 234,540	US\$ 320,728	US\$ 328,440	US\$ 222,592
Earnings per share					
Common share basic (1) (3) (6)	US\$ 0.27	US\$ 0.43	US\$ 0.55	US\$ 0.48	US\$ 0.30
Preferred share basic (1) (3) (6)	0.29	0.48	0.61	0.53	0.33
ADS basic (1) (3) (6)	1.18	1.90	2.43	2.11	1.32
Common share diluted (2) (3) (6)	0.27	0.38	0.48	0.46	0.30
Preferred share diluted (2) (3) (6)	0.29	0.42	0.53	0.50	0.33
ADS diluted (2) (3) (6)	1.17	1.66	2.10	2.01	1.31
Dividends per share					
Common share (3) (4) (5)	US\$ 0.031635	US\$ 0.085199	US\$ 0.249700	US\$ 0.254140	US\$ 0.193490
Preferred share (3) (4) (5)	0.034799	0.093719	0.274670	0.279560	0.212830
ADS (3) (4) (5)	0.139196	0.374876	1.098680	1.118240	0.851320

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Weighted averaged number of shares outstanding

Common share basic (3)		242,544		242,544		242,544		242,544		242,544
Preferred share basic (3)		272,590		272,590		308,401		402,035		454,414
Common share diluted (3)		242,544		242,544		242,544		242,544		242,544
Preferred share diluted (3)		274,441		347,064		392,954		433,386		459,415

Balance Sheet Data

Cash and cash equivalents	US\$	259,690	US\$	304,085	US\$	1,189,231	US\$	749,302	US\$	656,822
Other current assets		820,828		986,961		920,278		1,816,046		1,856,301
Property, plant and equipment, net		138,613		162,429		254,965		366,481		436,715
Other long-term assets		622,017		757,463		528,942		628,958		1,335,626
		<u> </u>								
Total assets	US\$	<u>1,841,148</u>	US\$	<u>2,210,938</u>	US\$	<u>2,893,416</u>	US\$	<u>3,560,787</u>	US\$	<u>4,285,464</u>
Short-term loans		550,730		556,272		365,043		526,550		244,526
Other current liabilities		483,471		561,897		967,283		1,161,313		1,397,407
Long-term loans		124,038		80,597		90,969		245,186		308,110
Other long-term liabilities		513,232		647,271		677,013		599,212		1,237,015
Minority interest						7,748		8,170		8,226
Shareholders equity		<u>169,677</u>		<u>364,901</u>		<u>785,360</u>		<u>1,020,356</u>		<u>1,090,180</u>
		<u> </u>								
Total liabilities and shareholders equity	US\$	<u>1,841,148</u>	US\$	<u>2,210,938</u>	US\$	<u>2,893,416</u>	US\$	<u>3,560,787</u>	US\$	<u>4,285,464</u>

At and for the year ended December 31,

	1998	1999	2000	2001	2002
(in thousands, except per share /ADS data)					
Other Financial Data					
Net cash provided by (used in) operating activities	US\$(28,442)	US\$(125,826)	US\$1,119,974	US\$(263,160)	US\$507,863
Net cash provided by (used in) financing activities	236,606	(5,632)	(130,398)	98,403	(200,790)
Net cash used in investing activities	(38,727)	(75,799)	(104,430)	(275,172)	(208,421)
Depreciation and amortization	21,046	25,076	30,596	46,417	55,602

- (1) Based on weighted average number of shares outstanding. See Note 27 to our consolidated financial statements.
- (2) Based on weighted average number of shares outstanding and the effects of potentially dilutive securities. See Note 27 to our consolidated financial statements.
- (3) Restated to give effect to the reverse stock split, on April 30, 1999, of one newly issued common or preferred share for 100 outstanding preferred shares or 100 outstanding common shares, respectively. Also restated to give effect to the issuance on March 1, 2002, in the form of a preferred share dividend, of 0.142106 new preferred share for each existing preferred or common share.
- (4) Includes interest on shareholders' equity.
- (5) Translated from nominal *reais* into U.S. dollars at the commercial selling rates in effect on the dates that distributions were declared during the period. The dividends to the ADSs were adjusted from the total amount paid to the preferred shares multiplied by four.
- (6) During 1999 and 2000, our results of operations benefited from changes we made to our valuation allowance related to deferred tax assets. Based on our assessment of future taxable income, we concluded that it was more likely than not that we would realize certain of these benefits given our improved profitability and increases in expected sales and backlog. The adjustments to the valuation allowances resulted in a decrease to income tax expense of US\$168.5 million in 1999 and US\$27.5 million in 2000. In addition, in 2001, we adopted SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities, as amended. As a result, we recognized a gain of US\$5.4 million, net of related taxes, as a cumulative effect of a change in accounting. The following summarizes the earnings per share impact related to the above adjustments.

	1999	2000	2001
Effect of tax adjustments	US\$168,533	US\$27,539	
Effect of cumulative effect of change in accounting			5,440
Total	168,533	27,539	5,440
Basic earnings per common share	0.31	0.05	0.01
Basic earnings per preferred share	0.34	0.05	0.01
Basic earnings per ADS	1.37	0.21	0.04
Diluted earnings per common share	0.27	0.04	0.01
Diluted earnings per preferred share	0.30	0.05	0.01
Diluted earnings per ADS	1.20	0.19	0.04

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At and for the year ended December 31,

	1998	1999	2000	2001	2002
Other Data:					
Aircraft delivered during period:					
To the Regional Market					
EMB 120 Brasília	13	7		2	
ERJ 145	60	80	112	104	80
ERJ 135		16	45	27	3
ERJ 140				22	36
To the Defense Market					
EMB 120 Brasília	1				
Legacy					1
EMB 135			1	2	
EMB 145				1	1
EMB 145 AEW&C/RS/MP					5
EMB 312 Tucano	6				
AM-X	10	3	1		
To the Corporate Market					
Legacy					8
EMB 135			2	5	
To the General Aviation Market					
Light Aircraft	26	17	17	11	25
	<u>116</u>	<u>123</u>	<u>178</u>	<u>174</u>	<u>161</u>
Total delivered	116	123	178	174	161
Aircraft in backlog at the end of period:					
In the Regional Market(1)					
EMB 120 Brasília	7		2		
ERJ 145	131	176	261	159	109
ERJ 135	134	124	85	53	31
ERJ 140			133	152	116
EMBRAER 170		40	90	82	88
EMBRAER 195		30	30	30	30
In the Defense Market					
EMB 145 AEW&C/RS/MP	8	12	12	15	10
EMB 312 Tucano/EMB 314 Super Tucano				86	86
AM-X	4	1			
EMB 145			2	1	
EMB 135		1	2	1	
In the Corporate Market					
Legacy/EMB 135			29	66	58
In the General Aviation Market					
Light aircraft		2			
	<u>284</u>	<u>386</u>	<u>646</u>	<u>645</u>	<u>528</u>
Total backlog (in aircraft)	284	386	646	645	528
Total backlog (in millions)	US\$4,112	US\$6,365	US\$11,421	US\$10,693	US\$9,034

(1) Subsequent to December 31, 2002, we received 126 net additional firm orders for our EMBRAER 170/190 jet family.

Exchange Rates

There are two foreign exchange markets in Brazil that are subject to regulation by the Brazilian Central Bank, or the Central Bank, both of which operate at free-floating rates:

the free rate foreign exchange market, also known as the commercial market, and

the floating rate foreign exchange market.

In 1999, the Central Bank unified the operational limits applicable to both markets. However, each market continues to have a specific regulation. Most trade and financial foreign exchange transactions, including transactions relating to the purchase or sale of preferred shares or the payment of dividends with respect to preferred shares or ADSs, are carried out on the commercial market at the applicable commercial market rate. Purchase of foreign currencies in the commercial market may be carried out only through a Brazilian bank authorized to buy and sell currency in that market. In both markets, rates are freely negotiated but may be strongly influenced by Central Bank intervention.

Between March 1995 and January 1999, the Central Bank permitted the gradual devaluation of the *real* against the U.S. dollar pursuant to an exchange rate policy that established a band within which the *real*/U.S. dollar exchange rate could fluctuate.

Responding to pressure on the *real*, on January 13, 1999, the Central Bank widened the foreign exchange band. Because the pressure did not ease, on January 15, 1999, the Central Bank allowed the *real* to float freely. The *real* reached a low of R\$1.4659 per US\$1.00 on January 15, 1999 and a high of R\$3.9552 per US\$1.00 on October 22, 2002. At June 16, 2003, the commercial market rate for purchasing U.S. dollars was R\$2.8508 to US\$1.00. We cannot assure you that the *real* will not appreciate or devalue substantially in the near future.

The following table shows the commercial selling rate for U.S. dollars for the periods and dates indicated.

Exchange Rate of <i>Reais</i> to US\$1.00				
	Low	High	Average (1)	Period-end
Year ended December 31,				
1998	1.1165	1.2087	1.1611	1.2087
1999	1.2078	2.1647	1.8158	1.7890
2000	1.7234	1.9847	1.8295	1.9554
2001	1.9357	2.8500	2.3532	2.3204
2002	2.2709	3.9552	2.9309	3.5333

Exchange Rate of <i>Reais</i> to US\$1.00		
	Low	High
Month ended		
December 31, 2002	3.4278	3.7980
January 31, 2003	3.2758	3.6623
February 28, 2003	3.4832	3.6580
March 31, 2003	3.3531	3.5637
April 30, 2003	2.8898	3.3359
May 31, 2003	2.8653	3.0277
June 30, 2003 (through June 16)	2.8504	2.9776

Source: Central Bank.

(1) Represents the daily average exchange rate during each of the relevant periods.

We will pay any cash dividends and make any other cash distributions with respect to the preferred shares in Brazilian currency. Accordingly, exchange rate fluctuations may affect the U.S. dollar amounts received by the

holders of ADSs on conversion by the depositary of such distributions into U.S. dollars for payment to holders of ADSs. Fluctuations in the exchange rate between the *real* and the U.S. dollar may also affect the U.S. dollar equivalent of the *real* price of the preferred shares on the São Paulo Stock Exchange.

3B. Capitalization and Indebtedness

Not applicable.

3C. Reasons for the Offer and Use of Proceeds

Not applicable.

3D. Risk Factors

Risks Relating to Embraer

A downturn in the regional aircraft market may reduce our sales and revenue, and consequently our profitability, in any given year.

We expect that a substantial portion of our sales in the near future will be derived from sales of regional aircraft, particularly the ERJ 145 regional jet family and the EMBRAER 170/190 jet family. Historically, the market for regional aircraft has been cyclical due to a variety of factors that are both external and internal to the air travel industry, including general economic conditions.

The commercial aviation industry has been negatively impacted by a number of factors beginning in 2001. First, the U.S. and world economies have been experiencing an economic downturn that began in 2001 and is characterized by rapid declines in securities markets, a decline in productivity and an increase in unemployment. Second, the terrorist attacks of September 11th caused an immediate decline in airline travel and a high level of financial uncertainty among the worldwide airline industry. Many airlines faced, and continue to face, a reduction in demand, escalating insurance costs, increased security costs, increasing fuel costs and, in some cases, credit downgrades, liquidity concerns and bankruptcy. Finally, airline travel decreased significantly in 2003 as a result of both the commencement of military action by the United States and other countries in Iraq and the concerns over outbreaks of severe acute respiratory syndrome (SARS) in Asia and Canada. In response to these events, beginning in the fourth quarter of 2001 many airlines, including our largest customers, reduced their flight schedules for the long-term and announced significant lay-offs. As a result, we have agreed to modify certain delivery schedules to adjust to the changes in our customers' businesses and have reduced scheduled regional, corporate jet and government transportation aircraft deliveries in 2002 to 131 aircraft as compared to planned 2002 deliveries of 205 at August 31, 2001 and reduced 2003 scheduled deliveries to 110 aircraft from planned 2003 deliveries of 148 as of December 31, 2002. We have also re-evaluated our risk exposure related to aircraft valuations and customer credit risk, which resulted in charges to income. A further downturn in general economic conditions could result in further reduction in the passenger aircraft market and decreased orders for our regional aircraft.

We cannot, at this time, predict the magnitude or duration of the impact that the above events will have on the airline industry as a whole and on our business in particular. If one of our customers experiences a business downturn, cannot obtain financing or otherwise seeks to limit its capital expenditures, that customer could defer or cancel its purchase of our regional aircraft or change its operating requirements. Because our regional aircraft represent the majority of our net sales, sales of our other products would not be able to offset a reduction in sales of our regional aircraft. Future delays or decreases in the number of regional aircraft delivered in any year would likely reduce our sales and revenue, and consequently our profitability, for that year.

We depend on a small number of key customers and key suppliers, the loss of any of which could harm our business.

Civil aircraft. We rely on a limited number of customers for a substantial portion of our total net sales. As of June 30, 2003, our largest customers were ExpressJet, American Eagle, JetBlue Airways, US Airways, Wexford and Swiss International Airlines, Ltd., or SWISS. At the same date, 78.5% of our firm orders in backlog for the ERJ 145 were attributable to ExpressJet, 55.3% of our options for the ERJ 145 were attributable to ExpressJet and US Airways, and 81.1% of our firm orders and 55.6% of our options for the ERJ 140 were from American Eagle. In addition, at June 30, 2003, JetBlue Airways, US Airways and GE Capital Aviation Services together represented 77.9% of firm orders in backlog and 80.9% of options for the EMBRAER 170/190 jet family, and 65.5% of our firm orders in backlog and 61.0% of our options for the Legacy, our new line of corporate jets, were from Swift Aviation Services. We believe that we will continue to depend on a limited number of large customers, the loss of any of which could reduce our sales and reduce our market share. Fewer sales could reduce our profitability.

Defense aircraft. The Brazilian Air Force is our largest customer of defense aircraft products. Sales to the Brazilian government accounted for 31.8% of our defense sales for the year ended December 31, 2002. A decrease in defense spending by the Brazilian government due to defense spending cuts, general budgetary constraints or other factors that are out of our control could decrease our defense sales and defense research and development funding. Given past statements by the Brazilian government of its intent to reduce its overall level of spending, we cannot assure you that the Brazilian government will continue to purchase aircraft or services from us in the future at the same rate or at all.

Key suppliers. Our risk-sharing partners develop and manufacture significant portions of our aircraft, including the engines, hydraulic components, avionics, wings, interior and parts of the fuselage and tail. Once risk-sharing partners have been selected and program development and aircraft production have begun, it is difficult to substitute these partners. In some cases, the aircraft are designed specifically to accommodate a particular component, such as the engines, which cannot be substituted by another manufacturer without significant delays and expense. This dependence makes us susceptible to the risks of performance, product quality and financial condition of these risk-sharing partners.

We cannot assure you that we will not experience significant delays in obtaining key equipment in our manufacturing process in the future. Although we work closely with and monitor the production process of our risk-sharing partners and suppliers, the failure of our risk-sharing partners and other major suppliers to meet our performance specifications, quality standards or delivery schedules could affect our ability to deliver new aircraft to customers in a timely manner.

Any decrease in Brazilian government-sponsored customer financing, or increase in government-sponsored financing that benefits our competitors, may decrease the cost-competitiveness of our aircraft.

Historically, when purchasing our aircraft, our customers have benefited from export financing incentives provided by Brazilian government-sponsored export programs. The most important of these government programs is a system of interest rate adjustments called the Programa de Financiamento às Exportações, or Export Financing Program, known as the ProEx program.

In July 1998, the Canadian government initiated a proceeding at the World Trade Organization, or WTO, accusing the Brazilian government of granting prohibited export subsidies relating to sales of aircraft to foreign purchasers under the ProEx program. The Brazilian government countered, accusing the Canadian government of granting prohibited export subsidies to the Canadian aircraft industry. On April 14, 1999, the WTO declared the portions of the ProEx program relating to Brazilian aircraft financing, and some aspects of the Canadian aircraft financing programs, to be prohibited export subsidies. Following appeals, the WTO formally decided on August 20, 1999 to give Brazil until November 18, 1999 to withdraw the prohibited export subsidies or make any necessary adjustments to bring the program into compliance with WTO rules. On April 28, 2000, the WTO concluded that Brazil had failed to comply with the earlier ruling to remove prohibited subsidies by November 18, 1999. In particular, the WTO concluded that the issuance of ProEx benefits after November 18, 1999 pursuant to letters of commitment issued by the Brazilian government to our customers prior to November 18, 1999 were prohibited export subsidies. The WTO also concluded that the amended version of the ProEx program, adopted in response to

the WTO's August 1999 ruling, still decreased effective interest rates for regional aircraft to below commercial market levels and thus continued to provide a prohibited export subsidy. In July 2000, the WTO confirmed this decision after an appeal by the Brazilian government. The Brazilian government publicly announced that it would honor its contractual commitments to our customers. As a result of Brazil's continuing to provide ProEx benefits under its contractual commitments, the WTO dispute settlement body granted Canada the authority to impose up to US\$1.4 billion in trade sanctions over five to six years against Brazil. Canada has not yet imposed sanctions. We cannot predict what form, if any, these sanctions will take and whether such sanctions will adversely affect our business. The Brazilian government subsequently amended the ProEx program so that any ProEx payments would not decrease the effective interest rate below the interest rate permitted by the WTO. On August 23, 2001, the dispute settlement body of the WTO determined the revised ProEx program was in full compliance with WTO rules.

Although this ruling confirms ProEx's compliance with WTO rules, the ProEx program or other export financing programs available to our customers may be subject to challenge in the future. If the ProEx program or another similar program is not available in the future, or if its terms are substantially reduced, our customers' financing costs could be higher and our cost-competitiveness in the regional jet market could decrease.

In 2001, the Canadian government agreed to provide up to US\$1.1 billion of low-interest financing to Air Wisconsin, an affiliate of United Airlines, to fund its purchase of Bombardier regional jets. The Brazilian government challenged these subsidies and, in January 2002, a WTO panel declared that such subsidies were illegal and required Canada to withdraw the funds. The panel also found that, since 1996, two airlines in addition to Air Wisconsin had been recipients of illegal subsidies. As a result, the dispute settlement body of the WTO authorized Brazil to apply retaliatory measures against Canada in the amount of US\$248 million. Officials of the Canadian government have indicated that they intend to continue providing support to Bombardier. Any future subsidies supporting Bombardier or any of our other major competitors may cause the cost-competitiveness of our aircraft to suffer and our sales to decline.

The Brazilian and Canadian governments have entered into negotiations regarding government support for aircraft exports. We cannot assure you that any agreement will be reached.

Brazilian government budgetary constraints could reduce amounts available to our customers under government-sponsored financing programs.

In addition to the ProEx program, we rely on the BNDES-*exim* program, also a government-sponsored financing program, to assist customers with financing. This program provides our customers with direct financing for Brazilian exports of goods and services. At December 31, 2002, approximately 48.0% of our backlog (in terms of value) was subject to financing by the BNDES-*exim* program. As government-sponsored programs, the ProEx program and the BNDES-*exim* program rely on funds allocated from the Brazilian national budget. Therefore, the funds available to our customers under these programs will be affected by currency fluctuations and other political and economic developments in Brazil and the international capital markets. See Risks Relating to Brazil. For example, a decrease in the amounts available under the ProEx program caused us to make other financing arrangements for affected customers. In addition, from time to time, government-sponsored financing programs such as ProEx or BNDES-*exim* can be subject to challenge. We cannot assure you that the Brazilian government will continue to sponsor and/or fund these programs or that funds under these or other similar programs will be available to our customers. The loss or significant reduction of funds available under one or either of these programs, without an adequate substitute, could lead to fewer sales and has caused and may continue to cause us to compensate our customers for their additional financing costs, resulting in lower profitability for Embraer.

We face a number of challenges resulting from the development of new products and our expansion into new markets.

As we continue to develop the EMBRAER 170/190 jet family, we will have to continue reallocating existing resources and coordinating with new suppliers and risk-sharing partners. We also need to recruit, retain and motivate additional highly skilled engineers and other personnel to assist us in our research and development activities, which are essential to the success of our current and future programs. There is significant competition within the aviation industry for skilled personnel in general and engineers in particular. As a result, we may be unable to recruit the necessary number of highly skilled engineers and other personnel we require. Failure to

coordinate our resources in a timely manner or to attract and retain skilled personnel could impede our development efforts and cause delays in production and deliveries of our aircraft, which would delay recognition of revenue.

Finally, we may pursue strategic growth opportunities, including joint ventures, acquisitions or other transactions, to expand our business or enhance our products and technology. We may face a number of challenges, including difficulties in identifying appropriate candidates, assimilating their operations and personnel and maintaining internal standards and controls, as well as the diversion of our management's focus from our ongoing business. We cannot assure you that we will be able to meet these challenges or that our business will not face disruptions.

We may have to refund cash contributions after the development of the EMBRAER 170/190 jet family if certification for these aircraft is not obtained.

Our risk-sharing partners have contributed to us a total of US\$250.6 million for the development of the EMBRAER 170/190 jet family as of December 31, 2002. If we cancel the development and production of the EMBRAER 170/190 jet family because we are unable to obtain certification or for other non-market related reasons, we may be obligated to refund all or a part of these cash contributions. If we require additional financing and we are unable to obtain it, we will not be able to develop and market our EMBRAER 170/190 jet family.

Our aircraft sales are subject to cancellation provisions, repurchase and trade-in options and financial and residual value guarantees that may reduce our cash flow or require us to make significant cash disbursements in the future.

A portion of our aircraft firm orders is subject to significant contingencies, both before and after delivery. Prior to delivery, some of our purchase contracts may be terminated, or all or a portion of a particular firm order may be canceled, for different reasons, including:

extended delays in delivering aircraft or failure to obtain certification of the aircraft or otherwise meet performance milestones and other requirements;

failure of the customer to receive financing, when required, with respect to any aircraft by the scheduled delivery date of such aircraft, in which case the customer could cancel the order for the particular aircraft to be financed or terminate the contract with respect to all undelivered aircraft; or

exceeding production rate limits.

Our customers may also reschedule deliveries, particularly during an economic downturn. A substantial number of cancellations or extensions of delivery schedules could reduce our sales and revenue for a given year, which in turn would reduce our cash flow.

We may also have to repurchase a number of our aircraft. Under the relevant purchase contracts, the price per aircraft of any required repurchase is less than the original purchase price of the aircraft and less than our estimate at that time of the market value of the relevant aircraft type in future years (based on third party appraisals of aircraft valuations). If we are required to repurchase all of the relevant aircraft under our repurchase obligation, which covers the period from 2003 to 2007, we could be required to pay up to approximately US\$500 million for these aircraft.

At December 31, 2002, 34 of our regional jets were subject to trade-in options and additional aircraft may become subject to trade-in options upon delivery. These options provide that the trade-in price can be applied to the price of an upgraded model or any of our other aircraft. The trade-in price is determined in the manner discussed above for regional jets and as a percentage of the original purchase price for our corporate jets. We may be required to accept trade-ins at trade-in prices that are above the then-market price of the aircraft, which would result in financial loss for us when we resell the aircraft.

We also have guaranteed the financial performance of a portion of the financing for, and the residual value of, some of our aircraft that have already been delivered. Financial guarantees are provided to financing parties to support a portion of the payment obligations of our customers under their financing arrangements to mitigate default-related issues. These guarantees are collateralized by the financed aircraft. Our residual value guarantees typically ensure that in the 15th year after delivery, the relevant aircraft will have a residual market value of 10% to 27% of the original sale price. In the event of a decrease in the market value of the underlying aircraft, we will bear the difference between the then market value of the aircraft and the guaranteed residual value.

Assuming all customers supported by financial guarantees defaulted on their aircraft financing arrangements, we were required to pay the full aggregate amount of outstanding residual value guarantees and we were not able to sell or lease any of the aircraft to offset our obligations, our maximum exposure under these guarantees (less provisions and liabilities) would have been US\$1.4 billion as of December 31, 2002. See Note 37 to our consolidated financial statements for a further discussion of these off-balance sheet arrangements. We have deposited US\$187.4 million in escrow accounts to secure a portion of our financial guarantees. Although we believe that the estimated value of the covered aircraft, on an aggregate basis, is currently sufficient to cover our exposure, we may be obligated to make substantial payments that are not recoverable through proceeds from aircraft sales or leases, particularly if the future value of the relevant aircraft is significantly lower than the guaranteed amount or financing defaults occur with respect to a significant portion of our aircraft. The value of the underlying aircraft is more likely to decrease and third parties are more likely to default during economic downturns such as we are currently experiencing.

We recorded a charge against income of US\$14.5 million in 2002, based on our risk assessment, on an individual aircraft basis, of our guarantees. We continually re-evaluate our risk under guarantees and repurchase and trade-in obligations based on a number of factors, including the estimated future market value of our aircraft based on third party appraisals, including information developed from the sale or lease of similar aircraft in the secondary market, and the credit rating of customers. Any future decrease in the market value of the aircraft covered by repurchase obligations, trade-in rights or guarantees would decrease our ability to recoup the amounts payable to satisfy our obligations and cause us to incur additional charges to income. If we are required to pay amounts related to such guarantees or repurchase obligation, we may not have sufficient cash or other financial resources available to do so and may need to seek financing to fund these payments. We cannot assure you that then-prevailing market conditions would allow us to resell or lease the underlying aircraft at its anticipated fair value or in a timely manner. Consequently, honoring our repurchase, trade-in or guarantee obligations could require us to make significant cash disbursements in a given year, which in turn would reduce our cash flow in that year.

We face significant international competition, which may adversely affect our market share.

The worldwide regional jet aircraft manufacturing industry is highly competitive. We are one of the leading manufacturers of commercial aircraft in the world, along with The Boeing Company, Airbus Industrie and Bombardier Inc., all of which are large international companies. These and other of our competitors have greater financial, marketing and other resources than we do. Although we have achieved a significant share of the market for our regional aircraft products, we cannot assure you that we will be able to maintain this market share. Our ability to maintain market share and remain competitive in the regional jet aircraft market over the long term requires continued technological and performance enhancements to our products. Our primary competitor in the regional jet market is Bombardier Inc., a Canadian company, which has significant technological capabilities, financial and marketing resources and benefits from government-sponsored export subsidies. In addition, other major international aircraft manufacturers, including The Boeing Company and Airbus Industrie, produce or are developing aircraft at the high end of the 81-110 seat segment, increasing the competitive pressures in that segment. These companies also have significant technological capabilities and greater financial and marketing resources.

Some of our competitors may also reach the market before we do, allowing them to establish a customer base and making our efforts to gain greater market share more difficult. For example, Bombardier recently commenced delivery of its 70-seat regional jet prior to the initial deliveries of the EMBRAER 170. As a new entrant to the corporate jet market, we also face significant competition from companies with longer operating histories and established reputations in this industry. We cannot assure you that we will be able to compete successfully in our markets in the future.

We may have to make significant payments as a result of unfavorable outcomes of pending challenges to various taxes and social charges.

We have challenged the constitutionality of the nature of and modifications in rates and the increase in the calculation base of certain Brazilian taxes and social charges. Interest on the total amount of these unpaid taxes and social charges accrues monthly based on the Selic rate, the key lending rate of the Central Bank, and we make an accrual as part of the interest income (expense) item of our statements of income. As of December 31, 2002, we had obtained preliminary injunctions for not paying or recovering past payments in the total amount, including interest, of US\$186.9 million, which is included as a liability on our balance sheet. We cannot assure you that we will prevail in these proceedings or that we will not have to pay significant amounts, including penalties and interest, to the Brazilian government in the future as payment for these liabilities.

Risks Relating to the Regional Aircraft Industry

Scope clause restrictions in airline pilot contracts may limit demand for regional jets in the U.S. market.

A key limiting factor in demand for regional jets is the existence of scope clauses contained in airline pilot contracts. These scope clauses are union-negotiated restrictions on the number and/or size of regional aircraft that a particular carrier may operate. Current scope clause restrictions, which are more prevalent in the United States, include restrictions on the number of seats, weight of aircraft and number of regional jets in an airline's fleet. Most scope clauses are aimed at limiting 50-70 seat jets. As a result, our opportunities for near-term growth in the U.S. regional jet market in the 40-59 and 60-80 seat segments are limited. The continuation or further tightening of scope clauses could also lead some of our customers who have purchased options to acquire our regional jets not to exercise those options. We cannot assure you that current restrictions will be lessened, or will not be expanded, including by amending these scope clauses to cover larger-sized regional aircraft. Furthermore, although scope clauses are less prevalent outside the United States, we cannot assure you that scope clauses will not become more prevalent or restrictive, or that some other form of restriction will not take effect, in Europe or in other markets.

We are subject to stringent certification requirements and regulation, which may delay our obtaining certification in a timely manner.

Our products are subject to regulation in Brazil and in each jurisdiction where our customers are located. The aviation authorities in Brazil and in other countries in which our customers are located, including the Brazilian aviation authority, the FAA, the Joint Aviation Authority of Europe, the European aviation authority, and the Chinese aviation authority, must certify our aircraft before we can deliver them. A recommendation by the European aviation authority is a requirement for certification of an aircraft by the aviation authorities of most European countries. We cannot assure you that we will be able to obtain certification of our aircraft on a timely basis or at all. If we fail to obtain a required certification from an aviation authority for any of our aircraft, that aviation authority would prohibit the use of that aircraft within its jurisdiction until certification has been obtained. In addition, complying with the requirements of the certification authorities can be both expensive and time-consuming. Changes in government regulations and certification procedures could also delay our start of production as well as entry into the market. We cannot predict how future laws or changes in the interpretation, administration or enforcement of laws will affect us. We may be required to spend significantly more money to comply with these laws or to respond to these changes.

Any catastrophic events involving our aircraft could adversely affect our reputation and future sales of our aircraft, as well as the market price of the preferred shares and the ADSs.

We believe that our reputation and the safety record of our aircraft are important selling points for our aircraft. We design our aircraft with backup systems for major functions and appropriate safety margins for structural components. However, the safe operation of our aircraft depends to a significant degree on a number of factors largely outside our control, including our customers' proper maintenance and repair of our aircraft and pilot skill. Due to our relative position in the aircraft market and because we have focused on products in the regional aircraft segment, the occurrence of one or more catastrophic events involving one of our aircraft could adversely affect our entire regional jet family as well as our reputation and future sales.

Risks Relating to Brazil

Brazilian political and economic conditions have a direct impact on our business and the market price of our preferred shares and the ADSs.

The Brazilian economy has been characterized by frequent, and occasionally drastic, intervention by the Brazilian government and by volatile economic cycles. The Brazilian government's actions to control inflation and affect other policies have involved wage and price controls, currency devaluations, capital controls and limits on imports, among other things. Our business, financial condition, results of operations and the market price of the preferred shares and the ADSs may be adversely affected by changes in policy involving tariffs, exchange controls and other matters, as well as other factors outside of our control such as:

- fluctuations in exchange rates;
- base interest rate fluctuations;
- inflation and price instability;
- liquidity of domestic capital and lending markets;
- tax policy;
- structural and investment deficiencies in the energy sector; and

other political, diplomatic, social and economic developments in or affecting Brazil.

Rapid changes in Brazilian political and economic conditions that have already occurred and that might continue will require continued emphasis on assessing the risks associated with our activities and adjusting our business and operating strategy. Future developments in Brazilian government policies, including changes in the current policy and incentives adopted for financing the export of Brazilian goods, or in the Brazilian economy, over which we have no control, may materially adversely affect our business, financial condition and results of operations.

Our business could be significantly affected by political instability in Brazil. In the elections in October 2002, Brazilian voters elected a new president from the Workers Party, Luís Inácio Lula da Silva, known as Lula. In the period leading up to and following his election, there was substantial uncertainty relating to the policies that the new government would pursue, including the potential implementation of macroeconomic policies that differed significantly from those of the prior administration. This uncertainty resulted in a loss of confidence in the Brazilian capital markets and the continued devaluation of the *real*. Although the new government has not yet departed in any material way from previous policies, it is premature to determine what policies might be implemented, whether these policies will be effective and how investors and the capital markets will react to them. Any substantial negative reaction to the policies of the Brazilian government could adversely affect our business, operations and the market price of our preferred shares and ADSs.

Inflation and certain governmental measures to combat inflation may contribute significantly to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets and, consequently, may adversely affect the market value of the preferred shares and the ADSs.

Brazil has historically experienced extremely high rates of inflation. Inflation itself, certain governmental measures to combat inflation and public speculation about possible future measures have in the past had significant negative effects on the Brazilian economy, contributing to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets.

Since the *real*'s introduction in July 1994 under the *Real Plan*, Brazil's inflation rate has been substantially lower than in previous periods. If Brazil experiences substantial inflation again in the future, our operating expenses

and borrowing costs may increase, our operating and net margins may decrease and, if investor confidence decreases, the price of the preferred shares and ADSs may fall.

Exchange rate instability may result in uncertainty in the Brazilian economy and the Brazilian securities market and could lower the market value of the preferred shares and the ADSs.

Although most of our net sales and debt are U.S. dollar-denominated, the relationship of the *real* to the value of the U.S. dollar, and the rate of devaluation of the *real* relative to the prevailing rate of inflation, may adversely affect us.

As a result of inflationary pressures, the Brazilian currency has been devalued periodically during the last four decades. Throughout this period, the Brazilian government has implemented various economic plans and utilized a number of exchange rate policies, including sudden devaluations, periodic mini-devaluations during which the frequency of adjustments has ranged from daily to monthly, floating exchange rate systems, exchange controls and dual exchange rate markets. From time to time, there have been significant fluctuations in the exchange rates between the Brazilian currency and the U.S. dollar and other currencies. More recently, the *real* devalued against the U.S. dollar by 9.3% in 2000 and 18.7% in 2001. During 2002, the *real* continued to undergo significant devaluation due in part to continued economic and political uncertainties in emerging markets and the global economic slowdown. In 2002, the depreciation of the *real* relative to the U.S. dollar totaled 52.3%. In the first five months of 2003, the *real* appreciated 16.1%.

Devaluations of the *real* relative to the U.S. dollar would reduce the U.S. dollar value of distributions and dividends on the ADSs and may also reduce the market value of the preferred shares and the ADSs. Devaluations also create additional inflationary pressures in Brazil by generally increasing the price of imported products and requiring recessionary government policies to curb aggregate demand. On the other hand, appreciation of the *real* against the U.S. dollar may lead to a deterioration of the current account and the balance of payments, as well as dampen export-driven growth. The potential impact of the floating exchange rate and of measures of the Brazilian government aimed at stabilizing the *real* is uncertain.

Developments in other countries, particularly other emerging market countries, may adversely affect the Brazilian economy, may make it more difficult or expensive for us to obtain additional debt financing and, therefore, may affect the market price of the preferred shares and the ADSs.

Securities of Brazilian issuers have been, to varying degrees, influenced by economic and market conditions in other countries, particularly emerging market countries. Although economic conditions differ in each country, investors' reactions to developments in one country may affect the securities of issuers in other countries, including Brazil. Since the fourth quarter of 1997, the international financial markets have experienced significant volatility, and a large number of market indices, including those in Brazil, have declined significantly. For example, the political crisis in Venezuela, the recession in Argentina, the economic difficulties of Ecuador and Turkey, the Asian economic crisis, and the 1998 Russian debt moratorium and devaluation of the Russian currency triggered market volatility in Brazil's and other emerging market countries' securities markets. See Item 5A. Operating Results Brazilian Economic Environment for a discussion of recent events. In the third week of September 2001, upon the reopening of the New York Stock Exchange after its closure for four business days following the September 11th terrorist attacks in the United States, the Dow Jones Industrial Average experienced its largest single-week decline since the 1930s. In the same period, the Ibovespa, the index of the São Paulo Stock Exchange, experienced a decline of 18.1%.

These events discouraged investment worldwide, including international investment in Brazil, and, more directly, has caused a decline in the market for our preferred shares and ADSs. In addition, the continuation of the Argentine recession and the recent devaluation of the peso could affect the Brazilian economy, as Argentina is one of South America's largest economies. Further negative developments in the international financial markets, especially in South America, may adversely affect our financial condition and our ability to obtain debt financing on acceptable terms or at all. We cannot assure you that the Brazilian securities markets will not continue to be affected negatively by events elsewhere, especially in Argentina, Venezuela and other emerging markets, or that these events will not adversely affect the market price of our preferred shares and ADSs.

Risks Relating to the Preferred Shares and the ADSs

Exchange controls and restrictions on remittances abroad may adversely affect the holders of our ADSs.

The Brazilian government may impose temporary restrictions on the conversion of Brazilian currency into foreign currencies and on the remittance to foreign investors of proceeds from their investments in Brazil. The Brazilian government imposed remittance restrictions for a number of months in 1989 and early 1990. These restrictions would hinder or prevent the conversion of dividends, distributions or the proceeds from any sale of preferred shares, as the case may be, from *reais* into U.S. dollars and the remittance of the U.S. dollars abroad. We cannot assure you that the Brazilian government will not take similar measures in the future. Holders of our ADSs could be adversely affected by delays in, or refusals to grant, any required governmental approval for conversion of *real* payments and remittances abroad in respect of the preferred shares underlying the ADSs. In such a case, the depository for the ADSs will hold the *reais* it cannot convert for the account of the ADR holders who have not been paid. The depository will not invest the *reais* and will not be liable for interest on those amounts.

If holders of ADSs exchange the ADSs for preferred shares, they risk losing the ability to remit foreign currency abroad and Brazilian tax advantages.

The Brazilian custodian for the preferred shares has obtained an electronic certificate of registration from the Central Bank permitting it to remit foreign currency abroad for payments of dividends and other distributions relating to the preferred shares or upon the disposition of the preferred shares. If holders of ADSs decide to exchange their ADSs for the underlying preferred shares, they will be entitled to continue to rely on the custodian's electronic certificate of registration for five business days from the date of exchange. Thereafter, such holders of ADSs may not be able to obtain and remit foreign currency abroad upon the disposition of, or distributions relating to, the preferred shares unless they obtain their own electronic certificate of registration or register their investment in the preferred shares pursuant to Resolution No. 2,689, which entitles certain foreign investors to buy and sell securities on the São Paulo Stock Exchange. Holders who do not qualify under Resolution No. 2,689 will generally be subject to less favorable tax treatment on gains with respect to the preferred shares. If holders of ADSs attempt to obtain their own electronic certificate of registration, they may incur expenses or suffer delays in the application process, which could delay their ability to receive dividends or distributions relating to the preferred shares or the return of their capital in a timely manner. We cannot assure you that the custodian's electronic certificate of registration or any certificate of foreign capital registration obtained by a holder of ADSs will not be affected by future legislative or other regulatory changes, or that additional restrictions applicable to such holder, the disposition of the underlying preferred shares or the repatriation of the proceeds from disposition will not be imposed in the future.

The relative volatility and illiquidity of the Brazilian securities markets may substantially limit the ability of holders of our preferred shares or ADSs to sell the preferred shares underlying the ADSs at the price and time they desire.

Investing in securities, such as the preferred shares or the ADSs, of issuers from emerging market countries, including Brazil, involves greater risk than investing in securities of issuers from more developed countries, and such investments are generally considered speculative in nature.

The Brazilian securities markets are substantially smaller, less liquid, more concentrated and more volatile than major securities markets in the United States and other jurisdictions, and are not as highly regulated or supervised as some of these other markets. The relatively small market capitalization and illiquidity of the Brazilian equity markets may substantially limit the ability of holders of our preferred shares or ADSs to sell the preferred shares underlying the ADSs at the price and time desired. See Item 9C. Markets Trading on the São Paulo Stock Exchange.

Because we are subject to different corporate rules and regulations as a Brazilian company, holders of our ADSs have fewer and less well-defined shareholders' rights.

Our corporate affairs are governed by our bylaws and the Brazilian Corporate Law, which differ from the legal principles that would apply if we were incorporated in a jurisdiction in the United States, such as Delaware or New York, or in other jurisdictions outside Brazil. As a result, the holders of the ADSs or the holders of our preferred shares may have fewer and less well-defined rights under Brazilian Corporate Law with which to protect their interests against actions by our board of directors and our principal shareholders than under the laws of those jurisdictions outside Brazil.

Although the Brazilian Corporate Law imposes restrictions on insider trading and price manipulation, the Brazilian securities markets are not as highly regulated and supervised as the U.S. securities markets or markets in other jurisdictions. In addition, rules and policies against self-dealing and regarding the preservation of minority shareholder interests may be less well-defined and enforced in Brazil than in the United States, putting holders of the preferred shares and ADSs at a potential disadvantage. Corporate disclosures may be less complete or informative than what may be expected of a U.S. public company. Specifically, among other differences when compared to, for example, Delaware general corporation law, Brazilian Corporate Law and practice has less detailed and well-established rules and judicial precedents relating to the review of management decisions against duty of care and duty of loyalty standards in the context of corporate restructurings, transactions with related parties and sale-of-business transactions. In addition, the Brazilian Corporate Law provides that shareholders must hold 5% of the outstanding share capital of a corporation to have standing to bring shareholders' derivative suits, and shareholders ordinarily do not have standing to bring a class action.

Also, in accordance with Brazilian Corporate Law, holders of our preferred shares, and therefore our ADSs, are not entitled to vote at meetings of our shareholders except in limited circumstances. See Item 10B. Memorandum and Articles of Incorporation Description of Capital Stock Voting Rights of the Preferred Shares.

Changes to the Brazilian Corporate Law were approved by the Brazilian Congress and became effective as of March 2002. Such changes may adversely affect the rights of holders of our ADSs. See Item 10B. Memorandum and Articles of Association Changes to the Brazilian Corporate Law.

The Brazilian government has veto power over major corporate actions; our controlling shareholders act in concert to control Embraer.

The Brazilian government holds one special class of our common stock, called a "golden share," which carries veto power over, among other things, change of control, change of corporate purpose and creation and alteration of defense programs (whether or not the Brazilian government participates in such programs). In addition, under the terms of a shareholders' agreement, our controlling shareholders Cia. Bozano, Caixa de Previdência dos Funcionários do Banco do Brasil PREVI, also known as PREVI, and Fundação SISTEL de Seguridade Social, also known as SISTEL act in concert to vote 60% of the outstanding shares of our common stock, allowing them to elect a majority of the members of our board of directors and to determine the outcome of any actions requiring shareholder approval, including corporate reorganizations and the timing and payment of future dividends.

The sale of a substantial number of preferred shares, or the belief that this may occur, could decrease the trading price of the preferred shares and the ADSs; holders of our preferred shares and/or ADSs may not be able to sell their securities at or above the price they paid for them.

Sales of a substantial number of preferred shares, or the belief that this may occur, could decrease the trading price of our preferred shares and our ADSs. As of December 31, 2002, we had 470,429,907 preferred shares outstanding. Of this amount, holders of exchangeable notes that were issued in June 2001 by Banco Nacional de Desenvolvimento Econômico e Social BNDES, the Brazilian National and Social Development Bank, also known as BNDES, have the right to acquire, at any time prior to the maturity of the notes, an aggregate of 7,279,200 ADSs, representing 29,116,800 preferred shares currently owned by BNDES Participações S.A. BNDESPAR, also known as BNDESPAR, a wholly owned subsidiary of BNDES, subject to adjustment. As a consequence of the issuance of preferred shares or sales by existing shareholders, the market price of the preferred shares and, by

extension, the ADSs may decrease significantly. As a result, the holders of our ADSs and/or preferred shares may not be able to sell their securities at or above the price they paid for them.

Our share price may be affected by potential dilution of our preferred shares and the ADSs.

The issuance of preferred shares pursuant to our stock option plan could substantially dilute the preferred shares. Under the terms of our stock plan, we were authorized to grant options to purchase up to 25,000,000 preferred shares over the five-year period from the date of the first grant of options pursuant to the plan. As of the end of this five-year period, we had granted options for an aggregate of 19,665,000 preferred shares. The options granted to each employee generally vest as follows: 30% after three years from the date granted, an additional 30% after four years and the remaining 40% after five years. Employees may exercise their options for up to seven years from the date they are granted. As of December 31, 2002, options representing 7,196,313 preferred shares have already been exercised and options representing 4,757,218 preferred shares are exercisable in 2003.

Holders of our ADSs might be unable to exercise preemptive rights with respect to the preferred shares.

Holders of our ADSs may not be able to exercise the preemptive rights relating to the preferred shares underlying their ADSs unless a registration statement under the Securities Act is effective with respect to those rights or an exemption from the registration requirements of the Securities Act is available. We are not obligated to file a registration statement with respect to the shares or other securities relating to these preemptive rights and we cannot assure holders of our ADSs that we will file any such registration statement. Unless we file a registration statement or an exemption from registration applies, holders of our ADSs may receive only the net proceeds from the sale of their preemptive rights by the depositary or, if the preemptive rights cannot be sold, the rights will be allowed to lapse.

ITEM 4. INFORMATION ON THE COMPANY

4A. History and Development of the Company

General

Embraer-Empresa Brasileira de Aeronáutica S.A. is a joint stock company duly incorporated under the laws of Brazil with an indefinite term of duration. Originally formed in 1969 by the Brazilian government, we were privatized by the Brazilian government in 1994. In connection with our privatization, we were transformed into a publicly held corporation and we operate under the Brazilian Corporate Law. Our principal executive offices are located at Avenida Brigadeiro Faria Lima, 2170, 12227-901 São José dos Campos, São Paulo, Brazil. Our telephone number is 55-12-3927-1216. Our agent for service of process in the United States is our subsidiary, Embraer Aircraft Holding, Inc., with offices at 276 S.W. 34th Street, Ft. Lauderdale, Florida 33315.

We have grown from a government-controlled company established to develop and produce aircraft for the Brazilian Air Force into a public company that produces aircraft for commercial, corporate and defense purposes. Through our evolution, we have obtained, developed and enhanced our engineering and technological capabilities through our own development of products for the Brazilian Air Force and through joint product development with foreign companies on specific projects. We have applied these capabilities that we gained from our defense business to develop our regional aircraft business.

Our first major regional aircraft was the Bandeirante, a 19-passenger twin engine non-pressurized turboprop aircraft initially designed to service the transport needs of the Brazilian Air Force. The Bandeirante was followed by the development of the EMB 120 Brasília, a high performance, pressurized turboprop commercial aircraft seating up to 30 passengers and designed to serve the longer routes and higher passenger traffic of the growing regional aircraft market. Drawing upon the design of the EMB 120 Brasília and the jet technology acquired in our development of the AM-X, a defense aircraft for the Brazilian Air Force, we developed the ERJ 145 regional jet family, our first jet product for commercial use. We are expanding our jet product line with the development of the EMBRAER 170/190 jet family, designed to serve the aircraft market's trend towards larger, higher volume and longer range jets. We are also marketing and selling the Legacy, a line of corporate jets based on our ERJ 135

regional jet, with several improvements including longer range. For the Defense market, we also offer a line of Intelligence, Surveillance and Reconnaissance aircraft based on the ERJ 145 regional jet.

Strategic Alliance and Growth Opportunities

Strategic Alliance with European Aerospace and Defense Group

On November 5, 1999, a group consisting of Aerospatiale Matra, currently known as European Aeronautic, Defense and Space Company N.V., or EADS, Dassault Aviation, Thomson-CSF, currently referred to by its trade name Thales, and Société Nationale d'Étude et de Construction de Moteurs d'Aviation, or SNECMA, which we refer to collectively as the European Aerospace and Defense Group, purchased as a single investor 20% of the outstanding common stock of Embraer from our existing common shareholders, a majority of which was from our controlling shareholders. We believe that this alliance will continue to assist us in the development of new defense products and enable us to expand our defense markets. For example, we integrated Thales mission systems and electronic equipment in some of our EMB 145 AEW&C/RS/MP aircraft.

Joint Ventures and Acquisitions

In 2000, we entered into a joint venture with Liebherr International AG to develop and manufacture landing gear and high precision hydraulic equipment and provide related services for Embraer and other clients around the world. In connection with this joint venture, we formed a new subsidiary, ELEB - Embraer Liebherr Equipamentos do Brasil S.A.

In March 2002, we acquired the operating assets of Celsius Aerotech Inc. in Nashville, Tennessee from Reliance Aerotech Inc. in order to provide full service maintenance and repair services for our regional and corporate aircraft in the United States.

In December 2002, we entered into a joint venture with Harbin Aircraft Industry (Group) Co., Ltd. and Hafai Aviation Industry Co., Ltd., subsidiaries of China Aviation Industry Corp. II, or AVIC II, to provide for the manufacture, sale and after-sale support of the ERJ 145 regional jet family. We own 51% of the equity of the joint venture company, Harbin Embraer Aircraft Industry Company Ltd.

Research and Development Costs and Capital Expenditures

Research and development costs, including the development of the new EMBRAER 170/190 jet family, were US\$69.6 million in 2000, US\$99.6 million in 2001 and US\$158.5 million in 2002. Research and development costs as a percentage of our net sales were 2.5% in 2000, 3.4% in 2001 and 6.3% in 2002. The increases in research and development costs as a percentage of our net sales in 2001 and 2002 reflect principally the costs related to the EMBRAER 170/190 jet family.

Our investments in property, plant and equipment totaled US\$114.2 million in 2000, US\$143.8 million in 2001 and US\$127.7 million in 2002. The investments in 2001 and 2002 related to construction of facilities, improvements to our plant and production facilities and modifications for the production of new aircraft models.

We expect our future research and development costs to increase as a result of the continued development of the EMBRAER 170/190 jet family. In 2003, we expect research and development costs to total approximately US\$167.0 million and we expect investments in property, plant and equipment to total approximately US\$58.0 million, which will primarily be related to improvements to and expansion of our facilities, in particular for the production of the EMBRAER 170/190 jet family, as well as our defense aircraft and corporate jets.

4B. Business Overview

We are one of the leading manufacturers of commercial aircraft in the world, based on 2002 net sales of commercial aircraft, with a global customer base. We focus primarily on manufacturing regional aircraft, which accounted for 83.6% of our net sales in 2002. We are the leading supplier of defense aircraft for the Brazilian Air

Force based on number of aircraft sold, and we have also sold aircraft to military forces in Europe and Latin America. In addition, we have developed a new line of corporate jets based on one of our regional jets. For the year ended December 31, 2002, we generated net sales of US\$2,525.8 million, of which approximately 97.7% was U.S. dollar-denominated. At June 30, 2003, we had a total backlog in orders of US\$10.3 billion, including 450 regional jets.

Our Strengths

We believe that our primary strengths are:

Leading Regional Jet Manufacturer with a Global Customer Base. We are a leading manufacturer of regional and mid-capacity jets with a strong global customer base. We have sold our regional jets to 31 customers in 20 countries. Our customers include some of the largest regional airlines in the world.

Aircraft Design; Cost and Operating Efficiency. We produce aircraft to provide our customers with reduced operating, maintenance and training costs due to the similarity and efficiency in design and the commonality of parts among jets within a family. These similarities enable us to significantly reduce our design, development and production costs and pass these savings along to our customers in our sales price. These similarities also reduce the development time of our aircraft. The flexibility of our regional jet families also enables us to cost-effectively develop new aircraft to meet specific customer needs and to target new markets.

Strategic Risk-Sharing Partners. With our regional and mid-capacity jet families, we developed strategic relationships with key risk-sharing partners. These risk-sharing partners develop and manufacture significant portions of the systems and components of our aircraft and contributed their own funds to research and develop these systems and components, thereby reducing our development costs. These risk-sharing partners also funded a portion of our development costs through direct contributions of cash or materials. We believe that these strategic relationships enable us to lower our development costs and risks, improve our operating efficiency, enhance the quality of our products and reduce the number of our suppliers.

Benefits of Funded Development of Defense Technology. Research and development costs related to defense aircraft historically have been funded in large part by the Brazilian government. We are able to apply the technological developments we acquire from our defense technology to applications in our commercial business. For example, we developed our regional jet family based on the AM-X program developed for the Brazilian Air Force. In addition, we sell proven defense products developed for the Brazilian Air Force to other military forces.

Flexibility of Production to Meet Market Demands. We believe the flexibility of our production processes and our operating structure, including our risk-sharing partnerships that are designed to minimize fixed costs, allow us to increase or decrease our production in response to market demand without significantly impacting our margins.

Experienced and Highly Skilled Workforce. Our employees are experienced and highly skilled. Over 23% of our workforce is comprised of engineers. Due to the high level of knowledge and skill possessed by our employees, we are able to efficiently pursue new programs and provide our customers with additional technical expertise and guidance.

Business Strategies

Aggressively Market Our Mid-capacity Jet Family. We are aggressively marketing our mid-capacity platform, the EMBRAER 170/190 jet family. We believe a significant market opportunity exists for the EMBRAER 170/190 jet family with regional airlines that are expanding their fleet, increasing their penetration into higher density markets and adding longer routes, and also with other airlines that are optimizing their fleet in order to adjust capacity to meet demand in less dense routes. Additionally, we believe that our new mid-capacity jet family will provide us with significant opportunities to increase our competitiveness by offering our customers a full range of regional aircraft.

Develop Our Strategic Alliance with European Aerospace and Defense Group. We believe our strategic alliance with the European Aerospace and Defense Group will enhance our defense business. We intend to enhance our technological capabilities and increase our production and marketing of innovative defense products. We also intend to increase our international marketing presence for our defense products through joint marketing efforts with members of the European Aerospace and Defense Group.

Increase Focus on Customer Support. Providing high quality customer support is critical to our ability to maintain long-term relationships with our customers. As the number of our aircraft in operation continues to grow, we have increased our commitment to providing our customers with an appropriate level of after-sale support, including technical assistance, pilot and maintenance training and spare parts, as demonstrated by our 2002 acquisition of a Nashville, Tennessee aircraft service center. We intend to continue to focus on providing our customers with high quality customer support.

Expand Risk-Sharing Arrangements. We intend to maintain or expand the role of risk-sharing partners in the production process for our aircraft in order to reduce production costs and streamline the management of our suppliers. Having fewer suppliers enables us to minimize our production costs while allocating additional risk for the production of integrated systems to our risk-sharing partners.

Diversify Revenues. We intend to diversify our revenues through our corporate jet segment and our defense segment.

Increase Penetration into the Defense Market. We plan to develop and market additional defense products and thereby increase sales in this segment of our business. We intend to increase our participation in the international defense market by actively marketing our existing products initially developed for the Brazilian Air Force, including the EMB 145 AEW&C, the EMB 145 RS, the EMB 145 MP and the Super Tucano (ALX).

Cost-Effectively Develop a Line of Corporate Jets. We have developed the Legacy, a new line of corporate jets based on the ERJ 135 regional jet, to provide to businesses, including fractional ownership companies, a cost-effective alternative to commercial airline travel. In developing the Legacy, we used the same design and risk-sharing arrangements of our ERJ 135 regional jet. As a result, we were able to develop the Legacy without the substantial financial investment normally associated with a new product launch.

Pursue Strategic Growth Opportunities. We intend to pursue strategic growth opportunities, which may include joint ventures, acquisitions and other strategic transactions. For example, we intend to expand our presence in China through our joint venture with AVIC II. We believe that the market for regional aircraft in China is strong and currently underserved. We believe this market will create incremental growth for our future revenues.

Regional Aircraft Business

We design, develop and manufacture a range of regional aircraft. Our regional aircraft business is our primary business, accounting for 83.6% of our net sales for the year ended December 31, 2002.

Products

We developed the ERJ 145, a 50-passenger twin turboprop-powered regional jet, introduced in 1996, to address the growing demand among regional airlines for medium-range jet-powered aircraft. After less than two years of development, the ERJ 135, a 37-passenger regional jet based on the ERJ 145, was introduced in July 1999. In addition, we developed the 44-seat ERJ 140 as part of the ERJ 145 regional jet family, which we began delivering in the second half of 2001. We believe that the ERJ 145 regional jet family provides the comfort, range and speed of a jet at costs comparable to turboprop aircraft. We are currently developing our 70-108 seat platform, the EMBRAER 170/190 jet family, to serve the trend in the regional aircraft market toward larger, faster and longer range jets and to further diversify our strength in the jet market. We continue to analyze new aircraft demand in the jet market to determine potentially successful modifications to aircraft we already produce.

ERJ 145 Regional Jet Family

The ERJ 145 is a twin turbofan-powered regional jet accommodating up to 50 passengers. This jet was developed in response to the increasing demand from the regional airline industry for an aircraft that offered more speed, comfort and capacity than a turboprop. The ERJ 145 was certified by the Brazilian aviation authority in November 1996, the FAA in December 1996, the European aviation authority in May 1997 and the Australian aviation authority in June 1998. We began delivering the ERJ 145 in December 1996.

The development of the ERJ 145 aircraft was partially based on the EMB 120 Brasília and has approximately 30% commonality in terms of parts and components with that aircraft, including the nose section and cabin. The ERJ 145 has a maximum cruising speed of Mach .78, or 450 knots, and a maximum fully loaded range of 1,060 nautical miles in its standard version. The ERJ 145 is equipped with engines built by Rolls-Royce Allison. These engines are designed to operate 10,000 flight hours between major overhauls and operate at a low fuel cost. In addition, the ERJ 145 is equipped with sophisticated flight instruments, such as engine-indication instruments, crew-alert systems and digital flight control systems, produced by Honeywell.

The ERJ 145 is also available in a long-range, or LR, version, and, in response to customer requests, we have developed an extra-long-range, or XR, version of the aircraft. The ERJ 145 LR features a larger fuel tank, more powerful engines and greater range than the standard version. The ERJ 145 LR, which was certified by the Brazilian aviation authority, the FAA and the European aviation authority in 1998, and by the Chinese aviation authority in November 2000, uses engines that deliver 15% more thrust, allowing the fully loaded aircraft to operate on routes of up to 1,550 nautical miles. The ERJ 145 XR features a new and updated turbofan engine, increased capacity fuel tanks and winglets. The ERJ 145 XR, which was certified by the Brazilian aviation authority in August 2002 and by the FAA in October 2002, offers reduced fuel consumption, a maximum fully loaded range of 2,000 nautical miles and enhanced operational capabilities for hot weather and at high altitudes. Deliveries of the ERJ 145 LR began in February 1998, and deliveries of the ERJ 145 XR began in October 2002.

The ERJ 135 is a 37-seat regional jet based on the same design as the ERJ 145 and is manufactured on the same production line. The ERJ 135 has approximately 96% commonality in terms of parts and components with the ERJ 145, resulting in reduced spare parts requirements and permitting the utilization of the same ground support equipment for customers that use both aircraft. The ERJ 145 regional jet family also allows for standardized pilot certification and maintenance procedures. The ERJ 135 was certified by the Brazilian aviation authority in June 1999, by the FAA in July 1999 and by the European aviation authority in October 1999. Deliveries of the ERJ 135 began in July 1999.

The ERJ 135 has a maximum operating speed of Mach .78, or 450 knots, and a maximum fully loaded range of 1,330 nautical miles in its standard version. The ERJ 135 uses the same engines, sophisticated flight instruments, digital flight control systems and body design as the ERJ 145. The ERJ 135's fuselage is 11.6 feet shorter than the ERJ 145's. The ERJ 135 is also available in a long-range, or LR, version, which features a larger fuel tank, more powerful engines and significantly greater maximum fully loaded range (1,700 nautical miles) than the standard version. The LR version received certification simultaneously with the standard version and began deliveries in August 1999.

We developed the ERJ 140 in response to customer requests. The ERJ 140 is a 44-seat regional jet based on the same design as the ERJ 135 and is manufactured on the same production line as the ERJ 145 and ERJ 135. The ERJ 140 has approximately 96% commonality with the ERJ 145 and ERJ 135, providing our customers with significant maintenance and operational benefits. The ERJ 140 was certified by the Brazilian aviation authority in June 2001 and by the FAA in July 2001. The ERJ 140 has a maximum fully loaded range of 1,230 nautical miles in its standard version. The ERJ 140 is available in a long-range, or LR, version, which features a larger fuel tank, more powerful engines and significantly greater maximum fully loaded range (1,630 nautical miles) than the standard version. We began delivering the ERJ 140 in July 2001.

EMBRAER 170/190 Jet Family

The EMBRAER 170/190 jet family provides our customers with a choice of four aircraft in the mid-capacity passenger range. The EMBRAER 170 will be a 70-passenger jet, and the EMBRAER 175 will be a 78-passenger jet, while the EMBRAER 190 series will include the 98-passenger EMBRAER 190 and the 108-passenger EMBRAER 195.

We expect to receive certification of the EMBRAER 170 in 2003, the EMBRAER 175 in 2004, the EMBRAER 190 in 2005 and the EMBRAER 195 in 2006. The EMBRAER 170 made its maiden flight on February 19, 2002 and, as of June 2003, has flown more than 2000 hours as part of its flight test program. We have completed the joint design definition phase and are currently producing the first prototypes of the EMBRAER 175 and EMBRAER 195. The EMBRAER 175 made its maiden flight on June 14, 2003. We are currently in the preliminary development phase of the EMBRAER 190.

We designed the EMBRAER 170/190 jet family to maximize the benefits of commonality, with aircraft in the family sharing approximately 89% of the same components. The high level of commonality in this new jet family lowered our development costs and shortened our development period. We anticipate that this commonality will lead to significant savings to our customers in the form of easier training, less expensive parts and maintenance and lower operational costs. Due to differences in size and weight, the EMBRAER 170/190 jet family will not share the same wing design. This new regional jet family will have engines fixed under its main wings a design intended to enhance power, improve fuel economy and minimize turnaround times. All of the aircraft models will be powered by engines manufactured by General Electric and will contain state-of-the-art avionics manufactured by Honeywell.

The EMBRAER 170/190 jet family's principal features are:

Performance. All four jets in the EMBRAER 170/190 jet family will have a maximum cruising speed of Mach .8, or 470 knots. The EMBRAER 170 and the EMBRAER 175 will have maximum fully loaded ranges of 1,800 and 1,600 nautical miles, respectively, and will be available in long-range, or LR, versions, with maximum fully loaded ranges of 2,100 and 1,900 nautical miles, respectively. The EMBRAER 190 and EMBRAER 195 will have maximum fully loaded ranges of 1,800 and 1,400 nautical miles, respectively, and will also be available in LR versions with maximum fully loaded ranges of 2,300 and 1,800 nautical miles, respectively. The LR versions of all four jets in the EMBRAER 170/190 jet family will feature larger fuel tanks and more powerful engines than the standard versions of these aircraft.

Ground servicing. The under-wing engine design and the existence of four doors, two in the front and two in the back, provide for enhanced accessibility and efficiency of ground services.

Cabin and cargo space. We have enhanced passenger safety and comfort in the EMBRAER 170/190 jet family. The aircraft's double-bubble design will enable a four-abreast cabin, a wide aisle, greater interior space and headroom and a larger baggage floor compartment than the existing mid-capacity jets of our competitors, as well as those mid-capacity jets that are in the development stage.

EMB 120 Brasília

The EMB 120 Brasília is a pressurized twin wing-mounted turboprop aircraft that accommodates up to 30 passengers. The EMB 120 Brasília was developed in response to the regional aircraft industry's demand for a high-speed and fuel-efficient 30-seat regional aircraft. The EMB 120 Brasília was certified by the FAA in May 1985 and by the Brazilian aviation authority in July 1985. Since its introduction in 1985 and through December 31, 2002, we have delivered 347 EMB 120 Brasília's for the regional market and five EMB 120 Brasília's for the defense market. We currently manufacture the EMB 120 Brasília only upon customer request.

Customers

While we have focused our efforts on the U.S. and European markets to date, we have achieved a diverse, global customer base for our aircraft, principally in the regional jet market. Our major customers of regional aircraft include some of the largest regional airlines in the world. As of June 30, 2003, our largest customers are ExpressJet, American Eagle, JetBlue Airways, US Airways, Wexford and SWISS. For a discussion of these significant customer relationships, see Item 3D. Risk Factors Risks Relating to Embraer We depend on a small number of key customers and key suppliers, the loss of any of which could harm our business.

We generally sell our regional aircraft pursuant to contracts with our customers on a fixed-price basis, adjusted by an escalation formula that reflects, in part, inflation in the United States. These contracts generally include an option for our customers to purchase additional aircraft for a fixed option price, subject to adjustment based on the same escalation formula. In addition, our contracts provide for after-sales spare parts and services, as well as warranties of our aircraft and spare parts. Other provisions for specific aircraft performance and design requirements are negotiated with our customers. Finally, some of our contracts contain cancellation provisions, repurchase and trade-in options and financial and residual value guarantees. See Item 3D. Risk Factors Risks Relating to Embraer Our aircraft sales are subject to cancellation provisions, repurchase and trade-in options and financial and residual value guarantees that may reduce our cash flow or require us to make significant cash disbursements in the future for a more detailed discussion of these provisions.

Sales and Marketing

Our current marketing strategy is based upon our assessment of the worldwide regional airline market and our assessment of the current and future needs of our customers. We actively market our aircraft to regional airlines and regional affiliates of major airlines through our regional offices in the United States, Europe and Asia. Our success depends to a significant extent on our ability to discern our customers' needs, including needs for customer service and product support, and to fill those needs in a timely and efficient manner while maintaining the high quality of our products. Our market and airline analysts focus on the long-term vision of the market, competitive analysis, product enhancement planning and airline analysis. In terms of direct marketing to our customers, we rely heavily on addressing the media, as well as participating in air shows and other cost-effective events that enhance customer awareness and brand recognition. We have regional sales offices in Le Bourget, France; Melbourne, Australia; Ft. Lauderdale, Florida, USA; Beijing, China; and Singapore. We will sell our ERJ 145 regional jet family in the Chinese market exclusively through our joint venture in China.

Production, New Orders and Options

Prior to starting production or development of a new project, we secure letters of intent representing future orders for a significant number of aircraft. We typically begin taking orders and building backlog two years before we begin producing a new aircraft model, aiming to receive a significant number of orders before we deliver the initial aircraft. Once an order is taken, we reserve a place for that order on the production line, ensuring that we will maintain production sufficient to meet demand. Once a place is reserved on the production line, we are able to give customers delivery dates for their orders.

We include an order in backlog once we have received a firm commitment, represented by a signed contract. Our backlog excludes options and letters of intent for which definitive contracts have not been executed. For the sales of our regional aircraft, we customarily receive a deposit upon signing of the purchase agreement and progress payments in the amount of 5% of the sales price of the aircraft 18 months before scheduled delivery, another 5% twelve months before scheduled delivery and another 5% six months before scheduled delivery. For the EMBRAER 170/190 jet family, we receive an additional 5% progress payment 24 months before scheduled delivery. We typically receive the remaining amount of the sales price upon delivery of the aircraft. The deposits and the progress payments are generally non-refundable if orders are cancelled.

With respect to options to purchase our aircraft, we customarily receive US\$100,000 for each aircraft in the ERJ 145 regional jet family and US\$200,000 for each aircraft in the EMBRAER 170/190 jet family. Our options generally provide our customers the right to purchase an aircraft in the future at a fixed price and on a specified delivery date, subject to escalation provisions, under a purchase contract. Once a customer decides to exercise an

option, we account for it as a firm order. On occasion, we have extended the exercise date for our options and renegotiated the delivery schedule of firm orders. On occasion, we have allowed customers to convert their firm orders or options for one aircraft into firm orders or options for another aircraft within the same regional jet family.

Competition

We generally face competition from major manufacturers in the international regional aircraft market. Each category of our products faces competition of a different nature and generally from different companies. Some of our competitors have greater financial, marketing and other resources than we do. In the 30-60 seat category, the main competitor of the ERJ 135 and the EMB 120 Brasília aircraft is the De Havilland DHC-8-200, a turboprop aircraft. The main competitors of the ERJ 145 regional jet family are:

the CRJ-100/200/440, manufactured by Bombardier;

the 328Jet previously developed and manufactured by Fairchild Dornier and now manufactured to order by Avcraft Aviation LLC;

the ATR-42, manufactured by ATR G.I.E., a joint project of Italy's Alenia Aerospaziale and EADS; and

the DHC-8-300, manufactured by De Havilland.

Only Bombardier's CRJ-100/200/440 are jet aircraft. Fairchild Dornier filed for bankruptcy protection in April 2002, and the 328Jet is currently marketed and manufactured to order by Avcraft Aviation LLC. Given the success of our regional jet family and the significant barriers to entry into the market, due principally to the high development costs of a new model and the extensive and time-consuming development cycle of a new jet, we believe that we are well positioned to increase our market share for the ERJ 145 regional jet family.

In the 61-90 and 91-120 seat categories, we face our strongest competition. Currently, there are three aircraft in the segment, De Havilland's DHC-8-400, a 72-seat turboprop, ATR's ATR72, a 72-seat turboprop, and Bombardier's CRJ-700, a 70-seat regional jet, which was first delivered in January 2001. Bombardier has also launched the larger CRJ-900 aircraft, which seats 85 passengers and began deliveries in January 2003, before the expected delivery of our EMBRAER 175. In the larger end of the category, Boeing has launched the 717-200, a 106-112 seat jet. Furthermore, Airbus developed a 100+ seat jet, the A318, which was certified by the Joint Aviation Authority of Europe, or JAA, in May 2003. The key competitive factors in the markets in which we participate include design and technological strength, aircraft operational costs, price of aircraft, including financing costs, customer service and manufacturing efficiency. We believe that we will be able to compete favorably with our competitors on the basis of our global customer base, aircraft performance, low operating costs, product development experience, market acceptance, cabin design and aircraft price.

Defense Business

We design, develop, integrate and manufacture a wide range of defense products, principally transport, training, light attack and surveillance aircraft. We are the leading supplier of defense aircraft to the Brazilian Air Force based on number of aircraft sold. We also have sold defense aircraft to military forces of 16 other countries in Europe and Latin America, including the United Kingdom, France, Greece and Mexico. At December 31, 2002, we had sold 519 defense aircraft to the Brazilian government and 525 defense aircraft to other military forces. Our defense business accounted for 5.0% of our net sales for the year ended December 31, 2002.

Products

Tucano Family; AL-X

The Tucano is a single engine turboprop aircraft used for pilot training and armed reconnaissance missions. Although no longer manufactured, over 650 EMB 312 Tucanos are in operation in 15 air forces worldwide,

including those of Brazil, the United Kingdom, France, Argentina, Egypt, Colombia, Paraguay, Peru and Venezuela. We are developing the Super Tucano, or the AL-X (*Aeronave Leve de Ataque*, or Light Attack Aircraft). The Super Tucano offers an engine with twice the power of the Tucano's standard engine, fighter standard avionics, ejection seats, an on-board oxygen-generating system and enhanced range and external loads capability. We are currently marketing the Super Tucano. The AL-X is being developed under a contract with the Brazilian Air Force, with FINEP providing US\$21.7 million in research and development debt financing, of which US\$4.4 million was outstanding as of December 31, 2002. The AL-X has sophisticated navigation and attack systems, night operations capability and the ability to operate under severe weather conditions. We have received firm orders for 76 of these aircraft and an additional 23 options from the Brazilian Air Force. One prototype of the AL-X has been flying since 1995, and the maiden flight of the first pre-production aircraft occurred in May 1999. We expect first delivery to be made by the end of 2003. These aircraft are expected to be used for advanced pilot training and for defense operations in the Amazon region of Brazil in connection with the Brazilian government's SIVAM (*Sistema de Vigilância da Amazônia*, or System for the Surveillance of the Amazon) program.

EMB 145 AEW&C; EMB 145 RS; EMB 145 MP

We have configured a special version of the ERJ 145 with an advanced early warning and control system to create the EMB 145 AEW&C, with ground remote sensing capability to create the EMB 145 RS, and with marine remote sensing capability to create the EMB 145 MP. The EMB 145 AEW&C's advanced phased-array radar and mission system, developed by Ericsson, is capable of conducting surveillance and providing air traffic control in support of aviation authorities. The EMB 145 RS is designed to carry out ground surveillance and environmental protection activities using advanced synthetic aperture radar, capable of providing day/night and all weather images of the ground over large areas, with multi-spectral sensors developed by subcontractors in the United States. The EMB 145 MP is designed to carry out maritime patrol and anti-submarine warfare missions, using maritime and ground surveillance radar, electro-optical sensors, and communications and other surveillance equipment developed by Ericsson and Thales. We, Ericsson and Thales are jointly marketing these aircraft worldwide. At December 31, 2002, the Brazilian government had ordered a total of eight EMB 145 AEW&C/RS aircraft to conduct surveillance and monitor ground activities in the Amazon region, and, as of December 31, 2002, we had delivered four EMB 145 AEW&Cs and one EMB 145 RS. In October 1999, the Greek government, represented by the Hellenic Air Force, ordered four EMB 145 AEW&C aircraft that will be used in the Greek government's aerospace early warning and control system. Under the same contract, the Greek government purchased one ERJ 135 aircraft for special transportation and support needs. In addition, in February 2001, the Mexican government ordered one EMB 145 AEW&C aircraft and two EMB 145 MP aircraft.

AM-X; AMX-T

The AM-X is a subsonic ground attack and close air support aircraft developed under an international cooperation agreement with Alenia Un Azienda Finmeccanica S.p.A. and AerMacchi Aeronautica Macchi S.p.A. and sponsored by the Brazilian and Italian governments. Under the agreement, each of the parties is responsible for key systems of the aircraft. The AM-X is assembled in both Brazil and Italy. Each of Embraer and the Italian partners supplies the other with different key components and systems of the aircraft. In addition, each of Embraer and the Italian partners is free to market the aircraft independently and receives 100% of the proceeds of its sales. Approximately 170 AM-X aircraft are currently in operation in the air forces of Brazil and Italy, of which 55 were sold by us.

We have also developed, with the participation of Alenia and AerMacchi, the AMX-T, an enhanced version of the AM-X, currently being offered internationally. The AMX-T program operates under the same principles as the AM-X program, with the exception that Alenia's role is greater than AerMacchi's, which participates only as a subcontractor. In September 1999, we won the bid for a contract for the sale of a number of AMX-Ts to the Venezuelan government.

Other Projects and Activities

In December 2000, we were selected by the Brazilian government to perform a structural and electronics upgrade of the Brazilian Air Force's F-5 fighter jets. As the prime contractor, we will integrate multi-mode radar, advanced navigation and attack systems and enhanced self-protection systems into the existing aircraft under a

program known as F-5BR. In March 2002, we formed a consortium with Dassault, Thales and SNECMA to bid on the development and manufacture of up to 24 fighter jets for the Brazilian Air Force. The planned jet, the Mirage 2000 BR, is modeled on the Dassault Mirage 2000-5 supersonic jet. As leaders of the consortium, we would have coordination and management responsibilities in the program. As a result of this consortium and as part of our strategic alliance agreement, Dassault would transfer to us the technology for the Mirage, enabling us to have full control over the project technology as well. In addition, we intend to market our Legacy line of corporate jets to the Brazilian and other governments, modified to meet the added security needs of these customers. For example, we entered into a contract with the Belgian Air Force for two EMB 135s and two EMB 145s modified to transport government officials, of which two EMB 135s and one EMB 145 were delivered in 2001 and one EMB 145 was delivered in 2002.

Competition

Our defense products face competition from various manufacturers, many of which have greater financial, marketing and other resources than we do. The Super Tucano and the AL-X compete with the Pilatus PC-9M and the Raytheon T-6A Texan II. The EMB 145 AEW&C competes against the Northrop-Grumman E-2C II Hawkeye 2000 and the Lockheed-Martin C-130J AEW&C. In addition, Boeing has announced that it will develop the B737 AEW&C aircraft, with advanced warning and remote sensor capabilities, which is expected to enter the market in 2005. The AM-X/AMX-T competes with the British Aerospace Hawk-100, the Aermacchi MB-339FD and the Aero Vodochody L-159.

Corporate Jet Business

We have developed a line of corporate jets, the Legacy, based on our ERJ 135 regional jet. We are marketing the new line of corporate jets to businesses, including fractional ownership companies. Our corporate jet business accounted for 5.7% of our net sales for the year ended December 31, 2002, resulting from the delivery of eight Legacy jets.

We offer our line of corporate jets in two versions: executive and corporate shuttle. The Legacy was designed to provide customers with a cost-effective alternative to commercial regional airline travel. The executive version features a highly customized interior based on the customer's specific requirements. The corporate shuttle version is partially customized and is generally intended to have business class type seating and in-flight office design features. Both versions of our line of corporate jets have a maximum cruising speed of Mach .8, or 470 knots.

We developed our line of corporate jets by building upon our extensive regional jet design and manufacturing experience. For example, with the exception of the interior of the aircraft, the fuel tank, controller and indication system and the winglets, the Legacy has the same components as the ERJ 135 and is capable of being manufactured on the same production line. Furthermore, the corporate shuttle version of the Legacy does not require separate FAA, European aviation authority or Brazilian aviation authority approval. The executive version of the Legacy was certified by the Brazilian aviation authority in December 2001, by the JAA in July 2002 and by the FAA in August 2002. As a new entrant to the corporate jet market, we face significant competition from companies with longer operating histories and established reputations in this industry. Many of these manufacturers have greater financial, marketing and other resources than we do. These competitors include Dassault Aviation, Cessna Aircraft Co., Bombardier Inc., Israel Aircraft Industries, General Dynamics and Raytheon.

We take orders and build backlog for our line of corporate jets in the same manner as for our regional aircraft. We include an order in backlog once we have received a firm commitment, represented by a signed contract. We customarily receive a deposit at the time of order, three 5% progress payments and full payment of the balance due upon delivery, in the same manner as for our regional aircraft. We generally receive US\$100,000 for each option to purchase a corporate jet, with the terms of the options being substantially the same as those for our regional aircraft.

Other Related Businesses

We also provide after-sales customer support services and manufacture and market spare parts for the aircraft we produce. Activities in this segment include the sale of spare parts, maintenance and repair, training and other product support services. In addition, we provide structural parts and mechanical and hydraulic systems to Sikorsky Corporation for its production of helicopters. We also manufacture, on a limited basis and upon customer request, general aviation propeller aircraft, such as executive aircraft and crop dusters. Our other related businesses accounted for 5.7% of our net sales for the year ended December 31, 2002.

We entered into a joint venture with Liebherr International AG to develop and manufacture landing gear and high precision hydraulic equipment and provide related services for Embraer and other clients around the world. In connection with this joint venture, we formed a new subsidiary, ELEB, to which we transferred all of our landing gear manufacturing activities, the employees and some liabilities related to those activities. On May 22, 2000, Liebherr International AG, acting in coordination with its subsidiary, Liebherr Aerospace Lindenberg GmbH, and through its Brazilian affiliate, purchased 40% of the capital stock of ELEB. Liebherr-Aerospace SAS is our risk-sharing partner responsible for designing, developing and manufacturing the landing gear assemblies for the new EMBRAER 170/190 jet family.

After-Sales Customer Support; Spare Parts Business

We also provide after-sales customer support services and manufacture and market spare parts for the fleets of our regional and defense customers. Our after-sales customer support and spare parts business falls into several categories:

field support;

material support, which includes spare parts sales and distribution;

warranty and repair administration;

technical support, which includes engineering support, maintenance engineering and technical publications; and

training.

This business is expected to continue to grow as the number of our aircraft in service grows. Our customers require aircraft manufacturers and their suppliers to maintain adequate spare parts and ground support equipment inventories for a period of 10 years after the production of the last aircraft of the same type, or until fewer than five aircraft are operated in scheduled commercial air transport service. We recently established a pooling program that allows customers to exchange used parts for new or refurbished parts. As we deliver the aircraft we have in our backlog, we expect our after-sales support and spare parts business to grow proportionately. See **Customer Service and Product Support** below for a further discussion of our customer service facilities and arrangements.

Subcontracting

We provide subcontracting services to Sikorsky Corporation in connection with the development and manufacture of the landing gear, fuel system and fuel tanks for the S-92 Helibus helicopter. We also act as a risk-sharing partner to Sikorsky. The contracts expire in 2015.

General Aviation Aircraft

We build general aviation propeller aircraft. These six-passenger aircraft are produced only on demand and are used by corporations as executive aircraft and by air-taxi companies. At December 31, 2002, we had delivered a total of 2,326 of these aircraft. We also developed a crop duster aircraft pursuant to specifications of the Brazilian

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Ministry of Agriculture. These aircraft are produced only on demand. At December 31, 2002, we had delivered a total of 862 of these aircraft.

Markets

The following table sets forth our net sales by line of business and geographic region of the end users of our aircraft for the periods indicated.

	Year ended December 31,		
	2000	2001	2002
	(in millions of dollars)		
Regional Aircraft:			
Americas (excluding Brazil)	US\$ 1,377.0	US\$ 1,800.7	US\$ 1,772.2
Europe	1,021.1	644.5	290.5
Brazil		18.1	
Other	55.0	89.2	47.6
	US\$ 2,453.1	US\$ 2,552.5	US\$ 2,110.3
Corporate Jets			
Americas (excluding Brazil)	26.5	72.6	86.6
Europe			58.3
	US\$ 26.5	US\$ 72.6	US\$ 144.9
Defense Aircraft			
Americas (excluding Brazil)		US\$ 6.9	US\$ 13.3
Europe	26.8	74.0	73.5
Brazil	72.4	43.1	40.5
	US\$ 99.2	US\$ 124.0	US\$ 127.3
Other Related Business	US\$ 183.4	US\$ 177.9	US\$ 143.3

In addition, in an attempt to expand into new markets, we entered into a joint venture in December 2002 with Harbin Aircraft Industry (Group) Co., Ltd. and Hafai Aviation Industry Co., Ltd., subsidiaries of China Aviation Industry Corp. II, or AVIC II, to provide for the manufacture, sale and after-sale support of the ERJ 145 regional jet family. We own 51% of the equity of the joint venture company, Harbin Embraer Aircraft Industry Company Ltd. We have licensed to the joint venture the exclusive rights to produce, sell and provide support for the ERJ 145 regional jet family in the Chinese markets, and we will contribute US\$12.8 million in cash and tooling to the joint venture in 2003. Our joint venture partners have contributed the land use rights in Harbin, China and will contribute US\$12.7 million in cash and facilities to the joint venture in 2003. First deliveries by the joint venture company are scheduled for December 2003.

Suppliers and Components; Risk-Sharing Arrangements

We do not manufacture all of the parts and components used in the production of our aircraft. Approximately 84% to 90% of the production costs of our ERJ 145 regional jet family, depending on aircraft model, consist of materials and equipment purchased from our risk-sharing partners and other major suppliers. Risk-sharing arrangements with suppliers of key components enable us to focus on our core business: design and production of regional aircraft. Risk-sharing arrangements are those in which suppliers are responsible for the design, development and manufacture of major components or systems of our aircraft, such as wings, tail or fuselage. Our risk-sharing partners, therefore, must invest their own money in research and development and share the risk and success of our products with us.

In our regional jet business, we rely on risk-sharing partners to supply vital components of our aircraft, such as the engines, hydraulic components, avionics, wings, sections of the fuselage and portions of the tail. Once we select our risk-sharing partners and program development

and aircraft production begins, it is difficult to substitute these partners. In some cases, our aircraft are designed specifically to accommodate a particular component, such as the engines, which cannot be substituted by another manufacturer without significant delay and

expense. This dependence makes us susceptible to the performance, quality and financial condition of these risk-sharing partners.

ERJ 145 Regional Jet Family

Risk-sharing partners. We entered into risk-sharing arrangements with the following four suppliers in connection with the development and production of the ERJ 145 regional jet family:

Grupo Auxiliar Metalúrgico S.A., or Gamesa, is a Spanish company owned by Iberdrola S.A., a European power utility, and Banco Bilbao Vizcaya, a large Spanish financial institution. Gamesa supplies the wings, engine nacelles and main landing-gear doors;

Sonaca S.A. Société Nationale de Constructions Aérospatiales, a Belgian company, supplies portions of the central and rear fuselages, the service, main and baggage doors and engine pylons;

ENAER Empresa Nacional de Aeronáutica, a Chilean company, supplies the vertical fin, horizontal stabilizers and elevators; and

C&D Aerospace, Inc., a U.S. company, supplies the cabin and cargo compartment interiors.

Our risk-sharing partners generally receive payment for supplied components within three to five months after delivery of the components to Embraer. The partnering relationship with these suppliers results in lower production costs and higher product quality for the ERJ 145 regional jet family. Our line of corporate jets benefits from the risk-sharing arrangements with Gamesa, Sonaca and ENAER. In addition, the interior of the executive version of the Legacy will be provided by The Nordam Group, Inc.

Other suppliers. We have also entered into other agreements with numerous European, American, Canadian and Brazilian suppliers to provide key components for a number of our products, including the ERJ 145 regional jet family. These supply arrangements cover systems and components such as engines, avionics, landing gear and flight control systems. Our suppliers include, among other companies, Rolls-Royce Allison, Parker Hannifin Corp., BF Goodrich Co., United Technologies Corp. Hamilton Sundstrand Division, Honeywell, Rosemount Aerospace and Alcoa Inc.

We select suppliers on the basis of, among other factors, technical performance and quality of their products, production capacity, prior relationship and financial condition. We have had continuing relationships with most of our major suppliers since production of the Bandeirante aircraft began in 1975. We have entered into purchase agreements with our major suppliers, which cover our requirements for five to ten years of production. Our ongoing supplier relationships depend on cooperation, performance and the maintenance of competitive pricing.

EMBRAER 170/190 Jet Family

We are developing the EMBRAER 170/190 jet family together with risk-sharing partners that will supply key systems for the aircraft. Our supplier arrangements for the EMBRAER 170/190 jet family will differ from the ERJ 145 regional jet family in that we intend to use fewer suppliers. In the EMBRAER 170/190 jet family, each risk-sharing partner will be responsible for the development and production of aircraft systems, such as the landing gear, the hydraulic system and the flight control system, rather than individual components, and fewer components will be supplied by companies that are not risk-sharing partners. The assumption of responsibility for systems by our risk-sharing partners lowers our capital expenditures and thereby decreases our development risks, increases our operating efficiency by reducing the number of suppliers per product and cutting production costs. It also shortens development and production time. The primary risk-sharing partners for the EMBRAER 170/190 jet family are the following:

General Electric supplies CF34-8E/10E turbofan engines and designs, develops and manufactures the engine nacelles;

Honeywell supplies the avionics systems;

Liebherr is responsible for designing, developing and manufacturing the landing gear assemblies;

Kawasaki, a Japanese company, develops and manufactures the aircraft wing stub, engine pylon, fixed landing and trailing edge assemblies, flaps, spoilers and the wing's flight control surfaces;

Hamilton Sundstrand, a U.S. company and a wholly owned subsidiary of United Technologies Corp., develops and produces the aircraft's tail core, auxiliary power unit, electrical systems and the air management system;

Sonaca is responsible for the aircraft's wing slats;

Gamesa is responsible for the rear fuselage and the vertical and horizontal tail surfaces;

Latecoere, a French company, manufactures two of the three fuselage sections;

C&D Aerospace designs, develops and manufactures the aircraft interior; and

Grimes Aerospace Company, a U.S. company and a wholly owned subsidiary of AlliedSignal Inc., develops and manufactures the exterior and cockpit lighting.

If we cancel the development of the EMBRAER 170/190 jet family because we are unable to obtain certification of the aircraft from the applicable regulatory authorities or for other reasons, then we may be obligated to refund up to the full amount of the cash contributions from these suppliers. However, we generally do not need to refund these contributions as a result of insufficient market demand. At the same time, our rights to the cash contributions also depend on satisfactory completion of a number of steps in our production process. We believe that these financial commitments are a strong endorsement of our aircraft design and our ability to execute our business plan.

Furthermore, some of the risk-sharing partners for the EMBRAER 170/190 jet family will assume a broader role in other aspects of the program by providing sales financing and residual guarantees, rather than simply supplying us with aircraft components.

Customer Service and Product Support

Customer satisfaction and service is critical to our success. We will continue to focus on the development of closer, long-term relationships with our customers by meeting their aircraft requirements, providing after-sale support and spare parts and meeting maintenance requirements. We identify at the time of purchase the appropriate level of after-sale regional or on-site customer support and coordinate regional inventory levels to address expected spare parts and maintenance requirements. To maintain and increase our responsiveness, we have established five support centers worldwide. We have also outsourced distribution services through a facility in Weybridge, United Kingdom. We provide technical assistance, support and distribution to our Brazilian and other Latin American customers through our facility in São José dos Campos. In March 2002, we established a distribution Center in Beijing, China together with China Aviation Supplies Import and Export Corporation (CASC). We also intend to provide support services through our joint venture in China for aircraft sold by the joint venture. In March 2002, we acquired the operating assets of Celsius Aerotech Inc. in Nashville, Tennessee from Reliance Aerotech Inc. We provide full service maintenance and repair services for our regional and corporate aircraft at this Nashville service center, enhancing our level of service to our customers in the United States. Through our customer focus, we aim to enhance customer loyalty and, ultimately, increase sales.

We have dedicated teams in the United States, Europe and Brazil to focus exclusively on enhancing customer support. In addition, for each of our key customers, we have assigned senior relationship managers that are responsible for enhancing our relationships with these customers. We also provide direct field support with on-site technical representatives at several of our major customers' facilities. These on-site representatives are assigned

to major customers prior to the first delivery of their aircraft and provide advice on maintenance and operation. They also monitor our customers spare parts needs and maintain customers' inventories.

We provide support centers that are available 24 hours a day, seven days per week, in our São José dos Campos facility as well as in Ft. Lauderdale, Florida, USA; Le Bourget, France; and Melbourne, Australia. We train pilots, co-pilots, flight attendants and mechanics at these locations. We operate advanced flight simulators for our ERJ 145 regional jet family and for the Legacy at our Florida facility under an agreement with FlightSafety International, Inc., a business specializing in flight simulation. We have entered into an agreement with GE Capital Aviation Training Limited, or GECAT, a joint venture between General Electric Company and Thales, whereby GECAT will provide training for the EMBRAER 170/190 jet family on a non-exclusive basis. We also provide field service and on-the-job training for airline personnel. For example, we routinely dispatch one of our pilots to fly with an operator's crew during the introduction of an aircraft into a customer's regular routes. We also provide technical publications with up-to-date technical information on our aircraft. In addition, in 2001 we launched a new website, AEROChain, to provide a web-based platform for the exchange of information with our suppliers and customers. Through AEROChain, suppliers may view supply chain information and customers may make purchases as well as obtain technical services and learn aircraft maintenance, repair and overhaul techniques.

Aircraft Financing Arrangements

We generally do not provide long-term financing directly to our customers. We assist our customers in obtaining financing arrangements through different sources such as leasing arrangements and the BNDES-*exim* program. In addition, we help our customers qualify for the ProEx program. On a case by case basis, we have provided short-term financing, at market rates, to customers who have completed or are negotiating other financing arrangements and have not received funding in time for delivery. We have also provided guarantees for a portion of the financing of aircraft for certain of our customers. See Notes 7, 8 and 37 to our consolidated financial statements.

We assist customers in their aircraft financing through leasing arrangements, principally through leasing companies, U.S. leveraged leases, U.K. tax leases and French tax leases. These arrangements accounted for approximately 64.0% of the firm orders (in terms of value) we had with our customers at December 31, 2002. Leasing arrangements through leasing companies generally involve the purchase by a leasing company of our aircraft under a customer's purchase contract and the lease of that aircraft to that customer. In leveraged leasing transactions, an investor will borrow a portion of the aircraft purchase price from a third party lender, purchase our aircraft and lease it to our customer. See Note 8 to our consolidated financial statements.

The BNDES-*exim* program, a Brazilian government-sponsored program, provides our customers with direct financing for Brazilian exports of goods and services. At December 31, 2002, approximately 48.0% of our backlog (in terms of value) was financed by the BNDES-*exim* program.

Our customers also benefit from the ProEx program, a Brazilian government-sponsored program of interest rate adjustments. Under the ProEx program, which is intended to offset Brazil's country risk, foreign customers that buy selected products made in Brazil, such as our aircraft, receive the benefits of interest rate discounts. A substantial percentage of our customers benefit from the ProEx program.

See Item 3D. Risk Factors Risks Relating to Embraer Any decrease in Brazilian government-sponsored customer financing, or increase in government-sponsored financing that benefits our competitors, may decrease the cost-competitiveness of our aircraft for a discussion of challenges to and pending negotiations regarding the ProEx program.

Intellectual Property

Our intellectual property, which includes designs, trade secrets, know-how and trademarks, is important to our business. We hold trademarks over our name and symbol, and the names of our aircraft, some of which are registered and some of which are in the process of registration in a number of countries, including Brazil, the United States, Canada, Singapore, Hong Kong, China and in the European Union. At December 31, 2002, we had approximately 44 trademarks. Our registered trademarks are generally renewed at the end of their validity period,

which usually runs from 10 years from the date of application for registration. Brazil provides mechanisms to protect trademarks that are similar to the federal registration systems available in the United States.

Government Regulation and Aircraft Certification

We are subject to regulation by several regulatory agencies, both in Brazil and abroad. These agencies principally regulate certification of aircraft and of manufacturers. We must obtain certification in each jurisdiction in which our aircraft operate commercially. In addition, our products are subject to regulation in Brazil and in each jurisdiction where our customers are located. The competent authority for the certification of our aircraft in Brazil is the *Departamento de Aviação Civil*, or DAC (Civil Aviation Department), through the Brazilian Aviation Register RAB, currently under the supervision of the Ministry of Defense. However, the Brazilian Congress is presently considering a proposed law that aims to replace the DAC with an independent regulatory agency to be named *Agência Nacional de Aviação Civil*, or ANAC (National Civil Aviation Agency), which will then be the competent Brazilian authority for the ruling, supervision and certification of aircraft and commercial aircraft operations. The aviation authorities in other countries include the FAA, the JAA, the European aviation authority and the Chinese aviation authority. Some countries simply validate and complement the Brazilian aviation authority's original certification, following their own rules. The Brazilian aviation authority has entered into a bilateral certification agreement with the FAA under which most of the FAA's certification requirements are included in the Brazilian aviation authority's certification process. This cooperation among regulatory authorities leads to a faster certification process. The ERJ 145 received certification to operate in the United States and Brazil in the last quarter of 1996, in Europe in the second quarter of 1997, in Australia in June 1998 and, for the LR version, in China in November 2000. The ERJ 145 XR version was certified by the Brazilian aviation authority in August 2002 and by the FAA in October 2002. The ERJ 135 was certified by the Brazilian aviation authority in June 1999, by the FAA in July 1999 and by the European aviation authority in October 1999. The ERJ 140 was certified by the Brazilian aviation authority in June 2001 and by the FAA in July 2001. The executive version of the Legacy was certified by the Brazilian aviation authority in December 2001, by the JAA in July 2002 and by the FAA in August 2002.

The EMBRAER 170 is expected to be certified by the Brazilian aviation authority, the FAA and the JAA by the end of 2003. The EMBRAER 175, EMBRAER 190 and EMBRAER 195 will need to be certified by the relevant authority prior to delivery.

The FAA exercises strong influence over other authorities, such as the Brazilian aviation authority and the aviation authority in Canada, and its regulatory approval process is frequently followed by other regulatory bodies, such as the aviation authority in Australia. In Europe, 27 affiliated countries operate under the rules of the JAA. The JAA is not a certification authority itself, but makes recommendations to several national authorities, such as the aviation authorities of Germany, France, the United Kingdom, Spain and The Netherlands. A recommendation by the JAA is a requirement for certification of an aircraft by the aviation authorities of most European countries. Each affiliated country has the right to adopt new rules or complement the JAA's recommendations as it sees fit. A new European aviation authority is expected to be created, to be called the European Aviation Safety Agency EASA, and will replace the JAA. EASA will be the official certification authority for the European Union in the near future. Certification is an ongoing process. Significant changes in the design of an aircraft may require a separate certification. For example, the LR version of the ERJ 145 had to be certified separately by all relevant authorities due to its structural and design changes. However, any change in the aircraft certification rules themselves will not require recertification of an aircraft already certified.

4C. Organizational Structure

Our operations are conducted by Embraer Empresa Brasileira de Aeronáutica S.A. as the controlling and principal operating company. We have a number of direct and indirect subsidiaries, none of which are considered significant.

4D. Property, Plants and Equipment

We own our headquarters and plant, located in São José dos Campos. Significant portions of our facilities in São José dos Campos are subject to mortgages held by BNDES and Banco do Brasil S.A. We lease, own or have the right to use the following properties:

Location	Purpose	Approximate square footage	Owned/Leased	Lease expiration
São José dos Campos, SP, Brazil	Headquarters, principal manufacturing facility and support center	5,902,102	Owned	
São José dos Campos, SP, Brazil (Eugênio de Mello)	Manufacturing facility	3,658,884	Owned	
Botucatu, SP, Brazil	Manufacturing facility	222,000	Owned	
Harbin, China	Manufacturing facility	258,067	Owned*	
Gavião Peixoto, SP, Brazil	Testing and manufacturing facilities	191,648,512	**	
São Paulo, SP, Brazil	Administrative offices	5,245	Leased	2007
Ft. Lauderdale, Florida, U.S.A.	Support center	91,500	Leased	2020
West Palm Beach, Florida, U.S.A.	Engineering offices	16,800	Leased	2005
Dallas, Texas, U.S.A.	Administrative offices	1,600	Leased	2003
Nashville, Tennessee, U.S.A.	Aircraft maintenance and support center	125,260	Leased	2018
Le Bourget, France	Support center	33,500	Leased	2008
Melbourne, Australia	Support center	12,126	Leased	2003
Beijing, China	Representative offices	1,709	Leased	2004
Singapore	Representative offices	2,239	Leased	2004

* Land owned pursuant to a land use rights certificate.

** We currently have a temporary authorization from the State of São Paulo to use this facility and expect to receive a concession for the use of this facility as soon as legal formalities are satisfied.

Production

The actual manufacture of an aircraft consists of three principal stages: fabrication of primary parts, assembly of major components and final assembly. Primary parts include metal sheets and plates (produced from die-cast molds, stretch forming or various chemical treatments), parts produced using computerized and non-computerized machines, and pre-fabricated parts. The primary parts are then joined, or mated, with one another to produce the aircraft's major components, which are in turn joined to create the aircraft's basic structure. In the final assembly stage, the aircraft's various operating systems (such as wiring and electronics) are installed into the structure and tested.

Production facilities for our regional and defense aircraft are located in São José dos Campos in the State of São Paulo, Brazil. We reduced the aircraft production time of our regional jet aircraft from eight months in 1996 to 3.7 months in 2002. From December 31, 1999 to December 31, 2000, we increased our production rate from 12 to 16 aircraft per month. At March 31, 2001, our production rate was 16 aircraft per month. We have since decreased our production to 11 aircraft per month in response to decreased market demand after the September 11th terrorist attacks and the global economic slowdown. We have the flexibility to increase production in the future in response to increased demand. We build the EMB 120 Brasília according to market demand and adjust production accordingly. To accommodate our current production of the ERJ 145 regional jet family and the start of production of the EMBRAER 170/190 jet family, as well as any production of the line of corporate jets, we have expanded our production facilities and acquired new facilities and will continue to coordinate with our risk-sharing partners.

We are constructing a new facility in Gavião Peixoto, in the State of São Paulo, Brazil, which we anticipate will be used to enhance our flight testing capabilities and provide a final assembly line for our defense and corporate aircraft. As of December 31, 2002, we had invested US\$35.6 million in the construction of this new facility. This facility has been operational since November 2002 and consists of a runway and other features to handle our development of supersonic aircraft technology, as well as to handle flight tests for our EMBRAER 170/190 jet family. The runway has been completed, the hangars have been built and we conducted our flight tests for the EMBRAER 170 from this runway. In addition, in September 2000, we purchased a new facility in São José dos Campos in the State of São Paulo, Brazil, where we currently manufacture small parts and components for our aircraft. Our China joint venture is also in the process of building a production facility for the ERJ 145 jet family in Harbin, China.

Environmental Matters

Most environmental regulation in Brazil is established at the state rather than at the federal or municipal level, with environmental authorities, in most states, granting operating permits to individual facilities rather than through general regulations. We have all material permits required to operate our business. The terms of these operating permits are reviewed every year and we are in compliance with our permits. In addition, we adhere internally to international ISO 14000 environmental standards. In 2000, 2001 and 2002, we invested US\$0.6 million, US\$1.1 million and US\$1.0 million, respectively, in environmental matters and we anticipate spending approximately US\$1.2 million on environmental matters in 2003 for expenditures relating to the portion of construction of new facilities and modification of existing facilities relating to environmental compliance and improvements.

Insurance

We insure all of our plants and equipment for loss and replacement. We also carry insurance to cover all potential damages to our own fleet of aircraft, including those occurring during commercial and demonstration flights. In addition, we maintain a comprehensive aviation products liability policy, which covers damages arising out of the manufacture, distribution, sale and servicing of our aircraft and parts. We have been increasing our coverage for aviation products liability as our fleet has grown. We also carry natural disaster and business interruption insurance covering property damage and the related loss of gross income, as defined in the policy, and additional expenses, such as those incurred by us to offset the loss of production and delivery of aircraft due to partial or total interruption of our business because of material losses caused by an accident. We consider the amounts of our insurance coverage to be typical for a company of our size and adequate to meet all foreseeable risks associated with our operations.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

This discussion should be read in conjunction with our consolidated financial statements and notes thereto and other financial information included elsewhere in this annual report. This annual report contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including, without limitation, those set forth in Item 3D, Risk Factors and the matters set forth in this annual report generally.

Except as otherwise indicated, all financial information in this annual report has been prepared in accordance with U.S. GAAP and presented in U.S. dollars. For certain purposes, such as providing reports to our Brazilian shareholders, filing financial statements with the Comissão de Valores Mobiliários, or CVM, the Brazilian securities commission, and determining dividend payments and other distributions and tax liabilities in Brazil, we have prepared and will continue to be required to prepare financial statements in accordance with the Brazilian Corporate Law.

5A. Operating Results

Critical Accounting Policies

In connection with the preparation of the financial statements included in this annual report, we have relied on variables and assumptions derived from historical experience and various other factors that we deemed reasonable and relevant. Although we review these estimates and assumptions in the ordinary course of business, the portrayal of our financial condition and results of operation often requires our management to make judgments regarding the effects of matters that are inherently uncertain. Actual results may differ from those estimated under different variables, assumptions or conditions. Note 3 to our consolidated financial statements includes a summary of the significant accounting policies and methods used in the preparation of these financial statements. In order to provide an understanding about how management forms its judgments about future events, including the variables and assumptions underlying the estimates, and the sensitivity of those judgments to different variables and conditions, we have included below a brief discussion of our more significant accounting policies.

Sales and Other Operating Revenues

We generally recognize sales of our regional and commercial aircraft as deliveries are made. In our defense aircraft segment, we perform work under long-term development contracts for the Brazilian government and other governments, and we recognize revenue in accordance with the percentage of completion method. Revenue recognized under this method is based on our estimate of our progress towards completion. Certain contracts contain provisions for the redetermination of price based upon future economic conditions. Anticipated losses, if any, under these contracts are accrued when known and are recorded based on management's estimate of such losses.

Product Warranties

Generally, aircraft sales are accompanied by a standard warranty for systems, accessories, equipment, parts and software manufactured by us. We recognize warranty expense, as a component of selling expenses, at the time of sale based on the estimated amounts of warranty costs expected to be incurred, which are typically expressed as a percentage of the sales price of the aircraft. These estimates are based on a number of factors including our historical warranty claim and cost experience, the type and duration of the warranty coverage, volume and mix of aircraft sold and in service and warranty coverage available from the related suppliers. The warranty period ranges from two years for spare parts to five years for components that are a part of the aircraft when sold.

We have provided guarantees of specified minimum levels of aircraft performance based on pre-determined operational targets. Costs resulting from a failure to meet these targets cannot be established until after delivery of the aircraft. In the event that these target levels are not met, we may be obligated to pay amounts to the affected customers as reimbursement for their incremental operating or service costs. Losses related to such performance guarantees are recorded at the time they are known, or when circumstances indicate that the aircraft is not expected to meet the minimum performance requirements, based on management's estimate of our ultimate obligation under

the guarantee. In some cases, we may also be obligated to make modifications after aircraft delivery due to improvement or performance of aircraft. The costs related to these modifications are accrued when known.

Guarantees, Repurchase Commitments and Trade-Ins

We have provided sales incentives in the form of financial and residual value guarantees, repurchase commitments and trade-in rights related to our aircraft. We review the value of these commitments relative to the aircraft's anticipated future fair value and, in the case of financial guarantees, the creditworthiness of the obligor. Provisions and losses are recorded when and if payments become probable and are estimable. We estimate future fair value using third party appraisals of aircraft valuations, including information developed from the sale or lease of similar aircraft in the secondary market. We evaluate the creditworthiness of obligors for which we have provided credit guarantees by analyzing a number of factors, including third party credit ratings and estimated obligors' borrowing costs.

Credit Risk

Credit risk is the risk that we may incur losses if counterparties to our contracts do not pay amounts owed to us. Our primary credit risk derives from the sales of aircraft, parts and related services to our customers, including the financial obligations related to these sales.

We grant credit to our customers for the sale of spare parts and services based upon an evaluation of the customers' financial condition and credit history. Customer credit analyses are continuously monitored and we establish an allowance for doubtful accounts based upon factors that include the credit risk of specific customers and historical aging, collection and write-off trends. Our historical experience in collecting accounts receivable falls within the recorded allowances.

We may also have credit risk related to the sale of aircraft while our customers are finalizing the financing structures for their purchases from us. To minimize these risks, customer credit analyses are continuously monitored and we work closely with the financial institutions to help facilitate customer financing.

We have recognized an allowance for doubtful accounts, which we believe is sufficient to cover potential losses on the realization of accounts receivable.

Property, Plant and Equipment

Property, plant and equipment are stated on our balance sheet at cost. Depreciation is calculated using the straight line method over the estimated useful life or utility of the assets. Improvements to existing property that significantly extend useful life or utility are capitalized. We review long-lived assets for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by comparison of the carrying amount of the asset to our estimate of undiscounted future net cash flows expected to be generated by the asset. If we conclude that an asset is impaired, we recognize the impairment as the amount by which the carrying amount of the asset exceeds its fair value. We report assets to be disposed of at the lower of the carrying amount or fair value less cost to sell.

Provisions for Contingencies

We are subject to contingencies for labor, tax, commercial and civil litigation in the ordinary course of our business. We record losses for these contingencies when we determine that the loss is probable and can be reasonably estimated. Our assessment of the probability and amount of loss is based on a number of factors, including legal advice and our management's estimate of the likely outcome.

Recent Trends in the Airline Industry

The commercial aviation industry has been negatively impacted by a number of factors beginning in 2001. First, the U.S. and world economies have been experiencing an economic downturn that began in 2001 and is characterized by rapid declines in securities markets, a decline in productivity and an increase in unemployment. Second, the terrorist attacks of September 11th caused an immediate decline in airline travel and a high level of financial uncertainty among the worldwide airline industry. Many airlines faced, and continue to face, a reduction in demand, escalating insurance costs, increased security costs, increasing fuel costs and, in some cases, credit downgrades, liquidity concerns and bankruptcy. Finally, airline travel decreased significantly in 2003 as a result of both the commencement of military action by the United States and other countries in Iraq and the concerns over outbreaks of severe acute respiratory syndrome (SARS) in Asia and Canada. In response to these events, beginning in the fourth quarter of 2001 many airlines, including our largest customers, reduced their flight schedules for the long-term and announced significant lay-offs. As a result, we agreed to modify certain delivery schedules to adjust to the changes in our customers' businesses and have reduced scheduled regional, corporate jet and government transportation aircraft deliveries in 2002 to 131 aircraft

as compared to planned 2002 deliveries of 205 at August 31,

2001 and reduced 2003 scheduled deliveries to 110 aircraft from planned 2003 deliveries of 148 as of December 31, 2002. In addition, the economic downturn has caused us to revise our risk metrics related to our financial guarantees and re-evaluate our exposure. A further downturn in general economic conditions could result in further reduction in the passenger aircraft market, decreased orders for our regional aircraft, increased exposure to financial guarantees and additional charges against income. We cannot, at this time, predict the magnitude or duration of the impact that these events will have on the airline industry as a whole and on our business in particular.

In addition, the above events and the ensuing negative effects on the U.S. economy have adversely affected the global and Brazilian economies and securities markets, and have resulted in:

increased volatility in the market price of securities;

significant decline in corporate earnings estimates;

substantial losses in important industries, including the air transport and insurance industries; and

significant erosion of consumer confidence.

The uncertainty surrounding U.S., Brazilian and global economies could in turn lead to the Brazilian government changing existing laws or regulations or imposing new ones, and/or the Central Bank changing base interest rates, which could adversely affect our operations.

Brazilian Economic Environment

The Brazilian economy has been characterized by frequent and occasionally drastic intervention by the Brazilian government and by volatile economic cycles. The Brazilian government has often changed monetary, taxation, credit, tariff and other policies to influence the course of Brazil's economy. For example, the Brazilian government has the authority, when a serious imbalance in Brazil's balance of payments occurs, to impose restrictions on the remittance to foreign investors of the proceeds of their investments in Brazil and on the conversion of Brazilian currency into foreign currencies. Furthermore, Brazilian courts may issue rulings that could adversely affect foreign investors or Brazilian political and economic conditions. In late September 1999, a court in the State of Minas Gerais ruled that the representatives on the board of directors of the minority foreign private partners of Companhia Energética de Minas Gerais, a privatized electric utility in that state, could no longer have veto power over corporate actions. In late October 2000, Brazil's Federal Supreme Court ruled that employee accounts in the Brazilian unemployment compensation fund for the months of January 1989 and April 1990 should have been adjusted using the real inflation rate in those months rather than the official inflation rate previously used. The Brazilian government has reached an agreement with the labor unions on this matter and is currently making settlement payments, which may have an adverse effect on Brazil's federal budget and, therefore, amounts available to us or our customers under Brazilian government financing programs. Changes in monetary, taxation, credit, tariff and other policies could adversely affect our business, as could inflation, currency and interest rate fluctuations, social instability and other political, economic or diplomatic developments, as well as the Brazilian government's response to such developments. See Item 3D. Risk Factors Risks Relating to Brazil.

Rapid changes in Brazilian political and economic conditions that have occurred and may occur in the future will require continued emphasis on assessing the risks associated with our activities and adjusting our business and operating strategy accordingly. Future developments in Brazilian government policies, including changes in the current policy and incentives adopted for financing the export of Brazilian goods, or in the Brazilian economy, over which we have no control, may materially adversely affect our business. See Item 3D. Risk Factors Risks Relating to Brazil.

Brazilian economic conditions may also be negatively affected by economic and political conditions elsewhere, particularly in other South American and emerging market countries. Although economic conditions are different in each country, the reaction of investors in one country, may cause the capital markets in other countries to fluctuate. Developments or conditions on other emerging market countries have at times significantly affected the

availability of credit in the Brazilian economy and resulted in considerable outflows of funds and declines in the amount of foreign currency invested in Brazil.

For example, since 1999, the Argentine economy has been in a recession marked by reduced levels of consumption and investment, increasing unemployment and declining gross domestic product. During late 2001, Argentine depositors withdrew their money from banks and sought to remit such funds abroad. In early December 2001, the government restricted the rights of such depositors to withdraw their funds. The economic crisis gave rise to increasing political instability and eventually led to the announcement by Argentina that it would impose a moratorium on the payment of its foreign debt. On January 3, 2002, Argentina formally defaulted on debt held by certain foreign creditors. On January 7, 2002, Argentina announced that it was devaluing its peso by 29%, ending the peso's decade-old one-to-one peg with the U.S. dollar. In 2002, the Argentine peso experienced a devaluation of over 200% against the U.S. dollar. The situation in Argentina has negatively affected investors' perceptions of risks in Brazil.

The recent political crisis in Venezuela may also influence investors' perception of risk in Brazil. The continuation of the Venezuelan and Argentine crises presents causes for concern relating to Brazil's economic stability. Although market concerns that similar crises would ensue in Brazil have not yet become a reality, the volatility in market prices for Brazilian securities increased in 2001 and 2002. Instability in the Brazilian financial markets caused by the Argentine and Venezuelan crises and other developments in the international financial markets may adversely affect our financial condition and, specifically, our ability to raise capital when needed and the market price of the preferred shares and ADSs.

The Brazilian government has also proposed a broad tax reform in Brazil, mainly designed to reduce the public deficit through the increase in tax collection. It is expected that the final tax reform bill will be submitted to the Brazilian Congress during 2003. It is anticipated that the reform will include the creation of a value-added tax on goods and services that would replace six existing taxes (including contribution for social purposes, the federal tax on industrial products and the state tax on circulation of goods and services). In addition, the *Contribuição Provisória sobre Movimentação Financeira-CPMF*, a provisional levy on checking account transactions, would be replaced by a permanent federal tax on financial transfers. We may have a higher tax burden if the tax reform bill is approved and implemented.

Effects of Inflation and Currency Exchange Fluctuations

Until July 1994, Brazil had for many years experienced high, and generally unpredictable, rates of inflation and steady devaluation of its currency relative to the U.S. dollar. The following table sets forth, for the periods shown, Brazilian inflation as measured by the General Market Index and published annually by Fundação Getúlio Vargas and the devaluation of the *real* against the U.S. dollar as measured by comparing the daily exchange rates published by the Central Bank on the last day of each year:

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Inflation (General Market Price Index)	1.8%	20.1%	9.9%	10.4%	25.3%
Devaluation (appreciation) (R\$ vs. US\$)	8.3%	48.0%	9.3%	18.7%	52.3%

Inflation and exchange rate variations have had, and may continue to have, substantial effects on our financial condition and results of operations.

Inflation and exchange rate variations affect our monetary assets and liabilities denominated in *reais*. The value of such assets and liabilities as expressed in U.S. dollars declines when the *real* devalues against the U.S. dollar and increases when the *real* appreciates. In addition, many financial instruments denominated in *reais* are indexed for inflation. In periods of devaluation of the *real*, we report (a) a remeasurement loss on *real*-denominated monetary assets, which is offset, at least in part, by monetary indexation of *real*-denominated financial instruments and (b) a remeasurement gain on *real*-denominated monetary liabilities, which is offset, at least in part, by the monetary indexation of *real*-denominated financial instruments.

Finally, because revenues in our defense business have historically been denominated principally in *reais*, while our costs for materials for this segment have been principally denominated in U.S. dollars, devaluation of the *real* has adversely affected margins in our defense business. However, at the anniversary date of each contract we are able, under our defense contracts with the Brazilian government, to adjust prospectively our prices (in *reais*) upward to reflect the adverse effects of devaluation. As our defense business becomes more international and our defense sales more U.S. dollar-denominated, we expect that our defense business will be less exposed to devaluation of the *real*.

Overview

Basis of Presentation

The consolidated financial statements have been prepared in accordance with U.S. GAAP. See Introduction Presentation of Financial and Other Data Financial Data for a discussion of factors affecting our financial data.

Operating Data

The following chart sets forth statistical data concerning our deliveries and backlog for our aircraft at the end of the respective periods. Deliveries consist of aircraft that have been delivered to customers and for which the corresponding revenue has been recognized. Our backlog consists of all firm orders that have not yet been delivered. A firm order is a contractual commitment from a customer, customarily accompanied by a down payment, for which we have reserved a place on one of our production lines. See Item 5D. Trend Information for certain information on our firm orders and options.

	At December 31,		
	2000	2001	2002
Regional			
Deliveries			
ERJ 145	112	104	82
ERJ 135	45	27	3
ERJ 140		22	36
EMB 120 Brasília		2	
Defense			
Deliveries	2	3	7
Corporate			
Deliveries	2	5	8
Other Operating Information			
Total backlog (in millions)(1)	US\$11,421	US\$10,693	US\$9,034

(1) Subsequent to December 31, 2002, we received 126 net additional firm orders for our EMBRAER 170/190 jet family.

Net Sales

We generate revenue primarily from the sale of regional aircraft, which historically consists of our ERJ 145 regional jet family and our EMB 120 Brasília. We also generate revenue from the sale of defense aircraft, including the EMB 312 Tucano, the AM-X, and the EMB 145 AEW&C/RS/MP surveillance aircraft, and from the sale of our Legacy corporate jets. Net sales of regional aircraft and corporate aircraft are denominated in U.S. dollars. Of defense net sales, sales to the Brazilian government accounted for 31.8% in 2002. Finally, we generate revenue from our other related businesses, which include after-sales support (including the sale of spare parts, maintenance and repair, training and other product support services) and single-source supply of structural parts and mechanical and hydraulic systems to other aircraft manufacturers.

We recognize revenue for the sale of our regional and corporate aircraft when the aircraft is delivered to the customer. We customarily receive a deposit upon signing of the purchase agreement for the sale of our regional and corporate aircraft and progress payments in the amount of 5% of the sales price of the aircraft 18 months, 12 months and six months before scheduled delivery. For the EMBRAER 170/190 jet family, we receive an additional 5%

progress payment 24 months before scheduled delivery. We typically receive the remaining amount of the sales price upon delivery. Payments in advance of delivery are recorded under customer advances as a liability on our balance sheet and, when we deliver the aircraft, these payments are recorded as net sales.

As a result of a decrease in the amounts available under the ProEx program in 1999, we assisted some of our affected customers in restructuring their financing arrangements. In cases where we were not able to restructure these arrangements, we provided special price adjustments to these customers to maintain the effective interest rates in their original financing arrangements. Upon delivery of an aircraft to these customers, we record these price adjustments as deductions from gross sales on our income statement and under accounts payable on our balance sheet. These deductions amounted to 2.4% of our net sales in 2000, 1.3% of our net sales in 2001, and 1.0% of our net sales in 2002.

Our sales contracts with our customers typically include adjustments to the purchase price of the aircraft based on an escalation formula which reflects, in part, inflation in the United States. With respect to options to purchase our aircraft, we generally receive US\$100,000 for each aircraft in the ERJ 145 regional jet family and for each Legacy, US\$200,000 for each aircraft in the EMBRAER 170/190 jet family and US\$50,000 for each EMB 120 Brasília. The deposits, progress payments and option payments are generally non-refundable. Once a customer decides to exercise an option, we account for it as a firm order. We record each option payment as a customer advance on our balance sheet. If an option is exercised, we begin to receive progress payments and recognize revenue upon delivery as discussed above.

We recognize revenue from the sale of our defense aircraft, including the funding of the research and development for specific programs, in accordance with the percentage of completion method. Certain contracts contain provisions for the redetermination of price based upon future economic conditions. Our defense customers continue to provide customer advances, which are converted into revenue as we achieve pre-determined stages of completion of the project, such as conception, development and design, and engineering, systems integration and customization. These installments are generally non-refundable.

Cost of Sales and Services

Our cost of sales and services consists primarily of:

Material These costs are primarily U.S. dollar-denominated. Substantially all of our materials costs are covered by contracts with our suppliers. Prices under these contracts are generally adjusted based on an escalation formula which reflects, in part, inflation in the United States.

Labor These costs are primarily *real*-denominated.

Depreciation We depreciate our property, plant and equipment over their useful lives, ranging from five to 48 years, on a straight line basis.

Results of Operations

The following table presents income statement data by business segment.

Summary Financial Data by Business

	Operating income		
	Year ended December 31,		
	2000	2001	2002
	(in millions of dollars)		
Net sales:			
Regional	US\$2,453.1	US\$2,552.5	US\$2,110.3
Defense	99.2	124.0	127.3
Corporate	26.5	72.6	144.9
Other related businesses	183.4	177.9	143.3
	<u>2,762.2</u>	<u>2,927.0</u>	<u>2,525.8</u>
Cost of sales and services:			
Regional	(1,692.3)	(1,536.8)	(1,243.9)
Defense	(84.0)	(105.2)	(79.5)
Corporate	(18.8)	(47.0)	(104.6)
Other related businesses	(84.2)	(80.2)	(103.7)
	<u>(1,879.3)</u>	<u>(1,769.2)</u>	<u>(1,531.7)</u>
Gross profit:			
Regional	760.8	1,015.7	866.4
Defense	15.2	18.8	47.8
Corporate	7.7	25.6	40.3
Other related businesses	99.2	97.7	39.6
	<u>882.9</u>	<u>1,157.8</u>	<u>994.1</u>
Operating expenses:			
Regional	(122.6)	(161.9)	(177.5)
Defense	(14.9)	(20.9)	(15.7)
Corporate	(3.7)	(9.3)	(28.4)
Other related businesses	(52.5)	(61.0)	(30.8)
Unallocated corporate expenses	(227.1)	(253.3)	(272.1)
	<u>(420.8)</u>	<u>(506.4)</u>	<u>(524.5)</u>
Income from operations	<u>US\$462.1</u>	<u>US\$651.4</u>	<u>US\$469.6</u>

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The following table sets forth income statement information, and such information as a percentage of our net sales, for the periods indicated.

Year ended December 31,

	2000		2001		2002	
	(in millions of dollars, except percentages)					
Net sales	US\$2,762.2	100.0%	US\$2,927.0	100.0%	US\$2,525.8	100.0%
Cost of sales and services	(1,879.3)	68.0	(1,769.2)	60.4	(1,531.7)	60.6
Gross profit	882.9	32.0	1,157.8	39.6	994.1	39.4
Operating expense						
Selling expenses	(193.4)	7.0	(212.1)	7.2	(211.0)	8.4
Research and development	(69.6)	2.5	(99.6)	3.4	(158.5)	6.3
General and administrative	(96.6)	3.5	(120.8)	4.1	(109.7)	4.3
Employee profit sharing	(41.8)	1.5	(43.7)	1.5	(25.2)	1.0
Stock compensation	(0.5)		(1.1)			
Other operating expenses, net	(19.6)	0.7	(29.5)	1.0	(20.5)	0.8
Equity on income (loss) from affiliates	0.8		0.3		0.4	
Income from operations	462.1	16.7	651.4	22.3	469.6	18.6
Non-operating income (expense)						
Interest income (expenses)	(6.9)	0.2	47.5	1.6	80.5	3.2
Financial transaction gain (loss), net	(24.6)	0.9	(148.6)	5.1	(135.6)	5.4
Other non-operating income (expenses), Net	6.0	0.2	(8.4)	0.3	(1.4)	0.1
Income before income taxes	436.6	15.8	541.8	18.5	413.0	16.4
Provision for income taxes	(117.4)	4.3	(218.4)	7.5	(188.5)	7.5
Income before minority interest	319.2	11.6	323.4	11.0	224.5	8.9
Minority interest	1.5	0.1	(0.4)		(1.9)	0.1
Income before cumulative effect of accounting change	320.7	11.6	323.0	11.0	222.6	8.8
Cumulative effect of accounting change, net of tax			5.4	0.2		
Net income	US\$320.7	11.6%	US\$328.4	11.2%	US\$222.6	8.8%

2002 Compared with 2001

Net sales. Net sales decreased 13.7% from US\$2,927.0 million in 2001 to US\$2,525.8 million in 2002. Regional net sales decreased 17.3% from US\$2,552.5 million in 2001 to US\$2,110.3 million in 2002. Defense net sales increased 2.7% from US\$124.0 million in 2001 to US\$127.3 million in 2002. Corporate net sales increased 99.6% from US\$72.6 million in 2001 to US\$144.9 million in 2002. Net sales from other related businesses decreased 19.5% from US\$177.9 million in 2001 to US\$143.3 million in 2002.

The decrease in regional sales is primarily due to the rescheduling of customer deliveries from 2002 to 2003 and thereafter, partially offset by a better product mix and a higher average unit price. The increase in corporate net sales resulted from the start of deliveries of the Legacy at the end of 2001. The decrease in net sales from other related businesses is mainly due to a decrease in sales of spare parts, despite an increase in aircraft in service, due to the economic downturn and our customers' cost cutting measures.

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Cost of sales and services. Cost of sales and services decreased 13.4% from US\$1,769.2 million in 2001 to US\$1,531.7 million in 2002, principally due to the reduction in number of aircraft delivered during 2002. Cost of sales and services as a percentage of net sales was relatively stable at 60.6% in 2002, in comparison to 60.4% in 2001.

Gross profit. Our gross profit decreased 14.1% from US\$1,157.8 million in 2001 to US\$994.1 million in 2002, primarily as a result of the reduction in deliveries in the regional market. As a result of the decline in cost of sales and services, our gross margin remained relatively stable at 39.6% in 2001 compared to 39.4% in 2002.

Operating expenses. Operating expenses increased 3.6% from US\$506.4 million in 2001 to US\$524.5 million in 2002. This increase was attributable primarily to an increase of 37.2% in research and development from US\$99.6 million in 2001 to US\$158.5 million in 2002, principally related to higher development costs for the EMBRAER 170/190 and the new versions of our other regional and corporate jets as we approach the later stages of development. Research and development is presented net of contributions from suppliers, which are earned based on meeting specified milestones. In 2002, selling expenses remained relatively stable, despite lower deliveries, due to both a non-cash charge of US\$14.5 million related to financial guarantees and a US\$11.6 million increase in our provision for warranties relating to extended warranty terms for new aircraft deliveries. The US\$14.5 million non-cash charge was caused by the effect of the economic downturn in the airline industry on our risk analysis of financial guarantees.

This increase in operating expenses was partially offset by a 9.2% decrease in general and administrative expenses, from US\$120.8 million in 2001 to US\$109.7 million in 2002, a 42.3% decrease in profit sharing, from US\$43.7 million in 2001 to US\$25.2 million in 2002 and a 30.4% reduction in other operating expenses, net, from US\$29.5 million in 2001 to US\$20.5 million in 2002.

The decrease in general and administrative expenses is primarily due to the effects on the *real*-denominated portion of this item resulting from the 52.3% devaluation of the *real* during 2002. The decrease in profit sharing is related to the reduction in net income and dividends. Operating expenses as a percentage of net sales increased from 17.3% in 2001 to 20.8% in 2002, primarily as a result of the increases in research and development expenses as well as the non-cash charge for guarantees and the increase in our provision for warranties.

Interest income (expense). Interest income increased from US\$47.5 million in 2001 to US\$80.5 million in 2002, despite lower average cash balances primarily due to an increase of US\$65.3 million in unearned gains on derivative financial transactions and an increase in net monetary and exchange variations due to the effects of the devaluation of the *real* on increased indexed net liabilities in foreign currency, primarily taxes and social charges in dispute. See Notes 18 and 22 to our consolidated financial statements.

Financial transaction gain (loss), net. Financial transaction loss, net decreased from US\$148.6 million in 2001 to US\$135.6 million in 2002. These amounts reflect the restatement of non-U.S. dollar-denominated assets and liabilities into U.S. dollars and the decrease in net assets denominated in *reals*, partially offset by a higher rate of devaluation of the *reals* in 2002.

Other non-operating income (expense), net. Other non-operating expense, net decreased from US\$8.4 million in 2001 to US\$1.4 million in 2002. The decrease in 2002 was primarily due to a decrease in provisions for losses on tax incentive investments from US\$8.6 million in 2001 to US\$0.7 million in 2002.

Provision for income taxes. Our provision for income taxes decreased from US\$218.4 million in 2001 to US\$188.5 million in 2002 mainly due to lower taxable profits under the Brazilian Corporate Law financial statements. Our effective tax rate in 2002 was 45.6% as compared to 40.3% in 2001. Our statutory tax rate in each year was 34%. The difference between the statutory rate and the effective rates is due to differences in income before income taxes under U.S. GAAP and the taxable income calculated under the Brazilian Corporate Law.

Net income. As a result of the foregoing factors, our net income decreased 32.2% from US\$328.4 million in 2001 to US\$222.6 million in 2002. Net income decreased as a percentage of net sales. In 2001, net income was 11.2% of net sales as compared to 8.8% in 2002.

2001 Compared with 2000

Net sales. Net sales increased 6.0% from US\$2,762.2 million in 2000 to US\$2,927.0 million in 2001. Regional net sales increased 4.1% from US\$2,453.1 million in 2000 to US\$2,552.5 million in 2001. Defense net sales increased 25.0% from US\$99.2 million in 2000 to US\$124.0 million in 2001. In 2000, we entered the corporate jet market, which we account for as a separate business segment. Corporate net sales increased 174.0% from US\$26.5 million in 2000 to US\$72.6 million in 2001. Net sales from other related businesses decreased 3.0% from US\$183.4 million in 2000 to US\$177.9 million in 2001.

The increase in regional sales is primarily due to an increase in our average unit price. The decrease in defense sales is primarily due to the decrease in revenues related to research and development of the EMB 145 AEW&C/RS and the AL-X offset by the revenue resulting from deliveries of two EMB 135s and one EMB 145 to the Belgian Government.

Cost of sales and services. Cost of sales and services decreased 5.9% from US\$1,879.3 million in 2000 to US\$1,769.2 million in 2001, principally due to decreased material costs resulting partially from contractual discounts and a better product mix in 2001 and partially from write-offs of inventories in 2000. Cost of sales and services as a percentage of net sales decreased from 68.0% in 2000 to 60.4% in 2001.

Gross profit. Our gross profit increased 31.1% from US\$882.9 million in 2000 to US\$1,157.8 million in 2001. As a result, our gross margin increased from 32.0% in 2000 to 39.6% in 2001, primarily as a result of the reduction in cost of sales.

Operating expenses. Operating expenses increased 20.4% from US\$420.8 million in 2000 to US\$506.4 million in 2001. This increase was attributable primarily to an increase of 43.1% in research and development from US\$69.6 million in 2000 to US\$99.6 million in 2001, a 9.6% increase in selling expenses from US\$193.4 million in 2000 to US\$212.1 million in 2001, a 25.0% increase in general and administrative expenses from US\$96.6 million in 2000 to US\$120.8 million in 2001 and a 51.0% increase in other operating expenses, net from US\$19.5 million in 2000 to US\$29.5 million in 2001.

The increase in research and development is principally related to development of the new EMBRAER 170/190 jet family. The increase in selling expenses was directly attributable to the marketing campaign for the EMBRAER 170/190 jet family. In addition, we incurred expenses related to our expansion into new markets such as Asia and China. The increase in administrative expenses was partially due to the increase in technology expenses relating to the implementation of an enterprise resource planning system and to the hiring of new administrative personnel in order to accommodate the increased production schedule expected at that time. As a result of the September 11th terrorist attacks, some of our customers rescheduled deliveries. Although we implemented certain cost containment programs, including a reduction of workforce, these reductions were not fully implemented at the time that deliveries were rescheduled.

The increase in other operating expenses, net is primarily due to US\$7.9 million in engineering training and professional development expenses and a non-recurring expense of US\$4.5 million in restructuring costs in 2001 related to headcount reduction.

Operating expenses as a percentage of net sales increased from 15.3% in 2000 to 17.3% in 2001, primarily as a result of the increases in research and development expenses as well as selling, general and administrative expenses.

Interest income (expense). Interest income increased from interest expenses of US\$6.9 million in 2000 to interest income of US\$47.5 million in 2001, primarily due to a significant increase in our average cash and cash equivalent balances in the first three quarters of 2001.

Financial transaction gain (loss), net. Financial transaction loss, net increased from US\$24.6 million in 2000 to US\$148.6 million in 2001. These amounts reflect the restatement of non-U.S. dollar-denominated assets and liabilities into U.S. dollars. The increase from 2000 to 2001 is due to the increase in the rate of devaluation of *reais* against the U.S. dollar over net assets denominated in *reais*.

Other non-operating income (expense), net. Other non-operating income (expense), net decreased from an income of US\$6.0 million in 2000 to an expense of US\$8.4 million in 2001. The decrease in 2001 was primarily due to a gain of US\$12.9 million recognized in 2000 resulting from the sale of shares of our subsidiary ELEB-Embraer Liebherr Equipamentos do Brasil S.A. to Liebherr International AG.

Provision for income taxes. Our provision for income taxes increased from US\$117.4 million in 2000 to US\$218.4 million in 2001 mainly due to our higher taxable profits under the Brazilian Corporate Law financial statements as well as the fact that in 2000 our provision for income taxes was reduced by US\$27.5 million related to an adjustment of valuation allowance for deferred tax assets. Our effective tax rate in 2001 was 40.3% as compared to 26.9% in 2000, as compared to a statutory tax rate in each year of 34%. The difference between the statutory rate and the effective rates is due to differences in income before income taxes under U.S. GAAP and the taxable income calculated under the Brazilian Corporate Law.

In 2001, we recorded a gain of US\$5.4 million related to our implementation of FASB 133 in January 2001. As a result, we recognized a gain related to the adjustment of the value of certain of our derivative instruments to fair value. Losses related to these instruments were recognized prior to our adoption of FASB 133.

Net income. As a result of the foregoing factors, our net income increased 2.4% from US\$320.7 million in 2000 to US\$328.4 million in 2001. Net income remained relatively stable as a percentage of net sales. In 2000, net income was 11.6% of net sales as compared to 11.2% in 2001.

5B. Liquidity and Capital Resources

Our liquidity needs arise principally from research and development, capital expenditures, principal and interest payments on our debt, working capital requirements and distributions to shareholders. We generally rely on funds provided by operations, borrowings under our credit arrangements, cash contributions from risk-sharing partners, advance payments from customers and, to a lesser extent, capital increases to meet these needs. We believe that these sources of funds will be sufficient to fund our future liquidity needs, develop the EMBRAER 170/190 jet family, make other planned capital expenditures and pay dividends. However, our customers may reschedule deliveries, fail to exercise options or cancel firm orders as a result of the economic downturn and the financial volatility in the airline industry. In addition, our risk-sharing partners' cash contributions are refundable under certain limited circumstances and we may need to find replacement sources of capital.

Working Capital and Net Cash Provided by Operating Activities

We had a working capital surplus of US\$877.5 million at December 31, 2001 and US\$871.2 million at December 31, 2002. Working capital remained relatively flat. We had decreased inventories of US\$150.3 million as a result of the reduced production of the ERJ 145 regional jet family, partially offset by increased inventories for the EMBRAER 170/190 jet family. Offsetting this decrease was a US\$139.1 million increase in accounts receivable due primarily to our continuing to deliver aircraft to customers that had not yet finalized their financing arrangements. As of December 31, 2002, 68% of our short-term trade accounts receivable related to financing that had been approved by BNDES at that time and for which disbursements were pending and 23% of which related to financing that was being negotiated and finalized.

We generated net cash provided by operating activities of US\$507.7 million in 2002, as compared to net cash used in operating activities of US\$263.2 million in 2001 and net cash provided by operating activities of US\$1,120.0 million in 2000. Net cash provided by operating activities increased in 2002 despite the decrease in our income from operations principally due to decreases in inventories in 2002 and a significant increase in trade accounts receivable in 2001 following September 11th. Cash contributions from suppliers increased US\$91.8 million due to the increase in the aggregate development costs for EMBRAER 170/190 during the later stages of development. At December 31, 2002, advances from customers totaled US\$504.9 million, 81.1% of which represented current liabilities.

Cash Provided by (Used in) Financing Activities and Total Debt

Our net cash provided by (used in) financing activities decreased from net cash provided by financing activities of US\$98.4 million in 2001 to net cash used in financing activities of US\$399.4 million in 2002. The decrease was primarily due to reduced borrowings. Our net cash provided by (used in) financing activities increased from net cash used in financing activities of US\$130.4 million in 2000 to net cash provided in financing activities of US\$98.4 million in 2001.

We significantly extended the maturity profile of our debt in 2002. At December 31, 2002, we had total debt of US\$552.6 million under our financing arrangements described below, 55.8% of which consisted of long-term debt and 44.2% of which consisted of short-term debt. In comparison, we had total debt of US\$771.7 million at December 31, 2001 and US\$456.0 million at December 31, 2000, consisting of 31.8% and 20.0% of long-term debt. Our total debt decreased from 2001 to 2002 largely due to a reduced level of new borrowings.

Total debt consists of amounts recorded as loans on our balance sheet and excludes non-recourse debt associated with customer financing arrangements transacted through special purposes entities, or SPEs. In structured financings, an SPE purchases aircraft from us, pays us the full purchase price on delivery or at the conclusion of the sales financing structure, and leases the related aircraft to the ultimate customer. A third-party financial institution facilitates the financing of an aircraft purchase through an SPE, and a portion of the credit risk and the management responsibility associated with the SPE remain with that third party. Under U.S. GAAP, leasing transactions made through an SPE must be consolidated if the equity contribution of independent third parties is less than 3% of the fair value of the SPE's assets, as discussed in EITF 90-15. Some of the SPEs through which we sell aircraft were formed without any equity contribution and, therefore, are consolidated. We also have a temporary variable interest in other leasing transactions that are pending receipt of equity contributions and therefore, under FAS 144 adopted in 2002, are required to be consolidated.

The effect of consolidating these SPEs resulted in non-recourse debt at December 31, 2002, reflected as a separate line item on our balance sheets, of US\$941.9 million and collateralized accounts receivable of the same amount. We have no actual obligation for US\$803.5 million of this debt other than potentially under existing financial guarantees. The remaining US\$138.4 million of debt is recourse to us as a result of our guarantees of the temporary debt financing that is in place while equity contributions are pending. The non-recourse debt is collateralized by the collateralized accounts receivable and by the financed aircraft. These financing transactions do not materially affect our income statement and cash flow data since the terms of the leases and the loans are substantially the same. See Note 8 to our consolidated financial statements.

During 2002, British Airways returned to an SPE two ERJ 145s with a total outstanding amount of underlying debt of US\$22 million, which has been consolidated by us. These aircraft serve as collateral for the non-recourse debt and we have begun remarketing them. Until they are remarketed, we are making interest payments on the underlying debt under our financial guarantee obligations.

FASB Interpretation No. 46, issued in January 2003, will require us to re-evaluate our consolidation of all SPEs. See Recent Accounting Standards below for a further discussion of FASB Interpretation No. 46. See our discussion of these items in Notes 4, 8 and 37 to our consolidated financial statements.

Credit Facilities and Lines of Credit

Long-term facilities

We maintain credit facilities with BNDES primarily to fund development costs of the ERJ 145, of which US\$47.9 million was outstanding at December 31, 2002, and with FINEP primarily to fund development costs of the AL-X, of which US\$5.4 million was outstanding at December 31, 2002. Amounts borrowed from BNDES are secured by first, second and third mortgages on our properties in Brazil. The interest rates on these facilities are either fixed at 5.5% per annum or range from TJLP plus 3.0% to TJLP plus 5.5% per annum plus, for BNDES borrowings, we paid fees at the rate of 0.35% of the sales price of 420 ERJ 145s sold between January 1, 1997 and August 1, 2002.

We have a credit facility with the Tokyo Branch of The Chase Manhattan Bank under which we borrowed the Japanese yen equivalent of US\$150.0 million, principally to fund our purchase of aircraft component parts, of which US\$125.1 million remains outstanding. The interest rate under this facility is equal to the twelve-month Japanese interbank deposit rate, or JIBOR, plus 1.1% per annum. On September 20, 2002, we secured a US\$100.0 million credit facility with Mitsui & Co., Ltd. and borrowed the full amount available thereunder. This loan matures in 2009 and bears interest at an interest rate of LIBOR plus 2.2%. The facility is guaranteed by Unibanco União de Bancos Brasileiros SA. If we fail to maintain a minimum of 100 firm orders during the duration of the facility or fail to obtain certification of the EMBRAER 170 prior to December 2003, Mitsui & Co. Ltd has the right to declare all amounts outstanding under this facility due and payable. We also have US\$100.0 million credit facility with Santander Central Hispano Benelux S.A. to fund our purchases of wings and other equipment from Gamesa. As of December 31, 2002, US\$14.0 million was outstanding under this facility and we have additional availability of US\$86.0 million through December 2003. Amounts outstanding under this facility bear interest at a fixed rate of 4.49% per annum. We recently signed a credit agreement with Sumitomo Mitsui Banking Corp. and other lenders providing for a term loan of US\$200.0 million, at a rate of LIBOR plus 2.97% per annum, to purchase materials for the manufacture of the EMBRAER 170/190 jet family. We expect to borrow the full amount under this facility in early July and have entered into a swap transaction effectively converting the total debt to *real*-denominated CDI-based obligations.

We have various other loans and credit agreements with aggregate outstanding borrowings of US\$113.1 million at December 31, 2002. Each of our long-term financing arrangements includes customary covenants and restrictions, including those that require us to maintain defined debt liquidity and interest expense coverage ratios, with which we were in compliance at December 31, 2002 and none of which are expected to have a material effect on our business. See Note 20 to our consolidated financial statements for further information on these financing arrangements.

Short-term facilities

We obtain short-term financing primarily from Brazilian banks in the form of advances against exchange contracts that we enter into with those banks relating to payments we are entitled to receive within a period of not more than 360 days prior to delivery of aircraft. At December 31, 2002, we had US\$80.3 million outstanding under these arrangements.

In addition, we maintain short-term import financing lines of credit in Brazil. As of December 31, 2002, US\$32.8 million was outstanding under these lines of credit. We maintain subsidiary lines of credit from time to time to finance working capital requirements for these subsidiaries. At December 31, 2002, we had US\$33.1 million of outstanding debt under these lines of credit. See Note 20 to our consolidated financial statements for further information on our short-term financing arrangements.

Net Cash Used in Investing Activities

Our net cash used in investing activities was US\$200.8 million in 2002, compared to US\$275.2 million in 2001 and US\$104.4 million in 2000. The decrease in 2002 was mainly due a higher level of escrow deposits and compulsory loans made in 2001, primarily deposits collateralizing financing guarantees for certain aircraft sold, which increased US\$98.7 million in 2001 as compared to a US\$36.5 million increase in 2002.

Capital Expenditures

We recorded additions to property, plant and equipment of US\$127.8 million in 2002, US\$143.8 million in 2001 and US\$114.2 million in 2000. These expenditures related to construction of facilities, improvements to our plant and production facilities and modifications for the production of new aircraft models.

We expect our future capital expenditures to decrease in 2003 as we finalize construction and modifications of our facilities. We expect investments in property, plant and equipment to total approximately US\$58 million in 2003 and an additional US\$44 million in 2004, primarily related to the production of the EMBRAER 170/190 jet family, as well as our defense aircraft and corporate jets.

Capital Contributions and Issuances of Capital Stock

During 2002, we received capital contributions in the aggregate amount of US\$1.2 million, representing the issuance of preferred shares upon the exercise of options. During 2002, we issued 2,261,313 preferred shares at a weighted average exercise price of R\$1.75 per share. In addition, in June 2003, 360,000 preferred shares were issued upon the exercise of options at an exercise price of R\$1.25 per share.

Contractual Obligations and Commercial Commitments

The following table and discussion provide additional disclosure regarding our material contractual obligations and commercial commitments as of December 31, 2002.

Contractual Obligations	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Loans	US\$541.2	US\$242.3	US\$173.0	US\$80.4	US\$45.5
Capital lease obligations	12.8	7.9	4.5	0.4	
Operating leases	11.4	2.2	3.4	1.1	4.7
Purchase obligations	327.7	327.7			
Other long-term liabilities	1,232.0	96.5	353.9	208.5	573.1
Total	US\$2,125.1	US\$676.6	US\$534.8	US\$290.4	US\$623.3

The above table does not reflect contractual commitments related to repurchase and trade-in options and financial and residual value guarantees discussed in Off-Balance Sheet Arrangements below. See Item 3D. Risk Factors Our aircraft sales are subject to cancellation provisions, repurchase and trade-in options and financial and residual value guarantees that may reduce our cash flow or require us to make significant cash disbursements in the future.

Purchase obligations consist of accounts payable to suppliers and insurance payables.

Other long-term liabilities include non-recourse debt in the total amount of US\$873.0 million that relates to obligations of SPEs. The above table does not reflect any information about our derivative instruments, which are discussed more fully in Item 11. Quantitative and Qualitative Disclosures About Market Risk.

Off-Balance Sheet Arrangements

We participate in a number of off-balance sheet arrangements, principally relating to repurchase and trade-in obligations, guarantees and variable interests in unconsolidated SPEs. We also have a number of swap transactions that are described in Item 11. Quantitative and Qualitative Disclosures about Market Risk.

Repurchase and Trade-in Obligations

We may have to repurchase a number of our aircraft. Under the relevant purchase contracts, the price per aircraft of any required repurchase is less than the original purchase price of the aircraft and less than our estimate at that time of the market value of the relevant aircraft type in future years (based on third party appraisals of aircraft valuations). If we are required to repurchase all of the relevant aircraft under our repurchase obligation, which covers the period from 2003 to 2007, we could be required to pay up to approximately US\$500 million for these aircraft. Based on our current estimates and third party appraisals, we believe that any repurchased aircraft could be sold without any material gain or loss.

At December 31, 2002, 34 of our regional jets were subject to trade-in options and additional aircraft may become subject to trade-in options upon delivery. These options provide that the trade-in price can be applied to the price of an upgraded model or any of our other aircraft. The trade-in price is determined in the manner discussed above for regional jets and as a percentage of original purchase price for our corporate jets. We may be required to

accept trade-ins at trade-in prices that are above the then-market price of the aircraft, which would result in financial loss for us when we resell the aircraft. Based on our current estimates and third party appraisals, we believe that any aircraft accepted for trade-in could be sold without any material gain or loss.

Financial and Residual Value Guarantees

We have guaranteed the financial performance of a portion of the financing for, and the residual value of, some of our aircraft that have already been delivered. Financial guarantees are provided to financing parties to support a portion of the payment obligations of purchasers of our aircraft under their financing arrangements to mitigate default-related losses. These guarantees are collateralized by the financed aircraft.

Assuming all customers supported by financial guarantees defaulted on their aircraft financing arrangements, we were required to pay the full aggregate amount of outstanding residual value guarantees and we were not able to sell or lease any of the aircraft to offset our obligations, our maximum exposure under these guarantees (less provisions and liabilities) would have been US\$1.4 billion as of December 31, 2002. We have deposited US\$187.4 million in escrow accounts to secure a portion of our financial guarantees. Based on current estimates, we believe that the proceeds from the sale or lease of the covered aircraft (based on resale value as of December 31, 2002) and from other offsetting collections would exceed our exposure by US\$326 million.

Our residual value guarantees typically ensure that in the 15th year after delivery, the relevant aircraft will have a residual market value of 10% to 27% of the original sale price. In the event of a decrease in the market value of the underlying aircraft, we will bear the difference between the then market value of the aircraft and the guaranteed residual value. Our exposure is mitigated by the fact that the guaranteed party, in order to benefit from the guarantee, must make the aircraft meet specific return conditions.

Variable Interests in Unconsolidated Entities

We are currently assessing the application of FIN 46 as it relates to our variable interests in unconsolidated SPEs. As discussed above, some of our sales transactions are structured financings through which an SPE purchases the aircraft, pays us the full purchase price and leases the related aircraft to the ultimate customer. Our variable interests in these SPEs typically include financial guarantees in favor of the third party financial institution or equity investors. Our exposure related to unconsolidated SPEs is included in the above amounts. Upon effectiveness of FIN 46, discussed below, we may consolidate additional SPE financing transactions which would result in additional non-recourse debt and collateralized accounts receivable on our balance sheet.

We continually re-evaluate our risk under our guarantees and repurchase and trade-in obligations based on a number of factors, including the estimated future market value of our aircraft based on third party appraisals, including information developed from the sale or lease of similar aircraft in the secondary market, and the credit rating of customers. See Note 37 to our consolidated financial statements for a further discussion of these off-balance sheet arrangements.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards, or SFAS, No. 143, Accounting for Asset Retirement Obligations, which is effective as of January 1, 2003. SFAS No. 143 addresses financial and reporting for obligations associated with the retirement of tangible long-lived assets and the associated retirement costs. We have determined that the implementation of this standard will not have a material effect on our consolidated financial statements.

In July 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. This standard requires costs associated with exit or disposal activities to be recognized when they are incurred. The requirements of SFAS No. 146 apply prospectively to activities that are initiated after December 31, 2002, and, consequently, we cannot reasonably estimate the impact of adopting these new rules until and unless we undertake the relevant activities in the future.

In November 2002, the FASB issued Interpretation No. 45, or FIN 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of the Indebtedness of Others, which clarifies the requirements of SFAS No. 5, Accounting for Contingencies, relating to a guarantor's accounting for

and disclosure of certain guarantees issued. FIN 45 requires enhanced disclosures for certain guarantees. It will also require certain guarantees that are issued or modified after December 31, 2002, including certain third-party guarantees, to be initially recorded on the balance sheet at fair value. For guarantees issued before December 31, 2002, liabilities are recorded when and if payments become probable and estimable. We expect FIN 45 to have the general effect of delaying recognition of a certain portion of the revenue for product sales that are accompanied by certain third-party guarantees. The financial statement recognition provisions are effective prospectively, and we cannot reasonably estimate the impact of adopting FIN 45 until guarantees are issued or modified in future periods, at which time their results will be initially reported in our financial statements. See Note 37 to our consolidated financial statements for more information on our guarantees.

In January 2003, the FASB issued Interpretation No. 46, or FIN 46, Consolidation of Variable Interest Entities, which clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, relating to the consolidation of certain entities. First, FIN 46 will require identification of our participation in variable interest entities, or VIE, which are defined as entities with a level of invested equity that is not sufficient to fund future activities to permit them to operate on a stand-alone basis, or whose equity holders lack certain characteristics of a controlling financial interest. For entities identified as VIE, FIN 46 sets forth a model to evaluate potential consolidation based on an assessment of which party to the VIE, if any, bears a majority of the exposure to its expected losses, or stands to gain from a majority of its expected returns. FIN 46 also sets forth certain disclosures regarding interests in VIE that are deemed significant, even if consolidation is not required. We are currently assessing the application of FIN 46 as it relates to our variable interests. See Note 37 to our consolidated financial statements.

5C. Research and Development

We incur research and development costs related to our aircraft and aircraft components. We also incur research and development costs that are not associated with the development of any particular aircraft. Such costs include the implementation of quality assurance initiatives, production line productivity improvements and studies to determine the latest developments in technology and quality standards. The research and development costs incurred by Embraer are divided into two categories, research and development expense and additions to fixed assets. The research and development expense is the cost actually associated with the design and development of the aircraft less amounts earned from cash contribution from risk-sharing partners based on meeting performance milestones. Under U.S. GAAP, these costs are expensed in the year in which they are incurred. Additions to fixed assets relate solely to specialized equipment built by us and required for the project. These costs are treated as additions to property, plant and equipment.

We invest significantly in the development of new projects. Total research and development expenses for 2000, 2001 and 2002 were US\$69.6 million, US\$99.6 million and US\$158.5 million, respectively, net of cash contributions provided by risk-sharing partners. We estimate that our research and development costs for 2003 will be approximately US\$167.0 million. We do not record an expense for research and development of defense programs as they are funded by the Brazilian government and other government customers. Most of our research and development expenses are associated with a particular program, whether regional, corporate or defense.

We receive additional funds from risk-sharing partners to fund our cash costs for our commercial research and development. In addition, the Brazilian and other governments fund substantially all of our defense research and development costs under long-term development contracts.

5D. Trend Information

The following table summarizes our regional aircraft sales order book at June 30, 2003. Our total backlog at that date, including corporate jets and defense aircraft, was US\$10.3 billion.

	Firm Orders	Options	Deliveries	Firm Order Backlog
In the Regional Market				
EMB 120 Brasília	352		352	
ERJ 145	581	434	502	79
ERJ 135	121	6	100	21
ERJ 140	174	45	68	106
EMBRAER 170	119	157		119
EMBRAER 190	110	120		110
EMBRAER 195	15	32		15

For additional information regarding trends in our business, see Item 4B. Business Overview Business Strategies and Item 5A. Operating Results. For risks affecting our business, see Item 3D. Risk Factors.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**6A. Directors and Senior Management**

We are managed by our *Conselho de Administração*, or board of directors, composed of at least nine and at most eighteen members, and our *Diretoria*, or committee of officers, composed of at least four members (each an executive officer). We have a permanent *Conselho Fiscal*, or audit board, which is composed of five members.

Board of Directors

Our board of directors ordinarily meets four times a year and extraordinarily when called by the chairman or by the majority of members of the board. It has responsibility, among other things, for establishing our general business policies and for electing our executive officers and supervising their management.

Our bylaws provide that the Chief Executive Officer of Embraer is automatically a member of the board of directors. As a result, Maurício Novis Botelho, currently President and Chief Executive Officer of Embraer, is a member of the board of directors. Our controlling shareholders, Cia. Bozano, PREVI and SISTEL, have entered into a shareholders' agreement which provides that when they appoint members of our board of directors at shareholders' meetings, they will each appoint two representatives (and alternates), and together they will vote to elect two representatives (and alternates) of the European Aerospace and Defense Group and one representative (and alternate) of the Brazilian government. This representative of the Brazilian government is in addition to the representative that the Brazilian government is entitled to appoint directly. See Item 7A. Major Shareholders' Voting Rights Shareholders' Agreement for more information on the shareholders' agreement. In addition, our bylaws provide that our employees are entitled to two representatives (and alternates) on our board of directors, who are elected at the annual shareholders' meeting.

All members of the board of directors serve three-year terms. The terms of all current members expire in April 2004. Set forth below are the names, ages, positions and brief biographical descriptions of the members of the board of directors at June 16, 2003.

Name	Age	Position	Year First Elected
Carlyle Wilson	74	Chairman of the Board of Directors	2000
Nélio Henriques Lima	51	Deputy-Chairman of the Board of Directors	2001
Maurício Novis Botelho	60	President and Chief Executive Officer	2000
Vitor Sarquis Hallack	50	Member of the Board of Directors	1995
Juarez Martinho Quadros do Nascimento	59	Member of the Board of Directors	1998
Fernando Antônio Pimentel de Melo	49	Member of the Board of Directors	2000
Luiz Felipe P. Lampreia	61	Member of the Board of Directors	2001
Reginaldo dos Santos	61	Member of the Board of Directors	2001
Paulo Cesar de Souza Lucas	43	Member of the Board of Directors	1999
Mario Hipólito Silva	38	Member of the Board of Directors	2001
Dietrich Russell	61	Member of the Board of Directors	2000
Isaac Marcel Picciotto	59	Member of the Board of Directors	2003
Henrique Pizzolato	50	Member of the Board of Directors	2003

Carlyle Wilson. Mr. Wilson has been with the Bozano group since 1972. Mr. Wilson is an executive director of Cia. Bozano and a board member of Bozano Holdings Ltd. Since 1992, Mr. Wilson has been a board member of Berneck Aglomerados, a wood fiber-board manufacturing company. In addition, since 1980, Mr. Wilson has been a board member of Bozano, Simonsen Centros Comerciais S.A., a shopping center administration company, and since 1986 has been a board member of GD Empreendimentos Imobiliários S.A., a real estate company. From January 1995 to January 2000, Mr. Wilson was an alternate board member of Embraer. Mr. Wilson is a representative of Cia. Bozano, and his business address is Rua Visconde de Ouro Preto, 5, 10th floor, 22250-180 Rio de Janeiro, RJ, Brazil.

Nélio Henriques Lima. Mr. Lima has worked for Banco do Brasil and PREVI since 1974, having held several positions. Since January 1999, he has been the Executive Superintendent of PREVI. From January 1995 to January 1997, he was the operations manager of PREVI, and from January 1997 to January 1999, he was the executive manager of PREVI. Mr. Lima was a member of the audit committee of La Fonte Participações S.A., a holding company, and Seguradora Brasileira de Crédito a Exportação S.A., an insurance company, and a member of the board of directors of Organização Social Bioamazônia, a biotechnology company, from January 1999 to December 1999. He was also a member of the board of directors of Tele Norte Leste Participações S.A., a telecommunications company, from September 2000 to April 2001. Mr. Lima is a representative of PREVI, and his business address is Praia de Botafogo, 501, 4th floor, 22250-040 Rio de Janeiro, RJ, Brazil.

Maurício Novis Botelho. Mr. Botelho has been President and Chief Executive Officer of Embraer since September 1995, as well as an executive officer and/or chairman of the board of several of Embraer's subsidiaries. Mr. Botelho served as chief executive officer of OTL Odebrecht Automação & Telecomunicações Ltda., also known as OTL and later named Stelar Telecom, a telecommunications company, from 1988 to 1995. He also served as chief executive officer of CMW Equipamentos S.A., or CMW, an industrial automation company, from 1985 to 1995. He was also the chief executive officer of STL - Engenharia de Sistemas Ltda., also known as STL, a project engineering company, from 1985 to 1995, a partner in Soluções Integradas PROLAN Ltda., also known as PROLAN, a corporate network company, from 1994 to 1995, and executive vice-president of TENENGE Técnica Nacional de Engenharia Ltda., or TENENGE, a construction company, during 1992. During 1995, Mr. Botelho was an executive officer of Cia. Bozano. Mr. Botelho's business address is the address of our principal executive offices.

Vitor Sarquis Hallack. Mr. Hallack has been with the Bozano group since 1993. He is an executive director of Cia. Bozano and a board member and an executive director of Bozano Holdings Ltd. He was an executive officer of Banco Bozano Simonsen S.A. from April 1998 to May 2000. Mr. Hallack was the chief financial officer of Companhia Siderúrgica Paulista COSIPA from September 1993 to December 1994. Prior to 1993, Mr. Hallack was the chief financial officer of Companhia Vale do Rio Doce, a mining company. Mr. Hallack

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is a representative of Cia. Bozano, and his business address is Rua Visconde de Ouro Preto, 5, 10th floor, 22250-180 Rio de Janeiro, RJ, Brazil.

Juarez Martinho Quadros do Nascimento. Mr. Nascimento was the Minister of Communications of the Brazilian government from April 2002 to December 2002. From 1997 to April 2002, he was the executive secretary of the Communications Ministry of the Brazilian government and the chairman of the board of directors of Telecomunicações Brasileiras S.A. Telebrás, a telecommunications company, also known as Telebrás. Mr. Nascimento was the secretary of inspection and concession of the Communications Ministry from 1995 to 1997. From 1990 to 1995, he was an officer of Telebrás, ending his tenure there during 1995 as the assistant to the deputy chief executive officer and the public services department officer. Mr. Nascimento is a representative of SISTEL, and his business address is SCN Quadra 01, Suite 308, 70711-000, Brasília, DF, Brazil.

Fernando Antônio Pimentel de Melo. Mr. Melo has been the Officer of Social Security of SISTEL since 1991 and the Superintendent Officer of SISTEL since 1999. He has also been a member of the board of directors of Companhia de Aços Especiais Itabira Acesita, a steel company, and of Telesp Participações S/A since December 1999, Americal S.A. since April 1999, and Telet S.A. since April 2000, all telecommunications companies. Mr. Melo was also the vice-president of SINDAPP Sindicato Nacional das Entidades de Previdência Privada, having been elected in December 1998 for the term of three years. He is a representative of SISTEL, and his business address is SEP Sul 702/902, Conj. B, Bloco A, Ed. Gal. Alencastro, 4th floor, 70390-025 Brasília, DF, Brazil.

Luiz Felipe P. Lampreia. Mr. Lampreia was the Foreign Relations Minister of the Brazilian government from January 1995 to January 2001. Mr. Lampreia has held several positions in the Brazilian government, both in Brazil and abroad, since 1963. From 1992 to 1993, he was the Secretary General of Foreign Relations of the Brazilian government. From 1993 to 1994, Mr. Lampreia was Brazil's ambassador to various international organizations located in Geneva, and participated in the creation of the WTO. Mr. Lampreia is a representative of the Brazilian government and was appointed by our controlling shareholders. His business address is Av. Ataulfo de Paiva, 341, Suite 605, 22440-030 Rio de Janeiro, RJ, Brazil.

Reginaldo dos Santos. Mr. Santos has been a Lieutenant-Brigadier in the Brazilian Air Force since March 2000 and is currently the General Director of the Department of Research and Development of the Brazilian Air Force. Mr. Santos has held various positions in the Brazilian armed forces since 1958, when he began his military career. Mr. Santos is a representative of the Brazilian government and was appointed by our controlling shareholders. His business address is Air Force Command, Department of Research and Development, Esplanada dos Ministérios, Bloco M, 3rd floor, 70045-900 Brasília, DF, Brazil.

Paulo Cesar de Souza Lucas. Mr. Lucas has participated in our strategic planning division since 1998 and was the coordinator of Embraer's implementation of the modernization and cost-reduction strategy from 1990 to 1996. Mr. Lucas has been working at Embraer for more than 16 years and is a representative of our employees. Mr. Lucas's business address is the address of our principal executive offices.

Mario Hipólito Silva. Mr. Silva has been an employee in our production line since 1996 and a union representative for our metallurgical employees since 1997. He is a representative of our employees. Mr. Silva's business address is the address of our principal executive offices.

Dietrich Russell. Mr. Russell has been the Executive Vice President of the Aeronautics Division for EADS since July 2000. From 1972 until 1995, Mr. Russell worked for the Mannesmann Group in various capacities and divisions, culminating in his service as chairman of the board of management of Mannesmann Anlagenbau AG. Mr. Russell was also a member of the board of management of Daimler-Benz Aerospace AG, currently known as EADS, and was responsible for the Aircraft Group between October 1995 and April 1997. Thereafter, he was responsible for the Civil Aircraft and Helicopters Group of Daimler-Benz Aerospace board of management until March 1998. In April 1998, Mr. Russell was appointed chief operating officer of the Airbus Industrie division of EADS, a position he held until July 2000. Mr. Russell is a representative of the European Aerospace and Defense Group, and his business address is 1, Avenue Didier Daurat, 31700 Blagnac, France.

Isaac Marcel de Piccioto. Mr. Piccioto has been the Corporate Vice President Strategy for the Business Group Airborne Systems at Thales™ since 2001. Prior to that, he occupied several management positions at Thales™ from 1990 to 2000. He was Vice President International Business Development at Philips from 1988 to 1990. From 1974 to 1986, Mr. Piccioto was Corporate Vice President International Marketing, Export Sales Director, Director for Europe, North America and Asia Pacific at Matra. Mr. Piccioto is a representative of the European Aerospace and Defense Group and his business address is 2, Avenue Gay Lussac, 78851 Elancourt Cedex, France.

Henrique Pizzolato. Mr. Pizzolato has been the Marketing and Communications Officer for the Banco do Brasil since February 2003. From June 1998 to May 2002, he was the Director of Social Security at PREVI. He was also a member of the Board of Banco do Brasil from 1993 to 1996. In addition, Mr. Pizzolato was a member of the board of directors of Telecentrosul and Brasil Telecom, telecommunications companies, from 1999 to 2000. He is a representative of PREVI and his business address is SBS Quadro 1, Bloco C, Loto 32, 70073-93 Brasilia, DF, Brazil.

Executive Officers

Our executive officers are responsible for our day-to-day management. The executive officers have individual responsibilities established by our bylaws and by the board of directors. The business address of each of our executive officers is the address of our principal executive offices.

The executive officers are elected by the board of directors for a three-year term, and any executive officer may be removed by the board of directors before the expiration of his term. Set forth below are the names, ages, positions and brief biographical descriptions of our executive officers at June 16, 2003.

Name	Age	Position	Year First Elected
Maurício Novis Botelho	60	President and Chief Executive Officer	1995
Antonio Luiz Pizarro Manso	58	Executive Vice-President Corporate and Chief Financial Officer	1995
Satoshi Yokota	62	Executive Vice-President-Development and Industry	1997
Frederico Pinheiro Fleury Curado	41	Executive Vice-President-Civil Aircraft	1997
Romualdo Monteiro de Barros	54	Executive Vice-President-Defense Market	1997
Horácio Aragonés Forjaz	51	Executive Vice-President-Corporate Communications	1998
Carlos Rocha Villela	47	Vice-President and General Counsel	1999

Maurício Novis Botelho. For a biographical description of Mr. Botelho, please see Board of Directors.

Antonio Luiz Pizarro Manso. Mr. Manso has been Executive Vice-President Corporate since 2001 and Chief Financial Officer of Embraer since 1995. Mr. Manso is also a director and/or president of several of Embraer's subsidiaries. Mr. Manso was the administrative and financial officer of STL from 1986 to 1995 and of CMW from 1986 to 1995 and served as member of the board of directors of CMW during 1995. He was also the chief financial officer of OTL from 1989 to 1995, the financial officer of TENENGE during 1992 and the chief financial officer of PROLAN from 1994 to 1995.

Satoshi Yokota. Prior to becoming Executive Vice-President-Development and Industry of Embraer in 1997, Mr. Yokota held several other positions at Embraer, including Programs and Commercial Contracts Officer during 1995 and 1996 and Programs Officer from 1992 to 1995. Mr. Yokota is also the chairman of the board of directors of ELEB, one of Embraer's subsidiaries.

Frederico Pinheiro Fleury Curado. Prior to becoming Executive Vice-President-Civil Aircraft of Embraer in 1998, Mr. Curado was our Executive Vice-President Planning and Organizational Development from 1997 to August 1998. Prior to that, he held several different positions at Embraer in the areas of manufacturing,

procurement, information technology, contracts and sales. Mr. Curado is also a director and/or secretary of several of Embraer's subsidiaries.

Romualdo Monteiro de Barros. Prior to becoming Executive Vice-President-Defense Market of Embraer in 1997, Mr. Barros was the officer responsible for business development at OTL, later named Stelar Telecom, from 1994 to 1997.

Horácio Aragonés Forjaz. Prior to becoming Executive Vice-President-Corporate Communications of Embraer in 2001, Mr. Forjaz was Executive Vice-President Planning and Organizational Development of Embraer from 1998 to 2001, and prior to 1998, he was our engineering officer. From 1995 to 1997, Mr. Forjaz was the operational director of Compsis Computadores e Sistemas Ltda., a systems engineering and software company, and from 1975 to 1995, he held several different positions at Embraer in the areas of engineering and systems design.

Carlos Rocha Villela. Prior to becoming Vice-President and General Counsel of Embraer in 1999, Mr. Villela was the general counsel of Odebrecht Química S.A., a chemical company, since 1994. Mr. Villela is also a director, executive officer and/or secretary of several of Embraer's subsidiaries.

6B. Compensation

For the fiscal year ended December 31, 2002, the aggregate compensation (including benefits in kind granted) that we paid to members of the board of directors and the executive officers for services in all capacities was approximately US\$6.2 million. In addition, in 2002, the executive officers received pension benefits, instituted in January 1999, of approximately US\$64,173 as of December 31, 2002. The members of our board of directors did not receive any such benefits. The board members and executive officers did not receive any compensation (including benefits in kind) from any of our subsidiaries. At December 31, 2002, none of the board members or executive officers had any financial or other interests in any transaction involving Embraer which was not in the ordinary course of our business.

In addition, at June 16, 2003, the board members and executive officers owned an aggregate of 19 common shares and 3,606,780 preferred shares.

Stock Option Plan

At a special shareholders' meeting held on April 17, 1998, we approved a stock option plan for management and employees, including those of our subsidiaries, subject to restrictions based on continuous employment with us for at least two years.

Under the terms of the plan, we were authorized to grant options to purchase up to 25,000,000 preferred shares over the five-year period from the date of the first grant. As of the end of this five-year period, we had granted options for an aggregate of 19,665,000 preferred shares at a weighted average exercise price of R\$9.17 per share. The options granted to each employee will vest as follows: 30% after three years from the date granted, an additional 30% after four years and the remaining 40% after five years. Employees may exercise their options for up to seven years from the date they are granted. As of June 16, 2003, 7,556,313 of the total options granted had been exercised. Of the total number of options granted, options to purchase an aggregate of 7,200,000 preferred shares have been granted to our executive officers at a weighted average exercise price of R\$5.30 per share, of which 4,445,000 were exercised during the period from January 1, 2001 through June 16, 2003.

Profit Sharing Plan

Pursuant to Brazilian federal law, companies operating in Brazil are required to share profits with employees beginning from and after fiscal year 1996. However, we understand that no government regulation currently exists for determining how the profits should be distributed. Prior to 1998, we did not have a profit sharing plan. However, in light of our continuing financial recovery since then, we implemented a profit sharing plan in 1998 that ties employee profit sharing to dividend payments.

Every time we pay dividends to our shareholders, we also pay a profit sharing participation of 25% of the amount of the dividend payment to employees who have achieved goals established at the beginning of the year. Under the plan, we may pay additional amounts of up to an additional 5% of such dividend payment to exceptional employees, on a discretionary basis. We believe that this policy encourages individual employees to meet our production goals.

For the 2000 fiscal year, we distributed US\$41.8 million to employees, for the 2001 fiscal year, we distributed US\$43.7 million to employees and for the 2002 fiscal year, we distributed US\$25.2 million to employees.

6C. Board Practices

All members of our board of directors serve three-year terms and the terms of all current members expire in April 2004. See Directors and Senior Management Board of Directors for the year each of the members of our board of directors was first elected.

The executive officers are elected by the board of directors for a three-year term, and any executive officer may be removed by the board of directors before the expiration of his term. See Directors and Senior Management Executive Officers for the year each of our executive officers was first elected.

None of our directors or executive officers is party to an employment contract providing for benefits upon termination of employment.

Audit Board

Under the Brazilian Corporate Law, the *conselho fiscal* (audit board) is a corporate body independent of management and a company's external auditors. A Brazilian audit board is not equivalent to, or comparable with, a U.S. audit committee. The primary responsibility of the audit board is to review management's activities and the financial statements, and to report its findings to the shareholders. Under the Brazilian Corporate Law, the audit board may not contain members that are on the board of directors, on the executive committee, our employees, employees of a controlled company or of a company of this group, or a spouse or relative of any member of our management. In addition, the Brazilian Corporate Law requires the audit board members to receive as remuneration at least 10% of the average amount paid to each executive officer. The Brazilian Corporate Law requires an audit board to be composed of a minimum of three and a maximum of five members and their respective alternates.

We have a permanent audit board whose members are elected at the annual shareholders' meeting, with terms lasting until the next annual shareholders' meeting after their election. Under the Brazilian Corporate Law, holders of preferred shares have the right to elect separately one member of the audit board. Also, under the Brazilian Corporate Law, minority groups of shareholders that hold at least 10% of the voting shares also have the right to elect separately one member of the audit board. In any event, however, the common shareholders have the right to elect the majority of the members of the audit board. Set forth below are the names and positions of the members of our audit board and their respective alternates.

Name	Position	Year First Elected
Luiz Tacca Júnior	Effective member	1995
Robson de Araújo Jorge	Alternate	2000
Carlos Alberto de Castro Monteiro	Effective member	2001
Tarcísio Luiz Silva Fontenele	Alternate	2001
José Mauro Laxe Vilela	Effective member	2003
Alberto Carlos Monteiro dos Anjos	Alternate	2003
Paulo Oscar França	Effective member	2003
Ernesto Francisco Magdalena	Alternate	2003
Celene Carvalho de Jesus	Effective member	2003
Nilo Ribeiro Calvalcanti	Alternate	2003

6D. Employees

We employed a total of 10,334, 11,048 and 12,227 people at December 31, 2000, 2001 and 2002, respectively. Approximately 94.1% of our workforce is employed in Brazil. Of the total workforce at December 31, 2002, 47.8% are directly involved in the production process, 22.3% are engaged in research and development, 7.8% are administrative employees involved in support of the production process and 22.1% are other administrative employees. Most of our technical staff is trained at leading Brazilian engineering schools, including the *Instituto Tecnológico Aeronáutico*, known as the ITA, located in São José dos Campos. A small percentage of our employees belong to one of two different labor unions, the *Sindicato dos Metalúrgicos* (Union of Metallurgical Workers) or the *Sindicato dos Engenheiros do Estado de São Paulo* (Union of Engineers of the State of São Paulo). Overall, union membership as a percentage of total workforce has declined significantly in past years. At December 31, 2002, approximately 80.5% of our employees were non-union. We believe that relations with our employees are good.

We actively support the training and professional development of our employees. We have established a program at our new facility in São José dos Campos to provide newly graduated engineers with specialized training in aerospace engineering. In addition, we provide a masters in business administration course for our administrative personnel at our executive offices, conducted by *Fundação Getúlio Vargas*, a business administration university in São Paulo.

6E. Share Ownership

At June 16, 2003, the board members and executive officers owned an aggregate of 19 common shares and 3,606,780 preferred shares. None of the officers or directors individually own more than 1% of the outstanding common shares or preferred shares. As of June 16, 2003, our executive officers also owned options to purchase an aggregate of 2,755,000 preferred shares at per-share purchase prices ranging from R\$1.65 to R\$23.00. As of the same date, none of our directors owned any options to purchase shares of common or preferred stock.

See Compensation Stock Option Plan for a description of our stock option plan applicable to our management and employees, including those of our subsidiaries.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

7A. Major Shareholders

We have total authorized capital of 1,500,000,000 shares, with a total aggregate of 713,334,355 shares issued and outstanding at June 16, 2003. Of this total, 242,544,448 are common shares (including one special golden share held by the Brazilian government) and 470,789,907 are non-voting preferred shares. The following table sets forth share ownership information for each of our shareholders that beneficially owns 5% or more of any class of our equity securities and for our executive officers and board members at June 16, 2003, including 2,997,545 preferred shares underlying the options exercisable within 60 days of the date of this annual report.

	Common Shares		Preferred Shares		Total shares	
	Shares	(%)	Shares	(%)	Shares	(%)
PREVI(1)	57,594,479	23.8	60,872,078	12.9	118,466,557	16.5
SISTEL(2)	48,508,890	20.0	5,233,725	1.1	53,742,615	7.5
Cia. Bozano(3)(4)	48,509,220	20.0	18,786,588	4.0	67,295,808	9.4
Bozano Holdings Ltd.(3)(4)			18,896,920	4.0	18,896,920	2.6
BNDESPAR(5)	3,734,893	1.5	46,929,918	9.9	50,664,811	7.1
Dassault Aviation(6)	13,744,186	5.7	1,953,132	**	15,697,318	2.2
Thales TM (6)	13,744,186	5.7	1,953,132	**	15,697,318	2.2
EADS(6)	13,744,186	5.7	1,953,132	**	15,697,318	2.2
SNECMA(6)	7,276,332	3.0	1,034,010	**	8,310,342	1.2
BB Banco de Investimento, S.A.(7)	3,015,562	1.2	2,890,909	**	5,906,471	**
União Federal/Brazilian Government(8)	1,850,495	**	499,415	**	2,349,910	**
Officers and directors as a group(9)	19	**	4,161,780	**	4,161,799	**
Other(10)	30,822,000	12.7	308,622,713	65.1	339,457,502	47.4
Total	242,544,448		473,787,452		716,344,689	
Percentage of total shares outstanding		33.9		66.1		100.0

** Less than 1%.

- (1) Banco do Brasil Employee Pension Fund, also known as PREVI, was founded in 1904 as a pension fund for the employees of Banco do Brasil S.A, which is controlled by the Brazilian government.
- (2) SISTEL Social Security Foundation, also known as SISTEL, was founded in 1977 as part of the Telebrás system, which, prior to its recent privatization, consisted of the Brazilian government-owned telecommunications companies.
- (3) The above table does not reflect any exchangeable notes issued by BNDES that may be currently owned by Bozano Holdings Ltd.
- (4) Cia. Bozano and Bozano Holdings Ltd. are owned and controlled by Julio Bozano. All preferred shares owned by Cia. Bozano and Bozano Holdings Ltd. have been pledged in favor of Banco Santander Central Hispano, S.A. in connection with its acquisition from Cia. Bozano of substantially all of the capital stock of Banco Meridional S.A.
- (5) BNDESPAR is a wholly owned subsidiary of Banco Nacional de Desenvolvimento Econômico e Social BNDES, the government-owned national development bank of Brazil
- (6) Member of the European Aerospace and Defense Group.
- (7) BB Banco de Investimento, S.A. is an affiliate of the Brazilian government-owned Banco do Brasil S.A.

- (8) The Brazilian government also holds the golden share.
- (9) The number of preferred shares includes 555,000 preferred shares underlying options which are exercisable within 60 days of the date of this annual report.
- (10) The number of preferred shares includes 2,442,545 preferred shares underlying options which are exercisable within 60 days of the date of this annual report.

Other than as discussed in Item 4. Information on the Company History and Development of the Company, there have been no significant changes in percentage ownership by any major shareholder in the past three years.

On June 16, 2003, we had 25,219 holders, either directly or through ADSs, of preferred shares, and 4,167 holders of record of common shares. On June 16, 2003, an aggregate of 209,410,561 preferred shares were held, either directly or through ADSs, by 188 record holders, including DTC, in the United States.

Voting Rights

Voting Rights of the Common Shares

Each common share entitles the holder thereof to one vote at our annual and special shareholders meetings.

Shareholders Agreement

Each of Cia. Bozano, PREVI and SISTEL, our controlling shareholders, has agreed to comply with the terms of a shareholders agreement entered into on July 24, 1997, as amended, which governs matters relating to their equity ownership of Embraer for a ten-year term and can be successively renewed for five-year terms. According to the shareholders agreement, when appointing the members of our board of directors at shareholders meetings, our controlling shareholders have agreed to appoint two representatives (and alternates) of each one of the controlling shareholders and to vote together to elect two representatives (and alternates) of the European Aerospace and Defense Group and one representative (and alternate) of the Brazilian government.

Our controlling shareholders have also agreed in the shareholders agreement that the Chairman of our board of directors will be chosen by agreement among them every 18 months and that the Chairman shall be one of their representatives. In the event that our controlling shareholders cannot agree on who will be the Chairman of the board, the order in which their representatives will take turns as Chairman shall be decided by lottery.

In accordance with the shareholders agreement, our controlling shareholders may not sell, assign, contribute as capital, pledge or in any other way transfer, dispose of or create a lien on the common shares tied to control of Embraer held by them, except as provided for in the shareholders agreement or if the transaction is previously authorized in writing by the other parties. According to the shareholders agreement, if any controlling shareholder wishes to sell, assign, transfer or in any way dispose of part or all of its common shares tied to control of Embraer, whether or not together with other shares of Embraer of any kind or class, the other controlling shareholders shall have a right of first refusal to acquire the shares being offered.

The shareholders agreement provides that our controlling shareholders shall meet or shall manifest their position by fax or any other electronic means in connection with any shareholders meeting or meeting of the board of directors, as the case may be, when any of the following matters involving us or any of our subsidiaries shall be decided:

amendment to the bylaws, except when required by law;

increase of capital by subscription, creation of a new class of shares, change in the characteristics of the existing shares or reduction of capital;

issuance of debentures convertible into shares, subscription warrants and options for the purchase of shares;

merger or spin-off;

liquidation, dissolution and voluntary acts of financial reorganization;

acquisition or sale of participation in other companies, except special purpose companies that are necessary or desirable in our business of selling aircraft;

establishment of a dividend policy which differs from that provided for in the bylaws as the minimum dividend;

approval of new investments and/or financing and/or sale of investments in an amount higher than that agreed upon by the parties from time to time;

approval and change of long-term business plans;

determination of the remuneration of, and participation in our profits by, our managers;

selection, hiring and firing of our executive officers;

choosing our external auditors;

granting liens on, or guarantees in favor of, real or personal property or obligations of management except for those necessary or desirable in our business of manufacturing and selling aircraft;

sale of a substantial part of our permanent assets; and

\$100	\$112	\$147	\$145		\$161	\$190
EEI	\$100	\$113	\$146		\$140	\$164
Index						\$184
S&P	\$100	\$132	\$151		\$153	\$171
500						\$208

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table discloses purchases of our common shares made by us or on our behalf for the periods shown below. The common shares purchased consist of open market purchases made by the Company or an independent agent. These share transactions related to shares awarded under the Company's Incentive Plan and Dividend Reinvestment Plan and matching contributions under the Eversource 401k Plan.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans and Programs (at month end)
October 1 - October 31, 2017	101,737	\$ 60.52	—	—
November 1 - November 30, 2017	6,411	64.22	—	—
December 1 - December 31, 2017	190,873	62.86	—	—
Total	299,021	\$ 62.09	—	—

Item 6. Selected Consolidated Financial Data

Eversource Selected Consolidated Financial Data (Unaudited)

(Thousands of Dollars, except percentages and common share information)

	2017	2016	2015	2014	2013
Balance Sheet Data:					
Property, Plant and Equipment, Net	\$23,617,463	\$21,350,510	\$19,892,441	\$18,647,041	\$17,576,186
Total Assets	36,220,386	32,053,173	30,580,309	29,740,387	27,760,315
Common Shareholders' Equity	11,086,242	10,711,734	10,352,215	9,976,815	9,611,528
Noncontrolling Interest - Preferred Stock of Subsidiaries	155,570	155,568	155,568	155,568	155,568
Long-Term Debt ^(a)	12,325,520	9,603,237	9,034,457	8,851,600	8,310,179
Obligations Under Capital Leases ^(a)	9,898	8,924	8,222	9,434	10,744
Income Statement Data:					
Operating Revenues	\$7,751,952	\$7,639,129	\$7,954,827	\$7,741,856	\$7,301,204
Net Income	\$995,515	\$949,821	\$886,004	\$827,065	\$793,689
Net Income Attributable to Noncontrolling Interests	7,519	7,519	7,519	7,519	7,682
Net Income Attributable to Common Shareholders	\$987,996	\$942,302	\$878,485	\$819,546	\$786,007
Common Share Data:					
Net Income Attributable to Common Shareholders:					
Basic Earnings Per Common Share	\$3.11	\$2.97	\$2.77	\$2.59	\$2.49
Diluted Earnings Per Common Share	\$3.11	\$2.96	\$2.76	\$2.58	\$2.49
Dividends Declared Per Common Share	\$1.90	\$1.78	\$1.67	\$1.57	\$1.47
Market Price - Closing (end of year) ^(b)	\$63.18	\$55.23	\$51.07	\$53.52	\$42.39
Book Value Per Common Share (end of year)	\$34.98	\$33.80	\$32.64	\$31.47	\$30.49
Tangible Book Value Per Common Share (end of year) ^(c)	\$21.00	\$22.70	\$21.54	\$20.37	\$19.32
Rate of Return Earned on Average Common Equity (%) ^(d)	9.1	9.0	8.7	8.4	8.3
Market-to-Book Ratio (end of year) ^(e)	1.8	1.6	1.6	1.7	1.4

CL&P Selected Financial Data (Unaudited)

(Thousands of Dollars)

	2017	2016	2015	2014	2013
Balance Sheet Data:					
Property, Plant and Equipment, Net	\$8,271,030	\$7,632,392	\$7,156,809	\$6,809,664	\$6,451,259
Total Assets	10,630,246	10,035,044	9,592,957	9,344,400	8,965,906
Common Stockholder's Equity	3,587,127	3,470,387	3,140,717	2,936,767	2,702,494
Preferred Stock Not Subject to Mandatory Redemption	116,200	116,200	116,200	116,200	116,200
Long-Term Debt ^(a)	3,059,135	2,766,010	2,763,682	2,841,951	2,741,208
Obligations Under Capital Leases ^(a)	5,711	6,767	7,624	8,439	9,309
Income Statement Data:					
Operating Revenues	2,887,359	2,805,955	2,802,675	2,692,582	2,442,341
Net Income	376,726	334,254	299,360	287,754	279,412
Common Stock Data:					
Cash Dividends on Common Stock	254,800	199,599	196,000	171,200	151,999

^(a) Includes portions due within one year.

- (b) Market price information reflects closing prices as reflected by the New York Stock Exchange.
- (c) Common Shareholders' Equity adjusted for goodwill and intangibles divided by total common shares outstanding.
- (d) Net Income Attributable to Common Shareholders divided by average Common Shareholders' Equity.
- (e) The closing market price divided by the book value per share.

See the Combined Notes to Financial Statements in this Annual Report on Form 10-K for a description of the acquisition of Aquarion on December 4, 2017, the classification as held for sale of PSNH's thermal and hydroelectric generating assets as result of generation divestiture, and any accounting changes materially affecting the comparability of the information reflected in the tables above.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

EVERSOURCE ENERGY AND SUBSIDIARIES

The following discussion and analysis should be read in conjunction with our consolidated financial statements and related combined notes included in this combined Annual Report on Form 10-K. References in this Annual Report on Form 10-K to "Eversource," the "Company," "we," "us," and "our" refer to Eversource Energy and its consolidated subsidiaries. All per-share amounts are reported on a diluted basis. The consolidated financial statements of Eversource, NSTAR Electric and PSNH and the financial statements of CL&P are herein collectively referred to as the "financial statements."

Refer to the Glossary of Terms included in this combined Annual Report on Form 10-K for abbreviations and acronyms used throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations.

The only common equity securities that are publicly traded are common shares of Eversource. The earnings and EPS of each business discussed below do not represent a direct legal interest in the assets and liabilities of such business but rather represent a direct interest in our assets and liabilities, as a whole. EPS by business is a financial measure not recognized under GAAP that is calculated by dividing the Net Income Attributable to Common Shareholders of each business by the weighted average diluted Eversource common shares outstanding for the period. The discussion below also includes non-GAAP financial measures referencing our 2015 earnings and EPS excluding certain integration costs incurred by Eversource parent and our Electric and Natural Gas companies. We use these non-GAAP financial measures to evaluate and to provide details of earnings by business and to more fully compare and explain our 2017, 2016 and 2015 results without including the impact of these items. Due to the nature and significance of these items on Net Income Attributable to Common Shareholders, we believe that the non-GAAP presentation is a meaningful representation of our financial performance and provides additional and useful information to readers of this report in analyzing historical and future performance by business. These non-GAAP financial measures should not be considered as an alternative to reported Net Income Attributable to Common Shareholders or EPS determined in accordance with GAAP as an indicator of operating performance.

Reconciliations of the non-GAAP financial measures to the most directly comparable GAAP measures of consolidated diluted EPS and Net Income Attributable to Common Shareholders are included under "Financial Condition and Business Analysis – Overview – Consolidated" and "Financial Condition and Business Analysis – Overview – Electric and Natural Gas Companies" in this Management's Discussion and Analysis of Financial Condition and Results of Operations, herein.

The results of Aquarion and its subsidiaries, hereinafter referred to as "Aquarion," are included from the date of the acquisition, December 4, 2017, through December 31, 2017 throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations.

Financial Condition and Business Analysis

Executive Summary

Results and Future Outlook:

☛ We earned \$988.0 million, or \$3.11 per share, in 2017, compared with \$942.3 million, or \$2.96 per share, in 2016.

- Our electric distribution segment, which includes generation results, earned \$497.4 million, or \$1.57 per share, in 2017, compared with \$462.8 million, or \$1.46 per share, in 2016. Our electric transmission segment earned \$391.9 million, or \$1.23 per share, in 2017, compared with \$370.8 million, or \$1.16 per share, in 2016. Our natural gas distribution segment earned \$74.6 million, or \$0.23 per share, in 2017, compared with \$77.7 million, or \$0.24 per share, in 2016.

• Eversource parent and other companies earned \$24.1 million, or \$0.08 per share, in 2017, compared with \$31.0 million, or \$0.10 per share, in 2016.

• We currently project 2018 earnings of between \$3.20 per share and \$3.30 per share.

Liquidity:

Cash flows provided by operating activities totaled \$2.0 billion in 2017, compared with \$2.2 billion in 2016.

- Investments in property, plant and equipment totaled \$2.3 billion in 2017 and \$2.0 billion in 2016. Cash and cash equivalents totaled \$38.2 million as of December 31, 2017, compared with \$30.3 million as of December 31, 2016.

In 2017, we issued \$2.5 billion of new long-term debt, consisting of \$1.2 billion by Eversource parent, \$700 million by NSTAR Electric, \$525 million by CL&P and \$75 million by Yankee Gas. Proceeds from these new issuances were used primarily to pay short-term borrowings and repay long-term debt at maturity. In 2017, Eversource, NSTAR Electric, CL&P, PSNH and NSTAR Gas repaid, at maturity, \$745 million, \$400 million, \$250 million, \$70 million and \$25 million, respectively, of previously issued long-term debt.

In 2017, we paid cash dividends on common shares of \$602.1 million, compared with \$564.5 million in 2016. On February 7, 2018, our Board of Trustees approved a common share dividend of \$0.505 per share, payable on March 30, 2018 to shareholders of record as of March 6, 2018. The 2018 dividend represents an increase of 6.3 percent over the dividend paid in December 2017, and is the equivalent to dividends on common shares of approximately \$640 million on an annual basis.

We project to make capital expenditures of \$10.8 billion from 2018 through 2021, of which we expect \$5.7 billion to be in our electric and natural gas distribution segments, \$4.1 billion to be in our electric transmission segment and \$0.4 billion to be in our water utility business. We also project to invest \$0.5 billion in information technology and facilities upgrades and enhancements. These projections do not include any expected investments related to Bay State Wind.

Strategic Items:

On January 25, 2018, Northern Pass was selected from the 46 proposals submitted as the winning bidder in the Massachusetts clean energy request for proposal ("RFP"), which successfully positioned Northern Pass to provide a firm delivery of hydropower to Massachusetts. Northern Pass is Eversource's planned 1,090 MW HVDC transmission line from the Québec-New Hampshire border to Franklin, New Hampshire and an associated alternating current radial transmission line between Franklin and Deerfield, New Hampshire. On February 1, 2018, the New Hampshire Site Evaluation Committee ("NHSEC") voted to deny Northern Pass' siting application. We intend to seek reconsideration of the NHSEC's decision and to review all options for moving this critical clean energy project forward. As of December 31, 2017, we have approximately \$277 million in capitalized costs associated with Northern Pass.

On December 20, 2017, Bay State Wind submitted two proposals, one for 400 MW and the other for 800 MW, in response to the Massachusetts clean energy RFP.

- On December 4, 2017, Eversource completed the acquisition of Aquarion (formerly Macquarie Utilities Inc.) from Macquarie Infrastructure Partners for \$1.675 billion, consisting of approximately \$880 million in cash and \$795 million of assumed debt. As a result, Aquarion became a wholly-owned subsidiary of Eversource.

Legislative, Regulatory, Policy and Other Items:

On November 30, 2017, the DPU issued its decision in the NSTAR Electric distribution rate case, which approved an annual distribution rate increase of \$37 million, with rates effective February 1, 2018. As a result of this decision, we recognized an aggregate \$44.1 million pre-tax benefit to earnings in 2017. On January 3, 2018, NSTAR Electric filed a motion to reflect a revenue requirement reduction of \$56 million due to the decrease in the federal corporate income tax rate, as part of the "Tax Cuts and Jobs Act", resulting in an annual net decrease in rates of \$19 million.

On January 11, 2018, CL&P filed a distribution rate case settlement agreement for approval with PURA, which included, among other things, rate increases of \$97.1 million, \$32.7 million and \$24.7 million, effective May 1, 2018, 2019, and 2020, respectively, an authorized regulatory ROE of 9.25 percent, and 53 percent common equity in CL&P's capital structure. The rate increases associated with the settlement agreement will be reduced by the impact of the decrease in the federal corporate income tax rate, as part of the "Tax Cuts and Jobs Act", which we currently estimate to average approximately \$45 million to \$50 million per year.

On December 22, 2017, the "Tax Cuts and Jobs Act" (the "Act") became law, which amended existing federal tax rules and included numerous provisions that impacted corporations. In particular, the Act reduced the federal corporate income tax rate from 35 percent to 21 percent effective January 1, 2018. As of December 31, 2017, we estimated approximately \$2.9 billion of provisional regulated excess ADIT liabilities that we expect to benefit our

customers in future periods. The ultimate amount and timing of when certain income tax benefits resulting from the Act benefit our customers will vary by jurisdiction.

On January 10, 2018, PSNH completed the sale of its thermal generation facilities. In accordance with the Purchase and Sale Agreement, the original purchase price of \$175 million was adjusted to reflect working capital adjustments, closing date adjustments and proration of taxes and fees prior to closing, totaling \$40.9 million, resulting in net proceeds of \$134.1 million. We are targeting for PSNH to complete the sale of its hydroelectric generation facilities by the end of the first quarter of 2018.

Overview

Consolidated: Below is a summary of our earnings by business, which also reconciles the non-GAAP financial measure of EPS by business to the most directly comparable GAAP measure of diluted EPS, for the years ended December 31, 2017, 2016 and 2015. Also included in the summary for the year ended December 31, 2015, is a reconciliation of the non-GAAP financial measure of consolidated non-GAAP earnings to the most directly comparable GAAP measure of consolidated Net Income Attributable to Common Shareholders.

(Millions of Dollars, Except Per Share Amounts)	For the Years Ended December 31,					
	2017		2016		2015	
	Amount	Per Share	Amount	Per Share	Amount	Per Share
Net Income Attributable to Common Shareholders (GAAP)	\$988.0	\$3.11	\$942.3	\$2.96	\$878.5	\$2.76
Electric and Natural Gas Companies	\$963.9	\$3.03	\$911.3	\$2.86	\$884.8	\$2.78
Eversource Parent and Other Companies	24.1	0.08	31.0	0.10	9.5	0.03
Non-GAAP Earnings	N/A	N/A	N/A	N/A	894.3	2.81
Integration Costs (after-tax) ⁽¹⁾	—	—	—	—	(15.8)	(0.05)
Net Income Attributable to Common Shareholders (GAAP)	\$988.0	\$3.11	\$942.3	\$2.96	\$878.5	\$2.76

(1) The 2015 integration costs were associated with our branding efforts and severance costs.

Electric and Natural Gas Companies: Our electric and natural gas companies consist of the electric distribution (including PSNH's generation facilities and NSTAR Electric's solar power facilities), electric transmission and natural gas distribution segments. A summary of our segment earnings and EPS is as follows:

(Millions of Dollars, Except Per Share Amounts)	For the Years Ended December 31,					
	2017		2016		2015	
	Amount	Per Share	Amount	Per Share	Amount	Per Share
Electric Distribution	\$497.4	\$1.57	\$462.8	\$1.46	\$507.9	\$1.59
Electric Transmission	391.9	1.23	370.8	1.16	304.5	0.96
Natural Gas Distribution	74.6	0.23	77.7	0.24	72.4	0.23
Non-GAAP Earnings	N/A	N/A	N/A	N/A	884.8	2.78
Integration Costs (after-tax) ⁽¹⁾	—	—	—	—	(0.8)	—
Net Income - Electric and Natural Gas Companies	\$963.9	\$3.03	\$911.3	\$2.86	\$884.0	\$2.78

(1) The 2015 Electric and Natural Gas Companies' integration costs include severance in connection with cost saving initiatives.

Our electric distribution segment earnings increased \$34.6 million in 2017, as compared to 2016, due primarily to a lower effective tax rate, lower non-tracked operations and maintenance expense, higher lost base revenues at NSTAR Electric and higher distribution revenues at CL&P due in part to a higher rate base for the system resiliency program, partially offset by higher depreciation expense, lower sales volumes primarily driven by the mild summer weather in 2017, as compared to 2016 (primarily at NSTAR Electric), and higher property tax expense.

Our electric transmission segment earnings increased \$21.1 million in 2017, as compared to 2016, due primarily to a higher transmission rate base as a result of our continued investment in our transmission infrastructure, partially offset by the absence in 2017 of the FERC-allowed recovery of certain previously expensed merger-related costs in 2016, and a lower benefit in the second quarter of 2017 related to the annual billing and cost reconciliation filing with the FERC.

Our natural gas distribution segment earnings decreased \$3.1 million in 2017, as compared to 2016, due primarily to higher depreciation expense, lower demand revenues in Connecticut driven by lower peak usage in 2017, as compared to 2016, higher non-tracked operations and maintenance expense, and higher property tax expense, partially offset by higher sales volumes driven by colder winter weather in the fourth quarter of 2017, as compared to 2016.

Eversource Parent and Other Companies: Eversource parent and other companies earned \$24.1 million in 2017, compared with \$31.0 million in 2016. The decrease in earnings was due primarily to a higher effective tax rate,

higher interest expense and the absence in 2017 of the earnings and gain on the sale of an unregulated business in 2016. These decreases were partially offset by the 2017 DPU-allowed recovery of certain previously expensed merger-related costs in NSTAR Electric's distribution rates, and increased gains on investments recorded in 2017.

Electric and Natural Gas Sales Volumes: Weather, fluctuations in energy supply costs, conservation measures (including utility-sponsored energy efficiency programs), and economic conditions affect customer energy usage. Industrial sales volumes are less sensitive to temperature variations than residential and commercial sales volumes. In our service territories, weather impacts electric sales volumes during the summer and both electric and natural gas sales volumes during the winter; however, natural gas sales volumes are more sensitive to temperature variations than are electric sales volumes. Customer heating or cooling usage may not directly correlate with historical levels or with the level of degree-days that occur.

Fluctuations in retail electric sales volumes at certain of our electric utilities impact earnings ("Traditional" in the table below). For others, fluctuations in retail electric sales volumes do not impact earnings due to their regulatory commission approved distribution revenue decoupling mechanisms ("Decoupled" in the table below). These distribution revenues are decoupled from their customer sales volumes, which breaks the relationship between sales volumes and revenues recognized.

In 2017 and 2016, NSTAR Electric operated under two different rate structures based on its service territory geography. For customers that were served in eastern Massachusetts, including metropolitan Boston, Cape Cod and Martha's Vineyard, NSTAR Electric operated using Traditional rates. For customers that were served in western Massachusetts, including the metropolitan Springfield region, NSTAR Electric operated using Decoupled rates. Effective February 1, 2018, all of NSTAR Electric's distribution revenues were decoupled as a result of the

DPU-approved rate decision. See "Regulatory Developments and Rate Matters - Massachusetts - NSTAR Electric Distribution Rate Case Decision" in this Management's Discussion and Analysis of Financial Condition and Results of Operations.

CL&P and NSTAR Electric (for its western Massachusetts customer rates) reconciled their annual base distribution rate recovery amounts to their pre-established levels of baseline distribution delivery service revenues of \$1.059 billion and \$132.4 million, respectively, through December 31, 2017. Effective February 1, 2018, NSTAR Electric, operating entirely under decoupled rates, will reconcile its annual base distribution rate recovery to its new baseline of \$974.8 million. Any difference between the allowed level of distribution revenue and the actual amount realized during a 12-month period is adjusted through rates in the following period.

Fluctuations in natural gas sales volumes in Connecticut impact earnings ("Traditional" in the table below). In Massachusetts, fluctuations in natural gas sales volumes do not impact earnings due to the DPU-approved natural gas distribution revenue decoupling mechanism approved in the last rate case decision ("Decoupled" in the table below).

These distribution revenues are decoupled from their customer sales volumes, which breaks the relationship between sales volumes and revenues recognized.

A summary of our retail electric GWh sales volumes and our firm natural gas sales volumes in MMcf and percentage changes is as follows:

	Electric For the Year Ended December 31, 2017 Compared to 2016			Firm Natural Gas For the Year Ended December 31, 2017 Compared to 2016			
	Sales Volumes (GWh)		Percentage Decrease	Sales Volumes (MMcf)		Percentage Increase/(Decrease)	
	2017	2016		2017	2016		
Traditional:							
Residential	9,453	9,654	(2.1)%	15,502	15,118	2.5	%
Commercial	15,958	16,267	(1.9)%	20,649	19,846	4.0	%
Industrial	2,444	2,558	(4.5)%	10,806	10,350	4.4	%
Total - Traditional	27,855	28,479	(2.2)%	46,957	45,314	3.6	%
Decoupled:							
Residential	11,043	11,347	(2.7)%	21,919	20,616	6.3	%
Commercial	10,612	10,940	(3.0)%	21,859	21,583	1.3	%
Industrial	2,736	2,876	(4.9)%	5,882	5,833	0.8	%
Total - Decoupled	24,391	25,163	(3.1)%	49,660	48,032	3.4	%
Special Contracts ⁽¹⁾	N/A	N/A	N/A	4,409	4,696	(6.1)%	
Total - Decoupled and Special Contracts	24,391	25,163	(3.1)%	54,069	52,728	2.5	%
Total Sales Volumes	52,246	53,642	(2.6)%	101,026	98,042	3.0	%

Special contracts are unique to the natural gas distribution customers who take service under such an arrangement (1) and generally specify the amount of distribution revenue to be paid to Yankee Gas regardless of the customers' usage.

Retail electric sales volumes at our electric utilities with a traditional rate structure (the eastern region of NSTAR Electric and PSNH) were lower in 2017, as compared to 2016, due primarily to the mild summer weather in 2017, as compared to 2016. Cooling degree days in 2017 were 14.7 percent lower in the Boston metropolitan area and 22.7 percent lower in New Hampshire, as compared to 2016. Sales volumes were positively impacted by improved

economic conditions across our service territories, but this trend was offset by lower customer usage driven by the impact of increased customer energy conservation efforts.

On January 28, 2016, Eversource received approval of a three-year energy efficiency plan in Massachusetts, which included recovery of LBR in the NSTAR Electric eastern Massachusetts service territory until it was covered under a decoupled rate structure, which occurred on February 1, 2018. NSTAR Electric recorded LBR related to reductions in sales volume as a result of successful energy efficiency programs. LBR was recovered from retail customers through rates. NSTAR Electric recognized LBR of \$73.7 million and \$60.7 million in 2017 and 2016, respectively.

Our firm natural gas sales volumes are subject to many of the same influences as our retail electric sales volumes. In addition, they have benefited from customer growth in both of our natural gas distribution companies. Consolidated firm natural gas sales volumes were higher in 2017, as compared to 2016, due primarily to colder winter weather in the fourth quarter of 2017, as compared to 2016. Heating degree days in 2017 were 2.5 percent higher in Connecticut, as compared to 2016. Sales volumes were also positively impacted by improved economic conditions across our natural gas service territories.

Liquidity

Consolidated: Cash and cash equivalents totaled \$38.2 million as of December 31, 2017, compared with \$30.3 million as of December 31, 2016.

Long-Term Debt Issuances and Repayments: The following table summarizes long-term debt issuances and repayments:

(Millions of Dollars)	Issue Date	Issuances/(Repayments)	Maturity Date	Use of Proceeds
CL&P:				
3.20% 2017 Series A First Mortgage Bonds	March 2017	\$ 300.0	2027	Repay short-term debt borrowings
4.30% 2014 Series A First Mortgage Bonds ⁽¹⁾	August 2017	225.0	2044	Refinance short-term debt and fund working capital and capital expenditures
5.375% 2007 Series A First Mortgage Bonds	March 2007	(150.0)	2017	N/A
5.75% 2007 Series C First Mortgage Bonds	September 2007	(100.0)	2017	N/A
NSTAR Electric:				
3.20% Debentures	May 2017	350.0	2027	Repay short-term borrowings and fund capital expenditures and working capital
3.20% Debentures ⁽²⁾	October 2017	350.0	2027	Redeem long-term debt that matured in 2017
5.625% Debentures	November 2007	(400.0)	2017	N/A
PSNH:				
6.15% Series N First Mortgage Bonds	September 2007	(70.0)	2017	N/A
Other:				
Yankee Gas 3.02% Series N First Mortgage Bonds	September 2017	75.0	2027	Repay short-term borrowings
NSTAR Gas 7.04% Series M First Mortgage Bonds	September 1997	(25.0)	2017	N/A
Eversource Parent 2.75% Series K Senior Notes	March 2017	300.0	2022	Repay short-term borrowings
Eversource Parent 2.75% Series K Senior Notes ⁽³⁾	October 2017	450.0	2022	Repay short-term borrowings
Eversource Parent 2.90% Series L Senior Notes	October 2017	450.0	2024	Repay short-term borrowings
Eversource Parent 2.50% Series I Senior Notes ⁽⁴⁾	January 2018	200.0	2021	Repay long-term debt due to mature in 2018 and repay short-term borrowings
Eversource Parent 3.30% Series M Senior Notes	January 2018	450.0	2028	Repay long-term debt due to mature in 2018
Eversource Parent 1.60% Series G Senior Notes ⁽⁵⁾	January 2015	(150.0)	2018	N/A

(1) These bonds are part of the existing series initially issued by CL&P in 2014. The aggregate outstanding principal amount for these bonds is now \$475 million.

(2) These debentures are part of the same series initially issued by NSTAR Electric in May 2017. The aggregate outstanding principal amount for these debentures is now \$700 million.

(3) These notes are part of the same series issued by Eversource parent in March 2017. The aggregate outstanding principal amount for these notes is now \$750 million.

(4) These notes are part of the same series issued by Eversource parent in March 2016. The aggregate outstanding principal amount for these notes is now \$450 million.

(5) Represents a repayment at maturity on January 15, 2018.

Commercial Paper Programs and Credit Agreements: Eversource parent has a \$1.45 billion commercial paper program allowing Eversource parent to issue commercial paper as a form of short-term debt. Eversource parent, CL&P, PSNH, NSTAR Gas and Yankee Gas are also parties to a five-year \$1.45 billion revolving credit facility. On December 8, 2017, Eversource parent amended and restated the revolving credit facility. The amended and restated revolving credit facility terminates on December 8, 2022 and serves to backstop Eversource parent's \$1.45 billion commercial paper program. There were no borrowings outstanding on the revolving credit facility as of December 31, 2017 or 2016.

NSTAR Electric has a \$650 million commercial paper program allowing NSTAR Electric to issue commercial paper as a form of short-term debt. On December 8, 2017, NSTAR Electric increased its commercial paper program from \$450 million to \$650 million. NSTAR Electric is also a party to a five-year \$650 million revolving credit facility. On December 8, 2017, NSTAR Electric amended and restated the revolving credit facility, increasing it from \$450 million to \$650 million. The amended and restated revolving credit facility terminates on December 8, 2022 and serves to backstop NSTAR Electric's \$650 million commercial paper program. There were no borrowings outstanding on the revolving credit facility as of December 31, 2017 or 2016.

The amount of borrowings outstanding and available under the commercial paper programs and revolving credit facility was as follows:

	Borrowings Outstanding as of December 31,		Available Borrowing Capacity as of December 31,		Weighted-Average Interest Rate as of December 31,	
	2017	2016	2017	2016	2017	2016
(Millions of Dollars)						
Eversource Parent Commercial Paper Program	\$979.3	\$1,022.0	\$470.7	\$428.0	1.86 %	0.88 %
NSTAR Electric Commercial Paper Program	234.0	126.5	416.0	323.5	1.55 %	0.71 %
Revolving Credit Facility ⁽¹⁾	76.0	N/A	24.0	N/A	2.66 %	N/A

⁽¹⁾ Aquarion has a \$100.0 million revolving credit facility, which expires on August 19, 2019.

Amounts outstanding under the commercial paper programs and revolving credit facility are included in Notes Payable for Eversource and NSTAR Electric and are classified in current liabilities on the balance sheets as all borrowings are outstanding for no more than 364 days at one time. As a result of the Eversource parent long-term debt issuances on January 8, 2018, the net proceeds of which were used to repay short-term borrowings

outstanding under its commercial paper program, \$201.2 million of commercial paper borrowings under the Eversource parent commercial paper program were reclassified to Long-Term Debt as of December 31, 2017.

As of December 31, 2017, there were intercompany loans from Eversource parent of \$69.5 million to CL&P and \$262.9 million to PSNH. As of December 31, 2016, there were intercompany loans from Eversource parent of \$80.1 million to CL&P, \$160.9 million to PSNH and \$51.0 million to NSTAR Electric. These intercompany loans from Eversource parent are included in Notes Payable to Eversource Parent and are classified in current liabilities on the respective subsidiary's balance sheets. Intercompany loans from Eversource parent are eliminated in consolidation on Eversource's balance sheets.

Cash Flows: Cash flows provided by operating activities totaled \$2.0 billion in 2017, compared with \$2.2 billion in 2016. The decrease in operating cash flows was due primarily to the \$166.3 million net unfavorable impact as a result of the change in income tax payments made, or refunds received, in 2017 when compared to 2016. This unfavorable impact was primarily the result of the December 2015 legislation, which extended the accelerated deduction of depreciation from 2015 to 2019. The legislation resulted in a significant refund of approximately \$275 million, which we received in the first quarter of 2016. Additionally, there was an increase of \$84.1 million in Pension and PBOP Plan cash contributions made in 2017, as compared to 2016, a decrease of \$59.8 million related to the absence in 2017 of the Yankee Companies' DOE Damages received in 2016, and the unfavorable impact related to the timing of regulatory recoveries, which were significantly impacted by NSTAR Electric's timing of collections of purchased power and transmission costs. Partially offsetting these unfavorable impacts was the benefit related to the timing of collections and payments of our working capital items, including accounts payable.

In 2017, we paid cash dividends of \$602.1 million, or \$1.90 per common share, compared with \$564.5 million, or \$1.78 per common share in 2016. Our quarterly common share dividend payment was \$0.475 per share, in 2017, as compared to \$0.445 per common share in 2016. On February 7, 2018, our Board of Trustees approved a common share dividend of \$0.505 per share, payable on March 30, 2018 to shareholders of record as of March 6, 2018. The 2018 dividend represents an increase of 6.3 percent over the dividend paid in December 2017, and is the equivalent to dividends on common shares of approximately \$640 million on an annual basis.

In 2017, CL&P, NSTAR Electric and PSNH paid \$254.8 million, \$272.0 million and \$23.9 million, respectively, in common stock dividends to Eversource parent.

Investments in Property, Plant and Equipment on the statements of cash flows do not include amounts incurred on capital projects but not yet paid, cost of removal, AFUDC related to equity funds, and the capitalized portions of pension expense. In 2017, investments for Eversource, CL&P, NSTAR Electric and PSNH were \$2.3 billion, \$824.4 million, \$719.6 million and \$312.7 million, respectively.

Eversource completed the acquisition of Aquarion from Macquarie Infrastructure Partners on December 4, 2017 for \$1.675 billion, consisting of approximately \$880 million in cash and \$795 million of assumed debt.

Eversource, CL&P, NSTAR Electric and PSNH each use its available capital resources to fund its respective construction expenditures, meet debt requirements, pay operating costs, including storm-related costs, pay dividends and fund other corporate obligations, such as pension contributions. Eversource's regulated companies recover their electric and natural gas distribution construction expenditures as the related project costs are depreciated over the life of the assets. This impacts the timing of the revenue stream designed to fully recover the total investment plus a return on the equity and debt used to finance the investments. The current growth in Eversource's construction expenditures utilizes a significant amount of cash for projects that have a long-term return on investment and recovery period, totaling approximately \$2.3 billion in cash capital spend in 2017. In addition, growth in Eversource's key business initiatives in 2017 required cash contributions of \$32.6 million, which are recognized as long-term assets.

These factors have resulted in current liabilities exceeding current assets by \$1.1 billion, \$338.1 million, \$137.5 million, and \$183.1 million at Eversource, CL&P, NSTAR Electric and PSNH, respectively, as of December 31, 2017.

As of December 31, 2017, \$961.0 million of Eversource's long-term debt, including \$450.0 million, \$300.0 million, \$110.0 million, \$100.0 million and \$1 million for Eversource parent, CL&P, PSNH, Yankee Gas and Aquarion, respectively, will be paid within the next 12 months. Included in the current portion of long-term debt is \$35.4 million related to fair value adjustments from our business combinations that will be amortized within the next 12 months and have no cash flow impact. Eversource, with its strong credit ratings, has several options available in the financial markets to repay or refinance these maturities with the issuance of new long-term debt. Eversource, CL&P, NSTAR Electric and PSNH will reduce their short-term borrowings with operating cash flows or with the issuance of new long-term debt, determined by considering capital requirements and maintenance of Eversource's credit rating and profile. We expect the future operating cash flows of Eversource, CL&P, NSTAR Electric and PSNH, along with the access to financial markets, will be sufficient to meet any future operating requirements and capital investment forecasted opportunities.

Credit Ratings: On December 5, 2017, S&P upgraded Eversource and its subsidiaries' corporate credit rating to A+ and changed the outlook to stable.

A summary of our corporate credit ratings and outlooks by Moody's, S&P and Fitch is as follows:

	Moody's		S&P		Fitch	
	Current	Outlook	Current	Outlook	Current	Outlook
Eversource Parent	Baa1	Stable	A+	Stable	BBB+	Positive
CL&P	Baa1	Stable	A+	Stable	A-	Stable
NSTAR Electric	A2	Stable	A+	Stable	A	Stable
PSNH	A3	Stable	A+	Stable	A-	Stable

A summary of the current credit ratings and outlooks by Moody's, S&P and Fitch for senior unsecured debt of Eversource parent and NSTAR Electric, and senior secured debt of CL&P and PSNH is as follows:

	Moody's		S&P		Fitch	
	Current	Outlook	Current	Outlook	Current	Outlook
Eversource Parent	Baa1	Stable	A	Stable	BBB+	Positive
CL&P	A2	Stable	AA-	Stable	A+	Stable
NSTAR Electric	A2	Stable	A+	Stable	A+	Stable
PSNH	A1	Stable	AA-	Stable	A+	Stable

Business Development and Capital Expenditures

Our consolidated capital expenditures, including amounts incurred but not paid, cost of removal, AFUDC, and the capitalized portions of pension expense (all of which are non-cash factors), totaled \$2.5 billion in 2017, \$2.2 billion in 2016, and \$1.9 billion in 2015. These amounts included \$165.9 million in 2017, \$137.7 million in 2016, and \$102.0 million in 2015 related to information technology and facilities upgrades and enhancements, primarily at Eversource Service and The Rocky River Realty Company.

Aquarion: On December 4, 2017, Eversource acquired Aquarion (formerly Macquarie Utilities Inc.) from Macquarie Infrastructure Partners for \$1.675 billion, consisting of approximately \$880 million in cash and \$795 million of assumed Aquarion debt. As a result, Aquarion became a wholly-owned subsidiary of Eversource. Aquarion is a regulated water utility holding company that operates three separate regulated water utilities in Connecticut, Massachusetts and New Hampshire. Aquarion collects, treats and distributes water to residential, commercial and industrial customers, to other utilities for resale, and for private and municipal fire protection.

Bay State Wind: Bay State Wind is a proposed offshore wind project being jointly developed by Eversource and Denmark-based Ørsted. Bay State Wind will be located in a 300-square-mile area approximately 25 miles off the coast of Massachusetts that has the ultimate potential to generate more than 2,000 MW of clean, renewable energy. Eversource and Ørsted each hold a 50 percent ownership interest in Bay State Wind.

On June 29, 2017, the Bureau of Ocean Energy Management ("BOEM") approved the project's Site Assessment Plan ("SAP"), the first BOEM approval of an offshore wind SAP in the U.S.

In August 2016, Massachusetts passed clean energy legislation that requires EDCs to jointly solicit RFPs and enter into long-term contracts for offshore wind, creating RFP opportunities for projects like Bay State Wind. On June 29, 2017, the Massachusetts RFP was issued, seeking bids for a minimum of 400 MW of offshore wind capacity. The RFP stated that bids of up to 800 MW would be considered, provided they demonstrated significant net economic benefits to customers. On December 20, 2017, Bay State Wind submitted two proposals, one for 400 MW and the other for 800 MW, in response to the Massachusetts clean energy RFP.

For more information regarding the clean energy legislation, see "Regulatory Developments and Rate Matters – Massachusetts – Massachusetts RFPs" in this Management's Discussion and Analysis of Financial Condition and Results of Operations.

Electric Transmission Business:

Our consolidated electric transmission business capital expenditures increased by \$35.4 million in 2017, as compared to 2016. A summary of electric transmission capital expenditures by company is as follows:

(Millions of Dollars)	For the Years Ended		
	December 31,		
	2017	2016	2015
CL&P	\$431.5	\$338.3	\$252.9
NSTAR Electric	301.9	398.7	354.2
PSNH	155.6	119.0	161.2
NPT	43.3	40.9	38.3
Total Electric Transmission Segment	\$932.3	\$896.9	\$806.6

Northern Pass: Northern Pass is Eversource's planned 1,090 MW HVDC transmission line that will interconnect from the Québec-New Hampshire border to Franklin, New Hampshire and an associated alternating current radial transmission line between Franklin and Deerfield, New Hampshire.

Northern Pass has achieved several key milestones, including the following:

- Receiving NHPUC approval on February 12, 2018 for the proposed lease of certain land and easement rights from PSNH to NPT, concluding that the lease is in the public interest;
- Receiving the U.S. Forest Service Record of Decision on January 5, 2018, which allows NPT to install approximately 11 miles of underground transmission lines in areas along existing roads through the White Mountain National Forest;
- Receiving the Province of Québec permit granted to HQ on December 21, 2017 to construct the hydroelectric transmission line that will connect at the border of New Hampshire;
- Receiving the DOE Record of Decision and Presidential Permit on November 16, 2017, which will allow construction of transmission facilities at the Québec-New Hampshire border; and
- Receiving the DOE final Environmental Impact Statement issued on August 10, 2017, which concluded that the proposed Northern Pass route is the preferred alternative, providing substantial benefits with only minimal impacts.

On January 25, 2018, Northern Pass was selected from the 46 proposals submitted as the winning bidder in the Massachusetts clean energy request for proposal ("RFP"), which successfully positioned Northern Pass to provide a firm delivery of hydropower to Massachusetts. On February 1, 2018, the NHSEC voted to deny Northern Pass' siting application. On February 14, 2018, pursuant to the NHSEC's decision, the Massachusetts EDCs, in coordination with the DOER and an independent evaluator, notified NPT that the EDCs will continue contract negotiations, with the option of discontinuing discussions and terminating its conditional selection by March 27, 2018.

Consistent with Eversource's and HQ's long-term relationship to bring clean energy into New England, Eversource and HQ continue to support Northern Pass and the many benefits this project will bring to our customers and region. We intend to seek reconsideration of the NHSEC's decision and to review all options for moving this critical clean energy project forward.

As of December 31, 2017, we have approximately \$277 million in capitalized costs associated with Northern Pass. We continue to believe that the Northern Pass project is probable of being placed in service. If in the future, events and changes in circumstances indicate that the Northern Pass project's capitalized costs may not be fully recoverable, we will then evaluate those costs for impairment. Should we conclude that these capitalized costs are impaired, this would have a significant negative impact on our financial position, results of operations, and cash flows.

For more information regarding the Massachusetts clean energy RFP, see "Regulatory Developments and Rate Matters – Massachusetts – Massachusetts RFPs" in this Management's Discussion and Analysis of Financial Condition and Results of Operations.

Greater Boston Reliability Solution: In February 2015, ISO-NE selected the Greater Boston and New Hampshire Solution (the "Solution"), proposed by Eversource and National Grid, to satisfy the requirements identified in the Greater Boston study. The Solution consists of a portfolio of electric transmission upgrades covering southern New Hampshire and northern Massachusetts and continuing into the greater Boston metropolitan area, of which 28 upgrades are in Eversource's service territory. The NHSEC issued its written order approving the New Hampshire upgrades on October 4, 2016. We are currently pursuing the necessary regulatory and siting application approvals in Massachusetts. To date, we have received approval for three of these projects from the Massachusetts Energy Facilities Siting Board. Construction has also begun on multiple smaller projects, several of which have been placed in service. All upgrades are expected to be completed by the end of 2019. We estimate our portion of the investment in the Solution will be approximately \$560 million, of which \$235.8 million has been capitalized through December 31, 2017.

GHCC: The Greater Hartford Central Connecticut ("GHCC") projects, which have been approved by ISO-NE, consist of 27 projects with an expected investment of approximately \$350 million that are expected to be placed in service through 2019. As of December 31, 2017, 18 projects have been placed in service, and six projects are in

active construction. As of December 31, 2017, CL&P had capitalized \$210.0 million in costs associated with GHCC.

Seacoast Reliability Project: On April 12, 2016, PSNH filed a siting application with the NHSEC for the Seacoast Reliability Project, a 13-mile, 115kV transmission line within several New Hampshire communities, which proposes to use a combination of overhead, underground and underwater line design to help meet the growing demand for electricity in the Seacoast region. In June 2016, the NHSEC accepted our application as complete. The New Hampshire Department of Environmental Services has experienced delays with the issuance of permit conditions and now expects to complete its review in February 2018. As a result, siting hearings have yet to be rescheduled and we now expect the NHSEC decision in late-2018. This project is expected to be completed by the end of 2019. We estimate our investment in this project to be approximately \$84 million, of which, PSNH had capitalized \$24.5 million in costs, through December 31, 2017.

Distribution Business:

A summary of distribution capital expenditures by company is as follows:

For the Years Ended December 31,

(Millions of Dollars)	CL&P	NSTAR Electric	PSNH	Total Electric	Natural Gas	Total Electric and Natural Gas Distribution Segments
2017						
Basic Business	\$214.0	\$166.1	\$67.2	\$447.3	\$67.7	\$515.0
Aging Infrastructure	180.7	95.4	87.8	363.9	219.9	583.8
Load Growth and Other	52.3	96.6	13.2	162.1	47.7	209.8
Total Distribution	447.0	358.1	168.2	973.3	335.3	1,308.6
Solar Power and Generation	—	100.1	8.5	108.6	—	108.6
Total	\$447.0	\$458.2	\$176.7	\$1,081.9	\$335.3	\$1,417.2
2016						
Basic Business	\$179.8	\$146.0	\$70.0	\$395.8	\$70.7	\$466.5
Aging Infrastructure	144.7	105.7	84.7	335.1	155.9	491.0
Load Growth and Other	48.6	89.2	17.3	155.1	44.2	199.3
Total Distribution	373.1	340.9	172.0	886.0	270.8	1,156.8
Generation	—	—	17.5	17.5	—	17.5
Total	\$373.1	\$340.9	\$189.5	\$903.5	\$270.8	\$1,174.3
2015						
Basic Business	\$141.1	\$126.9	\$59.2	\$327.2	\$46.8	\$374.0
Aging Infrastructure	151.0	121.6	57.3	329.9	122.3	452.2
Load Growth and Other	42.2	58.5	25.5	126.2	43.5	169.7
Total Distribution	334.3	307.0	142.0	783.3	212.6	995.9
Generation	—	—	33.3	33.3	—	33.3
Total	\$334.3	\$307.0	\$175.3	\$816.6	\$212.6	\$1,029.2

For the electric distribution business, basic business includes the purchase of meters, tools, vehicles, information technology, transformer replacements, equipment facilities, and the relocation of plant. Aging infrastructure relates to reliability and the replacement of overhead lines, plant substations, underground cable replacement, and equipment failures. Load growth and other includes requests for new business and capacity additions on distribution lines and substation additions and expansions. For the natural gas distribution business, basic business addresses daily operational needs including meters, pipe relocations due to public works projects, vehicles, and tools. Aging infrastructure projects seek to improve the reliability of the system through enhancements related to cast iron and bare steel replacement of main and services, corrosion mediation, and station upgrades. Load growth and other reflects growth in existing service territories including new developments, installation of services, and expansion.

The natural gas distribution segment's capital spending program increased by \$64.5 million in 2017, as compared to 2016, primarily due to an increased investment in system replacement and reliability, as well as upgrades to our LNG facilities. We expect the LNG facility upgrades to cost approximately \$200 million and to be placed in service in late 2019.

Projected Capital Expenditures: A summary of the projected capital expenditures for the regulated companies' electric transmission and for the total electric distribution, solar development and natural gas distribution businesses for 2018 through 2021, including information technology and facilities upgrades and enhancements on behalf of the regulated companies, is as follows:

(Millions of Dollars)	Years				2018-2021 Total
	2018	2019	2020	2021	
CL&P Transmission	\$390	\$228	\$155	\$128	\$901
NSTAR Electric Transmission	333	293	267	248	1,141
PSNH Transmission	149	144	138	147	578
NPT	300	718	436	70	1,524
Total Electric Transmission	\$1,172	\$1,383	\$996	\$593	\$4,144
Electric Distribution	\$1,094	\$963	\$984	\$940	\$3,981
Solar Development	76	—	—	—	76
Natural Gas Distribution	422	425	380	389	1,616
Total Distribution	\$1,592	\$1,388	\$1,364	\$1,329	\$5,673
Water	\$100	\$102	\$108	\$125	\$435
Information Technology and All Other	\$178	\$124	\$111	\$112	\$525
Total	\$3,042	\$2,997	\$2,579	\$2,159	\$10,777

The projections do not include investments related to Bay State Wind. Actual capital expenditures could vary from the projected amounts for the companies and years above.

FERC Regulatory Issues

FERC ROE Complaints: Four separate complaints have been filed at the FERC by combinations of New England state attorneys general, state regulatory commissions, consumer advocates, consumer groups, municipal parties and other parties (collectively the "Complainants"). In each of the first three complaints, the Complainants challenged the NETOs' base ROE of 11.14 percent that had been utilized since 2005 and sought an order to reduce it prospectively from the date of the final FERC order and for the separate 15-month complaint periods. In the fourth complaint, filed April 29, 2016, the Complainants challenged the NETOs' base ROE of 10.57 percent and the maximum ROE for transmission incentive ("incentive cap") of 11.74 percent, asserting that these ROEs were unjust and unreasonable.

In response to appeals of the FERC decision in the first complaint filed by the NETOs and the Complainants, the U.S. Court of Appeals for the D.C. Circuit (the "Court") issued a decision on April 14, 2017 vacating and remanding the FERC's decision. The Court found that the FERC failed to make an explicit finding that the 11.14 percent base ROE was unjust and unreasonable, as required under Section 206 of the Federal Power Act, before it set a new base ROE. The Court also found that the FERC did not provide a rational connection between the record evidence and its decision to select the midpoint of the upper half of the zone of reasonableness for the new base ROE.

Hearings on the fourth complaint were held in December 2017 before the Administrative Law Judge ("ALJ"), who is expected to issue an initial decision in March 2018.

A summary of the four separate complaints and the base ROEs pertinent to those complaints are as follows:

Complaint Period of Complaint (Beginning as of Complaint	15-Month Time Authorized by FERC at Time of Complaint Filing Date ⁽¹⁾	Original Base ROE Authorized by FERC for First Complaint Period and also Effective from	Base ROE Subsequently Reserve (Pre-Tax and Excluding Interest) as of December 31,	FERC ALJ Recommendation of Base ROE on Second and Third Complaints
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	Filing Date)		October 16, 2014 through 2017 April 14, 2017 ⁽¹⁾	(in millions)	(Issued March 22, 2016)
First	10/1/2011 - 12/31/2012	11.14%	10.57%	\$—	⁽²⁾ N/A
Second	12/27/2012 - 3/26/2014	11.14%	N/A	39.1	⁽³⁾ 9.59%
Third	7/31/2014 - 10/30/2015	11.14%	10.57%	—	10.90%
Fourth	4/29/2016 - 7/28/2017	10.57%	10.57%	—	N/A

(1) The ROE billed during the period October 1, 2011 through October 15, 2014 consisted of a base ROE of 11.14 percent and incentives up to 13.1 percent. On October 16, 2014, the FERC set the base ROE at 10.57 percent and an incentive cap at 11.74 percent for the first complaint period and also effective from the date of the FERC order on October 16, 2014. This FERC order was vacated on April 14, 2017.

(2) CL&P, NSTAR Electric and PSNH have refunded all amounts associated with the first complaint period, totaling \$38.9 million (pre-tax and excluding interest) at Eversource (consisting of \$22.4 million at CL&P, \$13.7 million at NSTAR Electric and \$2.8 million at PSNH), reflecting both the base ROE and incentive cap prescribed by the FERC order.

(3) The reserve represents the difference between the billed rates during the second complaint period and a 10.57 percent base ROE and 11.74 percent incentive cap. The reserve consisted of \$21.4 million for CL&P, \$14.6 million for NSTAR Electric and \$3.1 million for PSNH as of December 31, 2017.

On June 5, 2017, the NETOs, including Eversource, submitted a filing to the FERC to reinstate the base ROE of 11.14 percent with an associated ROE incentive cap of 13.5 percent effective June 8, 2017, as these were the last ROEs lawfully in effect for transmission billing purposes prior to the FERC order vacated by the Court on April 14, 2017. On October 6, 2017, the FERC did not accept the NETOs filing, temporarily leaving in place the ROEs (10.57 percent base ROE with an 11.74 percent incentive cap ROE) set in the first complaint proceeding until the FERC addresses the Court's decision. On November 6, 2017, the NETOs submitted a request for rehearing of the FERC's October 6, 2017 Order rejecting the compliance filing.

On October 5, 2017, the NETOs filed a series of motions, requesting that the FERC dismiss the four complaint proceedings. Alternatively, if the FERC does not dismiss the proceedings, the NETOs requested that the FERC consolidate all four complaint proceedings for expeditious resolution and/or stay the trial in the fourth complaint proceeding and resolve it based on the standards set in the April 14, 2017 Court decision.

At this time, the Company cannot reasonably estimate a range of gain or loss for the complaint proceedings. No events in 2017 provided a reasonable basis for a change to the reserve balance of \$39.1 million (pre-tax, excluding interest) for the second complaint period, and the Company has not changed its reserve or recognized ROEs for any of the complaint periods.

Management cannot at this time predict the ultimate effect of the Court decision or future FERC action on any of the complaint periods or the estimated impacts on the financial position, results of operations or cash flows of Eversource, CL&P, NSTAR Electric or PSNH.

The average impact of a 10 basis point change to the base ROE for each of the 15-month complaint periods would affect Eversource's after-tax earnings by approximately \$3 million.

Regulatory Developments and Rate Matters

Electric, Natural Gas, and Water Utility Base Distribution Rates:

Each Eversource utility subsidiary is subject to the regulatory jurisdiction of the state in which it operates: CL&P, Yankee Gas and Aquarion operate in Connecticut and are subject to PURA regulation; NSTAR Electric, NSTAR Gas and Aquarion operate in Massachusetts and are subject to DPU regulation; and PSNH and Aquarion operate in New Hampshire and are subject to NHPUC regulation. The regulated companies' distribution rates are set by their respective state regulatory commissions, and their tariffs include mechanisms for periodically adjusting their rates for the recovery of specific incurred costs.

In Connecticut, electric and natural gas utilities are required to file a distribution rate case, or for PURA to initiate a rate review, within four years of the last rate case. CL&P distribution rates were established in a 2014 PURA-approved rate case. On January 11, 2018, CL&P filed a distribution rate case settlement agreement for approval with PURA. See "Regulatory Developments and Rate Matters - Connecticut - CL&P Rate Case Settlement" in this Management's Discussion and Analysis of Financial Condition and Results of Operations, for more information. Yankee Gas distribution rates were established in a 2011 PURA-approved rate case. The requirement for Yankee Gas to file a base distribution rate case in 2015 was eliminated due to a rate review conducted by PURA and a resulting settlement in 2015 between Yankee Gas and PURA.

In Massachusetts, electric distribution companies are required to file at least one distribution rate case every five years, and natural gas local distribution companies to file at least one distribution rate case every 10 years, and those companies are limited to one settlement agreement in any 10-year period. On November 30, 2017, the DPU approved the NSTAR Electric rate case application. See "Regulatory Developments and Rate Matters - Massachusetts - NSTAR

Electric Distribution Rate Case Decision" in this Management's Discussion and Analysis of Financial Condition and Results of Operations, for more information. NSTAR Gas distribution rates were established in a 2015 DPU-approved rate case.

In New Hampshire, PSNH distribution rates were established in a settlement approved by the NHPUC in 2010. Prior to the expiration of that settlement, the NHPUC approved the continuation of those rates, and increased funding via rates, of PSNH's reliability enhancement program.

Electric and Natural Gas Retail Rates:

The Eversource EDCs obtain and resell power to retail customers who choose not to buy energy from a competitive energy supplier. The natural gas distribution companies procure natural gas for firm and seasonal customers. These energy supply procurement costs are recovered from customers in energy supply rates that are approved by the respective state regulatory commission. The rates are reset periodically and are fully reconciled to their costs. Each electric and natural gas distribution company fully recovers its energy supply costs through approved regulatory rate mechanisms and, therefore, such costs have no impact on earnings.

The electric and natural gas distribution companies also recover certain other costs on a fully reconciling basis through regulatory commission-approved cost tracking mechanisms and, therefore, such costs have no impact on earnings.

Costs recovered through cost tracking mechanisms include energy efficiency program costs, electric transmission charges, electric federally mandated congestion charges, system resiliency costs, certain uncollectible hardship bad debt expenses, and restructuring and stranded costs resulting from deregulation. The reconciliation filings compare the total actual costs allowed to revenue requirements related to these services and the difference between the costs incurred (or the rate recovery allowed) and the actual costs allowed is deferred and included, to be either recovered or refunded, in future customer rates.

U.S. Federal Corporate Income Taxes: On December 22, 2017, the "Tax Cuts and Jobs Act" (the "Act") became law, which amended existing federal tax rules and included numerous provisions that impacted corporations. In particular, the Act reduced the U.S. federal corporate income tax rate from 35 percent to 21 percent effective January 1, 2018. For our regulated companies, the most significant changes will be (1) the benefit of incurring a lower federal income tax expense, which we expect to be passed back to customers, and (2) the provisional regulated excess ADIT liabilities that we expect to benefit our customers in future periods, which were estimated to be approximately \$2.9 billion and recognized as regulatory liabilities as of December 31, 2017. We are currently working with our state regulatory commissions, who have opened investigations to examine the impact of the Act on customer rates. FERC has yet to address how the Act would impact transmission rates.

We will continue to evaluate the impacts of the Act on our statement of financial position, results of operations, and cash flows. The impacts will vary depending on the ultimate amount and timing of when certain income tax benefits will benefit our customers, and will vary by jurisdiction.

Connecticut:

CL&P Rate Case Settlement: On April 20, 2017, PURA approved the joint request of CL&P, the Connecticut Office of Consumer Counsel ("OCC") and the Connecticut Attorney General to amend the deadline to establish new electric distribution rates in the 2012 Connecticut merger settlement agreement from "no later than December 1, 2017" to "no later than July 1, 2018." On November 22, 2017, CL&P filed its application with PURA, which sought a rate increase of \$255.8 million, \$45.0 million and \$36.0 million effective in May 2018, 2019, and 2020, respectively. On December 15, 2017, CL&P, the Prosecutorial Unit of PURA, and the OCC reached a settlement in principle.

On January 11, 2018, CL&P filed a distribution rate case settlement agreement for approval by PURA, which included, among other things, rate increases of \$97.1 million, \$32.7 million and \$24.7 million, effective May 1, 2018, 2019, and 2020, respectively, an authorized regulatory ROE of 9.25 percent, 53 percent common equity in CL&P's capital structure, and a new capital tracker through 2020 for capital additions, system resiliency, and grid modernization. The rate increases associated with the settlement agreement will be reduced by the impact of the decrease in the federal corporate income tax rate, as part of the "Tax Cuts and Jobs Act", which we currently estimate to average approximately \$45 million to \$50 million per year, while amounts related to ADIT will be addressed in a separate manner. We expect to receive final approval from PURA in the second quarter of 2018.

Clean Energy RFP: On January 31, 2018, pursuant to Section 8 of Public Act 13-303, "An Act Concerning Connecticut's Clean Energy Goals," as amended by Section 10 of Public Act 17-144, "An Act Promoting the Use of Fuel Cells for Electric Distribution System Benefits and Reliability and Amending Various Energy-Related Programs and Requirements," DEEP issued the Connecticut Clean Energy RFP, seeking bids from developers of qualified offshore wind, fuel cell and anaerobic digestion Class I resources. The maximum authorized procurement for qualified clean energy and RECs is 899,250 MWh per year, of which no more than 825,000 MWh per year may be provided by offshore wind, which in aggregate is the equivalent to the output of an approximate 200 MW facility. Energy deliveries under any resulting agreement must begin no earlier than July 1, 2019 and no later than December 31, 2025. The Connecticut EDC's, including CL&P, will be part of the evaluation team responsible for conducting an evaluation and ranking bids received. Eversource and Ørsted are expected to submit a bid in response to this RFP.

Massachusetts:

NSTAR Electric Distribution Rate Case Decision: On November 30, 2017, the DPU issued its decision in the NSTAR Electric distribution rate case, which approved an annual distribution rate increase of \$37 million, with rates effective February 1, 2018. On January 3, 2018, NSTAR Electric filed a motion to reflect a revenue requirement

reduction of \$56 million (due to the decrease in the federal corporate income tax rate, as part of the "Tax Cuts and Jobs Act"), resulting in an annual net decrease in rates of \$19 million.

In addition to its decision regarding rates, the DPU approved an authorized regulatory ROE of 10 percent, the establishment of a revenue decoupling rate mechanism for the portion of the NSTAR Electric business that did not previously have a decoupling mechanism, and the implementation of an inflation-based adjustment mechanism with a five-year stay-out until January 1, 2023.

Among other items, the DPU approved the recovery of previously expensed merger-related costs over a 10-year period and the recovery of previously deferred storm costs with carrying charges at the prime rate, but disallowed certain property taxes. The rate case decision resulted in the recognition of an aggregate \$44.1 million pre-tax benefit recorded in 2017.

Eversource and NSTAR Electric Boston Harbor Civil Action: On July 15, 2016, the United States Attorney on behalf of the United States Army Corps of Engineers filed a civil action in the United States District Court for the District of Massachusetts under provisions of the Rivers and Harbors Act of 1899 and the Clean Water Act against NSTAR Electric, Harbor Electric Energy Company, a wholly-owned subsidiary of NSTAR Electric ("HEEC"), and the Massachusetts Water Resources Authority (together with NSTAR Electric and HEEC, the "Defendants"). The action alleged that the Defendants failed to comply with certain permitting requirements related to the placement of the HEEC-owned electric distribution cable beneath Boston Harbor. The action sought an order to compel HEEC to comply with cable depth requirements in the United States Army Corps of Engineers' permit or alternatively to remove the electric distribution cable and cease unauthorized work in U.S. waterways. The action also sought civil penalties and other costs.

The parties reached a settlement pursuant to which HEEC agreed to install a new 115kV distribution cable across Boston Harbor to Deer Island, utilizing a different route, and remove portions of the existing cable. Upon the installation and completion of the new cable and the removal of the portions of the existing cable, all issues surrounding the current permit from the United States Army Corps of Engineers are expected to be resolved, and such litigation is expected to be dismissed with prejudice.

In 2017, as a result of the settlement, NSTAR Electric expensed \$4.9 million (pre-tax) of previously incurred capitalized costs associated with engineering work performed on the existing cable that will no longer be used. In addition, NSTAR Electric agreed to provide a rate base credit of \$17.5 million to the Massachusetts Water Resources Authority for the new cable. This negotiated credit will result in the initial \$17.5 million of construction costs on the new cable to be expensed as incurred. Of this amount, NSTAR Electric expensed \$11.1 million (pre-tax) of costs incurred on the new cable in 2017. Construction of the new cable is expected to be completed in 2019.

Massachusetts RFPs: On March 31, 2017, pursuant to a comprehensive energy law enacted in 2016, "An Act to Promote Energy Diversity," (the "Act") the Massachusetts EDCs, including NSTAR Electric, and the DOER issued a joint RFP for 9.45 terawatt hours of clean energy per year, such as hydropower, land-based wind or solar. The RFP seeks proposals for long-term contracts of 15 to 20 years to provide the state's EDCs with clean energy generation with a submission due date of July 27, 2017.

On January 25, 2018, the Northern Pass project was selected from the 46 proposals submitted as a winning bidder. On February 1, 2018, the NHSEC voted to deny Northern Pass' siting application. On February 14, 2018, pursuant to the NHSEC's decision, the Massachusetts EDCs, in coordination with the DOER and an independent evaluator, notified NPT that the EDCs will continue contract negotiations, with the option of discontinuing discussions and terminating its conditional selection by March 27, 2018.

On June 29, 2017, pursuant to the Act, the Massachusetts EDCs, including NSTAR Electric, and the DOER issued a joint RFP for long-term contracts for offshore wind energy projects, seeking bids for a minimum of 400 MW of offshore wind capacity. The RFP stated that bids of up to 800 MW would be considered, provided they demonstrated significant net economic benefits to customers. On December 20, 2017, Bay State Wind submitted two proposals in response to the Massachusetts clean energy RFP to the EDCs. One proposal was for 400 MW and the other was for 800 MW. The selection of the winning proposals for further negotiation of power purchase agreements with the EDCs is currently expected to occur by April 23, 2018.

New Hampshire:

Generation Divestiture: In June 2015, Eversource and PSNH entered into the 2015 Public Service Company of New Hampshire Restructuring and Rate Stabilization Agreement, under the terms of which PSNH agreed to divest its generation assets, subject to NHPUC approval. The NHPUC approval for this agreement, as well as NHPUC approval of the final divestiture plan and auction process, were received in the second half of 2016. In October 2017, PSNH entered into two Purchase and Sale Agreements ("Agreements") to sell its thermal and hydroelectric generation assets to private investors at purchase prices of \$175 million and \$83 million, respectively, subject to adjustments as set forth in the Agreements. The NHPUC approved the Agreements in late November 2017.

On January 10, 2018, PSNH completed the sale of its thermal generation facilities. In accordance with the Purchase and Sale Agreement, the original purchase price of \$175 million was adjusted to reflect working capital adjustments, closing date adjustments and proration of taxes and fees prior to closing, totaling \$40.9 million, resulting in net proceeds of \$134.1 million. We are targeting for PSNH to complete the sale of its hydroelectric generation facilities by the end of the first quarter of 2018 at a sale price of \$83 million, subject to adjustment. On January 30, 2018, the NHPUC approved the issuance of rate reduction bonds up to \$690 million to recover stranded costs, subject to an audit by the NHPUC Audit Staff. This order is subject to an appeal period of 30 days.

Upon completion of the divestiture, full recovery of PSNH's generation assets and transaction-related costs are expected to occur through a combination of cash flows during the remaining operating period, sales proceeds, and recovery of stranded costs via the issuance of bonds that will be secured by a non-bypassable charge or through

recoveries in future rates billed to PSNH's customers.

Legislative and Policy Matters

Federal: On December 22, 2017, the "Tax Cuts and Jobs Act" (the "Act") became law, which amended existing federal tax rules and included numerous provisions that will impact corporations. In particular, the Act reduced the federal corporate income tax rate from 35 percent to 21 percent effective January 1, 2018. See "Regulatory Developments and Rate Matters - U.S. Federal Corporate Income Taxes" in this Management's Discussion and Analysis of Financial Condition and Results of Operations, for more information.

Massachusetts: On August 11, 2017, Massachusetts issued final legislation, pursuant to Executive Order 569, which established volumetric limits on multiple greenhouse emission sources to ensure reductions are realized by deadlines established in the Massachusetts Global Warming Solutions Act enacted in 2008. Under this legislation, the initial target date for reduction in greenhouse gas emissions has been established in the year 2020. The legislation is not expected to have a material impact on the financial statements of Eversource or NSTAR Electric.

New Hampshire: On January 11, 2018, the New Hampshire Supreme Court issued a decision affirming the lower court's October 2016 decision that the Town of Bow, New Hampshire had over-assessed the value of the property owned by PSNH for the 2012 and 2013 property tax years. We estimate that the result of this decision will be approximately \$7.5 million in property taxes and interest payable to PSNH. PSNH plans to account for any recovery on the same basis that the taxes were originally expensed in the respective periods covered by the decision.

Critical Accounting Policies

The preparation of financial statements in conformity with GAAP requires management to make estimates, assumptions and, at times, difficult, subjective or complex judgments. Changes in these estimates, assumptions and judgments, in and of themselves, could materially impact our financial position, results of operations or cash flows.

Our management discusses with the Audit Committee of our Board of Trustees significant matters relating to critical accounting policies. Our critical accounting policies are discussed below. See the combined notes to our financial statements for further information concerning the accounting policies, estimates and assumptions used in the preparation of our financial statements.

Regulatory Accounting: Our regulated companies are subject to rate-regulation that is based on cost recovery and meets the criteria for application of accounting guidance for rate-regulated operations, which considers the effect of regulation on the timing of the recognition of certain revenues and expenses. The regulated companies' financial statements reflect the effects of the rate-making process.

The application of accounting guidance for rate-regulated enterprises results in recording regulatory assets and liabilities. Regulatory assets represent the deferral of incurred costs that are probable of future recovery in customer rates. Regulatory assets are amortized as the incurred costs are recovered through customer rates. In some cases, we record regulatory assets before approval for recovery has been received from the applicable regulatory commission.

We must use judgment to conclude that costs deferred as regulatory assets are probable of future recovery. We base our conclusion on certain factors, including, but not limited to, regulatory precedent. Regulatory liabilities represent revenues received from customers to fund expected costs that have not yet been incurred or probable future refunds to customers.

We use judgment when recording regulatory assets and liabilities; however, regulatory commissions can reach different conclusions about the recovery of costs, and those conclusions could have a material impact on our financial statements. We believe it is probable that each of the regulated companies will recover the regulatory assets that have been recorded. If we determine that we can no longer apply the accounting guidance applicable to rate-regulated enterprises to our operations, or that we cannot conclude it is probable that costs will be recovered from customers in future rates, the costs would be charged to earnings in the period in which the determination is made.

Unbilled Revenues: The determination of retail energy sales to residential, commercial and industrial customers is based on the reading of meters, which occurs regularly throughout the month. Billed revenues are based on these meter readings, and the majority of our recorded annual revenues is based on actual billings. Because customers are billed throughout the month based on pre-determined cycles rather than on a calendar month basis, an estimate of electricity or natural gas delivered to customers for which the customers have not yet been billed is calculated as of the balance sheet date.

Unbilled revenues represent an estimate of electricity or natural gas delivered to customers but not yet billed.

Unbilled revenues are included in Operating Revenues on the statement of income and are assets on the balance sheet that are reclassified to Accounts Receivable in the following month as customers are billed. Such estimates are subject to adjustment when actual meter readings become available or when there is a change in our estimates.

Unbilled revenues are recognized by allocating estimated unbilled sales volumes to the respective customer classes, and then applying an estimated rate by customer class to those sales volumes. Unbilled revenues can vary significantly from period to period as a result of seasonality, weather, customer usage patterns, customer rates in effect for customer classes, and the timing of customer billing. The estimate of unbilled revenues can significantly impact the amount of revenues recorded at the operating companies that do not have a revenue decoupling mechanism.

CL&P, NSTAR Electric and NSTAR Gas record a regulatory deferral to reflect the actual allowed amount of revenue

associated with their respective decoupled distribution rate design.

Pension, SERP and PBOP: We sponsor Pension, SERP and PBOP Plans to provide retirement benefits to our employees. For each of these plans, several significant assumptions are used to determine the projected benefit obligation, funded status and net periodic benefit cost. These assumptions include the expected long-term rate of return on plan assets, discount rate, compensation/progression rate and mortality and retirement assumptions. We evaluate these assumptions at least annually and adjust them as necessary. Changes in these assumptions could have a material impact on our financial position, results of operations or cash flows.

Expected Long-Term Rate of Return on Plan Assets: In developing this assumption, we consider historical and expected returns, as well as input from our consultants. Our expected long-term rate of return on assets is based on assumptions regarding target asset allocations and corresponding expected rates of return for each asset class. We routinely review the actual asset allocations and periodically rebalance the investments to the targeted asset allocations when appropriate. For the year ended December 31, 2017, our aggregate expected long-term rate-of-return assumption of 8.25 percent was used to determine our pension and PBOP expense. For the forecasted 2018 pension and PBOP expense, our expected long-term rate of return of 8.25 percent will be used reflecting our target asset allocations.

Discount Rate: Payment obligations related to the Pension, SERP and PBOP Plans are discounted at interest rates applicable to the expected timing of each plan's cash flows. The discount rate that was utilized in determining the 2017 pension, SERP and PBOP obligations was based on a yield-curve approach. This approach utilizes a population of bonds with an average rating of AA based on bond ratings by Moody's, S&P and Fitch, and uses bonds with above median yields within that population. As of December 31, 2017, the discount rates used to determine the funded status were within a range of 3.43 percent to 3.75 percent for the Pension and SERP Plans, and within a range of 3.55 percent to 3.70 percent for the PBOP Plans. As of December 31, 2016, the discount rates used were within a range of 4.01 percent to 4.33 percent for the Pension and SERP Plans, and 4.21 percent for the PBOP Plan. The decrease in the discount rates used to calculate the funded status resulted in an increase to the Pension and PBOP Plans' liability of approximately \$390 million and \$64 million, respectively, as of December 31, 2017.

Effective January 1, 2016, we elected to transition the discount rate to the spot rate methodology from the yield-curve approach for the service and interest cost components of Pension, SERP and PBOP expense because it provides a more precise measurement by matching projected cash flows to the corresponding spot rates on the yield curve.

Historically, these components were estimated using the same weighted-average discount rate as for the funded status. The discount rates used to estimate the 2017 service costs were within a range of 3.58 percent to 3.90 percent for the Pension and SERP Plans, and 4.64 percent for the PBOP Plans. The discount rates used to estimate the 2017 interest costs were within a range of 3.20 percent and 3.36 percent for the Pension and SERP Plans, and 3.48 percent for the PBOP Plans.

Mortality Assumptions: Assumptions as to mortality of the participants in our Pension, SERP and PBOP Plans are a key estimate in measuring the expected payments a participant may receive over their lifetime and the corresponding plan liability we need to record. In 2017, the IRS issued a revised mortality table used for determining lump sum payments from the Pension Plan, resulting in an increase to the liability of approximately \$38 million. Also in 2017, a revised scale for the mortality table was released, having the effect of decreasing the estimate of benefits to be provided to plan participants. The impact of the adoption of the revised mortality scale resulted in a decrease of approximately \$26 million and \$4 million for the Pension and PBOP Plans, respectively, as of December 31, 2017.

Compensation/Progression Rate: This assumption reflects the expected long-term salary growth rate, including consideration of the levels of increases built into collective bargaining agreements, and impacts the estimated benefits that Pension and SERP Plan participants receive in the future. As of December 31, 2017, the compensation/progression rate used to determine the funded status was within a range of 3.50 percent to 4.00 percent. As of December 31, 2016, this rate was 3.50 percent.

Health Care Cost: In August 2016, we amended the Eversource PBOP Plan to standardize benefit design and make benefit changes. As a result, this plan is no longer subject to health care cost trends.

Actuarial Determination of Expense: Pension, SERP and PBOP expense is determined by our actuaries and consists of service cost and prior service cost, interest cost based on the discounting of the obligations, and amortization of actuarial gains and losses, offset by the expected return on plan assets. Actuarial gains and losses represent differences between assumptions and actual information or updated assumptions. Pre-tax net periodic benefit expense for the Pension and SERP Plans was \$64.9 million, \$71.9 million and \$134.7 million for the years ended December 31, 2017, 2016 and 2015, respectively. The pre-tax net periodic PBOP cost is income of \$39.6 million and \$17.9 million for the years ended December 31, 2017 and 2016, respectively, and expense of \$2.4 million for the year ended December 31, 2015.

The expected return on plan assets is determined by applying the assumed long-term rate of return to the Pension and PBOP Plan asset balances. This calculated expected return is compared to the actual return or loss on plan assets at the end of each year to determine the investment gains or losses to be immediately reflected in unrecognized actuarial gains and losses.

Forecasted Expenses and Expected Contributions: We estimate that the expense for the Pension and SERP Plans will be approximately \$45 million and income for the PBOP Plans will be approximately \$45 million in 2018. Pension, SERP and PBOP expense for subsequent years will depend on future investment performance, changes in future discount rates and other assumptions, and various other factors related to the populations participating in the plans.

Our policy is to fund the Pension Plans annually in an amount at least equal to the amount that will satisfy all federal funding requirements. We contributed \$235.2 million to the Pension Plans in 2017. We currently estimate contributing approximately \$180 million to the Pension Plans in 2018.

For the PBOP Plans, it is our policy to fund the PBOP Plans annually through tax deductible contributions to external trusts. We contributed \$7.6 million to the PBOP Plans in 2017. We currently estimate contributing \$10 million to the PBOP Plans in 2018.

Sensitivity Analysis: The following represents the hypothetical increase to the Pension Plans' (excluding the SERP Plans) and PBOP Plans' reported annual cost as a result of a change in the following assumptions by 50 basis points:

(Millions of Dollars)	Increase in Pension Plan Cost		Increase in PBOP Plan Cost	
	As of December 31, 2017	As of December 31, 2016	As of December 31, 2017	As of December 31, 2016
Eversource	\$20.4	\$19.5	\$4.1	\$3.9
Lower expected long-term rate of return	19.7	20.7	3.6	3.9
Lower discount rate	9.3	10.2	N/A	N/A
Higher compensation rate				

Goodwill: We recorded goodwill on our balance sheet associated with previous mergers and acquisitions. On December 4, 2017, we completed the acquisition of Aquarion, resulting in the addition of \$0.9 billion of goodwill. As of December 31, 2017, a total of \$4.4 billion of goodwill is recorded on our balance sheet. We have identified our reporting units for purposes of allocating and testing goodwill as Electric Distribution, Electric Transmission, Natural Gas Distribution and Water. These reporting units are consistent with our operating segments underlying our reportable segments. Electric Distribution and Electric Transmission reporting units include carrying values for the respective components of CL&P, NSTAR Electric and PSNH. The Natural Gas Distribution reporting unit includes the carrying values of NSTAR Gas and Yankee Gas. The Water reporting unit was created upon completion of the acquisition of Aquarion and includes its water utility businesses. As of December 31, 2017, goodwill was allocated to the reporting units as follows: \$2.5 billion to Electric Distribution, \$0.6 billion to Electric Transmission, \$0.4 billion to Natural Gas Distribution and \$0.9 billion to Water.

We are required to test goodwill balances for impairment at least annually by considering the fair values of the reporting units, which requires us to use estimates and judgments. We have selected October 1st of each year as the annual goodwill impairment testing date. Goodwill impairment is deemed to exist if the carrying amount of a reporting unit exceeds its estimated fair value and if the implied fair value of goodwill based on the estimated fair values of the reporting units' assets and liabilities is less than the carrying amount of the goodwill. If goodwill were deemed to be impaired, it would be written down in the current period to the extent of the impairment.

We performed an impairment test of goodwill as of October 1, 2017 for the Electric Distribution, Electric Transmission and Natural Gas Distribution reporting units. This evaluation required the consideration of several factors that impact the fair value of the reporting units, including conditions and assumptions that affect the future cash flows of the reporting units. Key considerations include discount rates, utility sector market performance and merger transaction multiples, and internal estimates of future cash flows and net income.

The 2017 goodwill impairment test resulted in a conclusion that goodwill is not impaired and no reporting unit is at risk of a goodwill impairment.

Long-Lived Assets: Impairment evaluations of long-lived assets, including property, plant and equipment and strategic, infrastructure and other investments, involve a significant degree of estimation and judgment, including identifying circumstances that indicate an impairment may exist. Impairment analysis is required when events or changes in circumstances indicate that the carrying value of a long-lived asset may not be recoverable. Indicators of potential impairment include a deteriorating business climate, unfavorable regulatory action, decline in value that is other than temporary in nature, plans to dispose of a long-lived asset significantly before the end of its useful life, and accumulation of costs that are in excess of amounts allowed for recovery. The review of long-lived assets for impairment utilizes significant assumptions about operating strategies and external developments, including assessment of current and projected market conditions that can impact future cash flows.

As of December 31, 2017, we did not identify any impairment indicators for our long-lived assets. If events or changes in circumstances indicate the carrying value of a long-lived asset may not be recoverable, we would perform an impairment analysis. An impairment analysis would consist of two steps: first, the estimated undiscounted future cash flows attributable to the asset would be compared with the carrying value of the asset, and second, if the carrying value is greater than the undiscounted future cash flows, an impairment charge would be recognized equal to the amount by which the carrying value of the asset exceeds its estimated fair value.

Income Taxes: Income tax expense is estimated for each of the jurisdictions in which we operate and is recorded each quarter using an estimated annualized effective tax rate. This process to record income tax expense involves estimating current and deferred income tax expense or benefit and the impact of temporary differences resulting from differing treatment of items for financial reporting and income tax return reporting purposes. Such differences are the result of timing of the deduction for expenses, as well as any impact of permanent differences, non-tax deductible expenses, or other items that directly impact income tax expense as a result of regulatory activity (flow-through items). The temporary differences and flow-through items result in deferred tax assets and liabilities that are included in the balance sheets.

We also account for uncertainty in income taxes, which applies to all income tax positions previously filed in a tax return and income tax positions expected to be taken in a future tax return that have been reflected on our balance sheets. The determination of whether a tax position meets the recognition threshold under applicable accounting guidance is based on facts and circumstances available to us. Once a tax position meets the recognition threshold, the tax benefit is measured using a cumulative probability assessment. Assigning probabilities in measuring a recognized tax position and evaluating new information or events in subsequent periods requires significant judgment and could change previous conclusions used to measure the tax position estimate. New information or events may include tax examinations or appeals (including information gained from those examinations), developments in case law,

settlements of tax positions, changes in tax law and regulations, rulings by taxing authorities and statute of limitation expirations. Such information or events may have a significant impact on our financial position, results of operations and cash flows.

On December 22, 2017, the "Tax Cuts and Jobs Act" (the "Act") became law, which amended existing federal tax rules and included numerous provisions that impacted corporations. In particular, the Act reduced the U.S. federal corporate income tax rate from 35 percent to 21 percent effective January 1, 2018. For our regulated companies, the most significant changes will be (1) the benefit of incurring a lower federal income tax expense, which we expect to be passed back to customers, and (2) the provisional regulated excess ADIT liabilities that we expect to benefit our customers in future periods, which were estimated to be approximately \$2.9 billion and recognized as regulatory liabilities as of December 31, 2017.

We will continue to evaluate the impacts of the Act, which will vary depending on the ultimate amount and timing of when certain income tax benefits will benefit our customers, and will vary by jurisdiction. Although the impacts could not be finalized upon the issuance of this combined Annual Report on Form 10-K, reasonable provisional estimates were recognized as of December 31, 2017. In accordance with SEC Staff Accounting Bulletin No. 118 ("SAB 118"), additional re-measurement may occur based on final analyses, computations, technical corrections, or other forms of guidance issued from regulatory agencies or commissions. While we believe the impacts of the Act were appropriately accounted for in accordance with applicable authoritative guidance, the ultimate outcome may be different from the provisional estimates recorded, and those differences may materially impact our future statement of financial position, results of operations, and cash flows.

Accounting for Environmental Reserves: Environmental reserves are accrued when assessments indicate it is probable that a liability has been incurred and an amount can be reasonably estimated. Adjustments made to estimates of environmental liabilities could have an adverse impact on earnings. We estimate these liabilities based on findings through various phases of the assessment, considering the most likely action plan from a variety of available remediation options (ranging from no action required to full site remediation and long-term monitoring), current site information from our site assessments, remediation estimates from third party engineering and remediation contractors, and our prior experience in remediating contaminated sites. If a most likely action plan cannot yet be determined, we estimate the liability based on the low end of a range of possible action plans. A significant portion of our environmental sites and reserve amounts relate to former MGP sites that were operated several decades ago and manufactured gas from coal and other processes, which resulted in certain by-products remaining in the environment that may pose a potential risk to human health and the environment, for which we may have potential liability. As assessments on these sites are performed, we may receive new information to be considered in our estimates related to the extent and nature of the contamination and the costs of required remediation.

Our estimates also incorporate currently enacted state and federal environmental laws and regulations and data released by the EPA and other organizations. The estimates associated with each possible action plan are judgmental in nature partly because there are usually several different remediation options from which to choose. Our estimates are subject to revision in future periods based on actual costs or new information from other sources, including the level of contamination at the site, the extent of our responsibility or the extent of remediation required, recently enacted laws and regulations or a change in cost estimates due to certain economic factors.

Fair Value Measurements: We follow fair value measurement guidance that defines fair value as the price that would be received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). We have applied this guidance to our Company's derivative contracts that are not elected or designated as "normal purchases or normal sales" (normal), to marketable securities held in trusts, to our investments in our Pension and PBOP Plans, and to nonfinancial assets such as goodwill and AROs. This guidance was also applied in estimating the fair value of preferred stock and long-term debt.

Changes in fair value of the derivative contracts are recorded as Regulatory Assets or Liabilities, as we recover the costs of these contracts in rates charged to customers. These valuations are sensitive to the prices of energy and energy-related products in future years for which markets have not yet developed and assumptions are made.

We use quoted market prices when available to determine the fair value of financial instruments. If quoted market prices are not available, fair value is determined using quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments that are not active and model-derived valuations. When quoted prices in active markets for the same or similar instruments are not available, we value derivative contracts using models that incorporate both observable and unobservable inputs. Significant unobservable inputs utilized in the models include energy and energy-related product prices for future years for long-dated derivative contracts and market volatilities.

Discounted cash flow valuations incorporate estimates of premiums or discounts, reflecting risk-adjusted profit that would be required by a market participant to arrive at an exit price, using available historical market transaction information. Valuations of derivative contracts also reflect our estimates of nonperformance risk, including credit risk.

Other Matters

Accounting Standards: For information regarding new accounting standards, see Note 1D, "Summary of Significant Accounting Policies - Accounting Standards," to the financial statements.

Contractual Obligations and Commercial Commitments: Information regarding our contractual obligations and commercial commitments as of December 31, 2017, is summarized annually through 2022 and thereafter as follows:

Eversource

(Millions of Dollars)	2018	2019	2020	2021	2022	Thereafter	Total
Long-term debt maturities ^(a)	\$961.0	\$801.0	\$296.1	\$922.8	\$1,188.9	\$7,643.1	\$11,812.9
Estimated interest payments on existing debt ^(b)	446.4	417.4	378.9	361.5	328.9	2,994.5	4,927.6
Capital leases ^(c)	2.9	3.3	3.3	2.8	1.3	2.5	16.1
Operating leases ^(d)	13.2	11.4	10.0	8.9	7.4	19.7	70.6
Funding of pension obligations ^{(d) (e)}	180.0	—	—	—	—	—	180.0
Funding of PBOP obligations ^{(d) (e)}	10.0	—	—	—	—	—	10.0
Estimated future annual long-term contractual costs ^(f)	599.0	578.2	542.8	497.2	459.5	2,869.4	5,546.1
Total ^(g)	\$2,212.5	\$1,811.3	\$1,231.1	\$1,793.2	\$1,986.0	\$13,529.2	\$22,563.3

CL&P

(Millions of Dollars)	2018	2019	2020	2021	2022	Thereafter	Total
Long-term debt maturities ^(a)	\$300.0	\$250.0	\$—	\$—	\$—	\$2,515.3	\$3,065.3
Estimated interest payments on existing debt ^(b)	137.1	121.7	114.8	114.8	114.8	1,462.8	2,066.0
Capital leases ^(c)	2.0	2.0	2.0	1.4	—	—	7.4
Operating leases ^(d)	1.8	1.5	1.3	1.1	1.0	1.0	7.7
Funding of pension obligations ^{(d) (e)}	82.0	—	—	—	—	—	82.0
Estimated future annual long-term contractual costs ^(f)	177.9	175.4	198.2	187.8	175.6	836.9	1,751.8
Total ^(g)	\$700.8	\$550.6	\$316.3	\$305.1	\$291.4	\$4,816.0	\$6,980.2

(a) Long-term debt maturities exclude the CYAPC pre-1983 spent nuclear fuel obligation, net unamortized premiums, discounts and debt issuance costs, and other fair value adjustments.

Estimated interest payments on fixed-rate debt are calculated by multiplying the coupon rate on the debt by its scheduled notional amount outstanding for the period of measurement. Estimated interest payments on (b) floating-rate debt are calculated by multiplying the end of 2017 floating-rate reset on the debt by its scheduled notional amount outstanding for the period of measurement. This same rate is then assumed for the remaining life of the debt.

(c) The capital lease obligations include interest.

(d) Amounts are not included on our balance sheets.

These amounts represent expected pension and PBOP contributions for 2018. Future contributions will vary (e) depending on many factors, including the performance of existing plan assets, valuation of the plans' liabilities and long-term discount rates.

(f) Other than certain derivative contracts held by the regulated companies, these obligations are not included on our balance sheets.

Does not include other long-term liabilities recorded on our balance sheet, such as environmental reserves, employee medical insurance, workers compensation and long-term disability insurance reserves, ARO liability (g) reserves and other reserves, as we cannot make reasonable estimates of the timing of payments. Also, does not include amounts not included on our balance sheets for future funding of Eversource's equity method investments, as we cannot make reasonable estimates of the periods or the investment contributions.

For further information regarding our contractual obligations and commercial commitments, see Note 6, "Asset Retirement Obligations," Note 7, "Short-Term Debt," Note 8, "Long-Term Debt," Note 9A, "Employee Benefits - Pension Benefits and Postretirement Benefits Other Than Pensions," Note 11, "Commitments and Contingencies," and Note 13, "Leases," to the financial statements.

RESULTS OF OPERATIONS – EVERSOURCE ENERGY AND SUBSIDIARIES

The following provides the amounts and variances in operating revenues and expense line items in the statements of income for Eversource for the years ended December 31, 2017 and 2016 included in this Annual Report on Form 10-K:

(Millions of Dollars)	For the Years Ended December 31,		
	2017	2016	Increase/(Decrease)
Operating Revenues	\$7,752.0	\$7,639.1	\$ 112.9
Operating Expenses:			
Purchased Power, Fuel and Transmission	2,535.3	2,500.8	34.5
Operations and Maintenance	1,277.1	1,323.5	(46.4)
Depreciation	773.8	715.5	58.3
Amortization of Regulatory Assets, Net	90.0	71.7	18.3
Energy Efficiency Programs	480.8	533.7	(52.9)
Taxes Other Than Income Taxes	676.8	634.0	42.8
Total Operating Expenses	5,833.8	5,779.2	54.6
Operating Income	1,918.2	1,859.9	58.3
Interest Expense	421.8	401.0	20.8
Other Income, Net	78.0	45.9	32.1
Income Before Income Tax Expense	1,574.4	1,504.8	69.6
Income Tax Expense	578.9	555.0	23.9
Net Income	995.5	949.8	45.7
Net Income Attributable to Noncontrolling Interests	7.5	7.5	—
Net Income Attributable to Common Shareholders	\$988.0	\$942.3	\$ 45.7

Operating Revenues

A summary of our Operating Revenues by segment was as follows:

(Millions of Dollars)	For the Years Ended December 31,		
	2017	2016	Increase/(Decrease)
Electric Distribution	\$5,542.9	\$5,594.3	\$ (51.4)
Natural Gas Distribution	947.3	857.7	89.6
Electric Transmission	1,301.7	1,210.0	91.7
Other and Eliminations	(39.9)	(22.9)	(17.0)
Total Operating Revenues	\$7,752.0	\$7,639.1	\$ 112.9

A summary of our retail electric GWh sales volumes and our firm natural gas sales volumes in MMcf and percentage changes was as follows:

	Electric				Firm Natural Gas			
	For the Years Ended December				For the Years Ended December			
	31,	31,	31,	31,	31,	31,	31,	31,
	2017	2016	Decrease	Percent	2017	2016	Increase	Percent
Traditional	27,855	28,479	(624)	(2.2)%	46,957	45,314	1,643	3.6 %
Decoupled and Natural Gas Special Contracts	24,391	25,163	(772)	(3.1)%	54,069	52,728	1,341	2.5 %
Total Sales Volumes	52,246	53,642	(1,396)	(2.6)%	101,026	98,042	2,984	3.0 %

Fluctuations in sales volumes at certain of the electric and natural gas utilities impact earnings ("Traditional" in the table above). Fluctuations in CL&P's, NSTAR Electric's (for a portion of its sales volumes as of December 31, 2017)

and NSTAR Gas' sales volumes do not impact the level of base distribution revenue realized or earnings due to the commission-approved revenue decoupling mechanisms ("Decoupled and Natural Gas Special Contracts" in the table above). The revenue decoupling mechanisms permit recovery of a base amount of distribution revenues and breaks the relationship between sales volumes and revenues recognized. Effective February 1, 2018, all of NSTAR Electric's distribution revenues were decoupled as a result of the DPU-approved rate case decision.

Operating Revenues, which primarily consist of base electric and natural gas distribution revenues and tracked revenues further described below, increased by \$112.9 million in 2017, as compared to 2016.

Base electric and natural gas distribution revenues: Base electric distribution segment revenues, excluding LBR, decreased \$12.3 million in 2017, as compared to 2016, due primarily to a decrease in sales volumes driven by the mild summer weather in 2017 at our non-decoupled electric companies. LBR increased \$13.0 million in 2017, as compared to 2016. Effective February 1, 2018, NSTAR Electric no longer has an LBR mechanism. Base natural gas distribution revenues increased \$2.9 million in 2017, as compared to 2016. The impact of higher firm natural gas

sales volumes, which was driven by colder winter weather in the fourth quarter of 2017, was partially offset by lower demand revenues in Connecticut driven by lower peak usage in 2017, as compared to 2016.

Tracked distribution revenues: Tracked revenues consist of certain costs that are recovered from customers in rates through regulatory commission-approved cost tracking mechanisms and therefore, have no impact on earnings. Costs recovered through cost tracking mechanisms include energy supply procurement and other energy-related costs for our electric and natural gas customers, retail transmission charges, energy efficiency program costs, net metering for distributed generation and restructuring and stranded cost recovery revenues. In addition, certain tracked revenues include incentives earned and carrying charges that are billed in rates to customers.

Tracked natural gas distribution segment revenues increased as a result of an increase in natural gas supply costs (\$68.7 million) and an increase in energy efficiency program revenues (\$18.1 million). Tracked electric distribution revenues decreased as a result of a decrease in electric energy supply costs (\$21.7 million), driven by decreased average retail prices and lower sales volumes, a decrease in retail electric transmission charges (\$14.8 million), a decrease in transition and stranded cost recovery revenues (\$46.2 million), a decrease in pension rate adjustment mechanisms (\$21.6 million), a decrease in revenues related to the timing of the sale of PSNH's RECs (\$16.3 million), and a decrease in energy efficiency program revenues (\$10.4 million). Partially offsetting these decreases were increases in tracked electric distribution revenues related to federally-mandated congestion charges (\$30.1 million), net metering revenues (\$29.8 million) and revenues related to renewable energy requirements (\$41.9 million).

Electric transmission revenues: The electric transmission segment revenues increased by \$91.7 million due primarily to the recovery of higher revenue requirements associated with ongoing investments in our transmission infrastructure.

Other: Other revenues decreased due primarily to the sale of Eversource's unregulated telecommunication business on December 31, 2016 (\$20.0 million), partially offset by the addition of Aquarion revenues due to the acquisition on December 4, 2017 (\$15.9 million).

Purchased Power, Fuel and Transmission expense includes costs associated with purchasing electricity and natural gas on behalf of our customers. These energy supply costs are recovered from customers in rates through commission-approved cost tracking mechanisms, which have no impact on earnings (tracked costs). Purchased Power, Fuel and Transmission expense increased in 2017, as compared to 2016, due primarily to the following:

(Millions of Dollars)	(Decrease)/Increase
Electric Distribution	\$ (68.9)
Natural Gas Distribution	59.5
Transmission	43.9
Total Purchased Power, Fuel and Transmission	\$ 34.5

The decrease in purchased power expense at the electric distribution business in 2017, as compared to 2016, was driven primarily by lower prices associated with the procurement of energy supply and lower sales volumes. The increase in purchased power expense at the natural gas distribution business was due to higher average natural gas prices and higher sales volumes. The increase in transmission costs in 2017, as compared to 2016, was primarily the result of an increase in costs billed by ISO-NE that support regional grid investment, and Local Network Service charges, which reflect the cost of transmission service provided by Eversource over our local transmission network. This was partially offset by a decrease in the retail transmission cost deferral, which reflects the actual costs of transmission service compared to estimated amounts billed to customers.

Operations and Maintenance expense includes tracked costs and costs that are part of base electric and natural gas distribution rates with changes impacting earnings (non-tracked costs). Operations and Maintenance expense decreased in 2017, as compared to 2016, due primarily to the following:

(Millions of Dollars)	Increase/(Decrease)
Base Electric Distribution:	
Employee-related expenses, including labor and benefits	\$ (47.4)
Bad debt expense	(14.5)
Shared corporate costs (including computer software depreciation at Eversource Service)	24.2
Boston Harbor civil action settlement charges	16.0
Other non-tracked operations and maintenance	7.4
Total Base Electric Distribution	(14.3)
Base Natural Gas Distribution	
Tracked costs (Electric Distribution, Electric Transmission and Natural Gas Distribution):	
Absence in 2017 of earnings benefit related to merger-related costs allowed for recovery through transmission rates	27.5
Other tracked operations and maintenance	(15.4)
Total Tracked costs (Electric Distribution, Electric Transmission and Natural Gas Distribution)	12.1
Other and eliminations:	
Merger-related costs allowed for recovery through NSTAR Electric distribution rates as a result of the November 30, 2017	(30.5)
DPU distribution rate case decision (earnings benefit)	
Addition of Aquarion operations and maintenance expenses due to acquisition on December 4, 2017	7.2
Eversource Parent and Other Companies - other operations and maintenance	8.2
Eliminations	(32.8)
Total Operations and Maintenance	\$ (46.4)

Depreciation expense increased in 2017, as compared to 2016, due primarily to higher utility plant in service balances.

Amortization of Regulatory Assets, Net expense includes the deferral of energy supply and energy-related costs included in certain regulatory-approved tracking mechanisms, and the amortization of certain costs. The deferral adjusts expense to match the corresponding revenues. Amortization of Regulatory Assets, Net increased in 2017, as compared to 2016, due primarily to the deferral of energy supply and energy-related costs which can fluctuate from period to period based on the timing of costs incurred and the related rate changes to recover these costs. Energy supply and energy-related costs at the electric and natural gas companies are recovered from customers in rates and have no impact on earnings.

Energy Efficiency Programs expense decreased in 2017, as compared to 2016, due primarily to a State of Connecticut policy change impacting CL&P requiring the remittance of \$25.4 million of 2017 energy efficiency funds to the State (resulting in these costs being classified as Taxes Other than Income Taxes), and the deferral adjustment at NSTAR Electric. The deferral adjustment reflects the actual costs of energy efficiency programs compared to the estimated amounts billed to customers. The deferral adjusts costs incurred to match energy efficiency revenue billed to customers and the timing of the recovery of energy efficiency costs. The costs for various state energy policy initiatives and expanded energy efficiency programs are recovered from customers in rates and have no impact on earnings.

Taxes Other Than Income Taxes expense increased in 2017, as compared to 2016, due primarily to a State of Connecticut policy change requiring \$25.4 million of 2017 CL&P energy efficiency costs to be remitted to the State of Connecticut that is included in Taxes Other than Income Taxes, an increase in property taxes as a result of higher

utility plant balances, partially offset by a decrease in gross earnings taxes. Gross earnings taxes are recovered from customers in rates and have no impact on earnings.

Interest Expense increased in 2017, as compared to 2016, due primarily to an increase in interest on long-term debt (\$30.3 million) as a result of new debt issuances and an increase in interest on notes payable (\$5.1 million), partially offset by a decrease in regulatory deferrals, primarily at NSTAR Electric, which decreased interest expense (\$14.7 million) due primarily to the November 30, 2017 NSTAR Electric DPU distribution rate case decision which allowed for a higher rate on carrying charges for past storm costs.

Other Income, Net increased in 2017, as compared to 2016, due primarily to increased gains on investments (\$27.2 million), primarily related to Eversource's investment in a renewable energy fund, changes in the market value related to deferred compensation plans (\$8.3 million) and higher AFUDC related to equity funds (\$8.2 million). Partially offsetting these favorable impacts was the absence in 2017 of a gain on the sale of an unregulated business in 2016 (\$11.8 million) and lower interest income (\$3.3 million).

Income Tax Expense increased in 2017, as compared to 2016, due primarily to higher pre-tax earnings (\$29.1 million), lower excess tax benefit (\$16.2 million), the absence of tax credits in 2017 (\$3.5 million), and the impact from federal tax rate change (\$0.5 million), partially offset by items that impact our tax rate as a result of regulatory treatment (flow-through items) and permanent differences (\$11.4 million), the sale of an unregulated business in 2016 (\$10.2 million), and lower state taxes (\$3.8 million).

RESULTS OF OPERATIONS –
THE CONNECTICUT LIGHT AND POWER COMPANY
NSTAR ELECTRIC COMPANY AND SUBSIDIARY
PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE AND SUBSIDIARY

The following provides the amounts and variances in operating revenues and expense line items in the statements of income for CL&P, NSTAR Electric and PSNH for the years ended December 31, 2017 and 2016 included in this Annual Report on Form 10-K:

(Millions of Dollars)	For the Years Ended December 31,								
	CL&P			NSTAR Electric			PSNH		
	2017	2016	Increase/(Decrease)	2017	2016	Increase/(Decrease)	2017	2016	Increase/(Decrease)
Operating Revenues	\$2,887.4	\$2,806.0	\$ 81.4	\$2,980.6	\$3,041.6	\$ (61.0)	\$981.6	\$959.5	\$ 22.1
Operating Expenses:									
Purchased Power, Fuel and Transmission	930.8	919.7	11.1	1,025.4	1,084.3	(58.9)	237.5	210.8	26.7
Operations and Maintenance	500.4	490.1	10.3	463.7	489.9	(26.2)	257.2	260.8	(3.6)
Depreciation	249.4	230.5	18.9	274.0	259.3	14.7	128.2	116.5	11.7
Amortization of Regulatory Assets/ (Liabilities), Net	83.2	38.8	44.4	33.8	34.3	(0.5)	(16.6)	11.2	(27.8)
Energy Efficiency Programs	114.7	154.0	(39.3)	294.1	321.8	(27.7)	13.8	14.2	(0.4)
Taxes Other Than Income Taxes	323.8	299.7	24.1	182.0	177.8	4.2	89.7	82.9	6.8
Total Operating Expenses	2,202.3	2,132.8	69.5	2,273.0	2,367.4	(94.4)	709.8	696.4	13.4
Operating Income	685.1	673.2	11.9	707.6	674.2	33.4	271.8	263.1	8.7
Interest Expense	143.0	144.1	(1.1)	105.7	108.4	(2.7)	51.0	50.0	1.0
Other Income, Net	21.2	13.5	7.7	14.9	10.8	4.1	3.9	1.2	2.7
Income Before Income Tax Expense	563.3	542.6	20.7	616.8	576.6	40.2	224.7	214.3	10.4
Income Tax Expense	186.6	208.3	(21.7)	242.1	225.8	16.3	88.7	82.3	6.4
Net Income	\$376.7	\$334.3	\$ 42.4	\$374.7	\$350.8	\$ 23.9	\$136.0	\$132.0	\$ 4.0

Operating Revenues

A summary of our retail electric GWh sales volumes was as follows:

	Rate Structure	For the Years Ended December 31,			
		2017	2016	Decrease	Percent
CL&P	Decoupled	20,950	21,617	(667)	(3.1)%
NSTAR Electric (eastern Massachusetts)	Traditional	20,097	20,619	(522)	(2.5)%
NSTAR Electric (western Massachusetts)	Decoupled	3,441	3,546	(105)	(3.0)%
PSNH	Traditional	7,758	7,860	(102)	(1.3)%

Fluctuations in retail electric sales volumes at certain of the electric utilities impact earnings ("Traditional" in the table above). For others, fluctuations in retail electric sales volumes do not impact earnings due to their regulatory commission-approved distribution revenue decoupling mechanisms ("Decoupled" in the table above). These distribution revenues are decoupled from their customer sales volumes, which breaks the relationship between sales

volumes and revenues recognized.

In 2017 and 2016, NSTAR Electric operated under two different rate structures based on its service territory geography. For customers that were served in eastern Massachusetts, including metropolitan Boston, Cape Cod and Martha's Vineyard, NSTAR Electric operated using traditional rates. For customers that were served in western Massachusetts, including the metropolitan Springfield region, NSTAR Electric operated using decoupled rates. Effective February 1, 2018, all of NSTAR Electric's distribution revenues were decoupled as a result of the DPU-approved rate decision. See "Regulatory Developments and Rate Matters - Massachusetts - NSTAR Electric Distribution Rate Case Decision" in this Management's Discussion and Analysis of Financial Condition and Results of Operations.

CL&P and NSTAR Electric (for its western Massachusetts customer rates) reconcile their annual base distribution rate recovery amounts to their pre-established levels of baseline distribution delivery service revenues of \$1.059 billion and \$132.4 million, respectively, through December 31, 2017. Effective February 1, 2018, NSTAR Electric, operating entirely under decoupled rates, will reconcile its annual base distribution rate recovery to its new baseline of \$974.8 million. Any difference between the allowed level of distribution revenue and the actual amount realized during a 12-month period is adjusted through rates in the following period.

Operating Revenues, which consist of base distribution revenues and tracked revenues further described below, increased/(decreased) in 2017, as compared to 2016 as follows:

(Millions of Dollars)	CL&P	NSTAR Electric	PSNH
Operating Revenues	\$ 81.4	\$(61.0)	\$ 22.1

Base Distribution Revenues, with changes that impact earnings:

NSTAR Electric's base distribution revenues, excluding LBR, decreased \$10.8 million in 2017, as compared to 2016, as a result of lower sales volumes driven by the mild summer weather in 2017. LBR increased \$13.0 million in 2017, as compared to 2016. Effective February 1, 2018, NSTAR Electric no longer has an LBR mechanism.

PSNH's base distribution revenues decreased \$1.5 million in 2017, as compared to 2016, as a result of lower sales volumes driven by the mild summer weather in 2017.

Tracked Revenues: Fluctuations in the overall level of operating revenues are primarily related to tracked revenues.

Tracked revenues consist of certain costs that are recovered from customers in rates through commission-approved cost tracking mechanisms and therefore have no impact on earnings. Costs recovered through cost tracking mechanisms include energy supply procurement and other energy-related costs, retail transmission charges, energy efficiency program costs, net metering for distributed generation and restructuring and stranded cost recovery revenues. In addition, tracked revenues include certain incentives earned and carrying charges. Tracked revenues increased/(decreased) in 2017, as compared to 2016, due primarily to the following:

(Millions of Dollars)	CL&P	NSTAR Electric	PSNH
Energy supply procurement	\$ 18.8	\$(50.8)	\$ 10.3
All other distribution tracking mechanisms	35.0	(33.7)	(12.7)

Transmission Revenues: Transmission revenues increased by \$34.2 million, \$31.0 million and \$26.5 million at CL&P, NSTAR Electric and PSNH, respectively, due primarily to higher revenue requirements associated with ongoing investments in our transmission infrastructure.

Purchased Power, Fuel and Transmission expense includes costs associated with purchasing electricity on behalf of CL&P, NSTAR Electric and PSNH's customers. For PSNH, these costs also include PSNH's generation of electricity. These energy supply costs are recovered from customers in commission-approved cost tracking mechanisms, which have no impact on earnings (tracked costs). Purchased Power, Fuel and Transmission expense increased/(decreased) in 2017, as compared to 2016, due primarily to the following:

(Millions of Dollars)	CL&P	NSTAR Electric	PSNH
Purchased Power Costs	\$(41.4)	\$(27.9)	\$ 3.7
Transmission Costs	52.5	(31.0)	23.0
Total Purchased Power, Fuel and Transmission	\$ 11.1	\$(58.9)	\$ 26.7

Purchased Power Costs: Included in purchased power costs are the costs associated with certain energy supply tracking mechanisms and deferred energy supply costs. Energy supply tracking mechanisms recover energy-related costs incurred as a result of providing electric generation service supply to all customers who have not migrated to third party suppliers. In order to meet the demand of customers who have not migrated to third party suppliers, PSNH procures power through power supply contracts and spot purchases in the competitive New England wholesale power market and/or produces power through its own generation. The increase/(decrease) in purchased power costs in 2017, as compared to 2016, was due primarily to the following:

The decrease at CL&P was due primarily to a decrease in the price of standard offer supply associated with the GSC. The decrease at NSTAR Electric was due primarily to lower prices associated with the procurement of energy supply, lower sales volumes and the expiration of certain purchase power agreements.

The increase at PSNH was due primarily to higher purchased power energy expenses that are recovered as a component of the Energy Service rate, and Regional Greenhouse Gas Initiative related expenses recovered in the SCRC.

Transmission Costs: Included in transmission costs are charges that recover the cost of transporting electricity over high-voltage lines from generating plants to substations, including costs allocated by ISO-NE to maintain the wholesale electric market. The increase/(decrease) in transmission costs in 2017, as compared to 2016, was due primarily to the following:

The increase at CL&P was primarily the result of an increase in costs billed by ISO-NE that support regional grid investment, Local Network Service charges, which reflect the cost of transmission service, and the retail transmission cost deferral, which reflects the actual costs of transmission service compared to estimated amounts billed to customers.

The decrease at NSTAR Electric was primarily the result of a decrease in the retail transmission cost deferral. This was partially offset by an increase in costs billed by ISO-NE.

The increase at PSNH was primarily the result of increases in costs billed by ISO-NE, Local Network Service charges, and the retail transmission cost deferral.

Operations and Maintenance expense includes tracked costs and costs that are part of base distribution rates with changes impacting earnings (non-tracked costs). Operations and Maintenance expense increased/(decreased) in 2017, as compared to 2016, due primarily to the following:

(Millions of Dollars)	CL&P	NSTAR Electric	PSNH
Base Electric Distribution (Non-Tracked Costs):			
Employee-related expenses, including labor and benefits	\$(4.5)	\$(36.6)	\$(6.3)
Bad debt expense	(6.8)	(7.5)	(0.2)
Shared corporate costs (including computer software depreciation at Eversource Service)	7.8	12.6	3.8
Boston Harbor civil action settlement charges	—	16.0	—
Other non-tracked operations and maintenance	8.8	0.6	(2.0)
Total Base Electric Distribution (Non-Tracked Costs)	5.3	(14.9)	(4.7)
Tracked Costs:			
Employee-related expenses, including labor and benefits	1.3	(16.2)	(0.5)
Other tracked operations and maintenance	3.7	4.9	1.6
Total Tracked Costs	5.0	(11.3)	1.1
Total Operations and Maintenance	\$10.3	\$(26.2)	\$(3.6)

Depreciation increased at CL&P, NSTAR Electric and PSNH in 2017, as compared to 2016, due primarily to higher utility plant in service balances.

Amortization of Regulatory Assets/(Liabilities), Net expense includes the deferral of energy supply and energy-related costs and the amortization of storm and other costs. Amortization of Regulatory Assets/(Liabilities), Net increased at CL&P and decreased for both NSTAR Electric and PSNH in 2017, as compared to 2016, due primarily to the deferral adjustment of energy supply and energy-related costs, which can fluctuate from period to period based on the timing of costs incurred and related rate changes to recover these costs. The deferral adjusts expense to match the corresponding revenues. Energy supply and energy-related costs, which are the primary drivers of amortization, are recovered from customers in rates and have no impact on earnings.

Energy Efficiency Programs expense includes costs for various state policy initiatives and are recovered from customers in rates and have no impact on earnings. Energy Efficiency Programs expense decreased in 2017, as compared to 2016, due primarily to the following:

The decrease at CL&P is due primarily to a State of Connecticut policy change requiring the remittance of \$25.4 million of 2017 energy efficiency funds to the State. These amounts collected from customers were reclassified to Taxes Other than Income Taxes.

The decrease at NSTAR Electric is due to the deferral adjustment, which reflects the actual cost of energy efficiency programs compared to the estimated amounts billed to customers and the timing of the recovery of energy efficiency costs. The deferral adjusts costs to match energy efficiency revenue billed to customers.

Taxes Other Than Income Taxes increased in 2017, as compared to 2016, due primarily to the following:

The increase at CL&P is due primarily to a State of Connecticut policy change requiring the remittance of \$25.4 million of 2017 energy efficiency funds to the State and higher utility plant balances, partially offset by a decrease in gross earnings taxes. Gross earnings taxes are recovered from customers in rates and have no impact on earnings.

The increase at NSTAR Electric is due primarily to higher property taxes resulting from disallowed costs in the November 30, 2017 NSTAR Electric DPU distribution rate case decision and higher employee-related payroll taxes, partially offset by a decrease in property tax rates in Boston.

The increase at PSNH is due to an increase in property taxes as a result of higher utility plant balances.

Interest Expense at NSTAR Electric decreased in 2017, as compared to 2016, due primarily to lower deferred regulatory interest expense (\$14.0 million), primarily as a result of the November 30, 2017 NSTAR Electric DPU distribution rate case decision, which allowed for a higher interest rate on carrying charges for past storm costs, partially offset by an increase in interest on long-term debt (\$9.6 million).

Other Income, Net increased in 2017, as compared to 2016, due primarily to the following:

- The increase at CL&P is due to higher AFUDC related to equity funds (\$5.9 million) and market value changes related to the deferred compensation plans (\$6.3 million), partially offset by lower interest income (\$4.4 million).

- The increase at NSTAR Electric is due to market value changes related to the deferred compensation plans (\$1.6 million), an increase in amounts related to officer life insurance policies (\$1.3 million) and an increase in interest income (\$1.2 million).

- The increase at PSNH is due to market value changes related to the deferred compensation plans (\$1.5 million).

Income Tax Expense increased/(decreased) in 2017, as compared to 2016, due primarily to the following:

The decrease at CL&P is due primarily to the tax reform impacts on the federal tax effect of state reserves and credits (\$10.7 million), items that impact our tax rate as a result of regulatory treatment (flow-through items) and permanent differences (\$10.1 million), the true up of the return to provision impacts (\$2.6 million), and lower state taxes (\$5.5 million), partially offset by higher pre-tax earnings (\$7.2 million).

The increase at NSTAR Electric is due primarily to higher pre-tax earnings (\$14.5 million), higher state taxes (\$2.4 million), partially offset by items that impact our tax rate as a result of flow-through items and permanent differences (\$0.6 million).

The increase at PSNH is due primarily to higher pre-tax earnings (\$3.6 million) and the absence of tax credits in 2017 (\$3.5 million), partially offset by items that impact our tax rate as a result of flow-through items and permanent differences (\$0.7 million).

EARNINGS SUMMARY

CL&P's earnings increased \$42.4 million in 2017, as compared to 2016, due primarily to a lower effective tax rate, an increase in transmission earnings driven by a higher transmission rate base, and higher distribution revenues due in part to a higher rate base for the system resiliency program. These favorable earnings impacts were partially offset by higher depreciation expense, higher operations and maintenance expense, and higher property tax expense.

NSTAR Electric's earnings increased \$23.9 million in 2017, as compared to 2016, due primarily to higher distribution revenues related to lost base revenues, net metering and the PAM, lower operations and maintenance expense, lower interest expense as a result of the November 30, 2017 NSTAR Electric distribution rate case decision, and an increase in transmission earnings driven by a higher transmission rate base. These favorable earnings impacts were partially offset by lower sales volumes driven by the mild summer weather in 2017, higher depreciation expense, and higher property tax expense.

PSNH's earnings increased \$4.0 million in 2017, as compared to 2016, due primarily to an increase in transmission earnings driven by a higher transmission rate base and lower operations and maintenance expense. These favorable earnings impacts were partially offset by lower generation earnings, higher depreciation expense, higher property tax expense, lower sales volumes driven by the mild summer weather in 2017, and a higher effective tax rate.

LIQUIDITY

CL&P:

Cash totaled \$6.0 million as of December 31, 2017, compared with \$6.6 million as of December 31, 2016.

CL&P had cash flows provided by operating activities of \$804.6 million in 2017, compared with \$811.5 million in 2016. The decrease in operating cash flows was due primarily to income tax payments of \$68.8 million made in 2017, compared to the income tax refunds of \$73.9 million received in 2016. Partially offsetting this decrease was the timing of regulatory recoveries, an increase in distribution rates due to higher rate base, and the timing of collections and payments related to our working capital items.

Eversource parent has a \$1.45 billion commercial paper program allowing Eversource parent to issue commercial paper as a form of short-term debt, with intercompany loans to certain subsidiaries, including CL&P. The weighted-average interest rate on the commercial paper borrowings as of December 31, 2017 and 2016 was 1.86 percent and 0.88 percent, respectively. As of December 31, 2017 and 2016, there were intercompany loans from Eversource parent to CL&P of \$69.5 million and \$80.1 million, respectively. Eversource parent, and certain of its

subsidiaries, including CL&P, are parties to a five-year \$1.45 billion revolving credit facility. On December 8, 2017, Eversource parent amended and restated the revolving credit facility. The amended and restated credit facility terminates on December 8, 2022 and serves to backstop Eversource parent's \$1.45 billion commercial paper program. There were no borrowings outstanding on the revolving credit facility as of December 31, 2017 or 2016.

Investments in Property, Plant and Equipment on the statements of cash flows do not include amounts incurred on capital projects but not yet paid, cost of removal, AFUDC related to equity funds, and the capitalized portions of pension expense. CL&P's investments totaled \$824.4 million in 2017, compared with \$612.0 million in 2016.

Financing activities in 2017 included \$254.8 million in common stock dividends paid to Eversource parent.

NSTAR Electric:

NSTAR Electric had cash flows provided by operating activities of \$638.4 million in 2017, as compared to \$808.7 million in 2016. The decrease in operating cash flows was due primarily to a decrease in regulatory recoveries, which were significantly impacted by the timing of collections of purchased power and transmission costs, an increase of \$53.4 million in Pension and PBOP Plan cash contributions and an increase of \$29.5 million in income tax payments made in 2017, compared to 2016. Also contributing to the decrease was the timing of working capital items, including accounts payable and inventory.

NSTAR Electric has a \$650.0 million commercial paper program allowing NSTAR Electric to issue commercial paper as a form of short-term debt. On December 8, 2017, NSTAR Electric increased its commercial paper program from \$450 million to \$650 million. As of December 31, 2017 and 2016, NSTAR Electric had \$234.0 million and \$126.5 million, respectively, in short-term borrowings outstanding under its commercial paper program, leaving \$416.0 million and \$323.5 million of available borrowing capacity as of December 31, 2017 and 2016, respectively. The weighted-average interest rate on these borrowings as of December 31, 2017 and 2016 was 1.55 percent and 0.71 percent, respectively. NSTAR Electric is also a party to a five-year \$650.0 million revolving credit facility. On December 8, 2017, NSTAR Electric amended and restated the revolving credit facility, increasing it from \$450 million to \$650 million. The amended and restated credit facility terminates on December 8, 2022 and serves to backstop NSTAR Electric's \$650.0 million commercial paper program. There were no borrowings outstanding on the revolving credit facility as of December 31, 2017 or 2016.

PSNH:

PSNH had cash flows provided by operating activities of \$300.9 million in 2017, as compared to \$361.8 million in 2016. The decrease in operating cash flows was due primarily to the income tax payments of \$26.1 million made in 2017, compared to the income tax refunds of \$36.0 million received in 2016 and the unfavorable impacts related to the timing of regulatory recoveries. Partially offsetting these decreases were the timing of collections and payments of our working capital items, including accounts payable and inventory, and a \$16.3 million decrease in Pension Plan cash contributions.

RESULTS OF OPERATIONS – EVERSOURCE ENERGY AND SUBSIDIARIES

The following provides the amounts and variances in operating revenues and expense line items in the statements of income for Eversource for the years ended December 31, 2016 and 2015 included in this Annual Report on Form 10-K:

(Millions of Dollars)	For the Years Ended December 31,			
	2016	2015	Increase/(Decrease)	Percent
Operating Revenues	\$7,639.1	\$7,954.8	\$ (315.7	) (4.0)%
Operating Expenses:				
Purchased Power, Fuel and Transmission	2,500.8	3,086.9	(586.1	) (19.0)
Operations and Maintenance	1,323.5	1,329.3	(5.8	) (0.4)
Depreciation	715.5	665.9	49.6	7.4
Amortization of Regulatory Assets, Net	71.7	22.3	49.4	(a)
Energy Efficiency Programs	533.7	495.7	38.0	7.7
Taxes Other Than Income Taxes	634.0	590.5	43.5	7.4
Total Operating Expenses	5,779.2	6,190.6	(411.4	) (6.6)
Operating Income	1,859.9	1,764.2	95.7	5.4
Interest Expense	401.0	372.4	28.6	7.7
Other Income, Net	45.9	34.2	11.7	34.2
Income Before Income Tax Expense	1,504.8	1,426.0	78.8	5.5
Income Tax Expense	555.0	540.0	15.0	2.8
Net Income	949.8	886.0	63.8	7.2
Net Income Attributable to Noncontrolling Interests	7.5	7.5	—	—
Net Income Attributable to Common Shareholders	\$942.3	\$878.5	\$ 63.8	7.3 %

(a) Percent greater than 100 not shown as it is not meaningful.

Operating Revenues

A summary of our Operating Revenues by segment was as follows:

(Millions of Dollars)	For the Years Ended December 31,			
	2016	2015	Increase/(Decrease)	Percent
Electric Distribution	\$5,594.3	\$5,903.6	\$ (309.3	) (5.2)%
Natural Gas Distribution	857.7	995.5	(137.8	) (13.8)
Electric Transmission	1,210.0	1,069.1	140.9	13.2
Other and Eliminations	(22.9)	(13.4)	(9.5)	70.9
Total Operating Revenues	\$7,639.1	\$7,954.8	\$ (315.7	) (4.0)%

A summary of our retail electric GWh sales volumes and our firm natural gas sales volumes in MMcf were as follows:

	For the Years Ended December 31,			
	2016	2015	Decrease	Percent
Electric				
Traditional	28,479	28,982	(503)	(1.7)%
Decoupled	25,163	25,634	(471)	(1.8)
Total Electric	53,642	54,616	(974)	(1.8)%
Firm Natural Gas				
Traditional	45,314	47,600	(2,286)	(4.8)%
Decoupled and Special Contracts	52,728	55,399	(2,671)	(4.8)

Total Firm Natural Gas 98,042 102,999 (4,957) (4.8)%

Operating Revenues, which primarily consist of base electric and natural gas distribution revenues and tracked revenues further described below, decreased by \$315.7 million in 2016, as compared to 2015.

Base electric and natural gas distribution revenues: Base electric distribution segment revenues increased by \$19.9 million due primarily to a higher rate base resulting from the 2015 PURA ADIT settlement agreement that is being collected from customers in distribution rates at CL&P (\$26.1 million) and the absence of a required ROE reduction in 2015, as stipulated in the PURA 2014 rate case decision, at CL&P (\$4 million). This increase was partially offset by the absence of the benefit recognized in 2015 in Operating Revenues due to the PURA ADIT settlement agreement. In addition, traditional electric base distribution revenues decreased \$10.1 million due to a 1.7 percent decrease in non-decoupled retail electric sales volumes due primarily to increased customer energy conservation efforts, partly offset by PSNH distribution rate increases effective July 1, 2015 and July 1, 2016.

Contributing to the decrease in Operating Revenues in 2016 was the absence of an \$11 million benefit related to the Comprehensive Settlement Agreement associated with the recovery of LBR related to 2009 through 2011 energy efficiency programs recorded at NSTAR Electric in 2015.

Firm natural gas base distribution segment revenues increased \$11.7 million due primarily to the impact of the NSTAR Gas base distribution rate increase effective January 1, 2016, partially offset by a 4.8 percent decrease in traditional firm natural gas sales volumes as a result of warmer than normal weather experienced in the first quarter of 2016, as compared to much colder than normal temperatures in 2015.

Fluctuations in CL&P's, NSTAR Electric's and NSTAR Gas' sales volumes do not impact the level of base distribution revenue realized or earnings due to their respective regulatory commission approved revenue decoupling mechanisms. The revenue decoupling mechanisms permit recovery of a base amount of distribution revenues and break the relationship between sales volumes and revenues recognized. Revenue decoupling mechanisms result in the recovery of our approved base distribution revenue requirements.

Tracked distribution revenues: Tracked revenues consist of certain costs that are recovered from customers in rates through regulatory commission-approved cost tracking mechanisms and therefore have no impact on earnings. Costs recovered through cost tracking mechanisms include energy supply procurement costs and other energy-related costs for our electric and natural gas customers, retail transmission charges, energy efficiency program costs, and restructuring and stranded cost recovery revenues. In addition, tracked revenues include certain incentives earned and carrying charges. Tracked electric distribution segment revenues decreased as a result of decreases in energy supply costs (\$625.2 million), driven by decreased average retail rates and lower sales volumes, partially offset by an increase in retail electric transmission charges (\$84.6 million), an increase in federally mandated congestion charges (\$103.0 million), an increase in energy efficiency program revenues (\$51.7 million), an increase in stranded cost recovery charges (\$39.2 million) and an increase in net metering for distributed generation revenues (\$34.0 million). In addition, as a result of a change to the amounts collected in the system benefits charge, CL&P's calculated rate base increased, providing an increase to distribution revenues that positively impacted earnings by \$23.2 million.

In 2016, tracked natural gas distribution segment revenues decreased as a result of decreases in natural gas supply costs (\$128.2 million) driven by decreased average rates and lower sales volumes, and a decrease in energy efficiency program revenues (\$22.7 million).

Electric transmission revenues: The electric transmission segment revenues increased by \$140.9 million due primarily to the recovery of higher revenue requirements associated with ongoing investments in our transmission infrastructure and the absence in 2016 of a \$20 million reserve charge recorded in 2015 associated with the March 2015 FERC ROE order.

Other: Other revenues decreased due primarily to the sale of Eversource's unregulated contracting business on April 13, 2015 (\$11.4 million).

Purchased Power, Fuel and Transmission expense includes costs associated with purchasing electricity and natural gas on behalf of our customers. These energy supply costs are recovered from customers in rates through cost tracking mechanisms, which have no impact on earnings (tracked costs). Purchased Power, Fuel and Transmission expense decreased in 2016, as compared to 2015, due primarily to the following:

(Millions of Dollars)	(Decrease)/Increase
Electric Distribution	\$ (625.9)
Natural Gas Distribution	(130.3)
Transmission	170.1

Total Purchased Power, Fuel and Transmission \$ (586.1)

The decrease in purchased power expense at the electric distribution business was driven by lower prices associated with the procurement of energy supply, lower sales volumes, and a decrease in the amount of electricity generated by PSNH facilities in 2016, as compared to 2015. The decrease in purchased power expense at the natural gas distribution business was due to lower sales volumes and lower average natural gas prices. The increase in transmission costs was primarily the result of an increase in costs billed by ISO-NE that support regional grid investment.

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Operations and Maintenance expense includes tracked costs and costs that are part of base electric and natural gas distribution rates with changes impacting earnings (non-tracked costs). Operations and Maintenance expense decreased in 2016, as compared to 2015, due primarily to the following:

(Millions of Dollars)	Increase/(Decrease)
Base Electric Distribution:	
Absence of 2015 resolution of basic service bad debt adder mechanism at NSTAR Electric	\$ 24.2
Absence of 2015 regulatory proceedings benefiting NSTAR Electric	10.5
Employee-related expenses, including labor and benefits	(27.0)
Storm restoration costs	15.0
Write-off of software design costs	9.2
Other operations and maintenance	14.1
Total Base Electric Distribution	46.0
Total Base Natural Gas Distribution:	
Employee-related expenses, including labor and benefits	(15.5)
Other operations and maintenance	8.2
Total Base Natural Gas Distribution	(7.3)
Tracked costs (Electric Distribution, Electric Transmission and Natural Gas Distribution):	
Merger-related costs allowed for recovery through transmission rates (earnings benefit)	(27.5)
Other tracked operations and maintenance	41.8
Total Tracked costs (Electric Distribution, Electric Transmission and Natural Gas Distribution)	14.3
Other and eliminations:	
Integration costs	(27.2)
Absence of Eversource's unregulated electrical contracting business due to sale in April 2015, net	(13.9)
Eversource Parent and Other Companies	(2.8)
Eliminations	(14.9)
Total Operations and Maintenance	\$ (5.8)

Depreciation expense increased in 2016, as compared to 2015, due primarily to higher utility plant in service balances.

Amortization of Regulatory Assets, Net expense includes the deferral of energy supply and energy-related costs included in certain regulatory-approved tracking mechanisms and the amortization of certain costs. The deferral adjusts expense to match the corresponding revenues. Amortization of Regulatory Assets, Net increased in 2016, as compared to 2015, due primarily to the deferral of energy supply and energy-related costs which can fluctuate from period to period based on the timing of costs incurred and the related rate changes to recover these costs. Energy supply and energy-related costs at CL&P, NSTAR Electric and PSNH, which are the primary drivers in amortization, are recovered from customers in rates and have no impact on earnings. The increase in Amortization of Regulatory Assets, Net for the year ended December 31, 2016 also includes the absence in 2016 of the \$11.7 million benefit recorded in 2015 at NSTAR Electric in connection with the Comprehensive Settlement Agreement.

Energy Efficiency Programs expense increased in 2016, as compared to 2015, due primarily to deferral adjustments at NSTAR Electric, partially offset by deferral adjustments for the natural gas businesses, which reflect the actual costs of energy efficiency programs compared to the estimated amounts billed to customers, and the timing of the recovery of energy efficiency costs incurred in accordance with the three-year program guidelines established by the DPU. The deferrals adjust expense to match the energy efficiency programs revenue. The costs for various state energy policy initiatives and expanded energy efficiency programs are recovered from customers in rates and have no impact on earnings.

Taxes Other Than Income Taxes expense increased in 2016, as compared to 2015, due primarily to an increase in property taxes as a result of higher utility plant balances and an increase in gross earnings taxes. Gross earnings taxes

are recovered from customers in rates and have no impact on earnings.

Interest Expense increased in 2016, as compared to 2015, due primarily to an increase in interest on long-term debt (\$33.8 million) as a result of new debt issuances and an increase in interest on notes payable (\$2.2 million), partially offset by a decrease in regulatory deferrals which decreased interest expense (\$5.5 million).

Other Income, Net increased in 2016, as compared to 2015, due primarily to higher equity AFUDC amounts (\$7.4 million), higher gains related to the sales of unregulated businesses (\$9.4 million) and an increase in interest income (\$4.1 million). Partially offsetting these favorable impacts were the market value changes related to deferred compensation plans (\$9.6 million).

Income Tax Expense increased in 2016, as compared to 2015, due primarily to higher pre-tax earnings (\$24.2 million), higher state taxes (\$7.5 million), and the sale of an unregulated business (\$10.2 million), partially offset by the excess tax benefit due to the adoption of new accounting guidance related to share based payment transactions (\$19.1 million), the true-up of the return to provision impacts and a higher tax benefit from a reduction in tax reserves (\$7.6 million), and items that impact our tax rate as a result of regulatory treatment (flow-through items) and permanent differences (\$0.2 million).

EARNINGS SUMMARY

Regulated Companies: Our electric distribution segment earnings decreased \$44.3 million in 2016, as compared to 2015. The decrease was due primarily to the absence in 2016 of the resolution of NSTAR Electric's basic service bad debt adder mechanism recorded in 2015 (\$14.5 million), the absence in 2016 of the favorable impact associated with the NSTAR Electric Comprehensive Settlement Agreement recorded in 2015 (\$13.0 million), and higher depreciation expense. In addition, earnings decreased due to higher operations and maintenance expense (primarily related to the absence of a \$6.3 million regulatory benefit related to certain uncollectible hardship accounts receivable that was recorded in 2015 at NSTAR Electric, as well as higher storm restoration costs, higher vegetation management costs and the write-off of software design costs), higher property tax expense, and lower non-decoupled retail electric sales volumes due primarily to increased customer energy conservation efforts. These unfavorable earnings impacts were partially offset by increased CL&P distribution revenues primarily as a result of higher rate base and the absence of a required ROE reduction, as stipulated in the PURA 2014 rate case decision, and higher generation earnings.

Our electric transmission segment earnings increased \$66.3 million in 2016, as compared to 2015, due primarily to a higher transmission rate base as a result of increased investments in our transmission infrastructure, the FERC-allowed recovery of certain merger-related costs in 2016 (\$16.5 million), and the absence in 2016 of reserve charges in 2015 associated with the FERC ROE complaint proceedings (\$12.4 million).

Our natural gas distribution segment earnings increased \$5.3 million in 2016, as compared to 2015, due primarily to the impact of the NSTAR Gas base distribution rate increase effective January 1, 2016, the higher return earned on the NSTAR Gas System Enhancement Program ("GSEP") capital tracker mechanism effective in 2016, and lower operations and maintenance expense. These favorable earnings impacts were partially offset by lower non-decoupled firm natural gas sales volumes driven by the warmer than normal weather in the first quarter of 2016, as compared to the much colder than normal weather in the first quarter of 2015, higher property tax expense, and higher interest expense.

Eversource Parent and Other Companies: Eversource parent and other companies had earnings of \$31.0 million in 2016, compared with a net loss of \$5.5 million in 2015. The earnings increase was due primarily to lower income tax expense as a result of recognizing tax benefits from executive deferred compensation payments, which resulted from the adoption of a new accounting standard, and the absence in 2016 of integration costs, partially offset by higher interest expense.

LIQUIDITY

Cash flows provided by operating activities totaled \$2.2 billion in 2016, compared with \$1.4 billion in 2015. The increase in operating cash flows was due primarily to the absence in 2016 of \$302 million in payments made in 2015 to fully satisfy the obligation with the DOE for costs associated with the disposal of spent nuclear fuel and high-level radioactive waste at previously owned generation facilities. In addition, there was an increase of \$226.0 million in regulatory recoveries, primarily at NSTAR Electric, due to \$98.1 million of collections from customers in excess of purchased power costs, the favorable impact associated with the December 2015 legislation that extended tax bonus depreciation, which resulted in a \$145.8 million decrease in income tax payments in 2016, as compared to 2015, and an increase of \$55.2 million of the Yankee Companies' DOE Damages and other proceeds received in 2016, as compared to 2015. Partially offsetting these favorable impacts was the timing of collections and payments related to our working capital items.

RESULTS OF OPERATIONS – THE CONNECTICUT LIGHT AND POWER COMPANY

The following provides the amounts and variances in operating revenues and expense line items in the statements of income for CL&P for the years ended December 31, 2016 and 2015 included in this Annual Report on Form 10-K:

(Millions of Dollars)	For the Years Ended December 31,			
	2016	2015	Increase/(Decrease)	Percent
Operating Revenues	\$2,806.0	\$2,802.7	\$ 3.3	0.1 %
Operating Expenses:				
Purchased Power and Transmission	919.7	1,054.3	(134.6	) (12.8)
Operations and Maintenance	490.1	487.3	2.8	0.6
Depreciation	230.5	215.3	15.2	7.1
Amortization of Regulatory Assets, Net	38.8	12.3	26.5	(a)
Energy Efficiency Programs	154.0	153.7	0.3	0.2
Taxes Other Than Income Taxes	299.7	268.7	31.0	11.5
Total Operating Expenses	2,132.8	2,191.6	(58.8	) (2.7)
Operating Income	673.2	611.1	62.1	10.2
Interest Expense	144.1	145.8	(1.7	) (1.2)
Other Income, Net	13.5	11.5	2.0	17.4
Income Before Income Tax Expense	542.6	476.8	65.8	13.8
Income Tax Expense	208.3	177.4	30.9	17.4
Net Income	\$334.3	\$299.4	\$ 34.9	11.7 %

(a) Percent greater than 100 not shown as it is not meaningful.

Operating Revenues

CL&P's retail sales volumes were as follows:

	For the Years Ended December			
	2016	2015	Decrease	Percent
Retail Sales Volumes in GWh	21,617	22,071	(454	) (2.1)%

CL&P's Operating Revenues, which consist of base distribution revenues and tracked revenues further described below, increased by \$3.3 million in 2016, as compared to 2015.

Base distribution revenues increased by \$30.1 million due to a higher rate base resulting from the 2015 PURA ADIT settlement agreement that is being collected from customers in distribution rates (\$26.1 million) and the absence of a required ROE reduction, as stipulated in the PURA 2014 rate case decision, recorded in 2015 (\$4 million). This increase was partially offset by the absence of the benefit recognized in 2015 in Operating Revenues due to the PURA ADIT settlement agreement.

Fluctuations in CL&P's sales volumes do not impact the level of base distribution revenue realized or earnings due to the PURA approved revenue decoupling mechanism. CL&P's revenue decoupling mechanism permits recovery of a base amount of distribution revenues (\$1.059 billion annually) and breaks the relationship between sales volumes and revenues recognized. The revenue decoupling mechanism results in the recovery of approved base distribution revenue requirements.

Fluctuations in the overall level of operating revenues are primarily related to tracked revenues. Tracked revenues consist of certain costs that are recovered from customers in rates through PURA-approved cost tracking mechanisms and therefore have no impact on earnings. Costs recovered through cost tracking mechanisms include energy supply

procurement and other energy-related costs, retail transmission charges, energy efficiency program costs and restructuring and stranded cost recovery revenues. In addition, tracked revenues include certain incentives earned and carrying charges. Tracked distribution revenues decreased primarily as a result of a decrease in energy supply costs (\$222.4 million) driven by decreased average retail rates and lower sales volumes. Partially offsetting this decrease was an increase in federally mandated congestion charges (\$103.0 million) and an increase in competitive transition assessment charges (\$31.7 million). In addition, as a result of a change to the amounts collected in the system benefits charge, CL&P's calculated rate base increased, providing an increase to distribution revenues that impacted earnings of \$23.2 million.

Transmission revenues increased by \$62.7 million due primarily to higher revenue requirements associated with ongoing investments in our transmission infrastructure and the absence in 2016 of a \$12.5 million reserve charge recorded in 2015 associated with the March 2015 FERC ROE order.

Purchased Power and Transmission expense includes costs associated with purchasing electricity on behalf of CL&P's customers. These energy supply costs are recovered from customers in PURA-approved cost tracking mechanisms, which have no impact on earnings (tracked costs). Purchased Power and Transmission expense decreased in 2016, as compared to 2015, due primarily to the following:

(Millions of Dollars)	(Decrease)/Increase
Purchased Power Costs	\$ (173.1)
Transmission Costs	38.5
Total Purchased Power and Transmission	\$ (134.6)

Included in purchased power costs are the costs associated with CL&P's GSC and deferred energy supply costs. The GSC recovers energy-related costs incurred as a result of providing electric generation service supply to all customers who have not migrated to third party suppliers. The decrease in purchased power costs in 2016, compared to 2015, was due primarily to a decrease in the price of standard offer supply, as well as lower sales volumes. The increase in transmission costs was primarily the result of an increase in costs billed by ISO-NE that support regional grid investment.

Operations and Maintenance expense increased in 2016, as compared to 2015, driven by a \$9.2 million increase in tracked costs, which have no earnings impact, that was primarily attributable to higher transmission expenses, partially offset by a \$6.4 million decrease in non-tracked costs, which was primarily attributable to lower employee-related expenses, partially offset by higher storm restoration costs and the write-off of software design costs.

Depreciation increased in 2016, as compared to 2015, due primarily to higher utility plant in service balances.

Amortization of Regulatory Assets, Net expense includes the deferral of energy supply and energy-related costs and the amortization of storm and other costs. Amortization of Regulatory Assets, Net increased in 2016, as compared to 2015, due primarily to the deferral adjustment of energy supply and energy-related costs, which can fluctuate from period to period based on the timing of costs incurred and related rate changes to recover these costs. The deferral adjusts expense to match the corresponding revenues. Energy supply and energy-related costs, which are the primary drivers of amortization, are recovered from customers in rates and have no impact on earnings.

Taxes Other Than Income Taxes expense increased in 2016, as compared to 2015, due primarily to an increase in property taxes as a result of both an increase in utility plant balances and an increase in gross earnings taxes. Gross earnings taxes are recovered from customers in rates and have no impact on earnings.

Interest Expense decreased in 2016, as compared to 2015, due primarily to lower deferred regulatory interest expense (\$5.0 million) and a decrease in interest expense related to deposits (\$1.3 million), partially offset by an increase in interest on long-term debt (\$5.1 million).

Income Tax Expense increased in 2016, as compared to 2015, due primarily to higher pre-tax earnings (\$23.2 million), higher state taxes (\$1.5 million), and items that impact our tax rate as a result of regulatory treatment (flow-through items) and permanent differences (\$7.7 million), partially offset by the excess tax benefit due to the adoption of new accounting guidance related to share-based payment transactions (\$0.9 million), and the true-up of the return to provision impacts and a lower tax benefit from a reduction in tax reserves (\$0.5 million).

EARNINGS SUMMARY

CL&P's earnings increased \$34.9 million in 2016, as compared to 2015, due primarily to an increase in transmission earnings driven by a higher transmission rate base, as well as the absence in 2016 of the 2015 FERC ROE complaint

proceedings reserve charge, higher distribution revenues as a result of higher rate base and the absence of a required ROE reduction, as stipulated in the PURA 2014 rate case decision, and lower operations and maintenance expense.

These favorable earnings impacts were partially offset by higher property and other tax expense, a higher effective tax rate and higher depreciation expense.

LIQUIDITY

Cash totaled \$6.6 million as of December 31, 2016, compared with \$1.1 million as of December 31, 2015.

Eversource parent has a \$1.45 billion commercial paper program allowing Eversource parent to issue commercial paper as a form of short-term debt, with intercompany loans to certain subsidiaries, including CL&P. The weighted-average interest rate on the commercial paper borrowings as of December 31, 2016 and 2015 was 0.88 percent and 0.72 percent, respectively. As of December 31, 2016 and 2015, there were intercompany loans from Eversource parent to CL&P of \$80.1 million and \$277.4 million, respectively.

Eversource parent, and certain of its subsidiaries, including CL&P, are parties to a five-year \$1.45 billion revolving credit facility. Effective September 26, 2016, the revolving credit facility's termination date was extended for one additional year to September 4, 2021. There were no borrowings outstanding on the revolving credit facility as of December 31, 2016 or 2015.

In 2016, CL&P had cash flows provided by operating activities of \$811.5 million, compared with \$298.3 million in 2015. The increase in operating cash flows was due primarily to the absence in 2016 of \$244.6 million in payments made in 2015 to fully satisfy the pre-1983 spent nuclear fuel obligation with the DOE, and the favorable impact associated with the December 2015 legislation that extended tax bonus depreciation, which resulted in income tax refunds of \$73.9 million received in 2016, as compared to income tax payments of \$55.2 million made in 2015. Also contributing to the favorable impact was an increase in distribution rates due to higher rate base and the timing of collections and payments related to our working capital items, including accounts receivable and accounts payable. Partially offsetting these impacts was the timing of regulatory recoveries primarily related to energy efficiency program costs.

Investments in Property, Plant and Equipment on the statements of cash flows do not include amounts incurred on capital projects but not yet paid, cost of removal, AFUDC related to equity funds, and the capitalized portions of pension expense. CL&P's investments totaled \$612.0 million in 2016, compared with \$523.8 million in 2015.

Financing activities in 2016 included \$199.6 million in common stock dividends paid to Eversource parent.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Market Risk Information

Commodity Price Risk Management: Our regulated companies enter into energy contracts to serve our customers and the economic impacts of those contracts are passed on to our customers. Accordingly, the regulated companies have no exposure to loss of future earnings or fair values due to these market risk-sensitive instruments. Eversource's Energy Supply Risk Committee, comprised of senior officers, reviews and approves all large-scale energy related transactions entered into by its regulated companies.

Other Risk Management Activities

We have an Enterprise Risk Management (ERM) program for identifying the principal risks of the Company. Our ERM program involves the application of a well-defined, enterprise-wide methodology designed to allow our Risk Committee, comprised of our senior officers and directors of the Company, to identify, categorize, prioritize, and mitigate the principal risks to the Company. The ERM program is integrated with other assurance functions throughout the Company including Compliance, Auditing, and Insurance to ensure appropriate coverage of risks that could impact the Company. In addition to known risks, ERM identifies emerging risks to the Company, through participation in industry groups, discussions with management and in consultation with outside advisers. Our management then analyzes risks to determine materiality, likelihood and impact, and develops mitigation strategies. Management broadly considers our business model, the utility industry, the global economy and the current environment to identify risks. The Finance Committee of the Board of Trustees is responsible for oversight of the Company's ERM program and enterprise-wide risks as well as specific risks associated with insurance, credit, financing, investments, pensions and overall system security including cyber security. The findings of the ERM process are periodically discussed with the Finance Committee of our Board of Trustees, as well as with other Board Committees or the full Board of Trustees, as appropriate, including reporting on how these issues are being measured and managed. However, there can be no assurances that the Enterprise Risk Management process will identify or manage every risk or event that could impact our financial position, results of operations or cash flows.

Interest Rate Risk Management: We manage our interest rate risk exposure in accordance with our written policies and procedures by maintaining a mix of fixed and variable rate long-term debt. As of December 31, 2017, approximately 98 percent of our long-term debt, including fees and interest due for CYAPC's spent nuclear fuel disposal costs, was at a fixed interest rate. The remaining long-term debt is at variable interest rates and is subject to interest rate risk that could result in earnings volatility. Assuming a one percentage point increase in our variable interest rates, annual interest expense would have increased by a pre-tax amount of \$2.7 million.

Credit Risk Management: Credit risk relates to the risk of loss that we would incur as a result of non-performance by counterparties pursuant to the terms of our contractual obligations. We serve a wide variety of customers and transact with suppliers that include IPPs, industrial companies, natural gas and electric utilities, oil and gas producers, financial institutions, and other energy marketers. Margin accounts exist within this diverse group, and we realize interest receipts and payments related to balances outstanding in these margin accounts. This wide customer and supplier mix generates a need for a variety of contractual structures, products and terms that, in turn, require us to manage the portfolio of market risk inherent in those transactions in a manner consistent with the parameters established by our risk management process.

Our regulated companies are subject to credit risk from certain long-term or high-volume supply contracts with energy marketing companies. Our regulated companies manage the credit risk with these counterparties in accordance with established credit risk practices and monitor contracting risks, including credit risk. As of December 31, 2017, our regulated companies did not hold collateral (letters of credit) from counterparties related to our standard service

contracts. As of December 31, 2017, Eversource had \$24.5 million of cash posted with ISO-NE related to energy transactions.

For further information on cash collateral deposited and posted with counterparties, see Note 1H, "Summary of Significant Accounting Policies - Deposits," to the financial statements.

If the respective unsecured debt ratings of Eversource or its subsidiaries were reduced to below investment grade by either Moody's or S&P, certain of Eversource's contracts would require additional collateral in the form of cash to be provided to counterparties and independent system operators. Eversource would have been and remains able to provide that collateral.

Item 8. Financial Statements and Supplementary Data

Eversource

Company Report on Internal Controls Over Financial Reporting
Report of Independent Registered Public Accounting Firm
Consolidated Financial Statements

CL&P

Company Report on Internal Controls Over Financial Reporting
Report of Independent Registered Public Accounting Firm
Financial Statements

NSTAR Electric

Company Report on Internal Controls Over Financial Reporting
Report of Independent Registered Public Accounting Firm
Consolidated Financial Statements

PSNH

Company Report on Internal Controls Over Financial Reporting
Report of Independent Registered Public Accounting Firm
Consolidated Financial Statements

Company Report on Internal Controls Over Financial Reporting

Eversource Energy

Management is responsible for the preparation, integrity, and fair presentation of the accompanying consolidated financial statements of Eversource Energy and subsidiaries (Eversource or the Company) and of other sections of this annual report. Eversource's internal controls over financial reporting were audited by Deloitte & Touche LLP.

Management is responsible for establishing and maintaining adequate internal controls over financial reporting. The Company's internal control framework and processes have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. There are inherent limitations of internal controls over financial reporting that could allow material misstatements due to error or fraud to occur and not be prevented or detected on a timely basis by employees during the normal course of business. Additionally, internal controls over financial reporting may become inadequate in the future due to changes in the business environment.

Under the supervision and with the participation of the principal executive officer and principal financial officer, Eversource conducted an evaluation of the effectiveness of internal controls over financial reporting based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation under the framework in COSO, management concluded that internal controls over financial reporting were effective as of December 31, 2017.

Management has excluded from our assessment of and conclusion on the effectiveness of internal controls over financial reporting the internal controls of Eversource Aquarion Holdings, Inc. (formerly Macquarie Utilities Inc.), acquired on December 4, 2017, which is included in the consolidated financial statements of the Company as of and for the year ended December 31, 2017, constituting 4.31% and 2.37% of total and net assets, respectively, as of December 31, 2017, and 0.20% of revenues for the year ended December 31, 2017.

February 23, 2018

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Trustees and Shareholders of Eversource Energy:

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Eversource Energy and subsidiaries (the “Company”) as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, common shareholders’ equity, and cash flows, for each of the three years in the period ended December 31, 2017, and the related notes and the schedules listed in the Index at Item 15 of Part IV (collectively referred to as the “financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, the Company acquired Macquarie Utilities Inc. on December 4, 2017.

Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

As described in Company Report on Internal Controls Over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Eversource Aquarion Holdings, Inc. (formerly Macquarie Utilities Inc.) which was acquired on December 4, 2017 and whose financial statements constitute 2.37% and 4.31% of net and total assets, respectively, and 0.20% of revenues of the consolidated financial statement amounts as of and for the year ended December 31, 2017. Accordingly, our audit did not include the internal control over financial reporting at Eversource Aquarion Holdings, Inc.

Basis for Opinions

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

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

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

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

/s/ Deloitte & Touche LLP

Hartford, Connecticut
February 23, 2018

We have served as the Company's auditor since 2002.

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EVERSOURCE ENERGY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Thousands of Dollars)	As of December 31,	
	2017	2016
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$38,165	\$30,251
Receivables, Net	925,083	847,301
Unbilled Revenues	201,361	168,490
Fuel, Materials, Supplies and Inventory	223,063	328,721
Regulatory Assets	741,868	887,625
Prepayments and Other Current Assets	138,009	215,284
Assets Held for Sale	219,550	—
Total Current Assets	2,487,099	2,477,672
Property, Plant and Equipment, Net	23,617,463	21,350,510
Deferred Debits and Other Assets:		
Regulatory Assets	4,497,447	3,638,688
Goodwill	4,427,266	3,519,401
Marketable Securities	585,419	544,642
Other Long-Term Assets	605,692	522,260
Total Deferred Debits and Other Assets	10,115,824	8,224,991
Total Assets	\$36,220,386	\$32,053,173
LIABILITIES AND CAPITALIZATION		
Current Liabilities:		
Notes Payable	\$1,088,087	\$1,148,500
Long-Term Debt – Current Portion	549,631	773,883
Accounts Payable	1,085,034	884,521
Regulatory Liabilities	128,071	146,787
Other Current Liabilities	738,222	684,914
Total Current Liabilities	3,589,045	3,638,605
Deferred Credits and Other Liabilities:		
Accumulated Deferred Income Taxes	3,297,518	5,607,207
Regulatory Liabilities	3,637,273	702,255
Derivative Liabilities	377,257	413,676
Accrued Pension, SERP and PBOP	1,228,091	1,141,514
Other Long-Term Liabilities	1,073,501	853,260
Total Deferred Credits and Other Liabilities	9,613,640	8,717,912
Capitalization:		
Long-Term Debt	11,775,889	8,829,354
Noncontrolling Interest - Preferred Stock of Subsidiaries	155,570	155,568

Equity:

Common Shareholders' Equity:

Common Shares	1,669,392	1,669,392
Capital Surplus, Paid In	6,239,940	6,250,224
Retained Earnings	3,561,084	3,175,171
Accumulated Other Comprehensive Loss	(66,403)	(65,282)
Treasury Stock	(317,771)	(317,771)
Common Shareholders' Equity	11,086,242	10,711,734
Total Capitalization	23,017,701	19,696,656

Commitments and Contingencies (Note 11)

Total Liabilities and Capitalization	\$36,220,386	\$32,053,173
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The accompanying notes are an integral part of these consolidated financial statements.

EVERSOURCE ENERGY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(Thousands of Dollars, Except Share Information)	For the Years Ended December 31,		
	2017	2016	2015
Operating Revenues	\$7,751,952	\$7,639,129	\$7,954,827
Operating Expenses:			
Purchased Power, Fuel and Transmission	2,535,271	2,500,828	3,086,905
Operations and Maintenance	1,277,147	1,323,549	1,329,289
Depreciation	773,802	715,466	665,856
Amortization of Regulatory Assets, Net	89,986	71,696	22,339
Energy Efficiency Programs	480,835	533,659	495,701
Taxes Other Than Income Taxes	676,757	634,072	590,573
Total Operating Expenses	5,833,798	5,779,270	6,190,663
Operating Income	1,918,154	1,859,859	1,764,164
Interest Expense	421,755	400,961	372,420
Other Income, Net	78,008	45,920	34,227
Income Before Income Tax Expense	1,574,407	1,504,818	1,425,971
Income Tax Expense	578,892	554,997	539,967
Net Income	995,515	949,821	886,004
Net Income Attributable to Noncontrolling Interests	7,519	7,519	7,519
Net Income Attributable to Common Shareholders	\$987,996	\$942,302	\$878,485
Basic Earnings Per Common Share	\$3.11	\$2.97	\$2.77
Diluted Earnings Per Common Share	\$3.11	\$2.96	\$2.76
Weighted Average Common Shares Outstanding:			
Basic	317,411,097	317,650,180	317,336,881
Diluted	318,031,580	318,454,239	318,432,687

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Thousands of Dollars, Except Share Information)	For the Years Ended December 31,		
	2017	2016	2015
Net Income	\$995,515	\$949,821	\$886,004
Other Comprehensive (Loss)/Income, Net of Tax:			
Qualified Cash Flow Hedging Instruments	1,974	2,137	2,079
Changes in Unrealized (Losses)/Gains on Marketable Securities	(350)	2,294	(2,588)
Changes in Funded Status of Pension, SERP and PBOP Benefit Plans	(2,745)	(2,869)	7,674
Other Comprehensive (Loss)/Income, Net of Tax	(1,121)	1,562	7,165
Comprehensive Income Attributable to Noncontrolling Interests	(7,519)	(7,519)	(7,519)
Comprehensive Income Attributable to Common Shareholders	\$986,875	\$943,864	\$885,650

The accompanying notes are an integral part of these consolidated financial statements.

EVERSOURCE ENERGY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMMON SHAREHOLDERS' EQUITY

(Thousands of Dollars, Except Information)	Common Shares		Capital Surplus, Paid In	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Common Shareholders' Equity
	Shares	Amount					
Balance as of January 1, 2015	316,983,337	\$ 1,666,796	\$ 6,235,834	\$ 2,448,661	\$ (74,009)	\$(300,467)	\$ 9,976,815
Net Income				886,004			886,004
Dividends on Common Shares - \$1.67 Per Share				(529,791)			(529,791)
Dividends on Preferred Stock				(7,519)			(7,519)
Issuance of Common Shares, \$5 Par Value	503,443	2,517	6,951				9,468
Long-Term Incentive Plan Activity			(6,140)				(6,140)
Increase in Treasury Shares	(295,531)		22,070			(9,510)	12,560
Other Changes in Shareholders' Equity			3,653				3,653
Other Comprehensive Income					7,165		7,165
Balance as of December 31, 2015	317,191,249	1,669,313	6,262,368	2,797,355	(66,844)	(309,977)	10,352,215
Net Income				949,821			949,821
Dividends on Common Shares - \$1.78 Per Share				(564,486)			(564,486)
Dividends on Preferred Stock				(7,519)			(7,519)
Issuance of Common Shares, \$5 Par Value	15,787	79	(5,639)				(5,560)
Long-Term Incentive Plan Activity			(6,056)				(6,056)
Increase in Treasury Shares	(321,228)					(7,794)	(7,794)
Other Changes in Shareholders' Equity			(449)				(449)
Other Comprehensive Income					1,562		1,562
Balance as of December 31, 2016	316,885,808	1,669,392	6,250,224	3,175,171	(65,282)	(317,771)	10,711,734
Net Income				995,515			995,515
Dividends on Common Shares - \$1.90 Per Share				(602,083)			(602,083)
				(7,519)			(7,519)

Dividends on Preferred Stock							
Long-Term Incentive Plan Activity			(10,834)			(10,834)	
Other Changes in Shareholders' Equity			550			550	
Other Comprehensive Loss					(1,121)	(1,121)	
Balance as of December 31, 2017	316,885,808	\$ 1,669,392	\$ 6,239,940	\$ 3,561,084	\$ (66,403)	\$(317,771)	\$ 11,086,242

The accompanying notes are an integral part of these consolidated financial statements.

EVERSOURCE ENERGY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Thousands of Dollars)	For the Years Ended December		
	31, 2017	2016	2015
Operating Activities:			
Net Income	\$995,515	\$949,821	\$886,004
Adjustments to Reconcile Net Income to Net Cash Flows Provided by Operating Activities:			
Depreciation	773,802	715,466	665,856
Deferred Income Taxes	491,630	466,463	491,736
Pension, SERP and PBOP Expense	22,454	39,912	96,017
Pension and PBOP Contributions	(242,800)	(158,741)	(162,452)
Regulatory (Under)/Over Recoveries, Net	(47,935)	13,340	(163,287)
Amortization of Regulatory Assets, Net	89,986	71,696	22,339
Refunds/(Payments) Related to Spent Nuclear Fuel, Net	—	59,804	(297,253)
Other	(148,429)	(77,294)	(82,219)
Changes in Current Assets and Liabilities:			
Receivables and Unbilled Revenues, Net	(117,155)	(142,699)	(39,797)
Fuel, Materials, Supplies and Inventory	(9,223)	7,755	34,112
Taxes Receivable/Accrued, Net	52,284	234,543	30,282
Accounts Payable	56,067	(14,126)	(91,618)
Other Current Assets and Liabilities, Net	88,738	9,112	44,031
Net Cash Flows Provided by Operating Activities	2,004,934	2,175,052	1,433,751
Investing Activities:			
Investments in Property, Plant and Equipment	(2,348,105)	(1,976,867)	(1,724,139)
Proceeds from Sales of Marketable Securities	832,903	659,338	799,165
Purchases of Marketable Securities	(810,507)	(681,272)	(717,114)
Acquisition of Aquarion	(877,652)	—	—
Payments to Acquire Investments	(32,634)	(188,958)	(23,353)
Other Investing Activities	25,521	36,951	6,291
Net Cash Flows Used in Investing Activities	(3,210,474)	(2,150,808)	(1,659,150)
Financing Activities:			
Cash Dividends on Common Shares	(602,083)	(564,486)	(529,791)
Cash Dividends on Preferred Stock	(7,519)	(7,519)	(7,519)
Increase/(Decrease) in Notes Payable	72,810	(12,453)	(242,122)
Issuance of Long-Term Debt	2,500,000	800,000	1,225,000
Retirements of Long-Term Debt	(745,000)	(200,000)	(216,700)
Other Financing Activities	(4,754)	(33,482)	(18,225)
Net Cash Flows Provided by/(Used in) Financing Activities	1,213,454	(17,940)	210,643
Net Increase/(Decrease) in Cash and Cash Equivalents	7,914	6,304	(14,756)
Cash and Cash Equivalents - Beginning of Year	30,251	23,947	38,703
Cash and Cash Equivalents - End of Year	\$38,165	\$30,251	\$23,947

The accompanying notes are an integral part of these consolidated financial statements.

Company Report on Internal Controls Over Financial Reporting

The Connecticut Light and Power Company

Management is responsible for the preparation, integrity, and fair presentation of the accompanying financial statements of The Connecticut Light and Power Company (CL&P or the Company) and of other sections of this annual report.

Management is responsible for establishing and maintaining adequate internal controls over financial reporting. The Company's internal control framework and processes have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. There are inherent limitations of internal controls over financial reporting that could allow material misstatements due to error or fraud to occur and not be prevented or detected on a timely basis by employees during the normal course of business. Additionally, internal controls over financial reporting may become inadequate in the future due to changes in the business environment.

Under the supervision and with the participation of the principal executive officer and principal financial officer, CL&P conducted an evaluation of the effectiveness of internal controls over financial reporting based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation under the framework in COSO, management concluded that internal controls over financial reporting were effective as of December 31, 2017.

February 23, 2018

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholder of The Connecticut Light and Power Company:

Opinion on the Financial Statements

We have audited the accompanying balance sheets of The Connecticut Light and Power Company (the “Company”) as of December 31, 2017 and 2016, the related statements of income, comprehensive income, common stockholder’s equity, and cash flows, for each of the three years in the period ended December 31, 2017, and the related notes and the schedule listed in the Index at Item 15 of Part IV (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Hartford, Connecticut
February 23, 2018

We have served as the Company’s auditor since 2002.

THE CONNECTICUT LIGHT AND POWER COMPANY
BALANCE SHEETS

(Thousands of Dollars)	As of December 31,	
	2017	2016
ASSETS		
Current Assets:		
Cash	\$6,028	\$6,579
Receivables, Net	370,676	359,132
Accounts Receivable from Affiliated Companies	28,181	16,851
Unbilled Revenues	54,154	50,373
Materials, Supplies and Inventory	48,438	52,050
Regulatory Assets	200,281	335,526
Prepayments and Other Current Assets	46,926	52,670
Total Current Assets	754,684	873,181
Property, Plant and Equipment, Net	8,271,030	7,632,392
Deferred Debits and Other Assets:		
Regulatory Assets	1,444,935	1,391,564
Other Long-Term Assets	159,597	137,907
Total Deferred Debits and Other Assets	1,604,532	1,529,471
Total Assets	\$10,630,246	\$10,035,044
LIABILITIES AND CAPITALIZATION		
Current Liabilities:		
Notes Payable to Eversource Parent	\$69,500	\$80,100
Long-Term Debt – Current Portion	300,000	250,000
Accounts Payable	367,605	289,532
Accounts Payable to Affiliated Companies	82,201	88,075
Obligations to Third Party Suppliers	52,860	55,520
Regulatory Liabilities	38,967	47,055
Derivative Liabilities	54,392	77,765
Other Current Liabilities	127,234	120,399
Total Current Liabilities	1,092,759	1,008,446
Deferred Credits and Other Liabilities:		
Accumulated Deferred Income Taxes	1,103,367	1,987,661
Regulatory Liabilities	1,112,136	100,138
Derivative Liabilities	376,918	412,750
Accrued Pension, SERP and PBOP	354,469	300,208
Other Long-Term Liabilities	128,135	123,244
Total Deferred Credits and Other Liabilities	3,075,025	2,924,001
Capitalization:		
Long-Term Debt	2,759,135	2,516,010
Preferred Stock Not Subject to Mandatory Redemption	116,200	116,200

Common Stockholder's Equity:		
Common Stock	60,352	60,352
Capital Surplus, Paid In	2,110,765	2,110,714
Retained Earnings	1,415,741	1,299,374
Accumulated Other Comprehensive Income/(Loss)	269	(53)
Common Stockholder's Equity	3,587,127	3,470,387
Total Capitalization	6,462,462	6,102,597

Commitments and Contingencies (Note 11)

Total Liabilities and Capitalization	\$ 10,630,246	\$ 10,035,044
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The accompanying notes are an integral part of these financial statements.

THE CONNECTICUT LIGHT AND POWER COMPANY
STATEMENTS OF INCOME

(Thousands of Dollars)	For the Years Ended December 31,		
	2017	2016	2015
Operating Revenues	\$2,887,359	\$2,805,955	\$2,802,675
Operating Expenses:			
Purchased Power and Transmission	930,780	919,723	1,054,313
Operations and Maintenance	500,358	490,069	487,281
Depreciation	249,352	230,489	215,289
Amortization of Regulatory Assets, Net	83,166	38,765	12,318
Energy Efficiency Programs	114,713	154,015	153,725
Taxes Other Than Income Taxes	323,887	299,719	268,688
Total Operating Expenses	2,202,256	2,132,780	2,191,614
Operating Income	685,103	673,175	611,061
Interest Expense	142,973	144,110	145,795
Other Income, Net	21,242	13,497	11,490
Income Before Income Tax Expense	563,372	542,562	476,756
Income Tax Expense	186,646	208,308	177,396
Net Income	\$376,726	\$334,254	\$299,360

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

STATEMENTS OF COMPREHENSIVE INCOME

(Thousands of Dollars)	For the Years Ended December 31,		
	2017	2016	2015
Net Income	\$376,726	\$334,254	\$299,360
Other Comprehensive Income, Net of Tax:			
Qualified Cash Flow Hedging Instruments	334	444	444
Changes in Unrealized (Losses)/Gains on Marketable Securities	(12	) 79	(89
Other Comprehensive Income, Net of Tax	322	523	355
Comprehensive Income	\$377,048	\$334,777	\$299,715

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

THE CONNECTICUT LIGHT AND POWER COMPANY
STATEMENTS OF COMMON STOCKHOLDER'S EQUITY

(Thousands of Dollars, Except Stock Information)	Common Stock		Capital Surplus, Paid In	Retained Earnings	Accumulated Other Comprehensive (Loss)/Income	Total Common Stockholder's Equity
	Stock	Amount				
Balance as of January 1, 2015	6,035,205	\$60,352	\$1,804,869	\$1,072,477	\$ (931)	\$2,936,767
Net Income				299,360		299,360
Dividends on Preferred Stock				(5,559)		(5,559)
Dividends on Common Stock				(196,000)		(196,000)
Allocation of Benefits - ESOP			743			743
Capital Stock Expenses, Net			51			51
Capital Contributions from Eversource Parent			105,000			105,000
Other Comprehensive Income					355	355
Balance as of December 31, 2015	6,035,205	60,352	1,910,663	1,170,278	(576)	3,140,717
Net Income				334,254		334,254
Dividends on Preferred Stock				(5,559)		(5,559)
Dividends on Common Stock				(199,599)		(199,599)
Capital Stock Expenses, Net			51			51
Capital Contributions from Eversource Parent			200,000			200,000
Other Comprehensive Income					523	523
Balance as of December 31, 2016	6,035,205	60,352	2,110,714	1,299,374	(53)	3,470,387
Net Income				376,726		376,726
Dividends on Preferred Stock				(5,559)		(5,559)
Dividends on Common Stock				(254,800)		(254,800)
Capital Stock Expenses, Net			51			51
Other Comprehensive Income					322	322
Balance as of December 31, 2017	6,035,205	\$60,352	\$2,110,765	\$1,415,741	\$ 269	\$3,587,127

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

THE CONNECTICUT LIGHT AND POWER COMPANY
STATEMENTS OF CASH FLOWS

(Thousands of Dollars)	For the Years Ended December		
	31, 2017	2016	2015
Operating Activities:			
Net Income	\$376,726	\$334,254	\$299,360
Adjustments to Reconcile Net Income to Net Cash Flows Provided by Operating Activities:			
Depreciation	249,352	230,489	215,289
Deferred Income Taxes	119,295	168,919	135,994
Pension, SERP and PBOP Expense, Net of Pension Contributions	7,409	6,948	14,091
Regulatory Underrecoveries, Net	(8,017)	(68,730)	(53,781)
Amortization of Regulatory Assets, Net	83,166	38,765	12,318
Refunds/(Payments) Related to Spent Nuclear Fuel, Net	—	13,568	(242,231)
Other	(37,648)	(32,212)	(36,385)
Changes in Current Assets and Liabilities:			
Receivables and Unbilled Revenues, Net	(47,768)	3,229	(29,195)
Materials and Supplies	3,612	(8,926)	22,810
Taxes Receivable/Accrued, Net	(9,688)	123,692	(13,517)
Accounts Payable	48,032	3,252	(16,910)
Other Current Assets and Liabilities, Net	20,080	(1,770)	(9,514)
Net Cash Flows Provided by Operating Activities	804,551	811,478	298,329
Investing Activities:			
Investments in Property, Plant and Equipment	(824,383)	(611,984)	(523,849)
Proceeds from the Sale of Property, Plant and Equipment	—	9,047	—
Other Investing Activities	236	296	(716)
Net Cash Flows Used in Investing Activities	(824,147)	(602,641)	(524,565)
Financing Activities:			
Cash Dividends on Common Stock	(254,800)	(199,599)	(196,000)
Cash Dividends on Preferred Stock	(5,559)	(5,559)	(5,559)
(Decrease)/Increase in Notes Payable to Eversource Parent	(10,600)	(197,300)	144,000
Issuance of Long-Term Debt	525,000	—	350,000
Retirements of Long-Term Debt	(250,000)	—	(162,000)
Capital Contributions from Eversource Parent	—	200,000	105,000
Other Financing Activities	15,004	(857)	(10,504)
Net Cash Flows Provided by/(Used in) Financing Activities	19,045	(203,315)	224,937
Net (Decrease)/Increase in Cash	(551)	5,522	(1,299)
Cash - Beginning of Year	6,579	1,057	2,356
Cash - End of Year	\$6,028	\$6,579	\$1,057

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

Company Report on Internal Controls Over Financial Reporting

NSTAR Electric Company

Management is responsible for the preparation, integrity, and fair presentation of the accompanying consolidated financial statements of NSTAR Electric Company and subsidiary (NSTAR Electric or the Company) and of other sections of this annual report.

Management is responsible for establishing and maintaining adequate internal controls over financial reporting. The Company's internal control framework and processes have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. There are inherent limitations of internal controls over financial reporting that could allow material misstatements due to error or fraud to occur and not be prevented or detected on a timely basis by employees during the normal course of business. Additionally, internal controls over financial reporting may become inadequate in the future due to changes in the business environment.

Under the supervision and with the participation of the principal executive officer and principal financial officer, NSTAR Electric conducted an evaluation of the effectiveness of internal controls over financial reporting based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation under the framework in COSO, management concluded that internal controls over financial reporting were effective as of December 31, 2017.

February 23, 2018

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholder of NSTAR Electric Company:

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of NSTAR Electric Company and subsidiary (the “Company”) as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, common stockholder’s equity, and cash flows, for each of the three years in the period ended December 31, 2017, and the related notes and the schedule listed in the Index at Item 15 of Part IV (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1 to the financial statements, the Company merged with Western Massachusetts Electric Company on December 31, 2017 and financial information is presented as combined and consolidated for all periods presented.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Hartford, Connecticut
February 23, 2018

We have served as the Company’s auditor since 2012.

NSTAR ELECTRIC COMPANY AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

(Thousands of Dollars)	As of December 31,	
	2017	2016
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 1,763	\$ 3,494
Receivables, Net	341,341	312,497
Accounts Receivable from Affiliated Companies	40,723	17,771
Unbilled Revenues	49,865	46,961
Materials, Supplies and Inventory	95,517	70,907
Regulatory Assets	333,882	353,522
Prepayments and Other Current Assets	24,499	56,066
Total Current Assets	887,590	861,218
Property, Plant and Equipment, Net	8,246,494	7,730,096
Deferred Debits and Other Assets:		
Regulatory Assets	1,190,575	1,185,037
Prepaid PBOP	126,948	91,607
Other Long-Term Assets	84,766	89,635
Total Deferred Debits and Other Assets	1,402,289	1,366,279
Total Assets	\$ 10,536,373	\$ 9,957,593
LIABILITIES AND CAPITALIZATION		
Current Liabilities:		
Notes Payable	\$ 234,000	\$ 126,500
Notes Payable to Eversource Parent	—	51,000
Long-Term Debt – Current Portion	—	400,000
Accounts Payable	340,115	288,634
Accounts Payable to Affiliated Companies	91,260	105,775
Obligations to Third Party Suppliers	88,721	66,371
Renewable Portfolio Standards Compliance Obligations	111,524	95,954
Regulatory Liabilities	79,562	78,541
Other Current Liabilities	79,916	84,933
Total Current Liabilities	1,025,098	1,297,708
Deferred Credits and Other Liabilities:		
Accumulated Deferred Income Taxes	1,275,814	2,327,085
Regulatory Liabilities	1,514,451	409,050
Accrued Pension and SERP	89,995	128,751
Other Long-Term Liabilities	198,176	164,503
Total Deferred Credits and Other Liabilities	3,078,436	3,029,389
Capitalization:		
Long-Term Debt	2,943,759	2,244,653

Preferred Stock Not Subject to Mandatory Redemption	43,000	43,000
Common Stockholder's Equity:		
Common Stock	—	—
Capital Surplus, Paid In	1,502,942	1,500,642
Retained Earnings	1,944,961	1,844,195
Accumulated Other Comprehensive Loss	(1,823)	(1,994)
Common Stockholder's Equity	3,446,080	3,342,843
Total Capitalization	6,432,839	5,630,496

Commitments and Contingencies (Note 11)

Total Liabilities and Capitalization	\$10,536,373	\$9,957,593
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The accompanying notes are an integral part of these consolidated financial statements.

NSTAR ELECTRIC COMPANY AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME

(Thousands of Dollars)	For the Years Ended December 31,		
	2017	2016	2015
Operating Revenues	\$2,980,629	\$3,041,588	\$3,198,887
Operating Expenses:			
Purchased Power and Transmission	1,025,414	1,084,324	1,366,779
Operations and Maintenance	463,737	489,882	392,888
Depreciation	274,008	259,262	240,132
Amortization of Regulatory Assets, Net	33,831	34,332	1,556
Energy Efficiency Programs	294,053	321,787	267,622
Taxes Other Than Income Taxes	181,959	177,837	171,563
Total Operating Expenses	2,273,002	2,367,424	2,440,540
Operating Income	707,627	674,164	758,347
Interest Expense	105,729	108,428	100,139
Other Income, Net	14,913	10,830	7,854
Income Before Income Tax Expense	616,811	576,566	666,062
Income Tax Expense	242,085	225,789	265,014
Net Income	\$374,726	\$350,777	\$401,048

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Thousands of Dollars)	For the Years Ended December 31,		
	2017	2016	2015
Net Income	\$374,726	\$350,777	\$401,048
Other Comprehensive Income, Net of Tax:			
Changes in Funded Status of SERP Benefit Plan	(264)	(177)	103
Qualified Cash Flow Hedging Instruments	438	437	380
Changes in Unrealized (Losses)/Gains on Marketable Securities	(3)	22	(25)
Other Comprehensive Income, Net of Tax	171	282	458
Comprehensive Income	\$374,897	\$351,059	\$401,506

The accompanying notes are an integral part of these consolidated financial statements.

NSTAR ELECTRIC COMPANY AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDER'S EQUITY

(Thousands of Dollars, Except Stock Information)	Common Stock	Capital Surplus, Amount Paid In	Retained Earnings	Accumulated Other Comprehensive Loss	Total Common Stockholder's Equity
Balance as of January 1, 2015	200	\$ —	\$1,647,790	\$ (2,734)	) \$3,041,308
Net Income			401,048		401,048
Dividends on Preferred Stock			(1,960)	)	(1,960)
Dividends on Common Stock			(235,200)	)	(235,200)
Other Changes in Stockholder's Equity		1,390			1,390
Other Comprehensive Income				458	458
Balance as of December 31, 2015	200	—	1,811,678	(2,276)	) 3,207,044
Net Income			350,777		350,777
Dividends on Preferred Stock			(1,960)	)	(1,960)
Dividends on Common Stock			(316,300)	)	(316,300)
Capital Contributions from Eversource Parent		103,000			103,000
Other Comprehensive Income				282	282
Balance as of December 31, 2016	200	—	1,844,195	(1,994)	) 3,342,843
Net Income			374,726		374,726
Dividends on Preferred Stock			(1,960)	)	(1,960)
Dividends on Common Stock			(272,000)	)	(272,000)
Capital Contributions from Eversource Parent		2,300			2,300
Other Comprehensive Income				171	171
Balance as of December 31, 2017	200	\$ —	\$1,944,961	\$ (1,823)	) \$3,446,080

The accompanying notes are an integral part of these consolidated financial statements.

NSTAR ELECTRIC COMPANY AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Thousands of Dollars)	For the Years Ended December		
	31, 2017	2016	2015
Operating Activities:			
Net Income	\$374,726	\$350,777	\$401,048
Adjustments to Reconcile Net Income to Net Cash Flows Provided by Operating Activities:			
Depreciation	274,008	259,262	240,132
Deferred Income Taxes	110,499	101,698	212,583
Pension, SERP and PBOP (Income)/Expense, Net	(9,509)	(771)	11,639
Pension and PBOP Contributions	(90,721)	(37,305)	(9,886)
Regulatory (Under)/Over Recoveries, Net	(20,009)	118,385	(141,824)
Amortization of Regulatory Assets, Net	33,831	34,332	1,556
Bad Debt Expense	21,252	31,728	19,168
Refunds/(Payments) Related to Spent Nuclear Fuel	—	8,536	(56,001)
Other	(24,868)	(59,359)	(68,275)
Changes in Current Assets and Liabilities:			
Receivables and Unbilled Revenues, Net	(50,896)	(70,302)	(17,028)
Materials, Supplies and Inventory	(24,610)	10,571	19
Taxes Receivable/Accrued, Net	39,205	60,774	62,148
Accounts Payable	(20,421)	18,000	(5,510)
Other Current Assets and Liabilities, Net	25,913	(17,607)	50,283
Net Cash Flows Provided by Operating Activities	638,400	808,719	700,052
Investing Activities:			
Investments in Property, Plant and Equipment	(719,623)	(664,932)	(604,018)
Proceeds from Sales of Marketable Securities	3,934	2,479	186,444
Purchases of Marketable Securities	(3,869)	(2,426)	(128,861)
Other Investing Activities	(3,617)	—	—
Net Cash Flows Used in Investing Activities	(723,175)	(664,879)	(546,435)
Financing Activities:			
Cash Dividends on Common Stock	(272,000)	(316,300)	(235,200)
Cash Dividends on Preferred Stock	(1,960)	(1,960)	(1,960)
Increase/(Decrease) in Short-Term Debt	56,500	(28,400)	(117,500)
Capital Contributions from Eversource Parent	2,300	103,000	—
Issuance of Long-Term Debt	700,000	300,000	250,000
Retirements of Long-Term Debt	(400,000)	(200,000)	(54,700)
Other Financing Activities	(1,796)	(866)	(2,850)
Net Cash Flows Provided by/(Used in) Financing Activities	83,044	(144,526)	(162,210)
Net Decrease in Cash and Cash Equivalents	(1,731)	(686)	(8,593)
Cash and Cash Equivalents - Beginning of Year	3,494	4,180	12,773
Cash and Cash Equivalents - End of Year	\$1,763	\$3,494	\$4,180

The accompanying notes are an integral part of these consolidated financial statements.

Company Report on Internal Controls Over Financial Reporting

Public Service Company of New Hampshire

Management is responsible for the preparation, integrity, and fair presentation of the accompanying consolidated financial statements of Public Service Company of New Hampshire and subsidiary (PSNH or the Company) and of other sections of this annual report.

Management is responsible for establishing and maintaining adequate internal controls over financial reporting. The Company's internal control framework and processes have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. There are inherent limitations of internal controls over financial reporting that could allow material misstatements due to error or fraud to occur and not be prevented or detected on a timely basis by employees during the normal course of business. Additionally, internal controls over financial reporting may become inadequate in the future due to changes in the business environment.

Under the supervision and with the participation of the principal executive officer and principal financial officer, PSNH conducted an evaluation of the effectiveness of internal controls over financial reporting based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation under the framework in COSO, management concluded that internal controls over financial reporting were effective as of December 31, 2017.

February 23, 2018

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholder of Public Service Company of New Hampshire:

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Public Service Company of New Hampshire and subsidiary (the “Company”) as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, common stockholder’s equity, and cash flows, for each of the three years in the period ended December 31, 2017, and the related notes and the schedule listed in the Index at Item 15 of Part IV (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Hartford, Connecticut
February 23, 2018

We have served as the Company’s auditor since 2002.

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

(Thousands of Dollars)	As of December 31,	
	2017	2016
ASSETS		
Current Assets:		
Cash	\$900	\$4,646
Receivables, Net	92,774	84,450
Accounts Receivable from Affiliated Companies	5,297	4,185
Unbilled Revenues	49,448	41,004
Fuel, Materials, Supplies and Inventory	40,285	162,354
Regulatory Assets	130,134	117,240
Prepayments and Other Current Assets	28,931	28,908
Assets Held for Sale	219,550	—
Total Current Assets	567,319	442,787
Property, Plant and Equipment, Net	2,642,274	3,039,313
Deferred Debits and Other Assets:		
Regulatory Assets	810,677	245,525
Other Long-Term Assets	42,391	37,720
Total Deferred Debits and Other Assets	853,068	283,245
Total Assets	\$4,062,661	\$3,765,345
LIABILITIES AND CAPITALIZATION		
Current Liabilities:		
Notes Payable to Eversource Parent	\$262,900	\$160,900
Long-Term Debt – Current Portion	110,000	70,000
Accounts Payable	128,685	85,716
Accounts Payable to Affiliated Companies	24,676	29,154
Dividends Payable to Eversource Parent	150,000	—
Regulatory Liabilities	6,251	12,659
Other Current Liabilities	67,924	43,253
Total Current Liabilities	750,436	401,682
Deferred Credits and Other Liabilities:		
Accumulated Deferred Income Taxes	443,468	785,385
Regulatory Liabilities	444,397	44,779
Accrued Pension, SERP and PBOP	124,639	94,652
Other Long-Term Liabilities	56,689	49,442
Total Deferred Credits and Other Liabilities	1,069,193	974,258
Capitalization:		
Long-Term Debt	892,438	1,002,048
Common Stockholder's Equity:		
Common Stock	—	—

Capital Surplus, Paid In	843,134	843,134
Retained Earnings	511,382	549,286
Accumulated Other Comprehensive Loss	(3,922)	(5,063)
Common Stockholder's Equity	1,350,594	1,387,357
Total Capitalization	2,243,032	2,389,405

Commitments and Contingencies (Note 11)

Total Liabilities and Capitalization	\$4,062,661	\$3,765,345
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The accompanying notes are an integral part of these consolidated financial statements.

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME

(Thousands of Dollars)	For the Years Ended December		
	31, 2017	2016	2015
Operating Revenues	\$981,624	\$959,482	\$972,203
Operating Expenses:			
Purchased Power, Fuel and Transmission	237,478	210,786	247,721
Operations and Maintenance	257,185	260,779	276,554
Depreciation	128,192	116,519	105,372
Amortization of Regulatory (Liabilities)/Assets, Net	(16,577)	11,170	16,276
Energy Efficiency Programs	13,788	14,204	14,324
Taxes Other Than Income Taxes	89,760	82,964	81,779
Total Operating Expenses	709,826	696,422	742,026
Operating Income	271,798	263,060	230,177
Interest Expense	51,007	50,040	45,990
Other Income, Net	3,880	1,329	3,315
Income Before Income Tax Expense	224,671	214,349	187,502
Income Tax Expense	88,675	82,364	73,060
Net Income	\$135,996	\$131,985	\$114,442

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Thousands of Dollars)	For the Years Ended December		
	31, 2017	2016	2015
Net Income	\$135,996	\$131,985	\$114,442
Other Comprehensive Income, Net of Tax:			
Qualified Cash Flow Hedging Instruments	1,162	1,162	1,162
Changes in Unrealized (Losses)/Gains on Marketable Securities	(21)	136	(154)
Other Comprehensive Income, Net of Tax	1,141	1,298	1,008
Comprehensive Income	\$137,137	\$133,283	\$115,450

The accompanying notes are an integral part of these consolidated financial statements.

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDER'S EQUITY

	Common Stock	Capital Surplus, Paid In	Retained Earnings	Accumulated Other Comprehensive Loss	Total Common Stockholder's Equity
(Thousands of Dollars, Except Stock Information)	Stock	Amount			
Balance as of January 1, 2015	301	\$ —	\$748,240	\$486,459	\$ (7,369) \$1,227,330
Net Income				114,442	114,442
Dividends on Common Stock			(106,000)		(106,000)
Allocation of Benefits - ESOP		394			394
Other Comprehensive Income				1,008	1,008
Balance as of December 31, 2015	301	—	748,634	494,901	(6,361) 1,237,174
Net Income				131,985	131,985
Dividends on Common Stock			(77,600)		(77,600)
Capital Contributions from Eversource Parent		94,500			94,500
Other Comprehensive Income				1,298	1,298
Balance as of December 31, 2016	301	—	843,134	549,286	(5,063) 1,387,357
Net Income				135,996	135,996
Dividends on Common Stock			(173,900)		(173,900)
Other Comprehensive Income				1,141	1,141
Balance as of December 31, 2017	301	\$ —	\$843,134	\$511,382	\$ (3,922) \$1,350,594

The accompanying notes are an integral part of these consolidated financial statements.

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Thousands of Dollars)	For the Years Ended December		
	31, 2017	2016	2015
Operating Activities:			
Net Income	\$ 135,996	\$ 131,985	\$ 114,442
Adjustments to Reconcile Net Income to Net Cash Flows Provided by Operating Activities:			
Depreciation	128,192	116,519	105,372
Deferred Income Taxes	63,883	87,345	83,776
Pension, SERP and PBOP Expense	1,368	875	4,580
Pension Contributions	(800)	(17,078)	(982)
Regulatory (Under)/Over Recoveries, Net	(30,788)	(4,491)	41
Amortization of Regulatory (Liabilities)/Assets, Net	(16,577)	11,170	16,276
Refunds Related to Spent Nuclear Fuel	—	3,926	979
Other	(10,088)	6,521	8,677
Changes in Current Assets and Liabilities:			
Receivables and Unbilled Revenues, Net	(22,055)	(18,822)	(4,750)
Fuel, Materials, Supplies and Inventory	5,519	(5,485)	(8,729)
Taxes Receivable/Accrued, Net	339	32,303	(23,909)
Accounts Payable	29,453	11,353	(22,203)
Other Current Assets and Liabilities, Net	16,458	5,651	953
Net Cash Flows Provided by Operating Activities	300,900	361,772	274,523
Investing Activities:			
Investments in Property, Plant and Equipment	(312,720)	(305,430)	(308,036)
Other Investing Activities	199	326	306
Net Cash Flows Used in Investing Activities	(312,521)	(305,104)	(307,730)
Financing Activities:			
Cash Dividends on Common Stock	(23,900)	(77,600)	(106,000)
Increase/(Decrease) in Notes Payable to Eversource Parent	102,000	(70,400)	140,800
Retirements of Long-Term Debt	(70,000)	—	—
Capital Contributions from Eversource Parent	—	94,500	—
Other Financing Activities	(225)	(255)	(349)
Net Cash Flows Provided by/(Used in) Financing Activities	7,875	(53,755)	34,451
Net (Decrease)/Increase in Cash	(3,746)	2,913	1,244
Cash - Beginning of Year	4,646	1,733	489
Cash - End of Year	\$ 900	\$ 4,646	\$ 1,733

The accompanying notes are an integral part of these consolidated financial statements.

EVERSOURCE ENERGY AND SUBSIDIARIES
THE CONNECTICUT LIGHT AND POWER COMPANY
NSTAR ELECTRIC COMPANY AND SUBSIDIARY
PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE AND SUBSIDIARY

COMBINED NOTES TO FINANCIAL STATEMENTS

Refer to the Glossary of Terms included in this combined Annual Report on Form 10-K for abbreviations and acronyms used throughout the combined notes to the financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. About Eversource, CL&P, NSTAR Electric and PSNH

Eversource Energy is a public utility holding company primarily engaged, through its wholly-owned regulated utility subsidiaries, in the energy delivery business. Eversource Energy's wholly-owned regulated utility subsidiaries consist of CL&P, NSTAR Electric and PSNH (electric utilities), Yankee Gas and NSTAR Gas (natural gas utilities) and Aquarion (water utilities). Eversource provides energy delivery and/or water service to approximately 4 million electric, natural gas and water customers through eight regulated utilities in Connecticut, Massachusetts and New Hampshire.

On December 4, 2017, Eversource completed the acquisition of Aquarion (formerly Macquarie Utilities Inc.) from Macquarie Infrastructure Partners for \$1.675 billion, consisting of approximately \$880 million in cash and \$795 million of assumed Aquarion debt. Aquarion became an indirect wholly-owned subsidiary of Eversource. Aquarion is a holding company primarily engaged, through its three separate regulated water utility subsidiaries, in the water collection, treatment and distribution business. Eversource's consolidated financial information includes Aquarion and its subsidiaries' activity from December 4, 2017 through December 31, 2017. See Note 22A, "Acquisition of Aquarion and Goodwill - Acquisition of Aquarion," for further information.

On December 31, 2017, Western Massachusetts Electric Company ("WMECO") was merged into NSTAR Electric. In accordance with accounting guidance on combinations between entities under common control, the net assets, results of operations and cash flows of WMECO are reflected in the NSTAR Electric financial statements. NSTAR Electric's financial statements for all periods presented in this combined Annual Report on Form 10-K have been retrospectively recast as if the merger occurred on the first day of the earliest reporting period. All contracts and operations of WMECO are now part of NSTAR Electric. Balance sheet and income statement adjustments were made for consistent presentation between WMECO's and NSTAR Electric's financial statements, including the elimination of intercompany transactions and a merger-related transaction for common equity. Balance sheet adjustments included the elimination of intercompany accounts receivable and payable between NSTAR Electric and WMECO. Income statement adjustments included the elimination of intercompany revenues and expenses between NSTAR Electric and WMECO.

Eversource, CL&P, NSTAR Electric and PSNH are reporting companies under the Securities Exchange Act of 1934. Eversource Energy is a public utility holding company under the Public Utility Holding Company Act of 2005.

Arrangements among the regulated electric companies and other Eversource companies, outside agencies and other utilities covering interconnections, interchange of electric power and sales of utility property are subject to regulation by the FERC. Eversource's regulated companies are subject to regulation of rates, accounting and other matters by the FERC and/or applicable state regulatory commissions (the PURA for CL&P and Yankee Gas, the DPU for NSTAR Electric and NSTAR Gas, the NHPUC for PSNH, and the PURA, the DPU and the NHPUC for Aquarion).

CL&P, NSTAR Electric and PSNH furnish franchised retail electric service in Connecticut, Massachusetts and New Hampshire. Yankee Gas and NSTAR Gas are engaged in the distribution and sale of natural gas to customers within Connecticut and Massachusetts, respectively. Aquarion is engaged in the collection, treatment and distribution of water in Connecticut, Massachusetts and New Hampshire. CL&P, NSTAR Electric and PSNH's results include the operations of their respective distribution and transmission businesses. The distribution business also included the results of PSNH's generation facilities and NSTAR Electric's solar power facilities. Eversource also has a regulated subsidiary, NPT, which was formed to construct, own and operate the Northern Pass line, a HVDC transmission line from Québec to New Hampshire under development that will interconnect with a new HVDC transmission line being developed by a transmission subsidiary of HQ.

On January 10, 2018, Eversource and PSNH completed the sale of PSNH's thermal generation assets. See Note 12, "Assets Held for Sale," for further information.

Eversource Service, Eversource's service company, and several wholly-owned real estate subsidiaries of Eversource, provide support services to Eversource, including its regulated companies. Eversource holds several equity ownership interests, which are accounted for under the equity method. Eversource also consolidates the operations of CYAPC and YAEC, both of which are inactive regional nuclear generation companies engaged in the long-term storage of their spent nuclear fuel.

B. Basis of Presentation

The consolidated financial statements of Eversource, NSTAR Electric and PSNH include the accounts of each of their respective subsidiaries. Intercompany transactions have been eliminated in consolidation. The accompanying consolidated financial statements of Eversource, NSTAR Electric and PSNH and the financial statements of CL&P are herein collectively referred to as the "financial statements."

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Eversource consolidates CYAPC and YAEC because CL&P's, NSTAR Electric's and PSNH's combined ownership interest in each of these entities is greater than 50 percent. Intercompany transactions between CL&P, NSTAR Electric and PSNH and the CYAPC and YAEC companies have been eliminated in consolidation of the Eversource financial statements.

Eversource's utility subsidiaries' electric and natural gas distribution (including generation assets), transmission and water businesses are subject to rate regulation that is based on cost recovery and meets the criteria for application of accounting guidance for entities with rate-regulated operations, which considers the effect of regulation on the differences in the timing of the recognition of certain revenues and expenses from those of other businesses and industries. See Note 2, "Regulatory Accounting," for further information.

Certain reclassifications of prior year data were made in the accompanying financial statements to conform to the current year presentation.

In accordance with accounting guidance on noncontrolling interests in consolidated financial statements, the Preferred Stock of CL&P and the Preferred Stock of NSTAR Electric, which are not owned by Eversource or its consolidated subsidiaries and are not subject to mandatory redemption, have been presented as noncontrolling interests in the financial statements of Eversource. The Preferred Stock of CL&P and the Preferred Stock of NSTAR Electric are considered to be temporary equity and have been classified between liabilities and permanent shareholders' equity on the balance sheets of Eversource, CL&P and NSTAR Electric due to a provision in the preferred stock agreements of both CL&P and NSTAR Electric that grant preferred stockholders the right to elect a majority of the CL&P and NSTAR Electric Boards of Directors, respectively, should certain conditions exist, such as if preferred dividends are in arrears for a specified amount of time. The Net Income reported in the statements of income and cash flows represents net income prior to apportionment to noncontrolling interests, which is represented by dividends on preferred stock of CL&P and NSTAR Electric.

As of December 31, 2017 and 2016, Eversource's carrying amount of goodwill was approximately \$4.4 billion and \$3.5 billion, respectively. Eversource performs an assessment for possible impairment of its goodwill at least annually. Eversource completed its annual goodwill impairment test for each of its reporting units as of October 1, 2017 and determined that no impairment exists. See Note 22B, "Acquisition of Aquarion and Goodwill - Goodwill," for further information.

C. Northern Pass

Northern Pass is Eversource's planned 1,090 MW HVDC transmission line that will interconnect from the Québec-New Hampshire border to Franklin, New Hampshire and an associated alternating current radial transmission line between Franklin and Deerfield, New Hampshire.

On February 1, 2018, the New Hampshire Site Evaluation Committee ("NHSEC") voted to deny Northern Pass' siting application. On February 14, 2018, pursuant to the NHSEC's decision, the Massachusetts EDCs, in coordination with

the DOER and an independent evaluator, notified NPT that the EDCs will continue contract negotiations, with the option of discontinuing discussions and terminating its conditional selection by March 27, 2018.

Consistent with Eversource's and HQ's long-term relationship to bring clean energy into New England, Eversource and HQ continue to support Northern Pass and the many benefits this project will bring to our customers and region. Eversource intends to seek reconsideration of the NHSEC's decision and to review all options for moving this critical clean energy project forward.

As of December 31, 2017, Eversource has approximately \$277 million in capitalized costs associated with Northern Pass. The Company continues to believe that the Northern Pass project is probable of being placed in service. If in the future, events and changes in circumstances indicate that the Northern Pass project's capitalized costs may not be fully recoverable, the Company will then evaluate those costs for impairment. Should the Company conclude that these capitalized costs are impaired, this would have a significant negative impact on Eversource's financial position, results of operations, and cash flows.

D. Accounting Standards

Accounting Standards Issued but Not Yet Effective: In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers, which amends existing revenue recognition guidance and is required to be applied either fully retrospectively (to each reporting period presented) or under a modified retrospective method (cumulatively at the date of initial application). The FASB deferred implementation of ASU 2014-09 in ASU 2015-14, Revenue from Contracts with Customers (Topic: 606): Deferral of the Effective Date. The new accounting guidance is effective for interim and annual periods beginning in 2018 with early adoption permitted. The Company implemented the standard in the first quarter of 2018 using the modified retrospective method of adoption. Under this method of adoption, prior year reported results are not restated.

Under the new standard, an entity must identify the performance obligations in a contract, determine the transaction price and allocate the price to specific performance obligations to recognize the revenue when the obligation is completed. The amendments in this ASU also require disclosure of sufficient information to allow users to understand the nature, amount, timing and uncertainty of revenue and cash flow arising from contracts.

The Company has reviewed and performed accounting analyses of its revenue streams under contracts with customers. These accounting analyses included reviewing representative contracts and tariffs for each material revenue stream and evaluating them under the new guidance. The majority of the Company's sales are derived from tariffs to provide electric and natural gas to customers. For such tariffs, the Company expects that the revenue from contracts with customers under ASU 2014-09 will be equivalent to revenue from electricity and natural gas supplied and billed in that period (including estimated unbilled revenues), which is consistent with current practice.

Based on our assessments, the Company has identified one item that will be accounted for differently under the new revenue guidance as compared to current guidance. As a result of applying guidance on the unit of account under the new standard, purchases and sales of power from and to ISO-New England will be accounted for net by the hour, rather than net by the month, with no impact on net income.

After taking into consideration this identified change, the Company has concluded that the new guidance will not have a material impact on the amounts or timing of revenue recognition. Implementation of the ASU will not have a material effect on the results of operations, financial position or cash flows of Eversource, CL&P, NSTAR Electric or PSNH. Significant additional disclosures of the nature, amount, timing and uncertainty of revenues and cash flows arising from contracts with customers will be presented beginning in the first quarter of 2018.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Liabilities, which is required to be implemented in the first quarter of 2018. The ASU will remove the available-for-sale designation for equity securities, whereby changes in fair value are recorded in accumulated other comprehensive income within shareholders' equity, and will require changes in fair value of all equity securities to be recorded in earnings beginning on January 1, 2018, with the unrealized gain or loss on available-for-sale equity securities as of that date reclassified to retained earnings as a cumulative effect of adoption.

The fair value of available-for-sale equity securities subject to this guidance as of December 31, 2017 was approximately \$51 million with an unrealized loss of \$0.1 million. The unrealized loss recorded in AOCI will be recorded as an adjustment to the opening balance of retained earnings as of January 1, 2018. The remaining available-for-sale equity securities included in marketable securities on the balance sheet are held in nuclear decommissioning trusts and are subject to regulatory accounting treatment and will not be impacted by this guidance. Implementation of the ASU for other financial instruments is not expected to have a material impact on the financial statements of Eversource, CL&P, NSTAR Electric or PSNH.

In February 2016, the FASB issued ASU 2016-02, Leases, which changes existing lease accounting guidance and is required to be applied in the first quarter of 2019, with earlier application permitted. The ASU lease criteria are required to be applied to leases and lease renewals entered into effective January 1, 2019, and leases entered into before that date are required to be recognized and measured using a modified retrospective approach. The Company is reviewing the requirements of ASU 2016-02, including balance sheet recognition of leases previously deemed to be operating leases, and expects to implement the ASU in the first quarter of 2019.

In March 2017, the FASB issued ASU 2017-07, Compensation – Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, required to be implemented in the first quarter of 2018. The ASU requires separate presentation of service cost from other components of net pension and PBOP costs, with the other components presented as non-operating income and not subject to capitalization. The ASU is required to be applied retrospectively for the separate presentation in the income statement of service costs and other components and prospectively in the balance sheet for the capitalization of only the service cost component. The implementation of the ASU will not have an impact on the net income of Eversource, CL&P, NSTAR Electric or PSNH.

E. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and short-term cash investments that are highly liquid in nature and have original maturities of three months or less. At the end of each reporting period, any overdraft amounts are reclassified from Cash and Cash Equivalents to Accounts Payable on the balance sheets.

F. Provision for Uncollectible Accounts

Eversource, including CL&P, NSTAR Electric and PSNH, presents its receivables at estimated net realizable value by maintaining a provision for uncollectible accounts. This provision is determined based upon a variety of judgments and factors, including the application of an estimated uncollectible percentage to each receivable aging category. The estimate is based upon historical collection and write-off experience and management's assessment of collectability from customers. Management continuously assesses the collectability of receivables and adjusts collectability estimates based on actual experience. Receivable balances are written off against the provision for uncollectible accounts when the customer accounts are terminated and these balances are deemed to be uncollectible.

The PURA allows CL&P and Yankee Gas to accelerate the recovery of accounts receivable balances attributable to qualified customers under financial or medical duress (uncollectible hardship accounts receivable) outstanding for greater than 180 days and 90 days, respectively. The DPU allows NSTAR Electric and NSTAR Gas to recover in rates, amounts associated with certain uncollectible hardship accounts receivable. These uncollectible hardship customer account balances are included in Regulatory Assets or Other Long-Term Assets on the balance sheets.

The total provision for both uncollectible accounts and for uncollectible hardship accounts (the uncollectible hardship balance is included in the total provision) is included in Receivables, Net on the balance sheets, and was as follows:

	Total Provision			
	for		Uncollectible	
	Uncollectible		Hardship	
	Accounts		Accounts	
	As of	As of		
	December 31,	December 31,		
(Millions of Dollars)	2017	2016	2017	2016
Eversource	\$195.7	\$200.6	\$122.5	\$119.9
CL&P	78.9	86.4	65.5	67.7
NSTAR Electric	69.7	70.3	40.3	36.1
PSNH	10.5	9.9	—	—

G. Fuel, Materials, Supplies and Inventory

Fuel, Materials, Supplies and Inventory include natural gas, coal, biomass and oil inventories, materials and supplies purchased primarily for construction or operation and maintenance purposes, RECs and emission allowances.

Inventory is valued at the lower of cost or net realizable value. RECs are purchased from suppliers of renewable sources of generation and are used to meet state mandated Renewable Portfolio Standards requirements.

PSNH is subject to federal and state laws and regulations that regulate emissions of air pollutants, including SO₂, CO₂, and NO_x related to its regulated generation units, and used SO₂, CO₂, and NO_x emissions allowances. SO₂, CO₂, and NO_x emissions allowances were charged to expense based on their average cost as they were utilized against emissions volumes at PSNH's generating units.

On October 11, 2017, PSNH entered into two Purchase and Sale Agreements ("Agreements") to sell its thermal and hydroelectric generation assets. The NHPUC approved the Agreements in late November 2017 and on January 10, 2018, PSNH completed the sale of its thermal generation assets. As of December 31, 2017, PSNH has classified its generation assets, which included coal, biomass and oil inventories and emission allowances, as held for sale. As of December 31, 2016, these inventories were recorded within Fuel, Materials, Supplies and Inventory on the balance sheet. See Note 12, "Assets Held for Sale," for further information.

The carrying amounts of fuel, materials and supplies, RECs, and emission allowances were as follows:

	As of December 31,							
	2017		2016		2017		2016	
(Millions of Dollars)	Eversource	CL&P	NSTAR Electric	PSNH	Eversource	CL&P	NSTAR Electric	PSNH
Current:								
Fuel	\$29.7	\$	—\$	—\$	—\$135.7	\$	—\$	—\$99.9
Materials and Supplies	117.1	44.4	45.1	18.5	142.7	48.2	39.7	47.3
RECs	76.3	4.0	50.4	21.8	47.9	3.9	31.2	12.8
Emission Allowances	—	—	—	—	2.4	—	—	2.4
Long-Term:								
Emission Allowances	—	—	—	—	17.5	—	—	17.5

H. Deposits

As of December 31, 2017, Eversource, CL&P, NSTAR Electric and PSNH had \$24.5 million, \$3.1 million, \$12.8 million and \$0.5 million, respectively, of cash collateral posted not subject to master netting agreements, with ISO-NE related to energy transactions, which was included in Prepayments and Other Current Assets on the balance sheets.

As of December 31, 2016, these amounts were \$21.7 million, \$1.4 million, \$11.8 million and \$0.5 million for Eversource, CL&P, NSTAR Electric and PSNH, respectively.

I. Fair Value Measurements

Fair value measurement guidance is applied to derivative contracts that are not elected or designated as "normal purchases" or "normal sales" ("normal") and to the marketable securities held in trusts. Fair value measurement guidance is also applied to valuations of the investments used to calculate the funded status of pension and PBOP plans, the nonrecurring fair value measurements of nonfinancial assets such as goodwill and AROs, and the estimated fair value of preferred stock and long-term debt.

Fair Value Hierarchy: In measuring fair value, Eversource uses observable market data when available in order to minimize the use of unobservable inputs. Inputs used in fair value measurements are categorized into three fair value hierarchy levels for disclosure purposes. The entire fair value measurement is categorized based on the lowest level of input that is significant to the fair value measurement. Eversource evaluates the classification of assets and liabilities measured at fair value on a quarterly basis, and Eversource's policy is to recognize transfers between levels of the fair value hierarchy as of the end of the reporting period. The three levels of the fair value hierarchy are described below:

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - Inputs are quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which all significant inputs are observable.

Level 3 - Quoted market prices are not available. Fair value is derived from valuation techniques in which one or more significant inputs or assumptions are unobservable. Where possible, valuation techniques incorporate observable market inputs that can be validated to external sources such as industry exchanges, including prices of energy and energy-related products.

Determination of Fair Value: The valuation techniques and inputs used in Eversource's fair value measurements are described in Note 4, "Derivative Instruments," Note 5, "Marketable Securities," Note 6, "Asset Retirement Obligations," Note 9A, "Employee Benefits – Pension Benefits and Postretirement Benefits Other Than Pensions," and Note 14, "Fair Value of Financial Instruments" to the financial statements.

J. Derivative Accounting

Many of the electric and natural gas companies' contracts for the purchase and sale of energy or energy-related products are derivatives. The accounting treatment for energy contracts entered into varies and depends on the intended use of the particular contract and on whether or not the contract is a derivative. For the regulated companies, regulatory assets or regulatory liabilities are recorded to offset the fair values of derivative contracts related to energy and energy-related products, as contract settlements are recovered from, or refunded to, customers in future rates.

The application of derivative accounting is complex and requires management judgment in the following respects: identification of derivatives and embedded derivatives, election and designation of a contract as normal, and determination of the fair value of derivative contracts. All of these judgments can have a significant impact on the financial statements.

The judgment applied in the election of a contract as normal (and resulting accrual accounting) includes the conclusion that it is probable at the inception of the contract and throughout its term that it will result in physical delivery of the underlying product and that the quantities will be used or sold by the business in the normal course of business. If facts and circumstances change and management can no longer support this conclusion, then a contract cannot be considered normal and accrual accounting is terminated, and fair value accounting is applied prospectively.

The fair value of derivative contracts is based upon the contract terms and conditions and the underlying market price or fair value per unit. When quantities are not specified in the contract, the Company determines whether the contract has a determinable quantity by using amounts referenced in default provisions and other relevant sections of the contract. The fair value of derivative assets and liabilities with the same counterparty are offset and recorded as a net derivative asset or liability on the balance sheets.

All changes in the fair value of derivative contracts are recorded as regulatory assets or liabilities and do not impact net income.

For further information regarding derivative contracts, see Note 4, "Derivative Instruments," to the financial statements.

K. Investments

Investments are included in Other Long-Term Assets on the balance sheets and earnings impacts from equity investments are included in Other Income, Net on the statements of income.

Strategic, Infrastructure and Other Investments: As of December 31, 2017 and 2016, Eversource had investments totaling \$277.6 million and \$236.9 million, respectively. As of December 31, 2017 and 2016, Eversource's investments included a 15 percent ownership interest in a FERC-regulated natural gas transmission business of \$159.6

million and \$154.6 million, respectively, a 40 percent ownership interest in Access Northeast of \$31.3 million and \$30.9 million, respectively, a 37.2 percent (14.5 percent of which related to NSTAR Electric) ownership interest in two companies that transmit hydro-electricity imported from the Hydro-Quebec system in Canada of \$17.7 million and \$7.7 million, respectively, and other investments totaling \$69.0 million and \$43.7 million, respectively. NSTAR Electric's investments totaled \$6.9 million and \$3.0 million, respectively, as of December 31, 2017 and 2016.

Regional Decommissioned Nuclear Companies: CL&P, NSTAR Electric and PSNH own common stock in three regional nuclear generation companies (CYAPC, YAEC and MYAPC, collectively referred to as the "Yankee Companies"), each of which owned a single nuclear generating facility that has been decommissioned. For CL&P, NSTAR Electric and PSNH, the respective investments in CYAPC, YAEC and MYAPC are accounted for under the equity method and are included in Other Long-Term Assets on their respective balance sheets. Eversource consolidates CYAPC and YAEC because CL&P's, NSTAR Electric's and PSNH's combined ownership interest in each of these entities is greater than 50 percent. For further information on the Yankee Companies, see Note 11C, "Commitments and Contingencies – Spent Nuclear Fuel Obligations – Yankee Companies," to the financial statements.

Equity in Earnings and Dividends from Equity Investments: For the years ended December 31, 2017, 2016 and 2015, Eversource had equity in earnings of \$27.4 million, \$0.2 million, and \$0.9 million, respectively. Eversource received dividends from its equity method investees of \$20.0 million and \$0.1 million, respectively, for the years ended December 31, 2017 and 2016.

L. Revenues

Retail Revenues: Retail revenues are based on rates approved by respective state regulatory commissions. In general, rates can only be changed through formal proceedings with the state regulatory commissions. These rates are designed to recover the costs to provide service to customers, and include a return on investment. Regulatory commission-approved tracking mechanisms are also used to recover certain costs on a fully-reconciling basis. These tracking mechanisms require rates to be changed periodically to ensure recovery of actual costs incurred.

Certain Eversource electric, natural gas and water companies, including CL&P and NSTAR Electric (for a portion of its customers), have a regulatory commission approved revenue decoupling mechanism ("decoupled companies"). Distribution revenues are decoupled from customer sales volumes, where applicable, which breaks the relationship between sales volumes and revenues recognized. The decoupled companies reconcile their annual base distribution rate recovery to pre-established levels of baseline distribution delivery service revenues. Any difference between the allowed level of distribution revenue and the actual amount realized is adjusted through rates in a subsequent period.

A significant portion of the electric and natural gas companies' retail revenues relate to the recovery of costs incurred for the sale of electricity and natural gas purchased on behalf of customers. These energy supply costs are recovered from customers in rates through cost tracking mechanisms. Energy purchases are recorded in Purchased Power, Fuel and Transmission, and the sales of energy associated with these purchases are recorded in Operating Revenues on the statements of income.

Unbilled Revenues: Because customers are billed throughout the month based on pre-determined cycles rather than on a calendar month basis, an estimate of electricity, natural gas or water delivered to customers for which the customers have not yet been billed is calculated as of the balance sheet date. Unbilled revenues are included in Operating Revenues on the statements of income and in Current Assets on the balance sheets. Actual amounts billed to customers when meter readings become available may vary from the estimated amount.

Unbilled revenues are recognized by allocating estimated unbilled sales volumes to the respective customer classes, and then applying an estimated rate by customer class to those sales volumes. Unbilled revenues can vary significantly from period to period as a result of seasonality, weather, customer usage patterns, customer rates in effect for customer classes, and the timing of customer billing. The estimate of unbilled revenues can significantly impact the amount of revenues recorded at the companies that do not have a revenue decoupling mechanism. Companies that do have a decoupling mechanism record a regulatory deferral to reflect the actual allowed amount of revenue associated with their respective decoupled distribution rate design.

Transmission Revenues - Wholesale Rates: The Eversource electric transmission-owning companies have a combination of FERC-approved regional and local formula rates that work in tandem to recover all their transmission costs. These rates are part of the ISO-NE Tariff. Regional rates recover the costs of higher voltage transmission facilities that benefit the region, and are collected from all New England transmission customers, including the Eversource distribution businesses. Eversource and NSTAR Electric each have two sets of local rates that recover the companies' total transmission revenue requirements, less revenues received from regional rates and other sources, and are collected from Eversource's distribution businesses and other transmission customers. The distribution businesses of Eversource, in turn, recover the FERC- approved charges from retail customers through annual or semiannual tracking mechanisms. The transmission formula rates provide for the annual reconciliation and recovery or refund of estimated costs to actual costs. The financial impacts of differences between actual and estimated costs are deferred for future recovery from, or refund to, transmission customers. See Note 11E, "Commitments and Contingencies – FERC ROE Complaints," for complaints filed at the FERC relating to Eversource's ROE.

Transmission Revenues - Retail Rates: A significant portion of the Eversource electric transmission segment revenue comes from ISO-NE charges to the distribution businesses of CL&P, NSTAR Electric, and PSNH, each of which

recovers these costs through rates charged to their retail customers. CL&P, NSTAR Electric and PSNH each have a retail transmission cost tracking mechanism as part of their rates, which allows the electric distribution companies to charge their retail customers for transmission costs on a timely basis.

M. Operating Expenses

Costs related to fuel and natural gas included in Purchased Power, Fuel and Transmission on the statements of income were as follows:

(Millions of Dollars)	For the Years Ended		
	December 31,		
	2017	2016	2015
Eversource - Natural Gas and Fuel	\$432.5	\$372.2	\$516.7
PSNH - Fuel	43.4	45.0	85.4

N. Allowance for Funds Used During Construction

AFUDC represents the cost of borrowed and equity funds used to finance construction and is included in the cost of the electric, natural gas and water companies' utility plant on the balance sheet. The portion of AFUDC attributable to borrowed funds is recorded as a reduction of Interest Expense, and the AFUDC related to equity funds is recorded as Other Income, Net on the statements of income. AFUDC costs are recovered from customers over the service life of the related plant in the form of increased revenue collected as a result of higher depreciation expense.

The average AFUDC rate is based on a FERC-prescribed formula using the cost of a company's short-term financings and capitalization (preferred stock, long-term debt and common equity), as appropriate. The average rate is applied to average eligible CWIP amounts to calculate AFUDC.

AFUDC costs and the weighted-average AFUDC rates were as follows:

Eversource (Millions of Dollars, except percentages)	For the Years Ended December 31,								
	2017			2016			2015		
Borrowed Funds									
Equity Funds									
Total AFUDC									
Average AFUDC Rate									

(Millions of Dollars, except percentages)	For the Years Ended December 31,								
	2017			2016			2015		
	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH
Borrowed Funds	\$5.1	\$4.8	\$0.7	\$3.3	\$5.3	\$0.8	\$2.6	\$3.0	\$1.0
Equity Funds	12.1	10.2	—	6.3	10.2	0.3	5.2	6.0	1.2
Total AFUDC	\$17.2	\$15.0	\$0.7	\$9.6	\$15.5	\$1.1	\$7.8	\$9.0	\$2.2
Average AFUDC Rate	6.2 %	5.0 %	0.7 %	4.7 %	3.2 %	1.0 %	5.5 %	3.5 %	1.8 %

O. Other Income, Net

Items included within Other Income, Net on the statements of income primarily consist of investment income/(loss) related to debt and equity securities held in trust, market value changes related to deferred compensation plans, interest income, AFUDC related to equity funds, and income/(loss) related to equity method investees. For further information on gains/(losses) related to debt and equity securities, see Note 5, "Marketable Securities," to the financial statements. For further information on AFUDC related to equity funds, see Note 1N, "Summary of Significant Accounting Policies – Allowance for Funds Used During Construction," to the financial statements. For further information on equity in earnings, see Note 1K, "Summary of Significant Accounting Policies – Investments," to the financial statements.

P. Other Taxes

Eversource's companies that serve customers in Connecticut collect gross receipts taxes levied by the state of Connecticut from their customers. These gross receipts taxes are shown separately with collections in Operating Revenues and with payments in Taxes Other Than Income Taxes on the statements of income as follows:

(Millions of Dollars)	For the Years Ended December 31,		
	2017	2016	2015
Eversource	\$157.4	\$162.7	\$147.2
CL&P	137.5	145.2	128.5

As agents for state and local governments, Eversource's companies that serve customers in Connecticut and Massachusetts collect certain sales taxes that are recorded on a net basis with no impact on the statements of income.

Separately from the amounts above are \$25.4 million of expense recorded as Taxes Other than Income Taxes in 2017 related to the future remittance of energy efficiency funds collected from customers in Operating Revenues to the State of Connecticut. These amounts are shown separately with collections in Operating Revenues and expenses in Taxes Other than Income Taxes on the Eversource and CL&P statements of income.

Q. Supplemental Cash Flow Information

Eversource (Millions of Dollars)	As of and For the Years Ended December 31,		
	2017	2016	2015

In 2016, as a result of damages awarded to the Yankee Companies for spent nuclear fuel lawsuits against the DOE described in Note 11C, "Commitments and Contingencies – Spent Nuclear Fuel Obligations – Yankee Companies," CYAPC and YAEC received total proceeds of \$52.2 million, which were classified as operating activities on the Eversource consolidated statements of cash flows. CYAPC returned \$6.8 million of these proceeds to its non-affiliated member companies. In addition, CL&P, NSTAR Electric and PSNH received a total distribution of \$14.4 million from MYAPC as a result of DOE Phase III proceeds and a distribution from its spent nuclear fuel trust.

The 2015 cash paid for interest excludes interest payments made by CL&P and NSTAR Electric in connection with the full satisfaction of their respective obligations to the DOE for the disposal of spent nuclear fuel and high-level radioactive waste for all periods prior to 1983 from their previous ownership interest in the Millstone nuclear power stations. CL&P and NSTAR Electric divested their ownership interest in Millstone in 2001. In late 2015, CL&P and NSTAR Electric made payments of \$244.6 million and \$57.4 million, respectively, to satisfy their pre-1983 spent nuclear fuel obligations to the DOE in full, which included accumulated interest of \$178 million and \$41.8 million, respectively.

R. Related Parties

Eversource Service, Eversource's service company, provides centralized accounting, administrative, engineering, financial, information technology, legal, operational, planning, purchasing, and other services to Eversource's companies. The Rocky River Realty Company, Renewable Properties, Inc. and Properties, Inc., three other Eversource subsidiaries, construct, acquire or lease some of the property and facilities used by Eversource's companies.

As of both December 31, 2017 and 2016, CL&P, NSTAR Electric and PSNH had long-term receivables from Eversource Service in the amounts of \$25.0 million, \$3.8 million and \$5.5 million, respectively, which were included in Other Long-Term Assets on the balance sheets. These amounts related to the funding of investments held in trust by Eversource Service in connection with certain postretirement benefits for CL&P, NSTAR Electric and PSNH employees and have been eliminated in consolidation on the Eversource financial statements.

Included in the CL&P, NSTAR Electric and PSNH balance sheets as of December 31, 2017 and 2016 were Accounts Receivable from Affiliated Companies and Accounts Payable to Affiliated Companies relating to transactions between CL&P, NSTAR Electric and PSNH and other subsidiaries that are wholly-owned by Eversource. These amounts have been eliminated in consolidation on the Eversource financial statements.

2. REGULATORY ACCOUNTING

Eversource's utility companies are subject to rate regulation that is based on cost recovery and meets the criteria for application of accounting guidance for rate-regulated operations, which considers the effect of regulation on the timing of the recognition of certain revenues and expenses. The regulated companies' financial statements reflect the effects of the rate-making process. The rates charged to the customers of Eversource's regulated companies are designed to collect each company's costs to provide service, including a return on investment.

Management believes it is probable that each of the regulated companies will recover its respective investments in long-lived assets, including regulatory assets. If management were to determine that it could no longer apply the accounting guidance applicable to rate-regulated enterprises to any of the regulated companies' operations, or if management could not conclude it is probable that costs would be recovered from customers in future rates, the costs would be charged to net income in the period in which the determination is made.

Regulatory Assets: The components of regulatory assets were as follows:

Eversource (Millions of Dollars)	As of December	
	31, 2017	2016
Benefit Costs	\$2,068.8	\$1,817.8
Deferred Costs from Generation Asset Sale	516.1	—
Derivative Liabilities	367.2	423.3
Income Taxes, Net	768.9	644.5
Storm Restoration Costs	404.8	385.3
Goodwill-related	365.2	464.4
Regulatory Tracker Mechanisms	509.9	576.6
Asset Retirement Obligations	101.0	99.3
Other Regulatory Assets	137.4	115.1
Total Regulatory Assets	5,239.3	4,526.3
Less: Current Portion	741.9	887.6
Total Long-Term Regulatory Assets	\$4,497.4	\$3,638.7

(Millions of Dollars)	As of December 31,					
	2017			2016		
	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH
Benefit Costs	\$469.2	\$560.7	\$212.3	\$429.3	\$525.3	\$184.2
Deferred Costs from Generation Asset Sale	—	—	516.1	—	—	—
Derivative Liabilities	362.3	—	—	420.5	2.8	—
Income Taxes, Net	453.8	113.2	21.7	437.0	120.5	24.2
Storm Restoration Costs	216.7	146.6	41.5	239.8	128.4	17.1
Goodwill-related	—	313.6	—	—	398.7	—
Regulatory Tracker Mechanisms	85.3	273.0	116.4	123.9	304.0	104.5
Asset Retirement Obligations	30.3	39.0	17.0	33.2	36.1	16.2
Other Regulatory Assets	27.6	78.4	15.8	43.4	22.7	16.5
Total Regulatory Assets	1,645.2	1,524.5	940.8	1,727.1	1,538.5	362.7
Less: Current Portion	200.3	333.9	130.1	335.5	353.5	117.2
Total Long-Term Regulatory Assets	\$1,444.9	\$1,190.6	\$810.7	\$1,391.6	\$1,185.0	\$245.5

Benefit Costs: Eversource's Pension, SERP and PBOP Plans are accounted for in accordance with accounting guidance on defined benefit pension and other PBOP plans. The liability (or asset) recorded by the regulated companies to recognize the funded status of their retiree benefit plans is offset by a regulatory asset (or offset by a regulatory liability in the case of a benefit plan asset) in lieu of a charge to Accumulated Other Comprehensive Income/(Loss), reflecting ultimate recovery from customers through rates. The regulatory asset (or regulatory liability) is amortized as the actuarial gains and losses and prior service cost are amortized to net periodic benefit cost for the pension and PBOP plans. All amounts are remeasured annually. Regulatory accounting is also applied to the portions of Eversource's service company costs that support the regulated companies, as these amounts are also recoverable. As these regulatory assets or regulatory liabilities do not represent a cash outlay for the regulated companies, no carrying charge is recovered from customers.

CL&P, NSTAR Electric and PSNH recover benefit costs related to their distribution and transmission operations from customers in rates as allowed by their applicable regulatory commissions. NSTAR Electric recovers qualified pension and PBOP expenses related to its distribution operations through a rate reconciling mechanism that fully tracks the change in net pension and PBOP expenses each year.

Deferred Costs from Generation Asset Sale: Represents PSNH's \$516.1 million of deferred costs associated with the sale of PSNH's generation assets that are expected to be recovered. These deferred costs were the difference between the carrying value and the fair value less costs to sell of the thermal generation assets that were classified as held for sale as of December 31, 2017. Full recovery of PSNH's generation assets (including these deferred costs and the results of the sale of the hydro generation assets) are expected to occur through a combination of cash flows during the remaining operating period, sales proceeds, and recovery of stranded costs via the issuance of bonds that will be secured by a non-bypassable charge or through recoveries in future rates billed to PSNH's customers. For further information, see Note 12, "Assets Held for Sale."

Derivative Liabilities: Regulatory assets are recorded as an offset to derivative liabilities and relate to the fair value of contracts used to purchase energy and energy-related products that will be recovered from customers in future rates. These assets are excluded from rate base and are being recovered as the actual settlements occur over the duration of the contracts. See Note 4, "Derivative Instruments," to the financial statements for further information on these contracts.

Income Taxes, Net: The tax effect of temporary book-tax differences (differences between the periods in which transactions affect income in the financial statements and the periods in which they affect the determination of taxable income, including those differences relating to uncertain tax positions) is accounted for in accordance with the rate-making treatment of the applicable regulatory commissions and accounting guidance for income taxes.

Differences in income taxes between the accounting guidance and the rate-making treatment of the applicable regulatory commissions are recorded as regulatory assets. As these assets are offset by deferred income tax liabilities, no carrying charge is collected. The amortization period of these assets varies depending on the nature and/or remaining life of the underlying assets and liabilities. For further information regarding income taxes, see Note 10, "Income Taxes," to the financial statements.

Storm Restoration Costs: The storm restoration cost deferrals relate to costs incurred for major storm events at CL&P, NSTAR Electric and PSNH that each company expects to recover from customers. A storm must meet certain criteria to qualify as a major storm with the criteria specific to each state jurisdiction and utility company. Once a storm qualifies as a major storm, all qualifying expenses incurred during storm restoration efforts are deferred and recovered from customers. In addition to storm restoration costs, CL&P and PSNH are each allowed to recover pre-staging storm costs. Management believes the storm restoration costs were prudent and meet the criteria for specific cost recovery in Connecticut, Massachusetts and New Hampshire, and that recovery from customers is probable through the applicable regulatory recovery process. Each electric utility has sought, or is seeking, recovery of its deferred storm restoration costs through its applicable regulatory recovery process. Each electric utility company either recovers a carrying charge on its deferred storm restoration cost regulatory asset balance or the regulatory asset balance is included in rate base.

Goodwill-related: The goodwill regulatory asset originated from a 1999 transaction, and the DPU allowed its recovery in NSTAR Electric and NSTAR Gas rates. This regulatory asset is currently being amortized and recovered from customers in rates without a carrying charge over a 40-year period, and, as of December 31, 2017, there were 22 years of amortization remaining.

Regulatory Tracker Mechanisms: The regulated companies' approved rates are designed to recover costs incurred to provide service to customers. The regulated companies recover certain of their costs on a fully-reconciling basis through regulatory commission-approved tracking mechanisms. The differences between the costs incurred (or the rate recovery allowed) and the actual revenues are recorded as regulatory assets (for undercollections) or as regulatory liabilities (for overcollections) to be included in future customer rates each year. Carrying charges are recovered in rates on all material regulatory tracker mechanisms.

CL&P, NSTAR Electric and PSNH each recover, on a fully reconciling basis, the costs associated with the procurement of energy, transmission related costs from FERC-approved transmission tariffs, energy efficiency programs, low income assistance programs, certain uncollectible accounts receivable for hardship customers, and restructuring and stranded costs as a result of deregulation. Energy procurement costs at PSNH include the costs related to its generation facilities and at NSTAR Electric include the costs related to its solar power facilities.

CL&P, NSTAR Electric (for their western Massachusetts customer rates) and NSTAR Gas each have a regulatory commission approved revenue decoupling mechanism. Distribution revenues are decoupled from customer sales volumes, where applicable, which breaks the relationship between sales volumes and revenues recognized. In 2017 and 2016, NSTAR Electric operated under two different rate structures based on its service territory geography. For customers that were served in eastern Massachusetts, including metropolitan Boston, Cape Cod and Martha's Vineyard, NSTAR Electric operated using traditional rates. For customers that were served in western Massachusetts, including the metropolitan Springfield region, NSTAR Electric operated using decoupled rates. Effective February 1, 2018, all of NSTAR Electric's distribution revenues were decoupled as a result of the DPU-approved rate decision. CL&P and NSTAR Electric reconciled their annual base distribution rate recovery amounts to their pre-established levels of baseline distribution delivery service revenues of \$1.059 billion and \$132.4 million, respectively, through December 31, 2017. Effective February 1, 2018, NSTAR Electric, operating entirely under decoupled rates, will reconcile its annual base distribution rate recovery to its new baseline of \$974.8 million. Any difference between the allowed level of distribution revenue and the actual amount realized during a 12-month period is adjusted through rates in the following period.

Asset Retirement Obligations: The costs associated with the depreciation of the regulated companies' ARO assets and accretion of the ARO liabilities are recorded as regulatory assets in accordance with regulatory accounting guidance. The regulated companies' ARO assets, regulatory assets and liabilities offset and are excluded from rate base. These costs are being recovered over the life of the underlying property, plant and equipment.

Other Regulatory Assets: Other Regulatory Assets primarily include contractual obligations associated with the remaining nuclear fuel storage costs of the CYAPC, YAEC and MYAPC nuclear facilities, environmental remediation costs, losses associated with the reacquisition or redemption of long-term debt, certain uncollectible accounts receivable for hardship customers, certain merger-related costs allowed for recovery, water tank painting costs, and various other items.

Regulatory Costs in Long-Term Assets: Eversource's regulated companies had \$105.8 million (including \$18.2 million for CL&P, \$42.7 million for NSTAR Electric and \$27.2 million for PSNH) and \$86.3 million (including \$5.9 million for CL&P, \$55.1 million for NSTAR Electric and \$8.2 million for PSNH) of additional regulatory costs as of December 31, 2017 and 2016, respectively, that were included in long-term assets on the balance sheets. These amounts represent incurred costs for which recovery has not yet been specifically approved by the applicable regulatory agency. However, based on regulatory policies or past precedent on similar costs, management believes it is probable that these costs will ultimately be approved and recovered from customers in rates.

Equity Return on Regulatory Assets: For rate-making purposes, the regulated companies recover the carrying costs related to their regulatory assets. For certain regulatory assets, the carrying cost recovered includes an equity return

component. This equity return, which is not recorded on the balance sheets, totaled \$1.0 million and \$1.2 million for CL&P as of December 31, 2017 and 2016, respectively. These carrying costs will be recovered from customers in future rates. As of December 31, 2017 and 2016, this equity return, which is not recorded on the balance sheets, totaled \$42.0 million and \$44.9 million, respectively, for PSNH. These amounts include \$25 million of equity return on the Clean Air Project costs that PSNH has agreed not to bill customers as part of a generation divestiture settlement agreement.

Regulatory Liabilities: The components of regulatory liabilities were as follows:

Eversource (Millions of Dollars)	As of	
	December 31, 2017	2016
Cost of Removal	\$502.1	\$459.7
Benefit Costs	132.3	136.2
Regulatory Tracker Mechanisms	136.7	145.3
AFUDC - Transmission	67.1	65.8
Other Regulatory Liabilities	45.2	42.1
Total Regulatory Liabilities ⁽¹⁾	883.4	849.1
Less: Current Portion	128.1	146.8
Total Long-Term Regulatory Liabilities ⁽¹⁾	\$755.3	\$702.3

(Millions of Dollars)	As of December 31,					
	2017			2016		
	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH
Cost of Removal	\$23.2	\$293.8	\$37.9	\$38.8	\$280.2	\$44.1
Benefit Costs	—	112.6	—	—	113.1	—
Regulatory Tracker Mechanisms	34.6	77.8	5.0	37.2	78.4	10.7
AFUDC - Transmission	48.8	18.3	—	50.2	15.6	—
Other Regulatory Liabilities	12.9	3.7	2.7	21.0	0.3	2.7
Total Regulatory Liabilities ⁽¹⁾	119.5	506.2	45.6	147.2	487.6	57.5
Less: Current Portion	39.0	79.6	6.3	47.1	78.5	12.7
Total Long-Term Regulatory Liabilities ⁽¹⁾	\$80.5	\$426.6	\$39.3	\$100.1	\$409.1	\$44.8

⁽¹⁾ The amounts above do not include the impacts associated with the "Tax Cuts and Jobs Act" (the "Act"), which became law on December 22, 2017. Pursuant to the enacted law, Eversource remeasured its existing deferred federal income tax balances as of December 31, 2017 to reflect the decrease in the U.S. federal corporate income tax rate from 35 percent to 21 percent. The remeasurement resulted in provisional regulated excess accumulated deferred income tax (ADIT) liabilities that we expect to benefit our customers in future periods, which were estimated to be approximately \$2.9 billion (approximately \$1.0 billion at CL&P, \$1.1 billion at NSTAR Electric and \$0.4 billion at PSNH) as of December 31, 2017 and recognized as regulatory liabilities on the balance sheet. We estimate that about 85 percent of the provisional regulated excess ADIT liabilities relate to property, plant, and equipment with remaining useful lives estimated to be in excess of 20 years. These amounts are subject to IRS normalization rules and would be returned to customers using the same timing as the remaining useful lives of the underlying assets that gave rise to the ADIT liabilities. The Eversource regulated companies are currently working with the state regulatory commissions, who have opened investigations to examine the impact of the Act on customer rates. For further information, see Note 10, "Income Taxes," to the financial statements.

Cost of Removal: Eversource's regulated companies currently recover amounts in rates for future costs of removal of plant assets over the lives of the assets. The estimated cost to remove utility assets from service is recognized as a component of depreciation expense, and the cumulative amount collected from customers but not yet expended is recognized as a regulatory liability.

AFUDC - Transmission: Regulatory liabilities were recorded by CL&P and NSTAR Electric for AFUDC accrued on certain reliability-related transmission projects to reflect local rate base recovery. These regulatory liabilities will be amortized over the depreciable life of the related transmission assets.

FERC ROE Complaints: As of December 31, 2017, Eversource has a reserve established for the first and second ROE complaints in the pending FERC ROE complaint proceedings, which was recorded as a regulatory liability. The cumulative pre-tax reserve (excluding interest) as of December 31, 2017, which includes the impact of refunds given to customers, totaled \$39.1 million for Eversource (including \$21.4 million for CL&P, \$14.6 million for NSTAR Electric and \$3.1 million for PSNH). See Note 11E, "Commitments and Contingencies – FERC ROE Complaints," for further information on developments in the pending ROE complaint proceedings.

Recent Regulatory Developments:

NSTAR Electric Distribution Rate Case Decision: On November 30, 2017, the DPU issued its decision in the NSTAR Electric distribution rate case, which approved an annual distribution rate increase of \$37 million, with rates effective February 1, 2018. On January 3, 2018, NSTAR Electric filed a motion to reflect a revenue requirement reduction of \$56 million (due to the decrease in the federal corporate income tax rate, as part of the "Tax Cuts and

Jobs Act"), resulting in an annual net decrease in rates of \$19 million.

In addition to its decision regarding rates, the DPU approved an authorized regulatory ROE of 10 percent, the establishment of a revenue decoupling rate mechanism for the portion of the NSTAR Electric business that did not previously have a decoupling mechanism, and the implementation of an inflation-based adjustment mechanism with a five-year stay-out until January 1, 2023.

Among other items, the DPU approved the recovery of previously expensed merger-related costs (which were incurred by Eversource parent in prior years) over a 10-year period and the recovery of previously deferred storm costs with carrying charges at the prime rate, but disallowed certain property taxes. The rate case decision resulted in the recognition of an aggregate \$44.1 million pre-tax benefit recorded in 2017 (\$14.1 million at NSTAR Electric).

CL&P Rate Case Settlement: On January 11, 2018, CL&P filed a distribution rate case settlement agreement for approval by PURA, which included, among other things, rate increases of \$97.1 million, \$32.7 million and \$24.7 million, effective May 1, 2018, 2019, and 2020, respectively, an authorized regulatory ROE of 9.25 percent, 53 percent common equity in CL&P's capital structure, and a new capital tracker through 2020 for capital additions, system resiliency, and grid modernization. The rate increases associated with the settlement agreement will be reduced by the impact of the decrease in the federal corporate income tax rate, as part of the "Tax Cuts and Jobs Act," while amounts related to ADIT will be addressed in a separate manner. CL&P expects to receive final approval from PURA in the second quarter of 2018. No actions arose from this settlement that had an impact on previously deferred costs.

3. PROPERTY, PLANT AND EQUIPMENT AND ACCUMULATED DEPRECIATION

Utility property, plant and equipment is recorded at original cost. Original cost includes materials, labor, construction overheads and AFUDC for regulated property. The cost of repairs and maintenance, including planned major maintenance activities, is charged to Operations and Maintenance expense as incurred.

The following tables summarize property, plant and equipment by asset category:

Eversource (Millions of Dollars)	As of December 31,	
	2017	2016
Distribution - Electric	\$14,410.5	\$13,716.9
Distribution - Natural Gas	3,244.2	3,010.4
Transmission - Electric	9,270.9	8,517.4
Water ⁽¹⁾	1,558.4	—
Generation and Solar ⁽²⁾	36.2	1,224.2
Utility	28,520.2	26,468.9
Other ⁽³⁾	693.7	591.6
Property, Plant and Equipment, Gross	29,213.9	27,060.5
Less: Accumulated Depreciation		
Utility	(6,846.9)	(6,480.4)
Other	(286.9)	(242.0)
Total Accumulated Depreciation	(7,133.8)	(6,722.4)
Property, Plant and Equipment, Net	22,080.1	20,338.1
Construction Work in Progress	1,537.4	1,012.4
Total Property, Plant and Equipment, Net	\$23,617.5	\$21,350.5

(Millions of Dollars)	As of December 31,			2016		
	2017			2016		
	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH
Distribution	\$5,888.3	\$6,479.0	\$2,083.4	\$5,562.9	\$6,244.2	\$1,949.8
Transmission	4,239.9	3,821.2	1,161.3	3,912.9	3,496.9	1,059.3
Generation and Solar ⁽²⁾	—	36.2	—	—	36.0	1,188.2
Property, Plant and Equipment, Gross	10,128.2	10,336.4	3,244.7	9,475.8	9,777.1	4,197.3
Less: Accumulated Depreciation	(2,239.0)	(2,550.2)	(751.8)	(2,082.4)	(2,364.2)	(1,254.7)
Property, Plant and Equipment, Net	7,889.2	7,786.2	2,492.9	7,393.4	7,412.9	2,942.6
Construction Work in Progress	381.8	460.3	149.4	239.0	317.2	96.7
Total Property, Plant and Equipment, Net	\$8,271.0	\$8,246.5	\$2,642.3	\$7,632.4	\$7,730.1	\$3,039.3

(1) On December 4, 2017, Eversource completed the acquisition of Aquarion. See Note 22A, "Acquisition of Aquarion and Goodwill - Acquisition of Aquarion," for further information.

(2) On October 11, 2017, PSNH entered into two Purchase and Sale Agreements ("Agreements") to sell its thermal and hydroelectric generation assets. As of December 31, 2017, PSNH has classified its generation assets as held for sale. As of December 31, 2016, these plant balances were recorded within Property, Plant and Equipment, Net on the balance sheet. See Note 12, "Assets Held for Sale," for further information.

(3) These assets are primarily comprised of building improvements, computer software, hardware and equipment at Eversource Service.

Depreciation of utility assets is calculated on a straight-line basis using composite rates based on the estimated remaining useful lives of the various classes of property (estimated useful life for PSNH distribution and the water utilities). The composite rates, which are subject to approval by the appropriate state regulatory agency, include a cost of removal component, which is collected from customers over the lives of the plant assets and is recognized as a regulatory liability. Depreciation rates are applied to property from the time it is placed in service.

Upon retirement from service, the cost of the utility asset is charged to the accumulated provision for depreciation. The actual incurred removal costs are applied against the related regulatory liability.

The depreciation rates for the various classes of utility property, plant and equipment aggregate to composite rates as follows:

(Percent)	2017	2016	2015
Eversource	3.0%	3.0%	2.9%
CL&P	2.8%	2.7%	2.7%
NSTAR Electric	2.9%	2.9%	2.9%
PSNH	3.1%	3.1%	3.2%

The following table summarizes average remaining useful lives of depreciable assets:

(Years)	As of December 31, 2017			
	Eversource	CL&P	NSTAR Electric	PSNH
Distribution	34.6	35.8	31.7	31.3
Transmission	40.9	37.2	44.7	43.5
Water	32.0	—	—	—
Solar	25.0	—	25.0	—
Other	12.7	—	—	—

4. DERIVATIVE INSTRUMENTS

The electric and natural gas companies purchase and procure energy and energy-related products, which are subject to price volatility, for their customers. The costs associated with supplying energy to customers are recoverable from customers in future rates. These regulated companies manage the risks associated with the price volatility of energy and energy-related products through the use of derivative and non-derivative contracts.

Many of the derivative contracts meet the definition of, and are designated as, normal and qualify for accrual accounting under the applicable accounting guidance. The costs and benefits of derivative contracts that meet the definition of normal are recognized in Operating Expenses or Operating Revenues on the statements of income, as applicable, as electricity or natural gas is delivered.

Derivative contracts that are not designated as normal are recorded at fair value as current or long-term Derivative Assets or Derivative Liabilities on the balance sheets. For the electric and natural gas companies, regulatory assets or regulatory liabilities are recorded to offset the fair values of derivatives, as contract settlement amounts are recovered from, or refunded to, customers in their respective energy supply rates.

The gross fair values of derivative assets and liabilities with the same counterparty are offset and reported as net Derivative Assets or Derivative Liabilities, with current and long-term portions, on the balance sheets. The following table presents the gross fair values of contracts, categorized by risk type, and the net amounts recorded as current or long-term derivative assets or liabilities:

(Millions of Dollars)	As of December 31,					
	2017			2016		
	Commodity Supply and Price Risk Management	Netting (1)	Net Recorded as a Derivative	Commodity Supply and Price Risk Management	Netting (1)	Net Recorded as a Derivative
Current Derivative Assets:						
Level 2:						
Eversource	\$—	\$ —	\$ —	\$6.0	\$—	\$ 6.0
Level 3:						
CL&P	9.5	(7.1)	2.4	13.9	(9.4)	4.5
Long-Term Derivative Assets:						
Level 2:						
Eversource	\$—	\$ —	\$ —	\$0.3	\$(0.1)	\$ 0.2
Level 3:						

CL&P	71.9	(5.3)	66.6	77.3	(11.7)	65.6
Current Derivative Liabilities:						
Level 2:						
Eversource	\$(4.5)	\$ —	\$ (4.5)	\$—	\$—	\$ —
Level 3:						
Eversource	(54.4)	—	(54.4)	(79.7)	—	(79.7)
CL&P	(54.4)	—	(54.4)	(77.8)	—	(77.8)
Long-Term Derivative Liabilities:						
Level 2:						
Eversource	\$(0.4)	\$ —	\$ (0.4)	\$—	\$—	\$ —
Level 3:						
Eversource	(376.9)	—	(376.9)	(413.7)	—	(413.7)
CL&P	(376.9)	—	(376.9)	(412.8)	—	(412.8)

- (1) Amounts represent derivative assets and liabilities that Eversource elected to record net on the balance sheets.
 These amounts are subject to master netting agreements or similar agreements for which the right of offset exists.

The business activities that result in the recognition of derivative assets also create exposure to various counterparties. As of December 31, 2017, CL&P's derivative assets were exposed to counterparty credit risk. Of CL&P's derivative assets, \$69.0 million was contracted with investment grade entities.

For further information on the fair value of derivative contracts, see Note 1I, "Summary of Significant Accounting Policies – Fair Value Measurements," and Note 1J, "Summary of Significant Accounting Policies – Derivative Accounting," to the financial statements.

Derivative Contracts at Fair Value with Offsetting Regulatory Amounts

Commodity Supply and Price Risk Management: As required by regulation, CL&P, along with UI, has capacity-related contracts with generation facilities. CL&P has a sharing agreement with UI, with 80 percent of the costs or benefits of each contract borne by or allocated to CL&P and 20 percent borne by or allocated to UI. The combined capacity of these contracts is 787 MW. The capacity contracts extend through 2026 and obligate both CL&P and UI to make or receive payments on a monthly basis to or from the generation facilities based on the difference between a set capacity price and the capacity market price received in the ISO-NE capacity markets. In addition, CL&P has a contract to purchase 0.1 million MWh of energy per year through 2020.

As of December 31, 2017 and 2016, Eversource had NYMEX financial contracts for natural gas futures in order to reduce variability associated with the purchase price of 9.5 million and 9.2 million MMBtu of natural gas, respectively.

For the years ended December 31, 2017, 2016 and 2015, there were losses of \$29.0 million, \$125.5 million and \$60.2 million, respectively, deferred as regulatory costs, which reflect the change in fair value associated with Eversource's derivative contracts.

Credit Risk

Certain of Eversource's derivative contracts contain credit risk contingent provisions. These provisions require Eversource to maintain investment grade credit ratings from the major rating agencies and to post collateral for contracts in a net liability position over specified credit limits. As of December 31, 2017, Eversource had \$3.4 million of derivative contracts in a net liability position that were subject to credit risk contingent provisions and would have been required to post additional collateral of \$3.7 million if Eversource's unsecured debt credit ratings had been downgraded to below investment grade. As of December 31, 2016, Eversource had no derivative contracts in a net liability position that were subject to credit risk contingent provisions.

Fair Value Measurements of Derivative Instruments

Derivative contracts classified as Level 2 in the fair value hierarchy relate to the financial contracts for natural gas futures. Prices are obtained from broker quotes and are based on actual market activity. The contracts are valued using NYMEX natural gas prices. Valuations of these contracts also incorporate discount rates using the yield curve approach.

The fair value of derivative contracts classified as Level 3 utilizes significant unobservable inputs. The fair value is modeled using income techniques, such as discounted cash flow valuations adjusted for assumptions related to exit price. Significant observable inputs for valuations of these contracts include energy and energy-related product prices in future years for which quoted prices in an active market exist. Fair value measurements categorized in Level 3 of the fair value hierarchy are prepared by individuals with expertise in valuation techniques, pricing of energy and energy-related products, and accounting requirements. The future power and capacity prices for periods that are not quoted in an active market or established at auction are based on available market data and are escalated based on estimates of inflation in order to address the full term of the contract.

Valuations of derivative contracts using a discounted cash flow methodology include assumptions regarding the timing and likelihood of scheduled payments and also reflect non-performance risk, including credit, using the default probability approach based on the counterparty's credit rating for assets and the Company's credit rating for liabilities.

Valuations incorporate estimates of premiums or discounts that would be required by a market participant to arrive at an exit price, using historical market transactions adjusted for the terms of the contract.

The following is a summary of CL&P's Level 3 derivative contracts and the range of the significant unobservable inputs utilized in the valuations over the duration of the contracts:

CL&P	As of December 31,		Period Covered	2016		Period Covered
	2017			2016		
	Range			Range		
Capacity Prices	\$ 5.00	—8.70	per kW-Month 2021 - 2026	\$ 5.50	—8.70	per kW-Month 2020 - 2026
Forward Reserve	1.00	—2.00	per kW-Month 2018 - 2024	1.40	—2.00	per kW-Month 2017 - 2024

Exit price premiums of 6 percent through 18 percent are also applied on these contracts and reflect the uncertainty and illiquidity premiums that would be required based on the most recent market activity available for similar type contracts.

Valuations using significant unobservable inputs: The following table presents changes in the Level 3 category of derivative assets and derivative liabilities measured at fair value on a recurring basis. The derivative assets and liabilities are presented on a net basis.

(Millions of Dollars)	Eversource CL&P	
Derivatives, Net:		
Fair Value as of January 1, 2016	\$ (380.9)	\$(380.8)
Net Realized/Unrealized Losses Included in Regulatory Assets and Liabilities Settlements	(130.7)	(122.7)
Fair Value as of December 31, 2016	88.3	83.0
Transfer out of Level 3	\$ (423.3)	\$(420.5)
Net Realized/Unrealized Losses Included in Regulatory Assets and Liabilities Settlements	1.2	—
Fair Value as of December 31, 2017	(11.4)	(9.5)
	71.2	67.7
	\$ (362.3)	\$(362.3)

Significant increases or decreases in future energy or capacity prices in isolation would decrease or increase, respectively, the fair value of the derivative liability. Any increases in risk premiums would increase the fair value of the derivative liability. Changes in these fair values are recorded as a regulatory asset or liability and do not impact net income.

5. MARKETABLE SECURITIES

Eversource maintains trusts that hold marketable securities to fund certain non-qualified executive benefits. These trusts are not subject to regulatory oversight by state or federal agencies. CYAPC and YAEC maintain legally restricted trusts, each of which holds marketable securities, to fund the spent nuclear fuel removal obligations of their nuclear fuel storage facilities.

Trading Securities: Eversource has elected to record certain equity securities as trading securities, with the changes in fair values recorded in Other Income, Net on the statements of income. As of December 31, 2016, these securities were classified as Level 1 in the fair value hierarchy and totaled \$9.6 million. These securities were sold during 2017 and were no longer held as of December 31, 2017. For the years ended December 31, 2016 and 2015, net gains on these securities of \$0.6 million and \$2.0 million, respectively, were recorded in Other Income, Net on the statements of income. Dividend income is recorded in Other Income, Net when dividends are declared.

Available-for-Sale Securities: The following is a summary of available-for-sale securities, which are recorded at fair value and are included in current and long-term Marketable Securities on the balance sheets.

Eversource (Millions of Dollars)	As of December 31, 2017				2016			
	Amortized Cost	Pre-Tax Unrealized Gains	Pre-Tax Unrealized Losses	Fair Value	Amortized Cost	Pre-Tax Unrealized Gains	Pre-Tax Unrealized Losses	Fair Value
Debt Securities	\$284.9	\$ 3.2	\$ (1.1)	\$287.0	\$296.2	\$ 1.1	\$ (2.1)	\$295.2
Equity Securities	216.1	97.8	(0.1)	313.8	203.3	62.3	(1.2)	264.4

Eversource's debt and equity securities include CYAPC's and YAEC's marketable securities held in nuclear decommissioning trusts in the amounts of \$503.6 million and \$466.7 million as of December 31, 2017 and 2016, respectively. Unrealized gains and losses for these nuclear decommissioning trusts are recorded in Marketable Securities with the corresponding offset to Other Long-Term Liabilities on the balance sheets, with no impact on the statements of income.

Unrealized Losses and Other-than-Temporary Impairment: There have been no significant unrealized losses, other-than-temporary impairments or credit losses in 2017 or 2016. Factors considered in determining whether a credit loss exists include the duration and severity of the impairment, adverse conditions specifically affecting the issuer, and the payment history, ratings and rating changes of the security. For asset-backed debt securities, underlying collateral and expected future cash flows are also evaluated.

Realized Gains and Losses: Realized gains and losses on available-for-sale securities are recorded in Other Income, Net for Eversource's benefit trust and are offset in Other Long-Term Liabilities for CYAPC and YAEC. Eversource utilizes the specific identification basis method for the Eversource benefit trust, and the average cost basis method for the CYAPC and YAEC nuclear decommissioning trusts to compute the realized gains and losses on the sale of available-for-sale securities. For the year ended December 31, 2017, Eversource recognized net realized gains of \$9.8 million on the sales of available-for-sale securities held in the benefit trust. The proceeds of the sales were re-invested in the Eversource benefit trust.

Contractual Maturities: As of December 31, 2017, the contractual maturities of available-for-sale debt securities were as follows:

Eversource (Millions of Dollars)	Amortized Cost	Fair Value
Less than one year ⁽¹⁾	\$ 40.2	\$40.1
One to five years	46.7	47.5
Six to ten years	64.7	65.6
Greater than ten years	133.3	133.8
Total Debt Securities	\$ 284.9	\$287.0

(1) Amounts in the Less than one year category include securities in the CYAPC and YAEC nuclear decommissioning trusts, which are restricted and are classified in long-term Marketable Securities on the balance sheets.

Fair Value Measurements: The following table presents the marketable securities recorded at fair value on a recurring basis by the level in which they are classified within the fair value hierarchy:

Eversource (Millions of Dollars)	As of December 31,	
	2017	2016
Level 1:		
Mutual Funds and Equities	\$313.8	\$274.0
Money Market Funds	23.3	54.8
Total Level 1	\$337.1	\$328.8
Level 2:		
U.S. Government Issued Debt Securities (Agency and Treasury)	\$70.2	\$63.0
Corporate Debt Securities	50.9	41.1
Asset-Backed Debt Securities	21.2	18.5
Municipal Bonds	110.7	107.5
Other Fixed Income Securities	10.7	10.3
Total Level 2	\$263.7	\$240.4
Total Marketable Securities	\$600.8	\$569.2

U.S. government issued debt securities are valued using market approaches that incorporate transactions for the same or similar bonds and adjustments for yields and maturity dates. Corporate debt securities are valued using a market approach, utilizing recent trades of the same or similar instruments and also incorporating yield curves, credit spreads and specific bond terms and conditions. Asset-backed debt securities include collateralized mortgage obligations, commercial mortgage backed securities, and securities collateralized by auto loans, credit card loans or receivables.

Asset-backed debt securities are valued using recent trades of similar instruments, prepayment assumptions, yield curves, issuance and maturity dates, and tranche information. Municipal bonds are valued using a market approach that incorporates reported trades and benchmark yields. Other fixed income securities are valued using pricing models, quoted prices of securities with similar characteristics, and discounted cash flows.

6. ASSET RETIREMENT OBLIGATIONS

Eversource, including CL&P, NSTAR Electric and PSNH, recognizes a liability for the fair value of an ARO on the obligation date if the liability's fair value can be reasonably estimated, even if it is conditional on a future event.

Settlement dates and future costs are reasonably estimated when sufficient information becomes available.

Management has identified various categories of AROs, primarily certain assets containing asbestos and hazardous contamination, and has performed fair value calculations reflecting expected probabilities for settlement scenarios.

The fair value of an ARO is recorded as a liability in Other Long-Term Liabilities with a corresponding amount included in Property, Plant and Equipment, Net on the balance sheets. The ARO assets are depreciated, and the ARO liabilities are accreted over the estimated life of the obligation and the corresponding credits are recorded as accumulated depreciation and ARO liabilities, respectively. As the electric and natural gas companies are rate-regulated on a cost-of-service basis, these companies apply regulatory accounting guidance and both the depreciation and accretion costs associated with these companies' AROs are recorded as increases to Regulatory Assets on the balance sheets.

A reconciliation of the beginning and ending carrying amounts of ARO liabilities are as follows:

Eversource (Millions of Dollars)	As of December 31,	
	2017	2016
Balance as of Beginning of Year	\$426.4	\$430.1
Liabilities Incurred During the Year	0.2	1.3
Liabilities Settled During the Year	(19.3)	(19.0)
Accretion	26.3	22.9
Revisions in Estimated Cash Flows	(14.5)	(8.9)
Balance as of End of Year	\$419.1	\$426.4

(Millions of Dollars)	As of December 31,					
	2017			2016		
	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH
Balance as of Beginning of Year	\$36.0	\$42.6	\$23.5	\$33.8	\$41.0	\$21.6
Liabilities Incurred During the Year	0.1	0.1	—	—	—	0.5
Liabilities Settled During the Year	(1.0)	(0.2)	—	—	(0.4)	—
Accretion	2.3	2.1	1.5	2.2	2.0	1.4
Revisions in Estimated Cash Flows	(5.9)	—	—	—	—	—
Balance as of End of Year	\$31.5	\$44.6	\$25.0	\$36.0	\$42.6	\$23.5

Eversource's amounts include CYAPC and YAEC's AROs of \$301.5 million and \$308.6 million as of December 31, 2017 and 2016, respectively. The fair value of the ARO for CYAPC and YAEC includes uncertainties of the fuel off-load dates related to the DOE's timing of performance regarding its obligation to dispose of the spent nuclear fuel and high level waste. The incremental asset recorded as an offset to the ARO liability was fully depreciated since the plants have no remaining useful life. Any changes in the assumptions used to calculate the fair value of the ARO liability are recorded with a corresponding offset to the related regulatory asset. The assets held in the CYAPC and YAEC nuclear decommissioning trusts are restricted for settling the ARO and all other decommissioning obligations. For further information on the assets held in the nuclear decommissioning trusts, see Note 5, "Marketable Securities," to the financial statements.

7. SHORT-TERM DEBT

Short-Term Debt Borrowing Limits: The amount of short-term borrowings that may be incurred by CL&P, NSTAR Electric and NPT is subject to periodic approval by the FERC. Because the NHPUC has jurisdiction over PSNH's short-term debt, PSNH is not currently required to obtain FERC approval for its short-term borrowings. On November 30, 2017, the FERC granted authorization that allows CL&P to issue total short-term borrowings in an aggregate principal amount not to exceed \$600 million outstanding at any one time, through December 31, 2019. On November 30, 2017, the FERC granted authorization that allows NSTAR Electric to issue total short-term borrowings in an aggregate principal amount not to exceed \$655 million outstanding at any one time, through December 30, 2019. On November 3, 2016, FERC authorized NPT to issue up to an aggregate of \$800 million in short-term debt and long-term debt through December 31, 2018.

PSNH is authorized by regulation of the NHPUC to incur short-term borrowings up to 10 percent of net fixed plant plus an additional \$60 million until further ordered by the NHPUC. As of December 31, 2017, PSNH's short-term debt authorization under the 10 percent of net fixed plant test plus \$60 million totaled approximately \$364 million.

CL&P's certificate of incorporation contains preferred stock provisions restricting the amount of unsecured debt that CL&P may incur, including limiting unsecured indebtedness with a maturity of less than 10 years to 10 percent of total capitalization. As of December 31, 2017, CL&P had \$607.4 million of unsecured debt capacity available under this authorization.

Yankee Gas and NSTAR Gas are not required to obtain approval from any state or federal authority to incur short-term debt.

Commercial Paper Programs and Credit Agreements: Eversource parent has a \$1.45 billion commercial paper program allowing Eversource parent to issue commercial paper as a form of short-term debt. Eversource parent, CL&P, PSNH, NSTAR Gas and Yankee Gas are also parties to a five-year \$1.45 billion revolving credit facility. On December 8, 2017, Eversource parent amended and restated the revolving credit facility. The amended and restated

credit facility terminates on December 8, 2022 and serves to backstop Eversource parent's \$1.45 billion commercial paper program. There were no borrowings outstanding on the revolving credit facility as of December 31, 2017 or 2016.

NSTAR Electric has a \$650 million commercial paper program allowing NSTAR Electric to issue commercial paper as a form of short-term debt. On December 8, 2017, NSTAR Electric increased its commercial paper program from \$450 million to \$650 million. NSTAR Electric is also a party to a five-year \$650 million revolving credit facility. On December 8, 2017, NSTAR Electric amended and restated the revolving credit facility, increasing it from \$450 million to \$650 million. The amended and restated credit facility terminates on December 8, 2022 and serves to backstop NSTAR Electric's \$650 million commercial paper program. There were no borrowings outstanding on the revolving credit facility as of December 31, 2017 or 2016.

The amount of borrowings outstanding and available under the commercial paper programs and revolving credit facility was as follows:

	Borrowings Outstanding as of December 31,		Available Borrowing Capacity as of December 31,		Weighted-Average Interest Rate as of December 31,	
	2017	2016	2017	2016	2017	2016
(Millions of Dollars)						
Eversource Parent Commercial Paper Program	\$979.3	\$1,022.0	\$470.7	\$428.0	1.86 %	0.88 %
NSTAR Electric Commercial Paper Program	234.0	126.5	416.0	323.5	1.55 %	0.71 %
Revolving Credit Facility ⁽¹⁾	76.0	N/A	24.0	N/A	2.66 %	N/A

⁽¹⁾ Aquarion has a \$100.0 million revolving credit facility, which expires on August 19, 2019.

Amounts outstanding under the commercial paper programs and revolving credit facility are included in Notes Payable for Eversource and NSTAR Electric and are classified in current liabilities on the balance sheets as all borrowings are outstanding for no more than 364 days at one time. As a result of the Eversource parent long-term debt issuances on January 8, 2018, the net proceeds of which were used to repay short-term borrowings outstanding under its commercial paper program, \$201.2 million of commercial paper borrowings under the Eversource parent commercial paper program were reclassified as Long-Term Debt as of December 31, 2017.

As of December 31, 2017, there were intercompany loans from Eversource parent of \$69.5 million to CL&P and \$262.9 million to PSNH. As of December 31, 2016, there were intercompany loans from Eversource parent of \$80.1 million to CL&P, \$160.9 million to PSNH and \$51.0 million to NSTAR Electric. These intercompany loans from Eversource parent are included in Notes Payable to Eversource Parent and are classified in current liabilities on the respective subsidiary's balance sheets. Intercompany loans from Eversource parent are eliminated in consolidation on Eversource's balance sheets.

Under the credit facilities described above, Eversource and its subsidiaries must comply with certain financial and non-financial covenants, including a consolidated debt to total capitalization ratio. As of December 31, 2017 and 2016, Eversource and its subsidiaries were in compliance with these covenants. If Eversource or its subsidiaries were not in compliance with these covenants, an event of default would occur requiring all outstanding borrowings by such borrower to be repaid, and additional borrowings by such borrower would not be permitted under its respective credit facility.

8. LONG-TERM DEBT

Details of long-term debt outstanding are as follows:

CL&P (Millions of Dollars)	As of December 31,	
	2017	2016
First Mortgage Bonds:		
7.875% 1994 Series D due 2024	\$ 139.8	\$ 139.8
5.750% 2004 Series B due 2034	130.0	130.0
5.625% 2005 Series B due 2035	100.0	100.0
6.350% 2006 Series A due 2036	250.0	250.0
5.375% 2007 Series A due 2017	—	150.0
5.750% 2007 Series B due 2037	150.0	150.0
5.750% 2007 Series C due 2017	—	100.0
6.375% 2007 Series D due 2037	100.0	100.0
5.650% 2008 Series A due 2018	300.0	300.0
5.500% 2009 Series A due 2019	250.0	250.0
2.500% 2013 Series A due 2023	400.0	400.0
4.300% 2014 Series A due 2044	475.0	250.0
4.150% 2015 Series A due 2045	350.0	350.0
3.200% 2017 Series A due 2027	300.0	—
Total First Mortgage Bonds	2,944.8	2,669.8
Pollution Control Revenue Bonds:		
4.375% Fixed Rate Tax Exempt due 2028	120.5	120.5
Less Amounts due Within One Year	(300.0)	(250.0)
Unamortized Premiums and Discounts, Net	11.5	(10.0)
Unamortized Debt Issuance Costs	(17.7)	(14.3)
CL&P Long-Term Debt	\$2,759.1	\$2,516.0

NSTAR Electric (Millions of Dollars)	As of December 31,	
	2017	2016
Debtures:		
5.750% due 2036	\$200.0	\$200.0
5.625% due 2017	—	400.0
5.500% due 2040	300.0	300.0
2.375% due 2022	400.0	400.0
4.400% due 2044	300.0	300.0
3.250% due 2025	250.0	250.0
2.700% due 2026	250.0	250.0
3.200% due 2027	700.0	—
Total Debtures	2,400.0	2,100.0
Notes:		
5.900% Senior Notes Series B due 2034	50.0	50.0
6.700% Senior Notes Series D due 2037	40.0	40.0
5.100% Senior Notes Series E due 2020	95.0	95.0
3.500% Senior Notes Series F due 2021	250.0	250.0
3.880% Senior Notes Series G due 2023	80.0	80.0
2.750% Senior Notes Series H due 2026	50.0	50.0
Total Notes	565.0	565.0
Less Amounts due Within One Year	—	(400.0)
Unamortized Premiums and Discounts, Net	(1.8)	(4.9)
Unamortized Debt Issuance Costs	(19.4)	(15.5)
NSTAR Electric Long-Term Debt	\$2,943.8	\$2,244.6
PSNH		
(Millions of Dollars)	As of December 31,	
	2017	2016
First Mortgage Bonds:		
5.600% Series M due 2035	\$50.0	\$50.0
6.150% Series N due 2017	—	70.0
6.000% Series O due 2018	110.0	110.0
4.500% Series P due 2019	150.0	150.0
4.050% Series Q due 2021	122.0	122.0
3.200% Series R due 2021	160.0	160.0
3.500% Series S due 2023	325.0	325.0
Total First Mortgage Bonds	917.0	987.0
Pollution Control Revenue Bonds:		
Adjustable Rate Tax Exempt Series A due 2021 (2.048% and 1.138% as of December 31, 2017 and 2016, respectively)	89.3	89.3
Less Amounts due Within One Year	(110.0)	(70.0)
Unamortized Premiums and Discounts, Net	0.2	0.1
Unamortized Debt Issuance Costs	(4.1)	(4.4)
PSNH Long-Term Debt	\$892.4	\$1,002.0

OTHER (Millions of Dollars)	As of December	
	2017	2016
Yankee Gas - First Mortgage Bonds: 3.020% - 8.480% due 2018 - 2044	\$520.0	\$445.0
NSTAR Gas - First Mortgage Bonds: 4.350% - 9.950% due 2020 - 2045	285.0	310.0
Eversource Parent and Other - Notes and Debentures:		
4.500% Debentures due 2019	350.0	350.0
1.450% - 4.000% Senior Notes due 2018 - 2026	3,260.0	1,700.0
Notes Payable Unsecured 3.57% - 6.430% due 2021 - 2037	290.9	—
Notes Payable Secured 4.10% - 9.64% due 2021 - 2035	70.4	—
Pre-1983 Spent Nuclear Fuel Obligation (CYAPC)	181.4	180.0
Fair Value Adjustment ⁽¹⁾	172.6	144.6
Less Fair Value Adjustment - Current Portion ⁽¹⁾	(35.4)	(28.9)
Less Amounts due in One Year	(104.2)	(25.0)
Commercial Paper Classified as Long-Term Debt	201.2	—
Unamortized Premiums and Discounts, Net	1.5	(1.8)
Unamortized Debt Issuance Costs	(12.8)	(7.1)
Total Other Long-Term Debt	5,180.6	\$3,066.8
 Total Eversource Long-Term Debt	 11,775.9	 \$8,829.4

The fair value adjustment amount is the purchase price adjustments, net of amortization, required to record the (1)NSTAR long-term debt at fair value on the date of the 2012 merger and to record the Aquarion long-term debt at fair value as of December 4, 2017.

Long-Term Debt Issuances and Repayments: The following table summarizes long-term debt issuances and repayments:

(Millions of Dollars)	Issue Date	Issuances/(Repayments)	Maturity Date	Use of Proceeds
CL&P:				
3.20% 2017 Series A First Mortgage Bonds	March 2017	\$ 300.0	2027	Repay short-term debt borrowings
4.30% 2014 Series A First Mortgage Bonds ⁽¹⁾	August 2017	225.0	2044	Refinance short-term debt and fund working capital and capital expenditures
5.375% 2007 Series A First Mortgage Bonds	March 2007	(150.0)	2017	N/A
5.75% 2007 Series C First Mortgage Bonds	September 2007	(100.0)	2017	N/A
NSTAR Electric:				
3.20% Debentures	May 2017	350.0	2027	Repay short-term borrowings and fund capital expenditures and working capital
3.20% Debentures ⁽²⁾	October 2017	350.0	2027	Redeem long-term debt that matured in 2017
5.625% Debentures	November 2007	(400.0)	2017	N/A
PSNH:				
6.15% Series N First Mortgage Bonds	September 2007	(70.0)	2017	N/A
Other:				
Yankee Gas 3.02% Series N First Mortgage Bonds	September 2017	75.0	2027	Repay short-term borrowings
NSTAR Gas 7.04% Series M First Mortgage Bonds	September 1997	(25.0)	2017	N/A
Eversource Parent 2.75% Series K Senior Notes	March 2017	300.0	2022	Repay short-term borrowings
Eversource Parent 2.75% Series K Senior Notes ⁽³⁾	October 2017	450.0	2022	Repay short-term borrowings
Eversource Parent 2.90% Series L Senior Notes	October 2017	450.0	2024	Repay short-term borrowings
Eversource Parent 2.50% Series I Senior Notes ⁽⁴⁾	January 2018	200.0	2021	Repay long-term debt due to mature in 2018 and repay short-term borrowings
Eversource Parent 3.30% Series M Senior Notes	January 2018	450.0	2028	Repay long-term debt due to mature in 2018
Eversource Parent 1.60% Series G Senior Notes ⁽⁵⁾	January 2015	(150.0)	2018	N/A

(1) These bonds are part of the existing series initially issued by CL&P in 2014. The aggregate outstanding principal amount for these bonds is now \$475 million.

(2) These debentures are part of the same series initially issued by NSTAR Electric in May 2017. The aggregate outstanding principal amount for these debentures is now \$700 million.

(3) These notes are part of the same series issued by Eversource parent in March 2017. The aggregate outstanding principal amount for these notes is now \$750 million.

(4) These notes are part of the same series issued by Eversource parent in March 2016. The aggregate outstanding principal amount for these notes is now \$450 million.

(5) Represents a repayment at maturity on January, 15 2018.

As a result of the Eversource parent debt issuances in January 2018, \$446.8 million of current portion of long-term debt related to two Eversource parent issuances maturing in 2018 and \$201.2 million of commercial paper borrowings were reclassified to Long-Term Debt as of December 31, 2017.

Long-Term Debt Issuance Authorizations: On January 4, 2017, PURA approved CL&P's request for authorization to issue up to \$1.325 billion in long-term debt through December 31, 2020. On March 30, 2017, the DPU approved NSTAR Electric's request for authorization to issue up to \$700 million in long-term debt through December 31, 2018. On December 20, 2017, PURA approved Yankee Gas' request to extend the authorization period for issuance of up to \$50 million in long-term debt from December 31, 2017 to December 31, 2018.

Long-Term Debt Provisions: The utility plant of CL&P, PSNH, Yankee Gas and NSTAR Gas is subject to the lien of each company's respective first mortgage bond indenture. The Eversource parent and NSTAR Electric debt is unsecured. Additionally, the long-term debt agreements provide that Eversource and certain of its subsidiaries must comply with certain covenants as are customarily included in such agreements, including equity requirements for NSTAR Electric and NSTAR Gas. Under the equity requirements, NSTAR Electric's senior notes must maintain a certain consolidated indebtedness to capitalization ratio as of the end of any fiscal quarter and NSTAR Gas' outstanding long-term debt must not exceed equity.

CL&P's obligation to repay the PCRBs is secured by first mortgage bonds. The first mortgage bonds contain similar terms and provisions as the applicable series of PCRBs. If CL&P fails to meet its obligations under the first mortgage bonds, then the holder of the first mortgage bonds (the issuer of the PCRBs) would have rights under the first mortgage bonds. CL&P's tax-exempt PCRBs will be subject to redemption at par on or after September 1, 2021. All other long-term debt securities are subject to make-whole provisions.

PSNH's obligation to repay the PCRBs is secured by first mortgage bonds and bond insurance. The first mortgage bonds contain similar terms and provisions as the PCRBs. If PSNH fails to meet its obligations under the first mortgage bonds, then the holder of the first mortgage bonds (the issuer of the PCRBs) would have rights under the first mortgage bonds. The PSNH Series A tax-exempt PCRBs are currently callable at 100 percent of par. The PCRBs bear interest at a rate that is periodically set pursuant to auctions. PSNH is not obligated to purchase these PCRBs, which mature in 2021, from the remarketing agent.

Certain secured and unsecured notes payable are callable at redemption price and are subject to make-whole provisions.

Eversource, NSTAR Electric and Yankee Gas have certain long-term debt agreements that contain cross-default provisions. No other debt issuances contain cross-default provisions as of December 31, 2017.

Pre-1983 Spent Nuclear Fuel Obligation: Under the Nuclear Waste Policy Act of 1982, the DOE is responsible for the selection and development of repositories for, and the disposal of, spent nuclear fuel and high-level radioactive waste. CYAPC is obligated to pay the DOE for the costs to dispose of spent nuclear fuel and high-level radioactive waste generated prior to April 7, 1983 (pre-1983 Spent Nuclear Fuel) and recorded an accrual for the full liability thereof to the DOE. This liability accrues interest costs at the 3-month Treasury bill yield rate. For nuclear fuel used to generate electricity prior to April 7, 1983, payment may be made any time prior to the first delivery of spent fuel to the DOE. Fees for disposal of nuclear fuel burned on or after April 7, 1983 were billed to member companies and paid to the DOE.

As of December 31, 2017 and 2016, as a result of consolidating CYAPC, Eversource has consolidated \$181.4 million and \$180.0 million, respectively, in pre-1983 spent nuclear fuel obligations to the DOE. These obligations include accumulated interest costs of \$132.6 million and \$131.2 million as of December 31, 2017 and 2016, respectively.

CYAPC maintains a trust to fund amounts due to the DOE for the disposal of pre-1983 spent nuclear fuel. For further information, see Note 5, "Marketable Securities," to the financial statements.

Long-Term Debt Maturities: Long-term debt maturities on debt outstanding for the years 2018 through 2022 and thereafter are shown below. These amounts exclude the CYAPC pre-1983 spent nuclear fuel obligation, net unamortized premiums, discounts and debt issuance costs, and other fair value adjustments as of December 31, 2017:

(Millions of Dollars)	Eversource	CL&P	NSTAR Electric	PSNH
2018	\$ 961.0	\$ 300.0	\$—	\$ 110.0
2019	801.0	250.0	—	150.0
2020	296.1	—	95.0	—
2021	922.8	—	250.0	371.3
2022	1,188.9	—	400.0	—
Thereafter	7,643.1	2,515.3	2,220.0	375.0
Total	\$ 11,812.9	\$ 3,065.3	\$ 2,965.0	\$ 1,006.3

9. EMPLOYEE BENEFITS

A. Pension Benefits and Postretirement Benefits Other Than Pensions

Eversource provides defined benefit plans (the "Pension Plans") that cover eligible employees, including, among others, employees of CL&P, NSTAR Electric and PSNH. The Pension Plans are subject to the provisions of ERISA, as amended by the PPA of 2006. Eversource's policy is to annually fund the Pension Plans in an amount at least equal to an amount that will satisfy all federal funding requirements. In addition to the Pension Plans, Eversource maintains SERP Plans which provide benefits in excess of Internal Revenue Code limitations to eligible participants consisting of current and retired employees.

Eversource also provides defined benefit postretirement plans (the "PBOP Plans") that provided certain benefits, primarily medical, dental and life insurance to eligible employees that met certain age and service eligibility requirements. In August 2016, Eversource Service amended its PBOP Plan, which standardized separate benefit structures that existed within the plan and made other benefit changes. The new plan provides life insurance and a

health reimbursement arrangement created for the purpose of reimbursing retirees and dependents for health insurance premiums and certain medical expenses. The benefits provided under the PBOP Plans are not vested, and the Company has the right to modify any benefit provision subject to applicable laws at that time. Eversource annually funds postretirement costs through tax deductible contributions to external trusts.

Because the regulated companies recover the retiree benefit costs from customers through rates, regulatory assets are recorded in lieu of recording an adjustment to Accumulated Other Comprehensive Income/(Loss) for the funded status of the Pension, SERP and PBOP Plans. Regulatory accounting is also applied to the portions of the Eversource Service costs that support the regulated companies, as these costs are also recovered from customers. Adjustments to the Pension and PBOP Plans funded status for the unregulated companies are recorded on an after-tax basis to Accumulated Other Comprehensive Income/(Loss). For further information, see Note 2, "Regulatory Accounting," and Note 15, "Accumulated Other Comprehensive Income/(Loss)," to the financial statements.

The difference between the actual return and calculated expected return on plan assets for the Pension and PBOP Plans is reflected as a component of unrecognized actuarial gains or losses, which are recorded in Regulatory Assets or Accumulated Other Comprehensive Income/(Loss). Unrecognized actuarial gains or losses are amortized as a component of pension and PBOP expense over the estimated average future employee service period.

Pension and SERP Plans: The Pension and SERP Plans are accounted for under the multiple-employer approach, with each operating company's balance sheet reflecting its share of the funded status of the plans. Although Eversource maintains marketable securities in a benefit trust, the SERP Plans do not contain any assets. For further information, see Note 5, "Marketable Securities," to the financial statements. The following table provides information on the Pension and SERP Plan benefit obligations, fair values of Pension Plan assets, and funded status:

(Millions of Dollars)	Pension and SERP As of December 31, 2017			As of December 31, 2016				
	Eversource CL&P	NSTAR Electric	PSNH	Eversource CL&P	NSTAR Electric	PSNH		
Change in Benefit Obligation:								
Benefit Obligation as of Beginning of Year	\$(5,242.3)	\$(1,170.2)	\$(1,217.3)	\$(572.2)	\$(5,080.1)	\$(1,157.6)	\$(1,187.3)	\$(547.6)
Plan Amendment	—	—	—	—	(9.0)	—	(2.8)	—
Employee Transfers	—	8.2	5.5	(0.7)	—	8.8	1.3	2.4
Service Cost	(71.3)	(18.5)	(15.5)	(9.7)	(75.0)	(18.8)	(16.3)	(9.9)
Interest Cost	(188.0)	(41.6)	(42.7)	(21.2)	(185.5)	(41.6)	(42.2)	(20.7)
Actuarial Loss	(548.7)	(116.9)	(143.5)	(65.1)	(151.8)	(23.9)	(37.2)	(21.5)
Benefits Paid - Pension	243.7	63.5	55.4	26.4	254.0	62.6	67.0	24.9
Benefits Paid - Lump Sum	18.4	—	6.8	—	—	—	—	—
Benefits Paid - SERP	20.4	0.3	0.3	0.3	5.1	0.3	0.2	0.2
Increase due to acquisition of Aquarion	(168.7)	—	—	—	—	—	—	—
Benefit Obligation as of End of Year	\$(5,936.5)	\$(1,275.2)	\$(1,351.0)	\$(642.2)	\$(5,242.3)	\$(1,170.2)	\$(1,217.3)	\$(572.2)
Change in Pension Plan Assets:								
Fair Value of Pension Plan Assets as of Beginning of Year	\$4,076.0	\$905.5	\$1,088.3	\$494.0	\$3,905.4	\$913.5	\$1,053.7	\$470.5
Employee Transfers	—	(8.2)	(5.5)	0.7	—	(8.8)	(1.3)	(2.4)
Employer Contributions	235.2	2.5	85.4	0.8	146.2	0.4	28.4	17.1
Actual Return on Pension Plan Assets	589.7	126.7	154.8	70.4	278.4	63.0	74.5	33.7
Benefits Paid	(243.7)	(63.5)	(55.4)	(26.4)	(254.0)	(62.6)	(67.0)	(24.9)
Benefits Paid - Lump Sum	(18.4)	—	(6.8)	—	—	—	—	—
Increase due to acquisition of Aquarion	100.7	—	—	—	—	—	—	—
Fair Value of Pension Plan Assets as of End of Year	\$4,739.5	\$963.0	\$1,260.8	\$539.5	\$4,076.0	\$905.5	\$1,088.3	\$494.0
Funded Status as of December 31st	\$(1,197.0)	\$(312.2)	\$(90.2)	\$(102.7)	\$(1,166.3)	\$(264.7)	\$(129.0)	\$(78.2)

In 2017, there was a decrease to the discount rate used to calculate the funded status of the Eversource pension liability, which resulted in an increase to Eversource's pension liability of approximately \$390 million as of December 31, 2017.

In 2016, there was a decrease in the discount rate used to calculate the funded status of the Eversource pension liability, which resulted in an increase to Eversource's pension liability of approximately \$177 million, partially offset by a revised scale for the mortality table resulting in a decrease to Eversource's pension liability of approximately \$32 million as of December 31, 2016. In December 2016, Eversource amended its pension plan to adjust the calculation of lump sum payments or annuity payments for certain employees. This amendment resulted in an increase to the liability of \$9 million as of December 31, 2016.

The pension and SERP Plans' funded status includes the current portion of the SERP liability totaling \$8.4 million and \$24.8 million as of December 31, 2017 and 2016, respectively, which is included in Other Current Liabilities on the balance sheets.

As of December 31, 2017 and 2016, the accumulated benefit obligation for the Pension and SERP Plans is as follows:

(Millions of Dollars)	Eversource	CL&P	NSTAR Electric	PSNH
2017	\$ 5,583.6	\$ 1,179.2	\$ 1,260.1	\$ 597.2
2016	4,829.6	1,065.2	1,124.8	518.9

The following actuarial assumptions were used in calculating the Pension and SERP Plans' year end funded status:

	Pension and SERP			
	As of December 31,			
	2017	2016	2017	2016
Discount Rate	3.43%	3.75%	4.01%	4.33%
Compensation/Progression Rate	3.50%	4.00%	3.50%	

Pension and SERP Expense: Eversource charges net periodic pension expense to its subsidiaries based on the actual participant demographic data for each subsidiary's participants. The actual investment return in the trust is allocated to each of the subsidiaries annually in proportion to the investment return expected to be earned during the year.

Effective January 1, 2016, the Company refined its method of estimating the discount rate for the service and interest cost components of Pension expense from the yield-curve approach to the spot rate methodology, which provides a more precise measurement by matching projected cash flows to the corresponding spot rates on the yield curve. Historically, these components were estimated using the same weighted-average discount rate as for the funded status. The total pre-tax benefit of this change on Pension expense, prior to the capitalized portion and amounts deferred and recovered through rate reconciliation mechanisms, for the year ended December 31, 2016 was approximately \$46 million.

The components of net periodic benefit expense for the Pension and SERP Plans are shown below. The net periodic benefit expense and the intercompany allocations, less the capitalized portions of pension and SERP amounts, are included in Operations and Maintenance expense on the statements of income. Capitalized amounts relate to employees working on capital projects and are included in Property, Plant and Equipment, Net on the balance sheets. Pension and SERP expense reflected in the statements of cash flows for CL&P, NSTAR Electric and PSNH does not include the intercompany allocations or the corresponding capitalized portion, as these amounts are cash settled on a short-term basis.

	Pension and SERP For the Year Ended December 31, 2017			
(Millions of Dollars)	Eversource	CL&P	NSTAR Electric	PSNH
Service Cost	\$71.3	\$18.5	\$15.5	\$9.7
Interest Cost	188.0	41.6	42.7	21.2
Expected Return on Pension Plan Assets	(334.1)	(71.7)	(87.6)	(40.0)
Actuarial Loss	135.2	27.7	41.1	11.6
Prior Service Cost	4.5	1.5	0.6	0.5
Total Net Periodic Benefit Expense	\$64.9	\$17.6	\$12.3	\$3.0
Intercompany Allocations	N/A	\$9.8	\$9.1	\$3.3
Capitalized Pension Expense	\$22.0	\$9.7	\$7.6	\$1.5

	Pension and SERP For the Year Ended December 31, 2016			
(Millions of Dollars)	Eversource	CL&P	NSTAR Electric	PSNH
Service Cost	\$75.0	\$18.8	\$16.3	\$9.9
Interest Cost	185.5	41.6	42.2	20.7
Expected Return on Pension Plan Assets	(317.9)	(72.1)	(85.1)	(38.6)
Actuarial Loss	125.7	25.4	39.9	9.9
Prior Service Cost	3.6	1.5	0.3	0.5
Total Net Periodic Benefit Expense	\$71.9	\$15.2	\$13.6	\$2.4
Intercompany Allocations	N/A	\$13.8	\$11.4	\$4.0
Capitalized Pension Expense	\$22.1	\$9.3	\$8.0	\$1.4

	Pension and SERP For the Year Ended December 31, 2015	
(Millions of Dollars)	CL&P	NSTAR

	Eversource (1)		Electric	PSNH (1)
Service Cost	\$91.4	\$24.7	\$ 19.2	\$12.1
Interest Cost	227.0	51.1	50.6	24.3
Expected Return on Pension Plan Assets	(335.9)	(78.9)	(88.9)	(40.4)
Actuarial Loss	148.5	32.2	42.2	11.6
Prior Service Cost	3.7	1.5	0.2	0.5
Total Net Periodic Benefit Expense	\$134.7	\$30.6	\$ 23.3	\$8.1
Intercompany Allocations	N/A	\$22.5	\$ 18.0	\$6.7
Capitalized Pension Expense	\$41.0	\$18.8	\$ 13.3	\$3.5

(1) Amounts exclude \$3.2 million for the year ended December 31, 2015 that represent amounts included in other deferred debits.

The following actuarial assumptions were used to calculate Pension and SERP expense amounts:

	Pension and SERP		
	For the Years Ended December 31,		
	2017	2016	2015
Discount Rate	3.20%	3.90%	4.20%
Expected Long-Term Rate of Return	8.25%	8.25%	8.25%
Compensation/Progression Rate	3.50%	3.50%	3.50%

The following is a summary of the changes in plan assets and benefit obligations recognized in Regulatory Assets and Other Comprehensive Income ("OCI") as well as amounts in Regulatory Assets and OCI that were reclassified as net periodic benefit expense during the years presented:

(Millions of Dollars)	Regulatory Assets		OCI	
	For the Years Ended December 31,			
	2017	2016	2017	2016
Actuarial Losses Arising During the Year	\$333.0	\$184.6	\$9.3	\$6.8
Actuarial Losses Reclassified as Net Periodic Benefit Expense	(129.5)	(119.9)	(5.7)	(5.8)
Prior Service Cost/(Credit) Arising During the Year	1.0	7.1	(0.4)	1.9
Prior Service Cost Reclassified as Net Periodic Benefit Expense	(4.1)	(3.4)	(0.4)	(0.2)

The following is a summary of the remaining Regulatory Assets and Accumulated Other Comprehensive Loss amounts that have not been recognized as components of net periodic benefit expense as of December 31, 2017 and 2016, as well as the amounts that are expected to be recognized as components in 2018:

(Millions of Dollars)	Regulatory Assets		Expected 2018 Expense	AOCL as of December 31,		Expected 2018 Expense
	as of December 31,			December 31,		
	2017	2016		2017	2016	
Actuarial Loss	\$1,935.8	\$1,732.3	\$ 141.8	\$85.7	\$82.1	\$ 5.8
Prior Service Cost	10.3	13.4	4.2	1.5	2.3	0.3

PBOP Plans: The PBOP Plans are accounted for under the multiple-employer approach, with each operating company's balance sheet reflecting its share of the funded status of the plans. The following table provides information on the PBOP Plan benefit obligations, fair values of plan assets, and funded status:

(Millions of Dollars)	PBOP							
	As of December 31, 2017				2016			
	Eversource	CL&P	NSTAR Electric	PSNH	Eversource	CL&P	NSTAR Electric	PSNH
Change in Benefit Obligation:								
Benefit Obligation as of Beginning of Year	\$(810.0)	\$(165.0)	\$(270.0)	\$(89.7)	\$(1,051.4)	\$(164.0)	\$(447.2)	\$(88.5)
Plan Amendment	—	—	—	—	244.0	(12.5)	193.6	(6.7)
Employee Transfers	—	2.4	1.5	0.2	—	1.3	0.5	0.3
Service Cost	(9.5)	(1.9)	(1.7)	(1.3)	(12.2)	(2.0)	(3.4)	(1.3)
Interest Cost	(27.1)	(5.3)	(8.7)	(3.0)	(32.9)	(5.3)	(13.3)	(2.9)
Actuarial Gain/(Loss)	(81.8)	(18.5)	(13.2)	(11.9)	(17.7)	3.6	(23.5)	3.6
Benefits Paid	41.5	9.9	13.5	4.6	60.2	13.9	23.3	5.8
	(61.7)	—	—	—	—	—	—	—

Increase due to acquisition of
Aqurion

Benefit Obligation as of End of Year	\$(948.6)	\$(178.4)	\$(278.6)	\$(101.1)	\$(810.0)	\$(165.0)	\$(270.0)	\$(89.7)
Change in Plan Assets:								
Fair Value of Plan Assets as of Beginning of Year	\$815.8	\$129.2	\$361.6	\$73.2	\$812.2	\$136.7	\$352.0	\$75.8
Employee Transfers	—	(1.5)	(0.8)	—	—	(0.8)	(0.6)	(0.2)
Actual Return on Plan Assets	118.0	18.1	52.9	10.4	51.3	7.2	24.6	3.4
Employer Contributions	7.6	—	5.3	—	12.5	—	8.9	—
Benefits Paid	(41.5)	(9.9)	(13.5)	(4.6)	(60.2)	(13.9)	(23.3)	(5.8)
Increase due to acquisition of Aqurion	22.3	—	—	—	—	—	—	—
Fair Value of Plan Assets as of End of Year	\$922.2	\$135.9	\$405.5	\$79.0	\$815.8	\$129.2	\$361.6	\$73.2
Funded Status as of December 31st	\$(26.4)	\$(42.5)	\$126.9	\$(22.1)	\$5.8	\$(35.8)	\$91.6	\$(16.5)

The Eversource funded status includes a prepaid asset of \$13.1 million recorded in Other Long-Term Assets and a liability of \$39.5 million included in Accrued Pension, SERP and PBOP on the balance sheet.

As of December 31, 2017, there was a decrease in the discount rate used to calculate the funded status, as compared to the discount rate as of December 31, 2016, resulting in an increase to the Eversource PBOP liability of approximately \$64 million.

The August 2016 PBOP plan amendment resulted in a reduction to Eversource's accumulated benefit liability of approximately \$244 million. As of December 31, 2016, there was a decrease in the discount rate used to calculate the funded status, as compared to the discount rate as of December 31, 2015, resulting in an increase to the Eversource liability of approximately \$75 million, which was partially offset by a decrease of approximately \$52 million from changes in mortality and other assumptions.

The following actuarial assumptions were used in calculating the PBOP Plans' year end funded status:

PBOP			
As of December 31,			
	2017		2016
Discount Rate	3.55%	3.70%	4.21%

For the Eversource Service PBOP Plan, effective with the plan amendment that standardized plan designs and made benefit changes in August 2016, the health care cost trend rate is no longer applicable.

PBOP Expense: Eversource charges net periodic postretirement benefits expense to its subsidiaries based on the actual participant demographic data for each subsidiary's participants. The actual investment return in the trust each year is allocated to each of the subsidiaries annually in proportion to the investment return expected to be earned during the year.

Effective January 1, 2016, the Company refined its method of estimating the discount rate for the service and interest cost components of PBOP expense from the yield-curve methodology to the spot rate methodology, which provides a more precise measurement by matching projected cash flows to the corresponding spot rates on the yield curve. Historically these components were estimated using the same weighted-average discount rate as for the funded status. The total pre-tax benefit of this change on PBOP expense, prior to the capitalized portion and amounts deferred and recovered through rate reconciliation mechanisms, for the year ended December 31, 2016 was approximately \$10 million.

The August 2016 PBOP Plan amendment resulted in a remeasurement of the benefit obligation and annual expense using assumptions at that point in time, including updated discount rates and asset values. The remeasurement resulted in a decrease in net periodic benefit costs for PBOP benefits, prior to the capitalized portion and amounts deferred and recovered through rate reconciliation mechanisms, of approximately \$10 million, which was recorded in 2016, and most of this amount will be deferred for future refund to customers.

The components of net periodic benefit expense for the PBOP Plans are shown below. The net periodic benefit expense and the intercompany allocations, less the capitalized portion of PBOP, are included in Operations and Maintenance expense on the statements of income. Capitalized PBOP amounts relate to employees working on capital projects and are included in Property, Plant and Equipment, Net on the balance sheets. PBOP expense reflected in the statements of cash flows for CL&P, NSTAR Electric and PSNH does not include the intercompany allocations or the corresponding capitalized portion, as these amounts are cash settled on a short-term basis.

	PBOP			
	For the Year Ended			
	December 31, 2017			
(Millions of Dollars)	Eversource	CL&P	NSTAR Electric	PSNH
Service Cost	\$9.5	\$1.9	\$1.7	\$1.3
Interest Cost	27.1	5.3	8.7	3.0
Expected Return on Plan Assets	(63.7)	(9.7)	(28.6)	(5.5)
Actuarial Loss	9.1	1.0	3.4	0.6

Prior Service (Credit)/Cost	(21.6)	1.1	(17.0)	0.6
Total Net Periodic Benefit Expense/(Income)	\$(39.6)	\$(0.4)	\$(31.8)	\$—
Intercompany Allocations	N/A	\$(0.7)	\$(1.1)	\$(0.5)
Capitalized PBOP Expense/(Income)	\$(19.1)	\$(0.5)	\$(16.2)	\$0.2

PBOP

For the Year Ended

December 31, 2016

(Millions of Dollars)	Eversource	CL&P	NSTAR Electric	PSNH
Service Cost	\$12.2	\$2.0	\$3.4	\$1.3
Interest Cost	32.9	5.3	13.3	2.9
Expected Return on Plan Assets	(62.9)	(10.1)	(28.1)	(5.5)
Actuarial Loss	9.0	1.5	3.3	0.7
Prior Service (Credit)/Cost	(9.1)	0.5	(7.1)	0.2
Total Net Periodic Benefit Income	\$(17.9)	\$(0.8)	\$(15.2)	\$(0.4)
Intercompany Allocations	N/A	\$0.3	\$(0.1)	\$(0.1)
Capitalized PBOP Expense/(Income)	\$(8.0)	\$(0.5)	\$(6.7)	\$0.1

(Millions of Dollars)	PBOP			
	For the Year Ended December 31, 2015			
	Eversource	CE&P	NSTAR Electric	PSNH
Service Cost	\$16.3	\$2.1	\$5.8	\$1.4
Interest Cost	47.2	7.2	20.5	3.9
Expected Return on Plan Assets	(67.4)	(11.1)	(29.8)	(6.0)
Actuarial Loss	6.8	0.7	2.3	0.5
Prior Service Credit	(0.5)	—	(0.2)	—
Total Net Periodic Benefit Expense/(Income)	\$2.4	\$(1.1)	\$(1.4)	\$(0.2)
Intercompany Allocations	N/A	\$1.9	\$1.1	\$0.4
Capitalized PBOP Expense/(Income)	\$0.1	\$(0.2)	\$(0.4)	\$0.2

The following actuarial assumptions were used to calculate PBOP expense amounts:

	PBOP		
	For the Years Ended December 31,		
	2017	2016	2015
Discount Rate	3.48%	4.64%	2.88%
Expected Long-Term Rate of Return	8.25%	8.25%	8.25%

The health care cost trend rate assumption used to calculate the PBOP expense amount for the Eversource PBOP Plan was 6.25 percent and 6.5 percent for the years ended December 31, 2016 and 2015, respectively. Effective January 1, 2017, the health care trend rate no longer has an impact on the PBOP expense on the Eversource Service PBOP Plan due to the benefit design changes effective with the 2016 plan amendment.

The following is a summary of the changes in plan assets and benefit obligations recognized in Regulatory Assets and OCI as well as amounts recognized in Regulatory Assets and OCI that were reclassified as net periodic benefit (expense)/income during the years presented:

(Millions of Dollars)	Regulatory Assets				OCI			
	For the Years Ended December 31,							
	2017	2016	2017	2016	2017	2016	2017	2016
Actuarial Losses/(Gains) Arising During the Year	\$44.8	\$32.4	\$2.6	\$(2.0)				
Actuarial (Losses)/Gains Reclassified as Net Periodic Benefit (Expense)/Income	(8.6)	(9.2)	(0.5)	0.2				
Prior Service (Credit)/Cost Arising During the Year	(4.0)	(247.9)	(0.1)	4.0				
Prior Service Credit/(Cost) Reclassified as Net Periodic Benefit Income/(Expense)	22.3	9.7	(0.7)	(0.6)				

The following is a summary of the remaining Regulatory Assets and Accumulated Other Comprehensive Loss amounts that have not been recognized as components of net periodic benefit expense as of December 31, 2017 and 2016, as well as the amounts that are expected to be recognized as components in 2018:

(Millions of Dollars)	Regulatory Assets as of		AOCL as			
	December 31,		Expected	of	Expected	Expected
	2017	2016	2018	December 31,	2018	Expense
Actuarial Loss	\$211.6	\$175.4	\$8.8	\$6.6	\$4.5	\$0.3
Prior Service (Credit)/Cost	(221.2)	(239.5)	(21.7)	2.6	3.4	0.2

Estimated Future Benefit Payments: The following benefit payments, which reflect expected future service, are expected to be paid by the Pension, SERP and PBOP Plans:

(Millions of Dollars)	2018	2019	2020	2021	2022	2023 - 2027
Pension and SERP	\$296.5	\$304.7	\$311.1	\$320.8	\$329.4	\$1,739.7
PBOP	56.8	57.1	57.3	57.5	57.4	279.3

Eversource Contributions: Based on the current status of the Pension Plans and federal pension funding requirements, Eversource currently expects to make contributions of approximately \$180 million in 2018, of which approximately \$82 million and \$6 million, will be contributed by CL&P and PSNH, respectively. The remaining \$92 million is expected to be contributed by other Eversource subsidiaries, primarily Eversource Service. Eversource expects to make approximately \$10 million in contributions to the PBOP Plan in 2018, of which approximately \$5 million will be contributed by NSTAR Electric.

Fair Value of Pension and PBOP Plan Assets: Pension and PBOP funds are held in external trusts. Trust assets, including accumulated earnings, must be used exclusively for Pension and PBOP payments. Eversource's investment strategy for its Pension and PBOP Plans is to maximize the long-term rates of return on these plans' assets within an acceptable level of risk. The investment strategy for each asset category includes a diversification of asset types, fund strategies and fund managers and it establishes target asset allocations that are routinely reviewed and periodically rebalanced. PBOP assets are comprised of assets held in the PBOP Plan, as well as specific assets within the Pension Plan trust (401(h) assets). The investment policy and strategy of the 401(h) assets is consistent with that of the defined benefit pension plan. Eversource's expected long-term rates of return on Pension and PBOP Plan assets are based on target asset allocation assumptions and related expected long-term rates of return. In developing its expected long-term rate of return assumptions for the Pension and PBOP Plans, Eversource evaluated input from consultants, as well as long-term inflation assumptions and historical returns. For the year ended December 31, 2017, management has assumed long-term rates of return of 8.25 percent for the Eversource Pension and PBOP Plan assets. These long-term rates of return are based on the assumed rates of return for the target asset allocations as follows:

	As of December 31,			
	2017		2016	
	Eversource Pension Plan and Tax-Exempt Assets Within PBOP Plan		Eversource Pension Plan and Tax-Exempt Assets Within PBOP Plan	
	Target Asset Allocation	Assumed Rate of Return	Target Asset Allocation	Assumed Rate of Return
Equity Securities:				
United States	21.5%	8.5 %	22.0%	8.5 %
International	11.0%	8.5 %	13.0%	8.5 %
Emerging Markets	4.5 %	10.0 %	5.0 %	10.0 %
Private Equity	15.0%	12.0 %	12.0%	12.0 %
Debt Securities:				
Fixed Income	11.0%	4.0 %	12.0%	4.5 %
Public High Yield Fixed Income	4.0 %	6.5 %	3.0 %	7.0 %
Private Debt	15.0%	9.0 %	10.0%	9.0 %
Emerging Markets Debt	2.0 %	6.5 %	5.0 %	7.5 %
Real Estate and Other Assets	12.0%	7.5 %	10.0%	7.5 %
Hedge Funds	4.0 %	6.0 %	8.0 %	7.0 %

The taxable assets within the Eversource PBOP Plan have a target asset allocation of 70 percent equity securities and 30 percent fixed income securities.

The following table presents, by asset category, the Pension and PBOP Plan assets recorded at fair value on a recurring basis by the level in which they are classified within the fair value hierarchy:

(Millions of Dollars)	Pension Plan							
	Fair Value Measurements as of December 31,							
Asset Category:	2017				2016			
	Level 1	Level 2	Uncategorized	Total	Level 1	Level 2	Uncategorized	Total
Equity Securities ⁽¹⁾	\$535.4	\$—	\$ 1,653.3	\$2,188.7	\$455.5	\$—	\$ 1,279.7	\$1,735.2
Private Equity	11.2	—	641.8	653.0	6.0	—	518.4	524.4
Fixed Income ⁽²⁾	56.6	215.9	1,218.3	1,490.8	—	183.0	1,099.4	1,282.4

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Real Estate and Other Assets	101.6	—	374.4	476.0	77.2	—	325.9	403.1
Hedge Funds	—	—	165.5	165.5	—	—	335.0	335.0
Total	\$704.8	\$215.9	\$ 4,053.3	\$4,974.0	\$538.7	\$183.0	\$ 3,558.4	\$4,280.1
Less: 401(h) PBOP Assets ⁽³⁾				(234.5)				(204.1)
Total Pension Assets				\$4,739.5				\$4,076.0

PBOP Plan

Fair Value Measurements as of December 31,

(Millions of Dollars)	2017				2016			
	Level 1	Level 2	Uncategorized	Total	Level 1	Level 2	Uncategorized	Total
Asset Category:								
Equity Securities ⁽¹⁾	\$115.3	\$—	\$ 241.9	\$357.2	\$88.6	\$—	\$ 214.1	\$302.7
Private Equity	—	—	31.3	31.3	—	—	32.2	32.2
Fixed Income ⁽²⁾	23.4	44.0	133.9	201.3	9.5	44.8	132.3	186.6
Real Estate and Other Assets	22.4	—	29.0	51.4	15.5	—	27.5	43.0
Hedge Funds	—	—	46.5	46.5	—	—	47.2	47.2
Total	\$161.1	\$44.0	\$ 482.6	\$687.7	\$113.6	\$44.8	\$ 453.3	\$611.7
Add: 401(h) PBOP Assets ⁽³⁾				234.5				204.1
Total PBOP Assets				\$922.2				\$815.8

- (1) United States, International and Emerging Markets equity securities that are uncategorized include investments in commingled funds and hedge funds that are overlaid with equity index swaps and futures contracts.
- (2) Fixed Income investments that are uncategorized include investments in commingled funds, fixed income funds that invest in a variety of opportunistic fixed income strategies, and hedge funds that are overlaid with fixed income futures.
- (3) The assets of the Pension Plan include a 401(h) account that has been allocated to provide health and welfare postretirement benefits under the PBOP Plan.

The Company values assets based on observable inputs when available. Equity securities, exchange traded funds and futures contracts classified as Level 1 in the fair value hierarchy are priced based on the closing price on the primary exchange as of the balance sheet date.

Fixed income securities, such as government issued securities, corporate bonds and high yield bond funds, are included in Level 2 and are valued using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. The pricing models utilize observable inputs such as recent trades for the same or similar instruments, yield curves, discount margins and bond structures. Swaps are valued using pricing models that incorporate interest rates and equity and fixed income index closing prices to determine a net present value of the cash flows.

Certain investments, such as commingled funds, private equity investments, real estate funds and hedge funds are valued using the NAV as a practical expedient. These investments are structured as investment companies offering shares or units to multiple investors for the purpose of providing a return. Commingled funds are recorded at NAV provided by the asset manager, which is based on the market prices of the underlying equity securities. Hedge Funds are recorded at NAV based on the values of the underlying assets. Private Equity investments, Fixed Income partnership funds and Real Estate and Other Assets are valued using the NAV provided by the partnerships, which are based on discounted cash flows of the underlying investments, real estate appraisals or public market comparables of the underlying investments. The Company has retrospectively adopted new accounting guidance that eliminates the requirement to classify assets valued at NAV, as a practical expedient, within the fair value hierarchy. Prior to the adoption of this guidance, these investments were classified as Level 2 or Level 3 in the fair value hierarchy. The adoption of this guidance changes fair value measurement disclosures, but does not impact the methodology for valuing the investments or financial statement results.

B. Defined Contribution Plan

Eversource maintains defined contribution plans on behalf of eligible participants. The Eversource 401k Plan provides for employee and employer contributions up to statutory limits. For eligible employees, the Eversource 401k Plan provides employer matching contributions of either 100 percent up to a maximum of three percent of eligible compensation or 50 percent up to a maximum of eight percent of eligible compensation. For newly hired employees, the Eversource 401k Plan provides employer matching contributions of 100 percent up to a maximum of three percent of eligible compensation.

The Eversource 401k Plan also contains a K-Vantage feature for the benefit of eligible participants, which provides an additional annual employer contribution based on age and years of service. K-Vantage participants are not eligible to actively participate in the Eversource Pension Plan.

The total defined Eversource 401k Plan employer matching contributions, including the K-Vantage contributions, were as follows:

(Millions of Dollars)	Eversource	CL&P	PSNH
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			NSTAR Electric	
2017	\$ 34.5	\$ 4.6	\$ 8.5	\$ 3.7
2016	31.8	4.5	8.1	3.4
2015	30.4	4.8	7.3	3.4

C. Share-Based Payments

Share-based compensation awards are recorded using a fair-value based method at the date of grant. Eversource, CL&P, NSTAR Electric and PSNH record compensation expense related to these awards, as applicable, for shares issued or sold to their respective employees and officers, as well as for the allocation of costs associated with shares issued or sold to Eversource's service company employees and officers that support CL&P, NSTAR Electric and PSNH.

Eversource Incentive Plans: Eversource maintains long-term equity-based incentive plans in which Eversource, CL&P, NSTAR Electric and PSNH employees, officers and board members are eligible to participate. The incentive plans authorize Eversource to grant up to 8,000,000 new shares for various types of awards, including RSUs and performance shares, to eligible employees, officers, and board members. As of December 31, 2017 and 2016, Eversource had 2,445,110 and 2,692,350 common shares, respectively, available for issuance under these plans.

Eversource accounts for its various share-based plans as follows:

RSUs - Eversource records compensation expense, net of estimated forfeitures, on a straight-line basis over the requisite service period based upon the fair value of Eversource's common shares at the date of grant. The par value of RSUs is reclassified to Common Stock from APIC as RSUs become issued as common shares.

Performance Shares - Eversource records compensation expense, net of estimated forfeitures, on a straight-line basis over the requisite service period. Performance shares vest based upon the extent to which Company goals are achieved. Vesting of outstanding performance shares is based upon both the Company's EPS growth over the requisite service period and the total shareholder return as compared to the Edison Electric Institute ("EEI") Index during the requisite service period. The fair value of performance shares is determined at the date of grant using a lattice model.

Stock Options - All outstanding stock options were exercised during 2017.

RSUs: Eversource granted RSUs under the annual long-term incentive programs that are subject to three-year graded vesting schedules for employees, and one-year graded vesting schedules, or immediate vesting, for board members.

RSUs are paid in shares, reduced by amounts sufficient to satisfy withholdings for income taxes, subsequent to vesting. A summary of RSU transactions is as follows:

	RSUs (Units)	Weighted Average Grant-Date Fair Value
Outstanding as of December 31, 2016	724,270	\$ 47.86
Granted	299,285	\$ 55.97
Shares Issued	(289,635)	\$ 52.26
Forfeited	(16,881)	\$ 55.60
Outstanding as of December 31, 2017	717,039	\$ 49.29

The weighted average grant-date fair value of RSUs granted for the years ended December 31, 2017, 2016 and 2015 was \$55.97, \$54.67 and \$54.57, respectively. As of December 31, 2017 and 2016, the number and weighted average grant-date fair value of unvested RSUs was 388,269 and \$56.15 per share, and 322,158 and \$53.47 per share, respectively. During 2017, there were 306,087 RSUs at a weighted average grant-date fair value of \$52.75 per share that vested during the year and were either paid or deferred. As of December 31, 2017, 328,770 RSUs were fully vested and deferred and an additional 368,856 are expected to vest.

Performance Shares: Eversource granted performance shares under the annual long-term incentive programs that vest based upon the extent to which Company goals are achieved at the end of three-year performance measurement periods. Performance shares are paid in shares, after the performance measurement period. A summary of performance share transactions is as follows:

	Performance Shares (Units)	Weighted Average Grant-Date Fair Value
Outstanding as of December 31, 2016	522,934	\$ 51.09
Granted	180,032	\$ 55.70
Shares Issued	(173,914)	\$ 43.48
Forfeited	(18,487)	\$ 47.06
Outstanding as of December 31, 2017	510,565	\$ 55.45

The weighted average grant-date fair value of performance shares granted for the years ended December 31, 2017, 2016 and 2015 was \$55.70, \$53.64 and \$55.04, respectively. As of December 31, 2017 and 2016, the number and weighted average grant-date fair value of unvested performance shares was 331,207 and \$55.79 per share, and 301,363 and \$51.52 per share, respectively. During 2017, there were 131,308 performance shares at a weighted average grant-date fair value of \$47.12 per share that vested during the year and were either paid or deferred. As of

December 31, 2017, 179,358 performance shares were fully vested and deferred.

Compensation Expense: The total compensation expense and associated future income tax benefits recognized by Eversource, CL&P, NSTAR Electric and PSNH for share-based compensation awards were as follows:

	For the Years			For the Years			For the Years		
Eversource	Ended December			Ended December 31,			Ended December 31,		
(Millions of Dollars)	2017	2016	2015	2017	2016	2015	2017	2016	2015
Compensation Expense	\$19.7	\$23.6	\$23.1						
Future Income Tax Benefit	8.0	9.6	9.4						
	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH
Compensation Expense	\$7.0	\$7.0	\$3.2	\$9.1	\$8.2	\$3.5	\$9.3	\$7.5	\$3.2
Future Income Tax Benefit	2.9	2.8	1.3	3.7	3.3	1.4	3.8	3.1	1.3

As of December 31, 2017, there was \$20.1 million of total unrecognized compensation expense related to nonvested share-based awards for Eversource, including \$7.3 million for CL&P, \$7.1 million for NSTAR Electric and \$3.1 million for PSNH. This cost is expected to be recognized ratably over a weighted-average period of 1.83 years for Eversource and NSTAR Electric, 1.84 years for CL&P and 1.82 years for PSNH.

An income tax rate of 40 percent was used to estimate the tax effect on total share-based payments determined under the fair-value based method for all awards. The Company generally settles fully vested RSUs and performance shares with the issuance of common shares purchased in the open market.

In 2016, the Company adopted new accounting guidance, which prospectively changed the accounting for excess tax benefits associated with the distribution of stock compensation awards and also changed the presentation of excess tax benefits on the statement of cash flows from a financing activity to an operating activity. For the years ended December 31, 2017 and 2016, the impact of the ASU was to reduce income tax expense by \$2.9 million and \$19.1 million, respectively, which increased cash flows from operating activities on the statement of cash flows. For the year ended December 31, 2015, changes in excess tax benefits totaling \$9.5 million increased cash flows from financing activities.

Stock Options: All remaining outstanding stock options under the NSTAR Incentive Plan were exercised during 2017. A summary of stock option transactions is as follows:

	Options	Weighted Average Exercise Price	Intrinsic Value (Millions)
Outstanding and Exercisable - December 31, 2016	124,640	\$ 25.84	\$ 3.7
Exercised	(124,640)	\$ 25.84	\$ 4.4
Outstanding and Exercisable - December 31, 2017	—	\$ —	\$ —

Cash received for options exercised during the year ended December 31, 2017 totaled \$3.2 million. The tax benefit realized from stock options exercised totaled \$1.8 million for the year ended December 31, 2017.

D. Other Retirement Benefits

Eversource provides retirement and other benefits for certain current and past company officers. These benefits are accounted for on an accrual basis and expensed over a period equal to the service lives of the employees. The actuarially-determined liability for these benefits, which is included in Other Long-Term Liabilities on the balance sheets, as well as the related expense included in Operations and Maintenance Expense on the income statements, are as follows:

Eversource (Millions of Dollars)	As of and For the Years Ended December 31,		
	2017	2016	2015
Actuarially-Determined Liability	\$53.4	\$54.2	\$55.2
Other Retirement Benefits Expense	2.8	2.9	3.9

Eversource (Millions of Dollars)	As of and For the Years Ended December 31,								
	2017			2016			2015		
	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH
Actuarially-Determined Liability	\$0.3	\$ 0.1	\$ 1.9	\$0.3	\$ 0.1	\$ 2.0	\$0.4	\$ 0.2	\$ 2.4
Other Retirement Benefits Expense	1.0	1.0	0.5	1.1	0.9	0.6	1.5	1.3	0.7

10. INCOME TAXES

The components of income tax expense are as follows:

Eversource (Millions of Dollars)	For the Years Ended December 31,
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	2017	2016	2015
Current Income Taxes:			
Federal	\$58.9	\$38.9	\$6.2
State	31.6	53.0	45.7
Total Current	90.5	91.9	51.9
Deferred Income Taxes, Net:			
Federal	433.0	427.9	436.1
State	58.6	38.6	55.6
Total Deferred	491.6	466.5	491.7
Investment Tax Credits, Net	(3.2)	(3.4)	(3.6)
Income Tax Expense	\$578.9	\$555.0	\$540.0

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(Millions of Dollars)	For the Years Ended December 31, 2017			2016			2015		
	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH
Current Income Taxes:									
Federal	\$50.9	\$107.8	\$18.6	\$27.3	\$86.4	\$(13.7)	\$26.9	\$32.8	\$(16.7)
State	17.4	25.6	6.2	13.3	39.5	8.8	15.8	21.4	6.0
Total Current	68.3	133.4	24.8	40.6	125.9	(4.9)	42.7	54.2	(10.7)
Deferred Income Taxes, Net:									
Federal	123.9	88.1	52.7	157.6	96.6	79.5	135.8	180.9	74.5
State	(4.6)	22.4	11.2	11.3	5.1	7.8	0.2	31.7	9.3
Total Deferred	119.3	110.5	63.9	168.9	101.7	87.3	136.0	212.6	83.8
Investment Tax Credits, Net	(1.0)	(1.8)	—	(1.2)	(1.8)	—	(1.3)	(1.8)	—
Income Tax Expense	\$186.6	\$242.1	\$88.7	\$208.3	\$225.8	\$82.4	\$177.4	\$265.0	\$73.1

A reconciliation between income tax expense and the expected tax expense at the statutory rate is as follows:

(Millions of Dollars, except percentages)	For the Years Ended December 31,		
	2017	2016	2015
Income Before Income Tax Expense	\$1,574.4	\$1,504.8	\$1,425.9
Statutory Federal Income Tax Expense at 35%	551.0	526.7	499.1
Tax Effect of Differences:			
Depreciation	(10.8)	(3.4)	(4.6)
Investment Tax Credit Amortization	(3.2)	(3.4)	(3.6)
Other Federal Tax Credits	—	(3.5)	(3.8)
State Income Taxes, Net of Federal Impact	47.7	56.2	61.1
Dividends on ESOP	(8.4)	(8.4)	(8.1)
Tax Asset Valuation Allowance/Reserve Adjustments	7.0	3.3	4.7
Excess Stock Benefit ⁽¹⁾	(2.9)	(19.1)	—
Other, Net	(1.5)	6.6	(4.8)
Income Tax Expense	\$578.9	\$555.0	\$540.0
Effective Tax Rate	36.8	% 36.9	% 37.9

(Millions of Dollars, except percentages)	For the Years Ended December 31, 2017			2016			2015		
	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH
Income Before Income Tax Expense	\$563.4	\$616.8	\$224.7	\$542.6	\$576.6	\$214.3	\$476.8	\$666.1	\$187.5
Statutory Federal Income Tax Expense at 35%	197.2	215.9	78.6	189.9	201.8	75.0	166.9	233.1	65.6
Tax Effect of Differences:									
Depreciation	(5.2)	(3.0)	1.1	1.6	(3.1)	1.0	(1.7)	(1.7)	0.5
Investment Tax Credit Amortization	(1.0)	(1.8)	—	(1.2)	(1.8)	—	(1.3)	(1.8)	—

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Other Federal Tax Credits	—	—	—	—	—	(3.5)	—	—	(3.8)
State Income Taxes, Net of Federal Impact	4.5	31.2	11.3	14.5	29.0	10.8	9.2	34.5	9.9
Tax Asset Valuation Allowance/Reserve Adjustments	(9.5)	—	—	1.5	—	—	1.2	—	—
Excess Stock Benefit ⁽¹⁾	(0.7)	(0.7)	(0.3)	(0.9)	(1.2)	(0.4)	—	—	—
Other, Net	1.3	0.5	(2.0)	2.9	1.1	(0.5)	3.1	0.9	0.9
Income Tax Expense	\$186.6	\$242.1	\$88.7	\$208.3	\$225.8	\$82.4	\$177.4	\$265.0	\$73.1
Effective Tax Rate	33.1 %	39.2 %	39.5 %	38.4 %	39.2 %	38.4 %	37.2 %	39.8 %	39.0 %

In 2016, the Company adopted new accounting guidance, which prospectively changed the accounting for excess tax benefits associated with the distribution of stock compensation awards, previously recognized in Capital ⁽¹⁾ Surplus, Paid In within Common Shareholders' Equity on the balance sheet, to recognition within income tax expense in the income statement. See Note 1D, "Summary of Significant Accounting Policies - Accounting Standards," for further information.

Eversource, CL&P, NSTAR Electric and PSNH file a consolidated federal income tax return and unitary, combined and separate state income tax returns. These entities are also parties to a tax allocation agreement under which taxable subsidiaries do not pay any more taxes than they would have otherwise paid had they filed a separate company tax return, and subsidiaries generating tax losses, if any, are paid for their losses when utilized.

Deferred tax assets and liabilities are recognized for the future tax effects of temporary differences between the carrying amounts and the tax basis of assets and liabilities. The tax effect of temporary differences is accounted for in accordance with the rate-making treatment of the applicable regulatory commissions and relevant accounting authoritative literature. The tax effects of temporary differences that give rise to the net accumulated deferred income tax obligations are as follows:

Eversource (Millions of Dollars)	As of December 31,					
	2017	2016				
Deferred Tax Assets:						
Employee Benefits	\$442.1	\$640.6				
Derivative Liabilities	111.8	192.6				
Regulatory Deferrals - Liabilities	205.6	290.9				
Allowance for Uncollectible Accounts	50.1	76.6				
Tax Effect - Tax Regulatory Liabilities	832.6	11.8				
Federal Net Operating Loss Carryforwards	47.8	—				
Purchase Accounting Adjustment	69.9	112.2				
Other	149.5	170.5				
Total Deferred Tax Assets	1,909.4	1,495.2				
Less: Valuation Allowance	14.6	5.1				
Net Deferred Tax Assets	\$1,894.8	\$1,490.1				
Deferred Tax Liabilities:						
Accelerated Depreciation and Other Plant-Related Differences	\$3,562.0	\$5,001.2				
Property Tax Accruals	56.7	81.9				
Regulatory Amounts:						
Regulatory Deferrals - Assets	924.9	1,321.8				
Tax Effect - Tax Regulatory Assets	243.1	252.6				
Goodwill Regulatory Asset - 1999 Merger	99.8	186.7				
Derivative Assets	17.4	29.5				
Other	288.4	223.6				
Total Deferred Tax Liabilities	\$5,192.3	\$7,097.3				
	As of December 31,					
	2017		2016			
(Millions of Dollars)	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH
Deferred Tax Assets:						
Employee Benefits	\$112.3	\$34.0	\$38.0	\$138.8	\$69.5	\$46.5
Derivative Liabilities	110.5	0.3	—	191.5	1.1	—
Regulatory Deferrals - Liabilities	12.0	139.8	17.9	6.3	194.9	36.7
Allowance for Uncollectible Accounts	20.6	17.3	2.9	33.0	25.7	4.1
Tax Effect - Tax Regulatory Liabilities	337.2	281.2	116.8	4.9	3.3	2.6
Other	70.7	4.9	49.6	59.4	6.6	56.4
Total Deferred Tax Assets	663.3	477.5	225.2	433.9	301.1	146.3
Less: Valuation Allowance	6.3	—	—	4.5	—	—
Net Deferred Tax Assets	\$657.0	\$477.5	\$225.2	\$429.4	\$301.1	\$146.3

Deferred Tax Liabilities:

Accelerated Depreciation and Other Plant-Related Differences	\$1,224.9	\$1,229.2	\$502.5	\$1,700.3	\$1,901.9	\$726.3
Property Tax Accruals	20.7	24.2	5.5	29.7	36.8	8.0
Regulatory Amounts:						
Regulatory Deferrals - Assets	310.6	267.1	103.6	473.4	381.7	142.1
Tax Effect - Tax Regulatory Assets	173.1	9.8	11.4	170.4	44.8	12.2
Goodwill Regulatory Asset - 1999 Merger	—	85.7	—	—	160.3	—
Derivative Assets	17.4	—	—	27.0	—	—
Other	13.7	137.3	45.7	16.3	102.7	43.1
Total Deferred Tax Liabilities	\$1,760.4	\$1,753.3	\$668.7	\$2,417.1	\$2,628.2	\$931.7

2017 Federal Legislation: On December 22, 2017, the "Tax Cuts and Jobs Act" (the "Act") became law, which amended existing federal tax rules and included numerous provisions that impacted corporations. In particular, the Act reduced the U.S. federal corporate income tax rate from 35 percent to 21 percent effective January 1, 2018. In terms of the impacts to the regulated companies, the most significant changes will be (1) the benefit of incurring a lower federal income tax expense, which we expect to be passed back to customers, and (2) the provisional regulated excess ADIT liabilities that we expect to benefit customers in future periods, which were estimated to be approximately \$2.9 billion (approximately \$1.0 billion at CL&P, \$1.1 billion at NSTAR Electric and \$0.4 billion at PSNH) as of December 31, 2017 and recognized as regulatory liabilities on the balance sheet.

The Eversource regulated companies are currently working with their applicable state regulatory commissions, who have opened investigations to examine the impact of the Act on customer rates. FERC has yet to address how the Act would impact transmission rates. Eversource, CL&P, NSTAR Electric, and PSNH will continue to evaluate the impacts of the Act, which will vary depending on the ultimate amount and timing of when certain income tax benefits will benefit customers, and will vary by jurisdiction.

Although the impacts could not be finalized upon the issuance of this combined Annual Report on Form 10-K, reasonable provisional estimates were recognized as of December 31, 2017. In accordance with SEC Staff Accounting Bulletin No. 118 ("SAB 118"), additional re-measurement may occur based on final analysis, computations, technical corrections, or other forms of guidance issued from regulatory agencies or commissions. While the Company believes the impacts of the Act were appropriately accounted for in accordance with the applicable authoritative guidance, the ultimate outcome may be different from the provisional estimates recorded, and those differences may materially impact its future statement of financial position, results of operations, and cash flows.

Carryforwards: The following tables provide the amounts and expiration dates of state tax credit and loss carryforwards and federal tax credit and net operating loss carryforwards:

	As of December 31, 2017				
(Millions of Dollars)	Eversource	CL&P	NSTAR Electric	PSNH	Expiration Range
Federal Net Operating Loss	\$197.3	\$ —	—	—	—2027-2037
Federal Charitable Contribution	18.7	—	—	—	2017-2022
State Net Operating Loss	82.8	—	—	—	2028-2037
State Tax Credit	139.0	94.5	—	—	2017-2022
State Charitable Contribution	31.4	—	—	—	2017-2022
	As of December 31, 2016				
(Millions of Dollars)	Eversource	CL&P	NSTAR Electric	PSNH	Expiration Range
Federal Tax Credit	8.6	—	—	—	—
Federal Charitable Contribution	27.8	—	—	—	2016 - 2019
State Tax Credit	111.1	80.5	—	—	2016 - 2021
State Charitable Contribution	36.5	—	—	—	2016 - 2020

In 2017, the company increased its valuation allowance reserve for state credits by \$9.9 million (\$1.8 million for CL&P), net of tax, to reflect and update for expired tax credits. In 2016, the Company increased its valuation allowance reserve for state credits by \$1.3 million (\$1.3 million for CL&P), net of tax, to reflect an update for expired tax credits.

For 2017 and 2016, state credit and state loss carryforwards have been partially reserved by a valuation allowance of \$14.4 million and \$4.5 million (net of tax), respectively.

Unrecognized Tax Benefits: A reconciliation of the activity in unrecognized tax benefits, all of which would impact the effective tax rate if recognized, is as follows:

(Millions of Dollars)	Eversource	CL&P
Balance as of January 1, 2015	\$ 46.2	\$14.3
Gross Increases - Current Year	9.9	2.6
Gross Increases - Prior Year	0.1	—
Lapse of Statute of Limitations	(8.2)	(3.4)
Balance as of December 31, 2015	48.0	13.5
Gross Increases - Current Year	9.9	3.9
Gross Increases - Prior Year	0.2	0.2
Lapse of Statute of Limitations	(9.7)	(2.3)
Balance as of December 31, 2016	48.4	15.3
Gross Increases - Current Year	11.4	4.7
Gross Decreases - Prior Year	(0.9)	(0.5)
Lapse of Statute of Limitations	(7.2)	(1.4)
Balance as of December 31, 2017	\$ 51.7	\$18.1

Interest and Penalties: Interest on uncertain tax positions is recorded and generally classified as a component of Other Interest Expense on the statements of income. However, when resolution of uncertainties results in the Company receiving interest income, any related interest benefit is recorded in Other Income, Net on the statements of income.

No penalties have been recorded. The amount of interest expense/(income) on uncertain tax positions recognized and the related accrued interest payable/(receivable) are as follows:

	Other Interest Expense/(Income)	Accrued Interest Expense	For the Years Ended December 31,	As of December 31,
(Millions of Dollars)	2017	2016	2015	2017
Eversource	\$ —	\$(0.2)	\$ 0.1	\$ 1.8
				\$ 1.8

Tax Positions: During 2017 and 2016, Eversource did not resolve any of its uncertain tax positions.

Open Tax Years: The following table summarizes Eversource, CL&P, NSTAR Electric and PSNH's tax years that remain subject to examination by major tax jurisdictions as of December 31, 2017:

Description	Tax Years
Federal	2017
Connecticut	2014 - 2017
Massachusetts	2014 - 2017
New Hampshire	2015 - 2017

Eversource estimates that during the next twelve months, differences of a non-timing nature could be resolved, resulting in a zero to \$2.2 million decrease in unrecognized tax benefits by Eversource. These estimated changes are not expected to have a material impact on the earnings of Eversource. Other companies' impacts are not expected to be material.

11. COMMITMENTS AND CONTINGENCIES

A. Environmental Matters

General: Eversource, CL&P, NSTAR Electric and PSNH are subject to environmental laws and regulations intended to mitigate or remove the effect of past operations and improve or maintain the quality of the environment. These laws and regulations require the removal or the remedy of the effect on the environment of the disposal or release of certain specified hazardous substances at current and former operating sites. Eversource, CL&P, NSTAR Electric and PSNH have an active environmental auditing and training program and each believes it is substantially in compliance with all enacted laws and regulations.

Environmental reserves are accrued when assessments indicate it is probable that a liability has been incurred and an amount can be reasonably estimated. The approach used estimates the liability based on the most likely action plan from a variety of available remediation options, including no action required or several different remedies ranging from establishing institutional controls to full site remediation and monitoring. These liabilities are estimated on an undiscounted basis and do not assume that the amounts are recoverable from insurance companies or other third parties. The environmental reserves include sites at different stages of discovery and remediation and do not include any unasserted claims.

These reserve estimates are subjective in nature as they take into consideration several different remediation options at each specific site. The reliability and precision of these estimates can be affected by several factors, including new information concerning either the level of contamination at the site, the extent of Eversource's, CL&P's, NSTAR Electric's and PSNH's responsibility for remediation or the extent of remediation required, recently enacted laws and regulations or changes in cost estimates due to certain economic factors. It is possible that new information or future developments could require a reassessment of the potential exposure to related environmental matters. As this information becomes available, management will continue to assess the potential exposure and adjust the reserves accordingly.

The amounts recorded as environmental reserves are included in Other Current Liabilities and Other Long-Term Liabilities on the balance sheets and represent management's best estimate of the liability for environmental costs, and take into consideration site assessment, remediation and long-term monitoring costs. The environmental reserves also take into account recurring costs of managing hazardous substances and pollutants, mandated expenditures to remediate contaminated sites and any other infrequent and non-recurring clean-up costs. A reconciliation of the activity in the environmental reserves is as follows:

(Millions of Dollars)	Eversource	CL&P	NSTAR Electric	PSNH
Balance as of January 1, 2016	\$ 51.1	\$ 4.6	\$ 3.0	\$ 4.5
Additions	20.6	0.6	1.8	1.2
Payments/Reductions	(5.9)	(0.3)	(1.0)	(0.4)
Balance as of December 31, 2016	65.8	4.9	3.8	5.3
Additions	6.2	0.5	1.8	1.0
Payments/Reductions	(17.1)	(0.7)	(2.9)	(0.6)
Balance as of December 31, 2017	\$ 54.9	\$ 4.7	\$ 2.7	\$ 5.7

The number of environmental sites and related reserves for which remediation or long-term monitoring, preliminary site work or site assessment is being performed are as follows:

	As of December 31, 2017	As of December 31, 2016	As of December 31, 2017	As of December 31, 2016
	Number of Sites	Reserve (in millions)	Number of Sites	Reserve (in millions)
Eversource	59	\$ 54.9	61	\$ 65.8
CL&P	14	4.7	14	4.9
NSTAR Electric	15	2.7	17	3.8
PSNH	10	5.7	11	5.3

Included in the Eversource number of sites and reserve amounts above are former MGP sites that were operated several decades ago and manufactured gas from coal and other processes, which resulted in certain by-products remaining in the environment that may pose a potential risk to human health and the environment, for which Eversource may have potential liability. The reserve balances related to these former MGP sites were \$49.0 million and \$59.0 million as of December 31, 2017 and 2016, respectively, and related primarily to the natural gas business segment. The reduction in the reserve balance at the MGP sites was primarily due to a change in cost estimates at one site where actual contamination was less than originally estimated.

As of December 31, 2017, for 8 environmental sites (3 for CL&P, 1 for NSTAR Electric) that are included in the Company's reserve for environmental costs, the information known and the nature of the remediation options allow for the Company to estimate the range of losses for environmental costs. As of December 31, 2017, \$25.4 million

(including \$1.8 million for CL&P and \$0.3 million for NSTAR Electric) had been accrued as a liability for these sites, which represents the low end of the range of the liabilities for environmental costs. Management believes that additional losses of up to approximately \$20 million (\$1 million at CL&P) may be incurred in executing current remediation plans for these sites.

As of December 31, 2017, for 10 environmental sites (3 for CL&P) that are included in the Company's reserve for environmental costs, management cannot reasonably estimate the exposure to loss in excess of the reserve, or range of loss, as these sites are under investigation and/or there is significant uncertainty as to what remedial actions, if any, the Company may be required to undertake. As of December 31, 2017, \$12.3 million (including \$1.8 million for CL&P) had been accrued as a liability for these sites. As of December 31, 2017, for the remaining 41 environmental sites (including 8 for CL&P, 14 for NSTAR Electric and 10 for PSNH) that are included in the Company's reserve for environmental costs, the \$17.2 million accrual (including \$1.1 million for CL&P, \$2.4 million for NSTAR Electric and \$5.7 million for PSNH) represents management's best estimate of the probable liability and no additional loss is anticipated at this time.

CERCLA: Of the total environmental sites, nine sites (four for NSTAR Electric and three for PSNH) are superfund sites under the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA) and its amendments or state equivalents for which the Company has been notified that it is a potentially responsible party but for which the site assessment and remediation are not being managed by the Company. As of December 31, 2017, a liability of \$0.9 million accrued on these sites represents management's best estimate of its potential remediation costs with respect to these superfund sites.

Environmental Rate Recovery: PSNH, NSTAR Gas and Yankee Gas have rate recovery mechanisms for MGP related environmental costs, therefore, changes in their respective environmental reserves do not impact Net Income. CL&P recovers a certain level of environmental costs currently in rates. CL&P and NSTAR Electric do not have a separate environmental cost recovery regulatory mechanism.

B. Long-Term Contractual Arrangements

Estimated Future Annual Costs: The estimated future annual costs of significant long-term contractual arrangements as of December 31, 2017 are as follows:

Eversource

(Millions of Dollars)	2018	2019	2020	2021	2022	Thereafter	Total
Supply and Stranded Cost	\$81.7	\$69.3	\$74.6	\$68.8	\$63.7	\$ 144.3	\$502.4
Renewable Energy	242.9	242.5	241.7	232.2	224.5	1,665.7	2,849.5
Peaker CfDs	26.1	24.2	34.0	32.3	23.4	53.3	193.3
Natural Gas Procurement	225.5	219.2	169.3	148.7	131.4	989.6	1,883.7
Transmission Support Commitments	22.8	23.0	23.2	15.2	16.5	16.5	117.2
Total	\$599.0	\$578.2	\$542.8	\$497.2	\$459.5	\$ 2,869.4	\$5,546.1

CL&P

(Millions of Dollars)	2018	2019	2020	2021	2022	Thereafter	Total
Supply and Stranded Cost	\$58.7	\$56.7	\$69.5	\$63.7	\$59.1	\$ 121.6	\$429.3
Renewable Energy	84.1	85.4	85.5	85.8	86.6	655.5	1,082.9
Peaker CfDs	26.1	24.2	34.0	32.3	23.4	53.3	193.3
Transmission Support Commitments	9.0	9.1	9.2	6.0	6.5	6.5	46.3
Total	\$177.9	\$175.4	\$198.2	\$187.8	\$175.6	\$ 836.9	\$1,751.8

NSTAR Electric

(Millions of Dollars)	2018	2019	2020	2021	2022	Thereafter	Total
Supply and Stranded Cost	\$5.5	\$5.5	\$3.1	\$3.1	\$3.1	\$ 22.0	\$42.3
Renewable Energy	96.1	94.3	92.6	88.2	88.4	489.4	949.0
Transmission Support Commitments	9.0	9.0	9.1	6.0	6.5	6.5	46.1
Total	\$110.6	\$108.8	\$104.8	\$97.3	\$98.0	\$ 517.9	\$1,037.4

PSNH

(Millions of Dollars)	2018	2019	2020	2021	2022	Thereafter	Total
Supply and Stranded Cost	\$17.5	\$7.1	\$2.0	\$2.0	\$1.5	\$ 0.7	\$30.8
Renewable Energy	62.7	62.8	63.6	58.2	49.5	520.8	817.6
Transmission Support Commitments	4.8	4.9	4.9	3.2	3.5	3.5	24.8
Total	\$85.0	\$74.8	\$70.5	\$63.4	\$54.5	\$ 525.0	\$873.2

Supply and Stranded Cost: CL&P, NSTAR Electric and PSNH have various IPP contracts or purchase obligations for electricity, including payment obligations resulting from the buydown of electricity purchase contracts. Such contracts extend through 2024 for CL&P, 2031 for NSTAR Electric and 2023 for PSNH.

In addition, CL&P, along with UI, has four capacity CfDs for a total of approximately 787 MW of capacity consisting of three generation units and one demand response project. The capacity CfDs extend through 2026 and obligate both CL&P and UI to make or receive payments on a monthly basis to or from the generation facilities based on the difference between a set contractual capacity price and the capacity market prices received by the generation facilities in the ISO-NE capacity markets. CL&P has a sharing agreement with UI, whereby UI shares 20 percent of the costs and benefits of these contracts. CL&P's portion of the costs and benefits of these contracts will be paid by or refunded to CL&P's customers.

The contractual obligations table above does not include CL&P's or NSTAR Electric's default service contracts, the amounts of which vary with customers' energy needs. The contractual obligations table also does not include PSNH's short-term power supply management.

Renewable Energy: Renewable energy contracts include non-cancellable commitments under contracts of CL&P, NSTAR Electric and PSNH for the purchase of energy and capacity from renewable energy facilities. Such contracts

extend through 2038 for CL&P, 2031 for NSTAR Electric and 2033 for PSNH.

The contractual obligations table above does not include long-term commitments signed by CL&P and NSTAR Electric, as required by the PURA and DPU, for the purchase of renewable energy and related products that are contingent on the future construction of energy facilities.

Peaker CfDs: In 2008, CL&P entered into three CfDs with developers of peaking generation units approved by PURA (Peaker CfDs). These units have a total of approximately 500 MW of peaking capacity. As directed by PURA, CL&P and UI have entered into a sharing agreement, whereby CL&P is responsible for 80 percent and UI for 20 percent of the net costs or benefits of these CfDs. The Peaker CfDs pay the generation facility owner the difference between capacity, forward reserve and energy market revenues and a cost-of-service payment stream for 30 years. The ultimate cost or benefit to CL&P under these contracts will depend on the costs of plant operation and the prices that the projects receive for capacity and other products in the ISO-NE markets. CL&P's portion of the amounts paid or received under the Peaker CfDs will be recoverable from or refunded to CL&P's customers.

Natural Gas Procurement: In the normal course of business, Eversource's natural gas distribution businesses have long-term contracts for the purchase, transportation and storage of natural gas as part of its portfolio of supplies. These contracts extend through 2032.

Coal, Wood and Other: PSNH has entered into various arrangements for the purchase of coal, wood and the transportation services for fuel supply for its electric generating assets. On January 10, 2018, Eversource and PSNH completed the sale of PSNH's thermal generation assets, at which time, remaining future contractual obligations were transferred to the buyer. See Note 12, "Assets Held for Sale," for further information.

Transmission Support Commitments: Along with other New England utilities, CL&P, NSTAR Electric and PSNH entered into agreements in 1985 to support transmission and terminal facilities that were built to import electricity from the Hydro-Québec system in Canada. CL&P, NSTAR Electric and PSNH are obligated to pay, over a 30-year period ending in 2020, their proportionate shares of the annual operation and maintenance expenses and capital costs of those facilities.

The total costs incurred under these agreements were as follows:

Eversource (Millions of Dollars)	For the Years Ended December 31,		
	2017	2016	2015
Supply and Stranded Cost	\$103.9	\$152.5	\$147.6
Renewable Energy	235.5	210.9	144.3
Peaker CfDs	38.7	47.7	42.7
Natural Gas Procurement	377.0	323.9	428.6
Coal, Wood and Other	47.7	55.7	95.9
Transmission Support Commitments	19.8	15.9	25.3

(Millions of Dollars)	For the Years Ended December 31,								
	2017			2016			2015		
	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH	CL&P	NSTAR Electric	PSNH
Supply and Stranded Cost	\$81.0	\$ 4.0	\$18.9	\$132.7	\$ 0.7	\$19.1	\$120.3	\$ 6.5	\$20.8
Renewable Energy	51.0	123.7	60.8	42.1	101.1	67.7	20.0	87.1	37.2
Peaker CfDs	38.7	—	—	47.7	—	—	42.7	—	—
Coal, Wood and Other	—	—	47.7	—	—	55.7	—	—	95.9
Transmission Support Commitments	7.8	7.8	4.2	6.3	6.2	3.4	10.0	9.9	5.4

C. Spent Nuclear Fuel Obligations - Yankee Companies

CL&P, NSTAR Electric and PSNH have plant closure and fuel storage cost obligations to the Yankee Companies, which have each completed the physical decommissioning of their respective nuclear facilities and are now engaged in the long-term storage of their spent fuel. The Yankee Companies collect these costs through wholesale, FERC-approved rates charged under power purchase agreements with several New England utilities, including CL&P, NSTAR Electric and PSNH. These companies in turn recover these costs from their customers through state regulatory commission-approved retail rates. The Yankee Companies have collected or are currently collecting amounts that management believes are adequate to recover the remaining plant closure and fuel storage cost estimates for the respective plants. Management believes CL&P and NSTAR Electric will recover their shares of these obligations from their customers. PSNH has recovered its total share of these costs from its customers.

Spent Nuclear Fuel Litigation:

The Yankee Companies have filed complaints against the DOE in the Court of Federal Claims seeking monetary damages resulting from the DOE's failure to provide for a permanent facility to store spent nuclear fuel pursuant to the terms of the 1983 spent fuel and high level waste disposal contracts between the Yankee Companies and the DOE. The court had previously awarded the Yankee Companies damages for Phase I, II and III of litigation resulting from the DOE's failure to meet its contractual obligations. These Phases covered damages incurred in the years 1998 through 2012, and the awarded damages have been received by the Yankee Companies with certain amounts of the damages refunded to their customers.

DOE Phase III Damages - In August 2013, the Yankee Companies each filed subsequent lawsuits against the DOE seeking recovery of actual damages incurred in the years 2009 through 2012 ("DOE Phase III"). On March 25, 2016, the court issued its decision and awarded CYAPC, YAEC and MYAPC damages of \$32.6 million, \$19.6 million and \$24.6 million, respectively. In total, the Yankee Companies were awarded \$76.8 million of the \$77.9 million in damages sought in DOE Phase III. The decision became final on July 18, 2016, and the Yankee Companies received the awards from the DOE on October 14, 2016. The Yankee Companies received FERC approval of their proposed distribution of certain amounts of the awarded damages proceeds to member companies, including CL&P, NSTAR Electric and PSNH, which CYAPC and MYAPC made in December 2016. MYAPC also refunded \$56.5 million from its spent nuclear fuel trust, a portion of which was also refunded to the Eversource utility subsidiaries. In total, Eversource received \$26.1 million, of which CL&P, NSTAR Electric and PSNH received \$13.6 million, \$8.6 million and \$3.9 million, respectively. These amounts have been refunded to the customers of the respective Eversource utility subsidiaries.

DOE Phase IV Damages - On May 22, 2017, each of the Yankee Companies filed subsequent lawsuits against the DOE in the Court of Federal Claims seeking monetary damages totaling approximately \$100 million for CYAPC, YAEC and MYAPC, resulting from the DOE's failure to begin accepting spent nuclear fuel for disposal covering the years from 2013 to 2016 ("DOE Phase IV"). The DOE Phase IV trial is expected to begin in 2018.

D. Guarantees and Indemnifications

In the normal course of business, Eversource parent provides credit assurances on behalf of its subsidiaries, including CL&P, NSTAR Electric and PSNH, in the form of guarantees.

Eversource parent issued a guaranty on behalf of its subsidiary, NPT, under which, beginning at the time the Northern Pass Transmission line goes into commercial operation, Eversource parent will guarantee the financial obligations of NPT under the TSA with HQ in an amount not to exceed \$25 million. Eversource parent's obligations under the guaranty expire upon the full, final and indefeasible payment of the guaranteed obligations. Eversource parent has also entered into a guaranty on behalf of NPT under which Eversource parent will guarantee NPT's obligations under a facility with a financial institution pursuant to which NPT may request letters of credit in an aggregate amount of up to approximately \$14 million.

Eversource parent has also guaranteed certain indemnification and other obligations as a result of the sales of former unregulated subsidiaries and the termination of an unregulated business, with maximum exposures either not specified or not material.

Management does not anticipate a material impact to net income or cash flows as a result of these various guarantees and indemnifications. The following table summarizes Eversource parent's exposure to guarantees and indemnifications of its subsidiaries to external parties, as of December 31, 2017:

Company	Description	Maximum Exposure (in millions)	Expiration Dates
On behalf of subsidiaries:			
Eversource Gas Transmission LLC	Access Northeast Project Capital Contributions Guaranty ⁽¹⁾	\$ 185.1	2021
Various	Surety Bonds ⁽²⁾	40.4	2018
Eversource Service and Rocky River Realty Company	Lease Payments for Vehicles and Real Estate	7.8	2019 - 2024

(1) Eversource parent issued a declining balance guaranty on behalf of its subsidiary, Eversource Gas Transmission LLC, to guarantee the payment of the subsidiary's capital contributions for its investment in the Access Northeast project. The guaranty decreases as capital contributions are made. The guaranty will expire upon the earlier of the full performance of the guaranteed obligations or December 31, 2021.

(2) Surety bond expiration dates reflect termination dates, the majority of which will be renewed or extended. Certain surety bonds contain credit ratings triggers that would require Eversource parent to post collateral in the event that the unsecured debt credit ratings of Eversource parent are downgraded.

Aquarion has a \$0.9 million letter of credit relating to an insurance program, which expires on December 31, 2018 and includes annual automatic renewals. As of December 31, 2017, and 2016, there were no amounts outstanding under the letter of credit. Aquarion also guarantees surety bonds with a maximum exposure of \$1.2 million related to ongoing operations with expiration dates ranging through 2018, the majority of which will be renewed or extended.

E. FERC ROE Complaints

Four separate complaints have been filed at the FERC by combinations of New England state attorneys general, state regulatory commissions, consumer advocates, consumer groups, municipal parties and other parties (collectively the "Complainants"). In each of the first three complaints, the Complainants challenged the NETOs' base ROE of 11.14

percent that had been utilized since 2005 and sought an order to reduce it prospectively from the date of the final FERC order and for the separate 15-month complaint periods. In the fourth complaint, filed April 29, 2016, the Complainants challenged the NETOs' base ROE of 10.57 percent and the maximum ROE for transmission incentive ("incentive cap") of 11.74 percent, asserting that these ROEs were unjust and unreasonable.

In response to appeals of the FERC decision in the first complaint filed by the NETOs and the Complainants, the U.S. Court of Appeals for the D.C. Circuit (the "Court") issued a decision on April 14, 2017 vacating and remanding the FERC's decision. The Court found that the FERC failed to make an explicit finding that the 11.14 percent base ROE was unjust and unreasonable, as required under Section 206 of the Federal Power Act, before it set a new base ROE. The Court also found that the FERC did not provide a rational connection between the record evidence and its decision to select the midpoint of the upper half of the zone of reasonableness for the new base ROE.

Hearings on the fourth complaint were held in December 2017 before the Administrative Law Judge ("ALJ"), who is expected to issue an initial decision in March 2018.

A summary of the four separate complaints and the base ROEs pertinent to those complaints are as follows:

Complaint	15-Month Time Period of Complaint (Beginning as of Complaint Filing Date)	Original Base ROE Authorized by FERC at Time of Complaint Filing Date ⁽¹⁾	Base ROE Subsequently Authorized by FERC for First Complaint Period and also Effective from October 16, 2014 through April 14, 2017 ⁽¹⁾	Reserve (Pre-Tax and Excluding Interest) as of December 31, 2017 (in millions)	FERC ALJ Recommendation of Base ROE on Second and Third Complaints (Issued March 22, 2016)
First	10/1/2011 - 12/31/2012	11.14%	10.57%	\$—	⁽²⁾ N/A
Second	12/27/2012 - 3/26/2014	11.14%	N/A	39.1	⁽³⁾ 9.59%
Third	7/31/2014 - 10/30/2015	11.14%	10.57%	—	10.90%
Fourth	4/29/2016 - 7/28/2017	10.57%	10.57%	—	N/A

⁽¹⁾ The ROE billed during the period October 1, 2011 through October 15, 2014 consisted of a base ROE of 11.14 percent and incentives up to 13.1 percent. On October 16, 2014, the FERC set the base ROE at 10.57 percent and an incentive cap at 11.74 percent for the first complaint period and also effective from the date of the FERC order on October 16, 2014. This FERC order was vacated on April 14, 2017.

⁽²⁾ CL&P, NSTAR Electric and PSNH have refunded all amounts associated with the first complaint period, totaling \$38.9 million (pre-tax and excluding interest) at Eversource (consisting of \$22.4 million at CL&P, \$13.7 million at NSTAR Electric and \$2.8 million at PSNH), reflecting both the base ROE and incentive cap prescribed by the FERC order.

⁽³⁾ The reserve represents the difference between the billed rates during the second complaint period and a 10.57 percent base ROE and 11.74 percent incentive cap. The reserve consisted of \$21.4 million for CL&P, \$14.6 million for NSTAR Electric and \$3.1 million for PSNH as of December 31, 2017.

On June 5, 2017, the NETOs, including Eversource, submitted a filing to the FERC to reinstate the base ROE of 11.14 percent with an associated ROE incentive cap of 13.5 percent effective June 8, 2017, as these were the last ROEs lawfully in effect for transmission billing purposes prior to the FERC order vacated by the Court on April 14, 2017. On October 6, 2017, the FERC did not accept the NETOs filing, temporarily leaving in place the ROEs (10.57 percent base ROE with an 11.74 percent incentive cap ROE) set in the first complaint proceeding until the FERC addresses the Court's decision. On November 6, 2017, the NETOs submitted a request for rehearing of the FERC's October 6, 2017 Order rejecting the compliance filing.

On October 5, 2017, the NETOs filed a series of motions, requesting that the FERC dismiss the four complaint proceedings. Alternatively, if the FERC does not dismiss the proceedings, the NETOs requested that the FERC consolidate all four complaint proceedings for expeditious resolution and/or stay the trial in the fourth complaint proceeding and resolve it based on the standards set in the April 14, 2017 Court decision.

At this time, the Company cannot reasonably estimate a range of gain or loss for the complaint proceedings. No events in 2017 provided a reasonable basis for a change to the reserve balance of \$39.1 million (pre-tax, excluding interest) for the second complaint period, and the Company has not changed its reserve or recognized ROEs for any of the complaint periods.

Management cannot at this time predict the ultimate effect of the Court decision or future FERC action on any of the complaint periods or the estimated impacts on the financial position, results of operations or cash flows of Eversource, CL&P, NSTAR Electric or PSNH.

The average impact of a 10 basis point change to the base ROE for each of the 15-month complaint periods would affect Eversource's after-tax earnings by approximately \$3 million.

F. Eversource and NSTAR Electric Boston Harbor Civil Action

On July 15, 2016, the United States Attorney on behalf of the United States Army Corps of Engineers filed a civil action in the United States District Court for the District of Massachusetts under provisions of the Rivers and Harbors Act of 1899 and the Clean Water Act against NSTAR Electric, Harbor Electric Energy Company, a wholly-owned subsidiary of NSTAR Electric ("HEEC"), and the Massachusetts Water Resources Authority (together with NSTAR Electric and HEEC, the "Defendants"). The action alleged that the Defendants failed to comply with certain permitting requirements related to the placement of the HEEC-owned electric distribution cable beneath Boston Harbor. The action sought an order to compel HEEC to comply with cable depth requirements in the United States Army Corps of Engineers' permit or alternatively to remove the electric distribution cable and cease unauthorized work in U.S. waterways. The action also sought civil penalties and other costs.

The parties reached a settlement pursuant to which HEEC agreed to install a new 115kV distribution cable across Boston Harbor to Deer Island, utilizing a different route, and remove portions of the existing cable. Upon the installation and completion of the new cable and the removal of the portions of the existing cable, all issues surrounding the current permit from the United States Army Corps of Engineers are expected to be resolved, and such litigation is expected to be dismissed with prejudice.

In 2017, as a result of the settlement, NSTAR Electric expensed \$4.9 million (pre-tax) of previously incurred capitalized costs associated with engineering work performed on the existing cable that will no longer be used. In addition, NSTAR Electric agreed to provide a rate base credit of \$17.5 million to the Massachusetts Water Resources Authority for the new cable. This negotiated credit will result in the initial \$17.5 million of construction costs on the new cable to be expensed as incurred. Of this amount, NSTAR Electric expensed \$11.1 million (pre-tax) of costs incurred on the new cable in 2017. Construction of the new cable is expected to be completed in 2019.

G. Litigation and Legal Proceedings

Eversource, including CL&P, NSTAR Electric and PSNH, are involved in legal, tax and regulatory proceedings regarding matters arising in the ordinary course of business, which involve management's assessment to determine the probability of whether a loss will occur and, if probable, its best estimate of probable loss. The Company records and discloses losses when these losses are probable and reasonably estimable, and discloses matters when losses are probable but not estimable or when losses are reasonably possible. Legal costs related to the defense of loss contingencies are expensed as incurred.

12. ASSETS HELD FOR SALE

In June 2015, Eversource and PSNH entered into the 2015 Public Service Company of New Hampshire Restructuring and Rate Stabilization Agreement, under the terms of which PSNH agreed to divest its generation assets, subject to NHPUC approval. The NHPUC approval for this agreement, as well as NHPUC approval of the final divestiture plan and auction process, were received in the second half of 2016. In October 2017, PSNH entered into two Purchase and Sale Agreements ("Agreements") to sell its thermal and hydroelectric generation assets to private investors at purchase prices of \$175 million and \$83 million, respectively, subject to adjustments as set forth in the Agreements. The NHPUC approved the Agreements in late November 2017, at which time the Company classified these assets as held for sale.

On January 10, 2018, PSNH completed the sale of its thermal generation assets, pursuant to the Agreement dated October 11, 2017. In accordance with the Purchase and Sale Agreement, the original purchase price of \$175 million was adjusted to reflect working capital adjustments, closing date adjustments and proration of taxes and fees prior to closing, totaling \$40.9 million, resulting in net proceeds of \$134.1 million. As of December 31, 2017, the thermal generation assets classified as assets held for sale are stated at fair value less costs to sell. Deferred costs of \$516.1 million were included in Regulatory Assets on the Eversource and PSNH Balance Sheets, and represent the difference between the carrying value and the fair value less costs to sell of the thermal generation assets as of December 31, 2017. The hydroelectric generation assets are targeted to be sold in the first quarter of 2018 at an amount above net carrying value, and are therefore stated at carrying value. As of December 31, 2017, the difference between the carrying value of the hydroelectric generation assets and the expected proceeds from the sale was approximately \$25 million, which will be recognized as a reduction to the stranded costs upon completion of the sale.

Upon completion of the divestiture, full recovery of PSNH's generation assets and transaction-related costs are expected to occur through a combination of cash flows during the remaining operating period, sales proceeds, and recovery of stranded costs via the issuance of bonds that will be secured by a non-bypassable charge or through recoveries in future rates billed to PSNH's customers. On January 30, 2018, the NHPUC approved the issuance of rate reduction bonds up to \$690 million to recover stranded costs, subject to an audit by the NHPUC Audit Staff. This order is subject to an appeal period of 30 days.

For the years ended December 31, 2017, 2016 and 2015, pre-tax income associated with the assets held for sale was \$60.0 million, \$65.3 million and \$56.9 million, respectively.

As of December 31, 2017, PSNH's generation assets held for sale, which are included in current assets on the Eversource and PSNH balance sheets, and are part of the Electric Distribution reportable segment, were as follows (liabilities held for sale were \$1.2 million as of December 31, 2017):

(Millions of Dollars)

Thermal Gross Plant	\$1,091.4
Hydroelectric Gross Plant	83.0
Accumulated Depreciation	(575.4)
Net Plant	599.0

Fuel and Inventory	87.7
Materials and Supplies	27.3
Emission Allowances	19.1
Other Assets	2.6
Deferred Costs from Generation Asset Sale	(516.1)
Total Generation Assets Held for Sale	\$219.6

As of December 31, 2017, the difference between the carrying value of the generation assets and the amounts recognized as assets held for sale represented the deferred costs on the thermal generation asset sale and were calculated as follows:

(Millions of Dollars)

Generation Assets to be Sold (Carrying Value)	\$735.7
Less: Generation Assets Held for Sale:	
Thermal Generation Assets (Fair Value less Cost to Sell)	(161.7)
Hydroelectric Generation (Carrying Value)	(57.9)
Generation Assets Held for Sale	(219.6)
Deferred Costs from Generation Asset Sale	\$516.1

13. LEASES

Eversource, including CL&P, NSTAR Electric and PSNH, has entered into lease agreements, some of which are capital leases, for the use of data processing and office equipment, vehicles, service centers, land and office space. In addition, CL&P, NSTAR Electric and PSNH incur costs associated with leases entered into by other Eversource subsidiaries, which include Eversource Service and Rocky River Realty Company, and are included below in their respective operating lease rental expenses and future minimum rental payments. These intercompany lease amounts are eliminated on an Eversource consolidated basis. The provisions of the Eversource, CL&P, NSTAR Electric and PSNH lease agreements generally contain renewal options. Certain lease agreements contain payments impacted by the commercial paper rate plus a credit spread or the consumer price index.

Operating lease rental payments charged to expense are as follows:

(Millions of Dollars)	Eversource	CL&P	NSTAR Electric	PSNH
2017	\$ 10.5	\$ 11.7	\$ 11.3	\$ 3.3
2016	12.1	12.5	11.4	2.9
2015	12.1	12.5	11.8	2.8

Future minimum rental payments, excluding executory costs, such as property taxes, state use taxes, insurance, and maintenance, under long-term noncancelable leases, as of December 31, 2017 are as follows:

Operating Leases (Millions of Dollars)	Eversource	CL&P	NSTAR Electric	PSNH
2018	\$ 13.2	\$ 1.8	\$ 7.9	\$ 1.0
2019	11.4	1.5	6.9	1.0
2020	10.0	1.3	6.1	0.9
2021	8.9	1.1	5.5	0.8
2022	7.4	1.0	4.5	0.6
Thereafter	19.7	1.0	15.4	2.0
Future minimum lease payments	\$ 70.6	\$ 7.7	\$ 46.3	\$ 6.3
Capital Leases (Millions of Dollars)	Eversource	CL&P	NSTAR Electric	PSNH
2018	\$ 2.9	\$ 2.0	\$ 0.5	\$ 0.1
2019	3.3	2.0	0.6	—
2020	3.3	2.0	0.5	—
2021	2.8	1.4	0.6	—
2022	1.3	—	0.6	—
Thereafter	2.5	—	2.5	—
Future minimum lease payments	16.1	7.4	5.3	0.1
Less amount representing interest	3.1	1.7	1.2	—
Present value of future minimum lease payments	\$ 13.0	\$ 5.7	\$ 4.1	\$ 0.1

CL&P entered into certain contracts for the purchase of energy that qualify as leases. These contracts do not have minimum lease payments and therefore are not included in the tables above. However, such contracts have been included in the contractual obligations table in Note 11B, "Commitments and Contingencies - Long-Term Contractual Arrangements," to the financial statements.

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each of the following financial instruments:

Preferred Stock and Long-Term Debt: The fair value of CL&P's and NSTAR Electric's preferred stock is based upon pricing models that incorporate interest rates and other market factors, valuations or trades of similar securities and cash flow projections. The fair value of long-term debt securities is based upon pricing models that incorporate quoted market prices for those issues or similar issues adjusted for market conditions, credit ratings of the respective companies and treasury benchmark yields. The fair values provided in the tables below are classified as Level 2 within the fair value hierarchy. Carrying amounts and estimated fair values are as follows:

	As of December 31,			
	2017		2016	
(Millions of Dollars)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Preferred Stock Not Subject to Mandatory Redemption	\$ 155.6	\$ 160.8	\$ 155.6	\$ 158.3
Long-Term Debt	12,325.5	12,877.1	9,603.2	9,980.5

(Millions of Dollars)	CL&P		NSTAR Electric		PSNH	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
As of December 31, 2017:						
Preferred Stock Not Subject to Mandatory Redemption	\$ 116.2	\$ 116.5	\$ 43.0	\$ 44.3	\$ —	\$ —
Long-Term Debt	3,059.1	3,430.5	2,943.8	3,156.5	1,002.4	1,038.2
As of December 31, 2016:						
Preferred Stock Not Subject to Mandatory Redemption	\$ 116.2	\$ 114.7	\$ 43.0	\$ 43.6	\$ —	\$ —
Long-Term Debt	2,766.0	3,049.6	2,644.6	2,790.6	1,072.1	1,109.7

Derivative Instruments and Marketable Securities: Derivative instruments and investments in marketable securities are carried at fair value. For further information, see Note 4, "Derivative Instruments," and Note 5, "Marketable Securities," to the financial statements.

See Note II, "Summary of Significant Accounting Policies – Fair Value Measurements," for the fair value measurement policy and the fair value hierarchy.

15. ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)

The changes in accumulated other comprehensive income/(loss) by component, net of tax, is as follows:

Eversource (Millions of Dollars)	For the Year Ended December 31, 2017				For the Year Ended December 31, 2016			
	Qualified Cash Flow Hedging Instruments	Unrealized Gains/(Losses) on Marketable Securities	Defined Benefit Plans	Total	Qualified Cash Flow Hedging Instruments	Unrealized Gains/(Losses) on Marketable Securities	Defined Benefit Plans	Total
Balance as of January 1st	\$(8.2)	\$ 0.4	\$(57.5)	\$(65.3)	\$(10.3)	\$ (1.9)	\$(54.6)	\$(66.8)
OCI Before Reclassifications	—	(0.4)	(7.2)	(7.6)	—	2.3	(6.8)	(4.5)
Amounts Reclassified from AOCL	2.0	—	4.5	6.5	2.1	—	3.9	6.0
Net OCI	2.0	(0.4)	(2.7)	(1.1)	2.1	2.3	(2.9)	1.5
Balance as of December 31st	\$(6.2)	\$ —	\$(60.2)	\$(66.4)	\$(8.2)	\$ 0.4	\$(57.5)	\$(65.3)

Eversource's qualified cash flow hedging instruments represent interest rate swap agreements on debt issuances that were settled in prior years. The settlement amount was recorded in AOCL and is being amortized into Net Income over the term of the underlying debt instrument. CL&P, NSTAR Electric and PSNH continue to amortize interest rate swaps settled in prior years from AOCL into Interest Expense over the remaining life of the associated long-term debt. Such interest rate swaps are not material to their respective financial statements.

Defined benefit plan OCI amounts before reclassifications relate to actuarial gains and losses and prior service costs that arose during the year and were recognized in AOCL. The related tax effects recognized in AOCL were net deferred tax assets of \$4.1 million and \$4.0 million in 2017 and 2016, respectively, and were net deferred tax liabilities of \$2.0 million in 2015. The unamortized actuarial gains and losses and prior service costs on the defined benefit plans are amortized from AOCL into Operations and Maintenance expense over the average future employee service period, and are reflected in amounts reclassified from AOCL.

The following table sets forth the amounts reclassified from AOCL by component and the impacted line item on the statements of income:

Eversource (Millions of Dollars)	Amounts Reclassified from AOCL For the Years Ended December 31,			Statements of Income Line Item Impacted
	2017	2016	2015	
Qualified Cash Flow Hedging Instruments	\$(3.3)	\$(3.5)	\$(3.5)	Interest Expense
Tax Effect	1.3	1.4	1.4	Income Tax Expense
Qualified Cash Flow Hedging Instruments, Net of Tax	\$(2.0)	\$(2.1)	\$(2.1)	
Defined Benefit Plan Costs:				
Amortization of Actuarial Losses	\$(6.2)	\$(5.6)	\$(6.6)	Operations and Maintenance Expense ⁽¹⁾
Amortization of Prior Service Cost	(1.1)	(0.8)	(0.2)	Operations and Maintenance Expense ⁽¹⁾
Total Defined Benefit Plan Costs	(7.3)	(6.4)	(6.8)	
Tax Effect	2.8	2.5	2.6	Income Tax Expense
Defined Benefit Plan Costs, Net of Tax	\$(4.5)	\$(3.9)	\$(4.2)	
Total Amounts Reclassified from AOCL, Net of Tax	\$(6.5)	\$(6.0)	\$(6.3)	

⁽¹⁾ These amounts are included in the computation of net periodic Pension, SERP and PBOP costs. See Note 9A, "Employee Benefits – Pension Benefits and Postretirement Benefits Other Than Pensions," for further information.

As of December 31, 2017, it is estimated that a pre-tax amount of \$2.8 million (including \$0.1 million for CL&P, \$0.7 million for NSTAR Electric and \$1.9 million for PSNH) will be reclassified from AOCL as a decrease to Net Income over the next 12 months as a result of the amortization of the interest rate swap agreements which have been settled.

In addition, it is estimated that a pre-tax amount of \$6.6 million will be reclassified from AOCL as a decrease to Net Income over the next 12 months as a result of the amortization of Pension, SERP and PBOP costs.

16. DIVIDEND RESTRICTIONS

Eversource parent's ability to pay dividends may be affected by certain state statutes, the ability of its subsidiaries to pay common dividends and the leverage restriction tied to its consolidated total debt to total capitalization ratio requirement in its revolving credit agreement. Pursuant to the joint revolving credit agreement of Eversource, CL&P, PSNH, Yankee Gas and NSTAR Gas, and to the NSTAR Electric revolving credit agreement, each company is required to maintain consolidated total indebtedness to total capitalization ratio of no greater than 65 percent at the end of each fiscal quarter. As of December 31, 2017, all companies were in compliance with such covenant. Eversource, CL&P, NSTAR Electric, PSNH, Yankee Gas and NSTAR Gas were in compliance with all such provisions of the revolving credit agreements that may restrict the payment of dividends as of December 31, 2017.

The Retained Earnings balances subject to dividend restrictions were \$3.6 billion for Eversource, \$1.4 billion for CL&P, \$1.9 billion for NSTAR Electric and \$511.4 million for PSNH as of December 31, 2017. PSNH is further required to reserve an additional amount under its FERC hydroelectric license conditions. As of December 31, 2017, \$14.3 million of PSNH's Retained Earnings was subject to restriction under its FERC hydroelectric license conditions and PSNH was in compliance with this provision.

CL&P, NSTAR Electric and PSNH are subject to Section 305 of the Federal Power Act that makes it unlawful for a public utility to make or pay a dividend from any funds "properly included in its capital account." Management believes that this Federal Power Act restriction, as applied to CL&P, NSTAR Electric and PSNH, would not be construed or applied by the FERC to prohibit the payment of dividends from retained earnings for lawful and legitimate business purposes. In addition, certain state statutes may impose additional limitations on such companies and on Yankee Gas and NSTAR Gas. Such state law restrictions do not restrict the payment of dividends from retained earnings or net income.

17. COMMON SHARES

The following table sets forth the Eversource parent common shares and the shares of common stock of CL&P, NSTAR Electric and PSNH that were authorized and issued, as well as the respective per share par values:

	Shares	Authorized	Issued as of December	
	Par	as of	31,	
	Value	December	2017	2016
		31, 2017	2017	2016
		and 2016		
Eversource	\$5	380,000,000	333,878,402	333,878,402
CL&P	\$10	24,500,000	6,035,205	6,035,205
NSTAR Electric	\$1	100,000,000	200	200
PSNH	\$1	100,000,000	301	301

On December 31, 2017, as a result of the WMECO merger with and into NSTAR Electric, WMECO's common stock was converted into 100 shares of NSTAR Electric common stock. In accordance with accounting guidance on combinations between entities under common control, NSTAR Electric's common stock has been retrospectively

adjusted as if the merger occurred on January 1, 2015.

As of both December 31, 2017 and 2016, there were 16,992,594 Eversource common shares held as treasury shares.

As of both December 31, 2017 and 2016, Eversource common shares outstanding were 316,885,808.

In 2016, the Company converted 321,228 Eversource common shares at a share price of \$52.56 to Treasury Stock on the consolidated balance sheet at their weighted average original average cost of \$24.26 per share.

18. PREFERRED STOCK NOT SUBJECT TO MANDATORY REDEMPTION

The CL&P and NSTAR Electric preferred stock is not subject to mandatory redemption and is presented as a noncontrolling interest of a subsidiary in Eversource's financial statements.

CL&P is authorized to issue up to 9,000,000 shares of preferred stock, par value \$50 per share, and NSTAR Electric is authorized to issue 2,890,000 shares of preferred stock, par value \$100 per share. Holders of preferred stock of CL&P and NSTAR Electric are entitled to receive cumulative dividends in preference to any payment of dividends on the common stock. Upon liquidation, holders of preferred stock of CL&P and NSTAR Electric are entitled to receive a liquidation preference before any distribution to holders of common stock in an amount equal to the par value of the preferred stock plus accrued and unpaid dividends. If the net assets were to be insufficient to pay the liquidation preference in full, then the net assets would be distributed ratably to all holders of preferred stock. The preferred stock of CL&P and NSTAR Electric is subject to optional redemption by the CL&P and NSTAR Electric Board of Directors at any time.

Details of preferred stock not subject to mandatory redemption are as follows (in millions, except in redemption price and shares):

Series	Redemption Price Per Share	Shares Outstanding as of December 31,		As of December 31,	
		2017	2016	2017	2016
CL&P					
\$1.90 Series of 1947	\$ 52.50	163,912	163,912	\$8.2	\$8.2
\$2.00 Series of 1947	\$ 54.00	336,088	336,088	16.8	16.8
\$2.04 Series of 1949	\$ 52.00	100,000	100,000	5.0	5.0
\$2.20 Series of 1949	\$ 52.50	200,000	200,000	10.0	10.0
3.90% Series of 1949	\$ 50.50	160,000	160,000	8.0	8.0
\$2.06 Series E of 1954	\$ 51.00	200,000	200,000	10.0	10.0
\$2.09 Series F of 1955	\$ 51.00	100,000	100,000	5.0	5.0
4.50% Series of 1956	\$ 50.75	104,000	104,000	5.2	5.2
4.96% Series of 1958	\$ 50.50	100,000	100,000	5.0	5.0
4.50% Series of 1963	\$ 50.50	160,000	160,000	8.0	8.0
5.28% Series of 1967	\$ 51.43	200,000	200,000	10.0	10.0
\$3.24 Series G of 1968	\$ 51.84	300,000	300,000	15.0	15.0
6.56% Series of 1968	\$ 51.44	200,000	200,000	10.0	10.0
Total CL&P		2,324,000	2,324,000	\$116.2	\$116.2
NSTAR Electric					
4.25% Series of 1956	\$ 103.625	180,000	180,000	\$18.0	\$18.0
4.78% Series of 1958	\$ 102.80	250,000	250,000	25.0	25.0
Total NSTAR Electric		430,000	430,000	\$43.0	\$43.0
Fair Value Adjustment due to Merger with NSTAR				(3.6)	(3.6)
Other					
6.00% Series of 1958	\$ 100.00	23	—	\$—	\$—
Total Eversource - Preferred Stock of Subsidiaries				\$155.6	\$155.6

19. COMMON SHAREHOLDERS' EQUITY AND NONCONTROLLING INTERESTS

Dividends on the preferred stock of CL&P and NSTAR Electric totaled \$7.5 million for each of the years ended December 31, 2017, 2016 and 2015. These dividends were presented as Net Income Attributable to Noncontrolling Interests on the Eversource statements of income. Noncontrolling Interest – Preferred Stock of Subsidiaries on the Eversource balance sheets totaled \$155.6 million as of December 31, 2017 and 2016. On the Eversource balance sheets, Common Shareholders' Equity was fully attributable to the parent and Noncontrolling Interest – Preferred Stock of Subsidiaries was fully attributable to the noncontrolling interest.

For the years ended December 31, 2017, 2016 and 2015, there was no change in ownership of the common equity of CL&P and NSTAR Electric.

20. EARNINGS PER SHARE

Basic EPS is computed based upon the weighted average number of common shares outstanding during each period. Diluted EPS is computed on the basis of the weighted average number of common shares outstanding plus the potential dilutive effect of certain share-based compensation awards as if they were converted into common shares. The dilutive effect of unvested RSU and performance share awards is calculated using the treasury stock method.

RSU and performance share awards are included in basic weighted average common shares outstanding as of the date that all necessary vesting conditions have been satisfied. For the years ended December 31, 2017 and 2016, there were no antidilutive share awards excluded from the diluted EPS computation. For the year ended December 31, 2015, there were 1,474 antidilutive share awards excluded from the computation of diluted EPS.

The following table sets forth the components of basic and diluted EPS:

Eversource (Millions of Dollars, except share information)	For the Years Ended December 31,		
	2017	2016	2015
Net Income Attributable to Common Shareholders	\$988.0	\$ 942.3	\$ 878.5
Weighted Average Common Shares Outstanding:			
Basic	317,411,007	317,650,180	317,336,881
Dilutive Effect	620,483	804,059	1,095,806
Diluted	318,031,580	318,454,239	318,432,687
Basic EPS	\$3.11	\$ 2.97	\$ 2.77
Diluted EPS	\$3.11	\$ 2.96	\$ 2.76

21. SEGMENT INFORMATION

Presentation: Eversource is organized among the Electric Distribution, Electric Transmission and Natural Gas Distribution reportable segments and Other based on a combination of factors, including the characteristics of each segments' services, the sources of operating revenues and expenses and the regulatory environment in which each segment operates. These reportable segments represent substantially all of Eversource's total consolidated revenues. Revenues from the sale of electricity and natural gas primarily are derived from residential, commercial and industrial customers and are not dependent on any single customer. The Electric Distribution reportable segment includes the results of PSNH's generation facilities and NSTAR Electric's solar power facilities. Eversource's reportable segments are determined based upon the level at which Eversource's chief operating decision maker assesses performance and makes decisions about the allocation of company resources. On December 4, 2017, Eversource acquired Aquarion, which was considered to be a new operating segment, water. Financial statement results, however, were not considered material as a result of a short period of ownership by Eversource, and were not reported separately. Therefore, the results of the water operating segment have been included in Other for the year ended December 31, 2017.

The remainder of Eversource's operations is presented as Other in the tables below and primarily consists of 1) the equity in earnings of Eversource parent from its subsidiaries and intercompany interest income, both of which are eliminated in consolidation, and interest expense related to the debt of Eversource parent, 2) the revenues and expenses of Eversource Service, most of which are eliminated in consolidation, 3) the operations of CYAPC and YAEC, 4) the results of Aquarion's water business from the date of the acquisition on December 4, 2017 through December 31, 2017; and 5) the results of other unregulated subsidiaries, which are not part of its core business. In addition, Other in the tables below includes Eversource parent's equity ownership interests in certain natural gas pipeline projects owned by Enbridge, Inc., the Bay State Wind project, a renewable energy investment fund, and two companies that transmit hydroelectricity imported from the Hydro-Quebec system in Canada. In the ordinary course of business, Yankee Gas and NSTAR Gas purchase natural gas transmission services from the Enbridge, Inc. natural gas pipeline projects described above. These affiliate transaction costs total approximately \$62.5 million annually and are classified as Purchased Power, Fuel and Transmission on the Eversource statements of income.

Each of Eversource's subsidiaries, including CL&P, NSTAR Electric and PSNH, has one reportable segment.

The Electric Transmission segment includes a reduction to Operations and Maintenance expense of \$27.5 million in 2016 for costs incurred in previous years that was recovered in transmission rates over the period June 1, 2016 through May 31, 2017. These costs were associated with the merger of Northeast Utilities and NSTAR.

Cash flows used for investments in plant included in the segment information below are cash capital expenditures that do not include amounts incurred but not paid, cost of removal, AFUDC related to equity funds, and the capitalized portions of pension expense.

Eversource's segment information is as follows:

Eversource (Millions of Dollars)	For the Year Ended December 31, 2017					Eliminations	Total
	Electric Distribution	Natural Gas Distribution	Electric Transmission	Other			
Operating Revenues	\$5,542.9	\$947.3	\$1,301.7	\$946.9	\$(986.8)	\$7,752.0	
Depreciation and Amortization	(542.6)	(72.9)	(209.4)	(41.1)	2.2	(863.8)	
Other Operating Expenses	(4,046.0)	(713.5)	(382.6)	(814.6)	986.7	(4,970.0)	
Operating Income	954.3	160.9	709.7	91.2	2.1	1,918.2	
Interest Expense	(186.3)	(43.1)	(115.1)	(93.1)	15.8	(421.8)	

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Interest Income	7.3	0.1	1.8	15.8	(16.7) 8.3
Other Income, Net	15.0	0.9	27.1	1,112.7	(1,086.0) 69.7
Income Tax Expense	(288.3	) (44.2	) (228.7	) (17.6	) (0.1	) (578.9
Net Income	502.0	74.6	394.8	1,109.0	(1,084.9	) 995.5
Net Income Attributable to Noncontrolling Interests	(4.6	) —	(2.9	) —	—	(7.5
Net Income Attributable to Common Shareholders	\$497.4	\$ 74.6	\$ 391.9	\$1,109.0	\$(1,084.9	) \$988.0
Total Assets (as of)	\$19,250.4	\$ 3,595.2	\$ 9,401.2	\$18,403.8	\$(14,430.2) \$36,220.4
Cash Flows Used for Investments in Plant	\$1,020.7	\$ 298.2	\$ 867.6	\$161.6	\$—	\$2,348.1

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For the Year Ended December 31, 2016

Eversource (Millions of Dollars)	Electric Distribution	Natural Gas Distribution	Electric Transmission	Other	Eliminations	Total
Operating Revenues	\$5,594.3	\$ 857.7	\$ 1,210.0	\$870.4	\$(893.3)	\$7,639.1
Depreciation and Amortization	(504.7)	(65.3)	(185.8)	(33.5)	2.2	(787.1)
Other Operating Expenses	(4,155.1)	(628.9)	(321.8)	(778.1)	891.8	(4,992.1)
Operating Income	934.5	163.5	702.4	58.8	0.7	1,859.9
Interest Expense	(193.1)	(41.3)	(110.0)	(63.5)	6.9	(401.0)
Interest Income	10.0	0.1	1.2	7.0	(7.3)	11.0
Other Income, Net	4.8	0.6	18.3	1,020.1	(1,008.9)	34.9
Income Tax (Expense)/Benefit	(288.8)	(45.2)	(238.2)	16.5	0.7	(555.0)
Net Income	467.4	77.7	373.7	1,038.9	(1,007.9)	949.8
Net Income Attributable to Noncontrolling Interests	(4.6)	—	(2.9)	—	—	(7.5)
Net Income Attributable to Common Shareholders	\$462.8	\$ 77.7	\$ 370.8	\$1,038.9	\$(1,007.9)	\$942.3
Total Assets (as of)	\$18,367.5	\$ 3,303.8	\$ 8,751.5	\$14,493.1	\$(12,862.7)	\$32,053.2
Cash Flows Used for Investments in Plant	\$812.6	\$ 255.3	\$ 801.0	\$108.0	\$—	\$1,976.9

For the Year Ended December 31, 2015

Eversource (Millions of Dollars)	Electric Distribution	Natural Gas Distribution	Electric Transmission	Other	Eliminations	Total
Operating Revenues	\$5,903.6	\$ 995.5	\$ 1,069.1	\$863.6	\$(877.0)	\$7,954.8
Depreciation and Amortization	(425.2)	(70.5)	(165.6)	(29.0)	2.1	(688.2)
Other Operating Expenses	(4,470.2)	(776.7)	(314.9)	(817.9)	877.3	(5,502.4)
Operating Income	1,008.2	148.3	588.6	16.7	2.4	1,764.2
Interest Expense	(186.3)	(36.9)	(105.8)	(48.0)	4.6	(372.4)
Interest Income	5.7	0.1	1.6	4.4	(5.1)	6.7
Other Income, Net	7.2	0.8	14.5	977.8	(972.8)	27.5
Income Tax (Expense)/Benefit	(322.8)	(40.1)	(191.6)	14.5	—	(540.0)
Net Income	512.0	72.2	307.3	965.4	(970.9)	886.0
Net Income Attributable to Noncontrolling Interests	(4.7)	—	(2.8)	—	—	(7.5)
Net Income Attributable to Common Shareholders	\$507.3	\$ 72.2	\$ 304.5	\$965.4	\$(970.9)	\$878.5
Cash Flows Used for Investments in Plant	\$718.9	\$ 182.2	\$ 749.1	\$73.9	\$—	\$1,724.1

22. ACQUISITION OF AQUARION AND GOODWILL

A. Acquisition of Aquarion

On December 4, 2017, Eversource acquired Aquarion from Macquarie Infrastructure Partners for \$1.675 billion, consisting of approximately \$880 million in cash purchase price and \$795 million of assumed Aquarion debt. Aquarion is a holding company primarily engaged, through its three separate regulated water utility subsidiaries, in the water collection, treatment and distribution business, and operates in Connecticut, Massachusetts and New Hampshire. These regulated utilities collect, treat and distribute water to residential, commercial and industrial customers, to other utilities for resale, and for private and municipal fire protection. With the acquisition of Aquarion, Eversource is now the only U.S.-based electric utility to also own a water utility. The transaction was approved by PURA, the DPU, the NHPUC, the Maine PUC, and the Federal Communications Commission. Aquarion and its

subsidiaries became wholly-owned subsidiaries of Eversource, and Eversource's consolidated financial information includes Aquarion and its subsidiaries' activity from December 4, 2017 through December 31, 2017.

The approximate \$880 million cash purchase price includes the \$745 million equity purchase price and a \$135 million shareholder loan, paid at closing.

Purchase Price Allocation: The allocation of the total purchase price to the estimated fair values of the assets acquired and liabilities assumed has been determined based on the accounting guidance for fair value measurements, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The allocation of the total purchase price includes adjustments to record the fair value of unregulated and regulated long-term debt, non-utility land and buildings, regulatory assets not earning a return, and Aquarion's Homeowners Safety Valve unregulated business.

The fair values of Aquarion's assets and liabilities were determined based on significant estimates and assumptions, including Level 3 inputs, that are judgmental in nature. These estimates and assumptions include the timing and amounts of projected future cash flows and discount rates reflecting risk inherent in future cash flows. The excess of the purchase price over the estimated fair values of the assets acquired and liabilities assumed was recognized as goodwill.

The preliminary allocation of the cash purchase price is as follows:

(Millions of Dollars)

Current Assets	\$	41.2	
PP&E		1,034.9	
Goodwill		907.9	
Other Noncurrent Assets, excluding Goodwill		207.6	
Current Liabilities	(121.1)	
Noncurrent Liabilities	(421.6)	
Long-Term Debt	(771.2)	
Total Cash Purchase Price	\$	877.7	

Pro Forma Financial Information: The following unaudited pro forma financial information reflects the pro forma combined results of operations of Eversource and Aquarion and reflects the amortization of purchase price adjustments assuming the acquisition had taken place on January 1, 2016. The unaudited pro forma financial information has been presented for illustrative purposes only and is not necessarily indicative of the consolidated results of operations that would have been achieved or the future consolidated results of operations of Eversource.

	For the Years Ended December 31,	
(Pro forma amounts in millions, except share amounts)	2017	2016
Operating Revenues	\$7,947.7	\$7,849.0
Net Income Attributable to Common Shareholders	1,019.1	969.3
Basic EPS	3.21	3.05
Diluted EPS	3.20	3.04

Aquarion Revenues and Pre-Tax Income: The impact of Aquarion on Eversource's accompanying consolidated statement of income includes operating revenues of \$15.9 million and pre-tax income of \$1.1 million for the year ended December 31, 2017.

B. Goodwill

In a business combination, the excess of the purchase price over the estimated fair values of the assets acquired and liabilities assumed

is recognized as goodwill. Goodwill is evaluated for impairment at least annually and more frequently if indicators of impairment arise. In accordance with the accounting standards, if the fair value of a reporting unit is less than its carrying value (including goodwill), the goodwill is tested for impairment. Goodwill is not subject to amortization, however is subject to a fair value based assessment for impairment at least annually and whenever facts or circumstances indicate that there may be an impairment. A resulting write-down, if any, would be charged to Operating Expenses.

Eversource completed the acquisition of Aquarion on December 4, 2017, resulting in the addition of \$0.9 billion of goodwill. Upon completion of the acquisition, Eversource determined that the reporting units for the purpose of testing goodwill are Electric Distribution, Electric Transmission, Natural Gas Distribution and Water. The goodwill resulting from the Aquarion acquisition has been entirely allocated to the Water reporting unit. These reporting units are consistent with the operating segments underlying the reportable segments identified in Note 21, "Segment Information," to the financial statements.

Eversource completed its annual goodwill impairment test for Electric Distribution, Electric Transmission and Natural Gas Distribution reporting units as of October 1, 2017 and determined that no impairment existed. There were no events subsequent to October 1, 2017 that indicated impairment of goodwill. The annual goodwill assessment included an evaluation of the Company's share price and credit ratings, analyst reports, financial performance, cost and risk factors, long-term strategy, growth and future projections, as well as macroeconomic, industry and market conditions. This evaluation required the consideration of several factors that impact the fair value of the reporting units, including conditions and assumptions that affect the future cash flows of the reporting units. Key considerations include discount rates, utility sector market performance and merger transaction multiples, and internal estimates of future cash flows and net income.

The following table presents goodwill by reportable segment:

(Billions of Dollars)	Electric Distribution	Electric Transmission	Natural Gas Distribution	Parent and Other	Total
Balance as of January 1, 2017	\$ 2.5	\$ 0.6	\$ 0.4	\$ —	\$ 3.5
Acquisition of Aquarion	—	—	—	0.9	0.9
Balance as of December 31, 2017	\$ 2.5	\$ 0.6	\$ 0.4	\$ 0.9	\$ 4.4

23. VARIABLE INTEREST ENTITIES

The Company's variable interests outside of the consolidated group include contracts that are required by regulation and provide for regulatory recovery of contract costs and benefits through customer rates. Eversource, CL&P and NSTAR Electric hold variable interests in variable interest entities (VIEs) through agreements with certain entities that own single renewable energy or peaking generation power plants, with other independent power producers and with transmission businesses. Eversource, CL&P and NSTAR Electric do not control the activities that are economically significant to these VIEs or provide financial or other support to these VIEs. Therefore, Eversource, CL&P and NSTAR Electric do not consolidate these VIEs.

24. QUARTERLY FINANCIAL DATA (UNAUDITED)

Eversource (Millions of Dollars, except per share information)	Quarter Ended 2017				2016			
	March 31,	June 30,	September 30,	December 31,	March 31,	June 30,	September 30,	December 31,
Operating Revenues	\$2,105.1	\$1,762.8	\$1,988.5	\$1,895.6	\$2,055.6	\$1,767.2	\$2,039.7	\$1,776.6
Operating Income	509.0	455.7	502.6	450.9	488.5	423.4	509.9	438.1
Net Income	261.3	232.6	262.2	239.4	246.0	205.5	267.2	231.1
Net Income Attributable to Common Shareholders	259.5	230.7	260.4	237.4	244.2	203.6	265.3	229.2
Basic EPS ⁽¹⁾	\$0.82	\$0.73	\$0.82	\$0.75	\$0.77	\$0.64	\$0.83	\$0.72
Diluted EPS ⁽¹⁾	\$0.82	\$0.73	\$0.82	\$0.75	\$0.77	\$0.64	\$0.83	\$0.72

(1) The summation of quarterly EPS data may not equal annual data due to rounding.

(Millions of Dollars)	Quarter Ended 2017				2016			
	March 31,	June 30,	September 30,	December 31,	March 31,	June 30,	September 30,	December 31,
CL&P								
Operating Revenues	\$732.3	\$666.6	\$774.8	\$713.7	\$735.3	\$679.8	\$760.0	\$630.9
Operating Income	176.0	176.0	177.5	155.6	171.5	162.1	176.1	163.5
Net Income	90.2	91.3	96.1	99.1	87.0	82.9	86.6	77.8
NSTAR Electric								
Operating Revenues	\$733.8	\$704.7	\$851.9	\$690.2	\$742.2	\$707.6	\$904.4	\$687.4
Operating Income	161.6	182.7	234.4	128.9	142.9	159.7	240.8	130.8
Net Income	83.4	95.0	125.8	70.5	71.3	81.4	133.2	64.9
PSNH								
Operating Revenues	\$253.2	\$230.4	\$250.0	\$248.0	\$242.3	\$218.5	\$266.9	\$231.8
Operating Income	68.3	64.9	67.4	71.2	70.7	63.1	74.7	54.6
Net Income	34.3	31.6	33.7	36.4	36.1	31.3	38.5	26.1

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

No events that would be described in response to this item have occurred with respect to Eversource, CL&P, NSTAR Electric or PSNH.

Item 9A. Controls and Procedures

Management, on behalf of Eversource, CL&P, NSTAR Electric and PSNH, is responsible for the preparation, integrity, and fair presentation of the accompanying Financial Statements and other sections of this combined Annual Report on Form 10-K. Eversource's internal controls over financial reporting were audited by Deloitte & Touche LLP.

Management, on behalf of Eversource, CL&P, NSTAR Electric and PSNH, is responsible for establishing and maintaining adequate internal controls over financial reporting. The internal control framework and processes have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. There are inherent limitations of internal controls over financial reporting that could allow material misstatements due to error or fraud to occur and not be prevented or detected on a timely basis by employees during the normal course of business. Additionally, internal controls over financial reporting may become inadequate in the future due to changes in the business environment. Under the supervision and with the participation of the principal executive officer and principal financial officer, an evaluation of the effectiveness of internal controls over financial reporting was conducted based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation under the framework in COSO, management concluded that internal controls over financial reporting at Eversource, CL&P, NSTAR Electric and PSNH were effective as of December 31, 2017.

Management, on behalf of Eversource, CL&P, NSTAR Electric and PSNH, evaluated the design and operation of the disclosure controls and procedures as of December 31, 2017 to determine whether they are effective in ensuring that the disclosure of required information is made timely and in accordance with the Securities Exchange Act of 1934 and the rules and regulations of the SEC. This evaluation was made under management's supervision and with management's participation, including the principal executive officer and principal financial officer as of the end of the period covered by this Annual Report on Form 10-K. There are inherent limitations of disclosure controls and procedures, including the possibility of human error and the circumventing or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. The principal executive officer and principal financial officer have concluded, based on their review, that the disclosure controls and procedures of Eversource, CL&P, NSTAR Electric and PSNH are effective to ensure that information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 (i) is recorded, processed, summarized, and reported within the time periods specified in SEC rules and regulations and (ii) is accumulated and communicated to management, including the principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

On December 4, 2017, Eversource completed the acquisition of Eversource Aquarion Holdings, Inc. (formerly Macquarie Utilities Inc.). Eversource Aquarion Holdings Inc. is the parent company that holds the operating companies of the Aquarion water business (collectively, "Aquarion"). As of December 31, 2017, Eversource management has excluded Aquarion from its evaluation of disclosure controls and procedures and management's report on internal controls over financial reporting.

There have been no changes in internal controls over financial reporting for Eversource, CL&P, NSTAR Electric and PSNH during the quarter ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, internal controls over financial reporting.

Item 9B. Other Information

No information is required to be disclosed under this item as of December 31, 2017, as this information has been previously disclosed in applicable reports on Form 8-K during the fourth quarter of 2017.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information in Item 10 is provided as of February 23, 2018, except where otherwise indicated.

Certain information required by this Item 10 is omitted for NSTAR Electric and PSNH pursuant to Instruction I(2)(c) to Form 10-K, Omission of Information by Certain Wholly Owned Subsidiaries.

Eversource Energy

In addition to the information provided below concerning the executive officers of Eversource Energy, incorporated herein by reference is the information to be contained in the sections captioned “Election of Trustees,” “Governance of Eversource Energy” and the related subsections, “Selection of Trustees,” and “Section 16(a) Beneficial Ownership Reporting Compliance” of Eversource Energy’s definitive proxy statement for solicitation of proxies, expected to be filed with the SEC on or about March 23, 2018.

Eversource Energy and CL&P

Each member of CL&P’s Board of Directors is an employee of Eversource Energy Service Company. Directors are elected annually to serve for one year until their successors are elected and qualified.

Set forth below is certain information concerning CL&P’s Directors and Eversource Energy’s and CL&P’s executive officers:

Name	Age	Title
James J. Judge	62	Chairman of the Board, President and Chief Executive Officer and a Trustee of Eversource Energy; Chairman, President and Chief Executive Officer and a Director of Eversource Service and Chairman; a Director of the electric and natural gas regulated companies, including CL&P Executive Vice President and Chief Financial Officer of Eversource Energy; Executive Vice President and Chief Financial Officer; a Director of Eversource Service and the electric and natural gas regulated companies, including CL&P
Philip J. Lembo	62	Executive Vice President and General Counsel of Eversource Energy; Executive Vice President and General Counsel and a Director of Eversource Service and the electric and natural gas regulated companies, including CL&P
Gregory B. Butler	60	Executive Vice President-Human Resources and Information Technology of Eversource Energy and Eversource Service; a Director of Eversource Service
Joseph R. Nolan, Jr. ¹	54	Executive Vice President-Customer and Corporate Relations of Eversource Energy and Eversource Service; a Director of Eversource Service
Leon J. Olivier	70	Executive Vice President-Enterprise Energy Strategy and Business Development of Eversource Energy and Eversource Service; a Director of Eversource Service
Werner J. Schweiger	58	Executive Vice President and Chief Operating Officer of Eversource Energy; Executive Vice President and Chief Operating Officer and a Director of Eversource Service; Chief Executive Officer and a Director of the electric and natural gas regulated companies, including CL&P
Jay S. Buth	48	Vice President, Controller and Chief Accounting Officer of Eversource Energy, Eversource Service and the electric and natural gas regulated companies, including CL&P

¹ Deemed an executive officer of CL&P pursuant to Rule 3b-7 under the Securities Exchange Act of 1934.

James J. Judge. Mr. Judge has served as Chairman of the Board, President and Chief Executive Officer of Eversource Energy since May 3, 2017; as a Trustee of Eversource Energy and as Chairman of CL&P, NSTAR Electric and PSNH

since May 4, 2016; and as Chairman, President and Chief Executive Officer of Eversource Service and Chairman of NSTAR Gas and Yankee Gas since May 9, 2016. Mr. Judge has served as a Director of CL&P, PSNH, Yankee Gas and Eversource Service since April 10, 2012; and of NSTAR Electric and NSTAR Gas since September 27, 1999. Previously, Mr. Judge served as President and Chief Executive Officer of Eversource Energy from May 4, 2016 until May 3, 2017; as Chairman of WMECO from May 4, 2016 until December 31, 2017; as a Director of WMECO from April 10, 2012 until December 31, 2017; and as Executive Vice President and Chief Financial Officer of Eversource Energy, CL&P, NSTAR Electric, PSNH and WMECO from April 10, 2012 until May 4, 2016; of NSTAR Gas, Yankee Gas and Eversource Service from April 10, 2012 until May 9, 2016. Mr. Judge has served as Chairman of the Board of Eversource Energy Foundation, Inc. since May 9, 2016; and as a Director since April 10, 2012. He previously served as Treasurer of the Eversource Energy Foundation, Inc. from May 10, 2012 until May 9, 2016. He has served as a Trustee of the NSTAR Foundation since December 12, 1995.

Philip J. Lembo. Mr. Lembo has served as Executive Vice President and Chief Financial Officer of Eversource Energy since May 3, 2017; and of CL&P, NSTAR Electric, NSTAR Gas, PSNH, Yankee Gas and Eversource Service since March 31, 2017. Mr. Lembo has served as a Director of CL&P, NSTAR Electric and PSNH since May 4, 2016; and of NSTAR Gas, Yankee Gas and Eversource Service since May 9, 2016. Mr. Lembo previously served as Executive Vice President and Chief Financial Officer of WMECO from May 3, 2017 until December 31, 2017; as a Director of WMECO from May 4, 2016 until December 31, 2017; as Executive Vice President, Chief Financial Officer and Treasurer of Eversource Energy

from August 8, 2016 until May 3, 2017; of CL&P, NSTAR Electric, PSNH, WMECO, NSTAR Gas, Yankee Gas and Eversource Service from August 8, 2016 until March 31, 2017; as Senior Vice President, Chief Financial Officer and Treasurer of Eversource Energy, CL&P, NSTAR Electric, PSNH and WMECO from May 4, 2016 until August 8, 2016; and of NSTAR Gas, Yankee Gas and Eversource Service from May 9, 2016 until August 8, 2016; as Vice President and Treasurer of Eversource Energy, CL&P, PSNH and WMECO from April 10, 2012 until May 4, 2016; and of Yankee Gas and Eversource Service from April 10, 2012 until May 9, 2016. Mr. Lembo served as Vice President and Treasurer of NSTAR Electric and NSTAR Gas from March 29, 2006 until May 4, 2016. Mr. Lembo has served as a Director of Eversource Energy Foundation, Inc. since May 9, 2016. He previously served as Treasurer of Eversource Energy Foundation, Inc. from May 9, 2016 until March 31, 2017. He has served as a Trustee of the NSTAR Foundation since May 9, 2016.

Gregory B. Butler. Mr. Butler has served as Executive Vice President and General Counsel of Eversource Energy, CL&P, NSTAR Electric, NSTAR Gas, PSNH, Yankee Gas and Eversource Service since August 8, 2016. Mr. Butler has served as a Director of NSTAR Electric and NSTAR Gas since April 10, 2012; of Eversource Service since November 27, 2012; and of CL&P, PSNH and Yankee Gas since April 22, 2009. Mr. Butler previously served as Executive Vice President and General Counsel of WMECO from August 8, 2016 until December 31, 2017; as a Director of WMECO from April 22, 2009 until December 31, 2017; as Senior Vice President and General Counsel of Eversource Energy from May 1, 2014 until August 8, 2016; of NSTAR Electric and NSTAR Gas from April 10, 2012 until August 8, 2016; of CL&P, PSNH, WMECO, Yankee Gas and Eversource Service from March 9, 2006 until August 8, 2016; and as Senior Vice President, General Counsel and Secretary of Eversource Energy from April 10, 2012 until May 1, 2014. He has served as a Director of Eversource Energy Foundation, Inc. since December 1, 2002. He has been a Trustee of the NSTAR Foundation since April 10, 2012.

Christine M. Carmody. Ms. Carmody has served as Executive Vice President-Human Resources and Information Technology of Eversource Energy and Eversource Service since August 8, 2016. Ms. Carmody has served as a Director of Eversource Service since November 27, 2012. Previously Ms. Carmody served as Senior Vice President-Human Resources of Eversource Energy from May 4, 2016 until August 8, 2016; of Eversource Service from April 10, 2012 until August 8, 2016; as Senior Vice President-Human Resources of CL&P, PSNH, WMECO and Yankee Gas from November 27, 2012 until September 29, 2014; of NSTAR Electric and NSTAR Gas from August 1, 2008 until September 29, 2014; and as a Director of CL&P, PSNH, WMECO and Yankee Gas from April 10, 2012 until September 29, 2014; and of NSTAR Electric and NSTAR Gas from November 27, 2012 until September 29, 2014. Ms. Carmody has served as a Director of Eversource Energy Foundation, Inc. since April 10, 2012. She has served as a Trustee of the NSTAR Foundation since August 1, 2008.

Joseph R. Nolan, Jr. Mr. Nolan has served as Executive Vice President-Customer and Corporate Relations of Eversource Energy and Eversource Service since August 8, 2016. Mr. Nolan has served as a Director of Eversource Service since November 27, 2012. Previously Mr. Nolan served as Senior Vice President-Corporate Relations of Eversource Energy from May 4, 2016 until August 8, 2016; of Eversource Service from April 10, 2012 to August 8, 2016; of NSTAR Electric and NSTAR Gas from April 10, 2012 until September 29, 2014; and of CL&P, PSNH, WMECO and Yankee Gas from November 27, 2012 until September 29, 2014. Mr. Nolan previously served as a Director of CL&P, PSNH, WMECO and Yankee Gas from April 10, 2012 until September 29, 2014; and of NSTAR Electric and NSTAR Gas from November 27, 2012 until September 29, 2014. Mr. Nolan has served as a Director of Eversource Energy Foundation, Inc. since April 10, 2012, and as Executive Director of Eversource Energy Foundation, Inc. since October 15, 2013. He has served as a Trustee of the NSTAR Foundation since October 1, 2000.

Leon J. Olivier. Mr. Olivier has served as Executive Vice President-Enterprise Energy Strategy and Business Development of Eversource Energy since September 2, 2014; and of Eversource Service since August 11, 2014. Mr. Olivier has served as a Director of Eversource Service since January 17, 2005. Mr. Olivier previously served as

Executive Vice President and Chief Operating Officer of Eversource Energy from May 13, 2008 until September 2, 2014; of Eversource Service from May 13, 2008 until August 11, 2008; as Chief Executive Officer of NSTAR Electric and NSTAR Gas from April 10, 2012 until August 11, 2014; of CL&P, PSNH, WMECO and Yankee Gas from January 15, 2007 until August 11, 2014; and of CL&P from September 10, 2001 until September 29, 2014; as a Director of NSTAR Electric and NSTAR Gas from November 27, 2012 until September 29, 2014; of PSNH, WMECO and Yankee Gas from January 17, 2005 until September 29, 2014; and of CL&P from September 10, 2001 until September 29, 2014. He has served as a Director of Eversource Energy Foundation, Inc. since April 1, 2006. Mr. Olivier has served as a Trustee of the NSTAR Foundation since April 10, 2012.

Werner J. Schweiger. Mr. Schweiger has served as Executive Vice President and Chief Operating Officer of Eversource Energy since September 2, 2014; of Eversource Service since August 11, 2014; and as Chief Executive Officer of CL&P, NSTAR Electric, NSTAR Gas, PSNH and Yankee Gas since August 11, 2014. Mr. Schweiger has served as a Director of Eversource Service, NSTAR Gas and Yankee Gas since September 29, 2014; and of CL&P, PSNH and NSTAR Electric since May 28, 2013. He previously served as Chief Executive Officer of WMECO from August 11, 2014 until December 31, 2017; as a Director of WMECO from May 28, 2013 until December 31, 2017; as President of CL&P from June 2, 2015 until June 27, 2016; as President of NSTAR Gas and Yankee Gas from September 29, 2014 until November 10, 2014; as President-Electric Distribution of Eversource Service from January 16, 2013 until August 11, 2014; as President of NSTAR Electric from April 10, 2012 until January 16, 2013; and as a Director of NSTAR Electric from November 27, 2012 until January 16, 2013. Mr. Schweiger has served as a Director of Eversource Energy Foundation, Inc. since September 29, 2014. He has served as a Trustee of the NSTAR Foundation since September 29, 2014.

Jay S. Buth. Mr. Buth has served as Vice President, Controller and Chief Accounting Officer of Eversource Energy, CL&P, NSTAR Electric, NSTAR Gas, PSNH, Yankee Gas and Eversource Service since April 10, 2012. Previously, Mr. Buth served as Vice President, Controller and Chief Accounting Officer of WMECO from April 10, 2012 until December 31, 2017; and as Vice President-Accounting and Controller of Eversource Energy, CL&P, PSNH, WMECO, Yankee Gas and Eversource Service from June 9, 2009 until April 10, 2012.

There are no family relationships between any director or executive officer and any other trustee, director or executive officer of Eversource Energy or CL&P and none of the above executive officers or directors serves as an executive officer or director pursuant to any agreement or understanding with any other person. Our executive officers hold the offices set forth opposite their names until the next annual meeting of the Board of Trustees, in the case of Eversource Energy, and the Board of Directors, in the case of CL&P, and until their successors have been elected and qualified.

CL&P obtains audit services from the independent registered public accounting firm engaged by the Audit Committee of Eversource Energy's Board of Trustees. CL&P does not have its own audit committee or, accordingly, an audit committee financial expert. CL&P relies on Eversource Energy's audit committee and the audit committee financial expert.

CODE OF ETHICS AND CODE OF BUSINESS CONDUCT

Each of Eversource Energy, CL&P, NSTAR Electric, and PSNH has adopted a Code of Ethics for Senior Financial Officers (Chief Executive Officer, Chief Financial Officer and Controller) and the Code of Business Conduct, which are applicable to all Trustees, directors, officers, employees, contractors and agents of Eversource Energy, CL&P, NSTAR Electric and PSNH. The Code of Ethics and the Code of Business Conduct have both been posted on the Eversource Energy web site and are available at www.eversource.com/Content/general/about/investors/corporate-governance on the Internet. Any amendments to or waivers from the Code of Ethics and Code of Business Conduct for executive officers, directors or Trustees will be posted on the website. Any such amendment or waiver would require the prior consent of the Board of Trustees or an applicable committee thereof.

Printed copies of the Code of Ethics and the Code of Business Conduct are also available to any shareholder without charge upon written request mailed to:

Richard J. Morrison
Secretary
Eversource Energy
800 Boylston Street, 17th Floor
Boston, Massachusetts 02199-7050

Item 11. Executive Compensation

Eversource Energy

The information required by this Item 11 for Eversource Energy is incorporated herein by reference to certain information contained in Eversource Energy's definitive proxy statement for solicitation of proxies, which is expected to be filed with the SEC on or about March 23, 2018, under the sections captioned "Compensation Discussion and Analysis," plus related subsections, and "Compensation Committee Report," plus related subsections following such Report.

NSTAR ELECTRIC and PSNH

Certain information required by this Item 11 has been omitted for NSTAR Electric and PSNH pursuant to Instruction I(2)(c) to Form 10-K, Omission of Information by Certain Wholly-Owned Subsidiaries.

CL&P

The information in this Item 11 relates solely to CL&P.

COMPENSATION DISCUSSION AND ANALYSIS

CL&P is a wholly-owned subsidiary of Eversource Energy. Its board of directors consists entirely of executive officers of Eversource Energy system companies. CL&P does not have a compensation committee, and the Compensation Committee of Eversource Energy's Board of Trustees determines compensation for the executive officers of CL&P, including their salaries, annual incentive awards and long-term incentive awards. All of CL&P's "Named Executive Officers," as defined below, also serve as officers of Eversource Energy and one or more other subsidiaries of Eversource Energy. Compensation set by the Compensation Committee of Eversource Energy (the "Committee") and set forth herein is for services rendered to Eversource Energy and its subsidiaries by such officers in all capacities.

This Compensation Discussion and Analysis ("CD&A") provides information about the principles behind Eversource Energy's compensation objectives, plans, policies and actions for the Named Executive Officers. The discussion describes the specific components of Eversource Energy's compensation program, how Eversource Energy measures performance, and how the compensation principles were applied to compensation awards and decisions that were made by the Compensation Committee for the Named Executive Officers, as presented in the tables and narratives that follow. While this discussion focuses primarily on 2017 information, it also addresses decisions that were made in prior periods to the extent that these decisions are relevant to the full understanding of the compensation program and the specific awards that were made for performance through 2017. The CD&A also contains a summary of 2017 performance, an assessment of the performance and the compensation awards made by the Compensation Committee, and other information relating to Eversource's compensation program, including:

- | | |
|--|---|
| • Pay for Performance Philosophy | • Description of the Long-Term Incentive Program, Grants and Performance Plan Results |
| • Executive Compensation Governance | • Disclosure of the: |
| • The Named Executive Officers | • Clawback and No Hedging and No Pledging Policies |
| • Overview of the Compensation Program | • Share Ownership Guidelines |
| • Market Analysis | • Other Benefits |
| • Elements of 2017 Compensation | • Contractual Agreements |
| • 2017 Annual Incentive Program | |

2017 Assessment of Financial and Operational Performance • Tax and Accounting Considerations
Performance Goal Assessment Matrix • Equity Grant Practices

Summary of 2017 Performance

In 2017, Eversource Energy achieved very positive overall financial and operational performance results. The following is a summary of some of the most important accomplishments in 2017:

2017 Financial Accomplishments

Eversource's earnings grew by 5.1 percent in 2017, exceeding the established goal. 2017 earnings were \$3.11 per share.

Eversource's total shareholder return in 2017 was 18 percent, comparing favorably to the industry return of 11.7 percent, and over the longer term, Eversource's stock performance continued to outperform the industry. This marks the eighth time in nine years that Eversource achieved a double-digit total shareholder return. Only two other companies within the Edison Electric Institute ("EEI") index of 43 utility companies have accomplished this.

- Eversource increased its 2017 dividend to \$1.90 per share, a 6.7 percent increase over 2016, continuing to significantly outperform the dividend growth rate of the EEI Index companies.

Standard & Poor's ("S&P") raised Eversource's credit rating from A to A+. It remains the highest holding company S&P credit rating in the industry, by two credit notches.

Eversource continued to successfully achieve operations and maintenance expense reductions in 2017, and total utility operations and maintenance expenses were \$14 million under budget.

Eversource became the only electric utility in the country to add a water utility as an additional line of business through the purchase of Aquarion Water Company. Participating in a highly competitive auction process, Eversource negotiated a purchase agreement, received regulatory approvals in three states within five months, and closed the transaction in early December 2017, creating a new, complementary, growth-oriented business line.

Set forth below is information relating to key financial metrics over the past three to five years.

Earnings Growth. Eversource's 2015 - 2017 recurring earnings per share have grown 5.5 percent on average, consistent with long-term earnings guidance and above the utility industry average. Recurring earnings per share, presented below for 2015 exclude merger-related costs. A reconciliation between reported 2015 earnings per share and the recurring earnings per share presented below appears under the caption entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview" in this Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

Dividend Growth. As a result of continuing strong earnings growth, Eversource's Board of Trustees increased the annual dividend rate by 6.7 percent for 2017 to \$1.90 per share, which exceeds the EEI Index companies' median dividend growth rate of 4.8 percent. The dividend growth rate for the period 2015 - 2017 has averaged 6.6 percent, well ahead of the utility industry average.

Total Shareholder Return. Eversource's Total Shareholder Return in 2017 was 18 percent, compared to the 11.7 percent growth of the EEI Index companies and 21.8 percent for the S&P 500. Eversource also outperformed the EEI Index companies over 2013 - 2017. An investment of \$1,000 in Eversource common shares at the beginning of the five-year period beginning January 1, 2013 was worth \$1,904 on December 31, 2017. The following charts represent the comparative one- and five-year total shareholder returns for the periods ending December 31, 2017, respectively:

2017 Operational Accomplishments

Eversource's overall electric system reliability performance in 2017 was its best ever; on average, customer power interruptions were 17.6 months apart, and average restoration time was 73.2 minutes. Eversource's performance ranks in the first quartile of the industry.

Eversource's Massachusetts electric and gas distribution companies each met or exceeded Service Quality Index performance targets established by regulators in Massachusetts, which is the only state in Eversource's service territory that has such performance targets.

Eversource exceeded its established targets in safety performance and response to gas service calls. Eversource's safety performance, which is measured by Days Away or Restricted Time ("DART"), was its best ever, and in the first quartile of the industry.

Eversource added more than 10,000 new gas customers for the fifth consecutive year, exceeded its gas emergency response rate target, and received its highest satisfaction rating (93 percent) for new customer connections.

Eversource exceeded the target of having 37 percent of new hires and promotions within the supervisor and above management group be women or persons of color.

Eversource achieved very constructive regulatory outcomes, including the sale of its New Hampshire fossil generation assets, receiving a constructive rate order for its Massachusetts electric companies, and successfully resolving a complex and significant dispute regarding an underwater electric cable with federal agencies and the Massachusetts Water Resources Authority.

Eversource continues to operate its electric and gas systems well. This is the result of the continuing implementation of best practices, focusing on investments in reliability improvements to reduce the number and length of outages, and performing work safely each and every day.

Set forth below is information relating to key operational metrics over the past four years.

Reliability. Electric System Reliability, which is measured by months between interruptions and average time to restore power, was in the first quartile of the industry, with its best results ever for the lowest number and frequency of interruptions.

Safety. Safety performance, measured by DART per 100 workers, improved significantly; performance was in the first quartile and the best ever performance for Eversource.

Achievement of the 2017 performance goals, additional accomplishments and the Compensation Committee's assessment of the performance of Eversource and its executives are more fully described in the section titled "2016 Annual Incentive Program." Specific decisions regarding executive compensation based upon the Committee's assessment of the performance of Eversource and its executives and market data are also described below.

Pay for Performance

The Committee links the Named Executive Officers' compensation to performance that will ultimately benefit Eversource's customers and shareholders. Eversource's compensation program is intended to attract and retain the best executive talent in the industry, motivate its executives to meet or exceed specific stretch financial and operational goals each year, and compensate its executives in a manner that aligns compensation directly with performance. Eversource strives to provide executives with base salary, performance-based annual incentive compensation, and performance-based long-term incentive compensation opportunities that are competitive with market practices and that reward excellent performance.

Executive Compensation Governance

What Eversource DOES:

ü Pay for Performance

ü Share ownership and holding guidelines

ü Clawback policy of incentive compensation for willful non-compliance by any employee

ü Double-trigger change in control vesting provisions

ü Independent compensation consultant

ü Annual Say-on-Pay Vote

What Eversource DOESN'T do:

No tax gross-ups in any new or materially amended executive compensation agreements
 No hedging, pledging or similar transactions by Eversource executives and Trustees
 No repricing of options
 No liberal share recycling in the Incentive Plan

Eversource's executive and Trustee share ownership and holding guidelines noted in this CD&A emphasize the importance of aligning management and governance with shareholders. Under the share ownership guidelines, which require Eversource's Chief Executive Officer to hold shares equal to six times base salary, Eversource requires its executives to hold 100 percent of the shares awarded under the stock compensation program until the share ownership guidelines have been met.

Eversource's new Incentive Plan includes a clawback provision that requires its executives and other participants to reimburse Eversource for incentive compensation received, not only if earnings were subsequently required to be restated as a result of noncompliance with accounting rules caused by fraud or misconduct, but also if there had been a material violation of the Code of Business Conduct or material breach of a covenant in an employment agreement. The Plan also imposes limits on awards and on Eversource Trustee compensation, and prohibits repricing of awards and liberal share recycling.

Eversource has discontinued the use of "gross-ups" in all new or materially amended executive compensation agreements.

Eversource has a "no hedging and no pledging" policy that prohibits Eversource Trustees and executives from purchasing financial instruments or otherwise entering into any transactions that are designed to have the effect of hedging or offsetting any decrease in the market value of Eversource common shares. This policy also prohibits all pledges, derivative transactions or short sales involving Eversource common shares or the holding of any Eversource common shares in a margin account.

Employment agreements with executives and the Incentive Plan provide for "double-trigger" change in control acceleration of compensation.

The Compensation Committee annually assesses the independence of its compensation consultant, Pay Governance LLC ("Pay Governance"), which is retained directly by the Committee. Pay Governance performs no other consulting nor provides services for Eversource, and has no relationship with Eversource that could result in a conflict of interest. At its February 7, 2018 meeting, the Committee concluded that Pay Governance is independent and that no conflict of interest exists between Pay Governance and Eversource.

Named Executive Officers

The executive officers of CL&P listed in the Summary Compensation Table and whose compensation is discussed in this Item 11 are referred to as the "Named Executive Officers" or "NEOs" under SEC regulations. For 2017, CL&P's Named Executive Officers are:

James J. Judge, Chairman, President and Chief Executive Officer of Eversource Energy and Chairman of the Board of CL&P

Philip J. Lembo, Executive Vice President and Chief Financial Officer of Eversource Energy and CL&P

Werner J. Schweiger, Executive Vice President and Chief Operating Officer of Eversource Energy and Chief Executive Officer of CL&P

Gregory B. Butler, Executive Vice President and General Counsel of Eversource Energy and CL&P

Joseph R. Nolan, Jr., Executive Vice President - Customer and Corporate Relations of Eversource Energy and Eversource Service

Overview of the Compensation Program

The Role of the Compensation Committee. The Eversource Board of Trustees has delegated to the Compensation Committee overall responsibility for establishing the compensation program for those senior executive officers, who are referred to in this CD&A as "executives" and whom are deemed to be "officers" under the SEC's regulations that determine the persons whose compensation is subject to disclosure. In this role, the Committee sets compensation policy and compensation levels, reviews and approves performance goals and evaluates executive performance. Although this discussion and analysis refers principally to compensation for the Named Executive Officers, the same compensation principles and practices apply to all executives. The compensation of Eversource's Chief Executive Officer is subject to the further review and approval of the independent Eversource Trustees.

Elements of Compensation. Total direct compensation consists of three elements: base salary, annual cash incentive awards and long-term equity-based incentive awards. Indirect compensation is provided through certain retirement, perquisite, severance, and health and welfare benefit programs.

Eversource's Compensation Objectives. The objectives of Eversource's compensation program are to attract and retain superior executive talent, motivate executives to achieve annual and long-term performance goals set each year, and provide total compensation opportunities that are competitive with market practices. With respect to incentive compensation, the Committee believes it is important to balance short-term goals, such as producing earnings, with longer-term goals, such as long-term value creation and maintaining a strong balance sheet. The Committee also places great emphasis on system reliability and good customer service. Eversource's compensation program utilizes performance-based incentive compensation to reward individual and corporate performance and to align the interests of executives with Eversource's customers and shareholders. The Committee continually increases expectations to motivate executives and employees to achieve continuous improvement in carrying out their responsibilities to customers to deliver energy reliably, safely, with respect for the environment and employees, and at a reasonable cost, while providing an above-average total shareholder return to Eversource shareholders

Setting Compensation Levels. To ensure that Eversource achieves its goal of providing market-based compensation levels to attract and retain top quality management, the Committee provides executives with target compensation opportunities approximately equal to median compensation levels for executive officers of companies in the utility industry comparable to Eversource in size. To achieve that goal, the Committee and its independent compensation consultant work together to determine the market values of executive direct compensation elements (base salaries, annual incentives and long-term incentives), as well as total compensation, by using competitive market compensation data. The Committee reviews competitive compensation data obtained from utility and general industry surveys and a

specific group of peer utility companies. Levels may be lower than median for those executives who are new to their roles, while long-tenured, high performing executives may be compensated above median. The review by Pay Governance performed in late 2017 indicated that Eversource's aggregate executive compensation levels were aligned with median market rates.

Role of the Compensation Consultant. The Committee has retained Pay Governance as its independent compensation consultant. Pay Governance reports directly to the Committee and does not provide any other services to Eversource. With the consent of the Committee, Pay Governance works cooperatively with Eversource's management to develop analyses and proposals for presentation to the Committee. The Committee generally relies on Pay Governance for peer group market data and information as to market practices and trends to assess the competitiveness of the compensation Eversource pays to its executives and to review the Committee's proposed compensation decisions.

Pay Governance Independence. In February 2018, the Committee assessed the independence of Pay Governance pursuant to SEC and NYSE rules, and concluded that it is independent and that no conflict of interest exists that would prevent Pay Governance from independently advising the Committee. In making this assessment, the Committee considered the independence factors enumerated in Rule 10C-1(b) under the Securities Exchange Act of 1934, including the written representations of Pay Governance that Pay Governance does not provide any other services to Eversource, the level of fees received from Eversource as a percentage of Pay Governance's total revenues, the policies and procedures employed by Pay Governance to prevent conflicts of interest, and whether the individual Pay Governance advisers with whom the Committee consulted own any Eversource common shares or have any business or personal relationships with members of the Committee or the Eversource executives.

Role of Management. The role of Eversource's management, and specifically the roles of Eversource's Chief Executive Officer and the Executive Vice President of Human Resources and Information Technology, are to provide current compensation information to the compensation consultant and analyses and recommendations on executive compensation to the Committee based on the market value of the position, individual performance, experience and internal pay equity. Eversource's Chief Executive Officer also provides recommendations on

the compensation for the other Named Executive Officers. None of the executives makes recommendations that affect his or her individual compensation.

MARKET ANALYSIS

The Compensation Committee seeks to provide executives with target compensation opportunities using a range that is approximately equal to the median compensation levels for executive officers of utility companies comparable to Eversource. Set forth below is a description of the sources of the compensation data used by the Committee when reviewing 2017 compensation:

Utility and general industry compensation survey data. The Committee reviews compensation information obtained from surveys of diverse groups of utility and general industry companies that represent Eversource's market for executive officer talent. Utility industry data serve as the primary reference point for benchmarking officer compensation and are based on a defined peer set, as discussed below, while general industry data is derived from compensation consultant surveys and serves as a secondary reference point. General industry data are used for staff positions and are size-adjusted to ensure a close correlation between the market data and Eversource's scope of operations. The Committee used this information, which it obtained from Pay Governance, to evaluate and determine base salaries and incentive opportunities.

Peer group data. In support of executive pay decisions during 2017 and early 2018, the Committee consulted with Pay Governance, which provided the Committee with a competitive assessment analysis of Eversource's executive compensation levels, as compared to the 20 peer group companies listed in the table below. This peer group was chosen because these companies are and continue to be similar to Eversource Energy in terms of size, business model and long-term strategies.

Alliant Energy Corporation	DTE Energy Company	PPL Corporation
Ameren Corporation	Edison International	Public Service Enterprise Group, Inc.
American Electric Power Co., Inc.	Entergy Corporation	SCANA Corp.
CenterPoint Energy, Inc.	FirstEnergy Corp.	Sempra Energy
CMS Energy Corp.	NiSource Inc.	WEC Energy Group, Inc.
Consolidated Edison, Inc.	PG&E Corporation	Xcel Energy Inc.
Dominion Resources, Inc.	Pinnacle West Capital Corporation	

The Committee reviews the appropriateness of the peer group periodically and adjusts the target percentages of annual and long-term incentives based on the survey data and recommendations from Eversource's CEO, after discussion with the compensation consultant to ensure that they are approximately equal to competitive median levels.

The Committee also determines perquisites to the extent they serve business purposes, and sets supplemental benefits at levels that provide appropriate compensation opportunities to the executives. The Committee periodically reviews the general market for supplemental benefits and perquisites using utility and general industry survey data, including data obtained from companies in the peer group.

Mix of Compensation Elements. Eversource targets the mix of compensation for its Chief Executive Officer and the other Named Executive Officers so that the percentages of each compensation element are approximately equal to the competitive median market mix. The mix is heavily weighted toward incentive compensation, and incentive compensation is heavily weighted toward long-term compensation. Since the most senior positions have the greatest responsibility for implementing the long-term business plans and strategies, a greater proportion of total compensation is based on performance with a long-term focus.

The Committee determines the compensation for each executive based on the relative authority, duties and responsibilities of the executive. Eversource's Chief Executive Officer's responsibilities for the strategic direction and daily operations and management of Eversource are greater than the duties and responsibilities of the other executives. As a result, Eversource's Chief Executive Officer's compensation is higher than the compensation of these other executives. Assisted by the compensation consultant, the Committee regularly reviews market compensation data for executive officer positions similar to those held by Eversource's executives, including its Chief Executive Officer.

The following table sets forth the contribution to 2017 Total Direct Compensation ("TDC") of each element of compensation at target, reflected as a percentage of TDC, for the Named Executive Officers. The percentages shown in this table are at target and therefore do not correspond to the amounts appearing in the Summary Compensation Table.

Named Executive Officer	Percentage of TDC at Target		Long-Term Incentives		
	Base Salary	Annual Incentive ⁽¹⁾	Performance Shares ⁽¹⁾	RSUs ⁽²⁾	TDC
James J. Judge	16	18	33	33	100
Philip J. Lembo	26	20	27	27	100
Werner J. Schweiger	26	20	27	27	100
Gregory B. Butler	30	20	25	25	100
Joseph R. Nolan, Jr.	30	20	25	25	100
NEO average, excluding CEO	28	20	26	26	100

(1) The annual incentive compensation element and performance shares under the long-term incentive compensation element are performance-based.

(2) Restricted Share Units (RSUs) vest over three years contingent upon continued employment.

Risk Analysis of Executive Compensation Program. The overall compensation program includes a mix of compensation elements ranging from a fixed base salary that is not at risk, to annual and long-term incentive compensation programs intended to motivate officers and eligible employees to achieve individual and corporate performance goals that reflect an appropriate level of risk. The fundamental objective of the compensation program is to foster the continued growth and success of Eversource's business. The design and implementation of the overall compensation program provides the Committee with opportunities throughout the year to assess risks within the compensation program that may have a material effect on the Eversource and its shareholders.

The Compensation Committee assesses the risks associated with the executive compensation program on an on-going basis by reviewing the various elements of incentive compensation. The annual incentive program was designed to ensure an appropriate balance between individual and corporate goals, which were deemed appropriate and supportive of Eversource's annual business plan. Similarly, the long-term incentive program was designed to ensure that the performance metrics were properly weighted and supportive of Eversource's strategic plan. The Committee reviewed the overall compensation program in the context of the annual operating and strategic plans, which were both previously subject to review by Eversource's Enterprise Risk Management and Risk Committees.

The annual and long-term incentive programs were designed to include mechanisms to mitigate risk. These mechanisms include realistic goal setting and discretion with respect to actual payments, in addition to:

- A mix of annual and long-term performance awards to provide an appropriate balance of short- and long-term risk and reward horizon;

- A variety of performance metrics, including financial, operational, customer service, diversity and safety goals and other strategic initiatives for annual performance awards to avoid excessive focus on a single measure of performance;

- Metrics in the Eversource's long-term incentive compensation program that use earnings per share and total shareholder return, which are both robust measures of shareholder value and which reduce the risk that employees might be encouraged to pursue other objectives that increase risk or reduce financial performance;

•The provisions of Eversource's annual and long-term incentive programs, which cap awards at 200 percent of target;

•Clawback provisions on incentive compensation; and

•Stock ownership requirements for all executives, including the Named Executive Officers, and prohibitions on hedging, pledging and other derivative transactions related to Eversource common shares.

Based on these factors, the Compensation Committee and Eversource's Board of Trustees believe the overall compensation program risks are mitigated to reduce overall compensation risk.

Results of Eversource's 2017 Say-on-Pay Vote. Eversource provides its shareholders with the required opportunity to cast the annual advisory vote on executive compensation (a "Say-on-Pay" proposal). At the Eversource Annual Meeting of Shareholders held on May 3, 2017, 89 percent of the votes cast on the Say-on-Pay proposal were voted to approve the 2016 compensation of the Named Executive Officers, as described in Eversource's 2017 proxy statement. Eversource's Say-on-Pay results, along with utility and general industry peers, are reviewed with the Committee annually to help assess whether Eversource shareholders continue to deem the executive compensation to be appropriate. The Committee has and will continue to consider the outcome of Eversource's Say-on-Pay votes when making future compensation decisions for the Named Executive Officers.

ELEMENTS OF 2017 COMPENSATION

Base Salary

Base salary is designed to attract and retain key executives by providing an element of total compensation at levels competitive with those of other executives employed by companies of similar size and complexity in the utility and general industries. In establishing base salary, the Compensation Committee relies on compensation data obtained from independent third-party surveys of companies and from an industry peer group to ensure that the compensation opportunities Eversource offers are capable of attracting and retaining executives with the experience and talent required to achieve its strategic objectives. Adjustments to base salaries are made on an annual basis except in instances of promotions.

When setting or adjusting base salaries, the Committee considers annual executive performance appraisals; market pay movement across industries (determined through market analysis); targeted market pay positioning for each executive; individual experience; strategic importance of a position; recommendations of Eversource's Chief Executive Officer; and internal equity.

Incentive Compensation

Annual incentive and long-term incentive compensation are provided under Eversource's Incentive Plan. The annual incentive program provides cash compensation intended to reward performance under Eversource's annual operating plan. The long-term stock-based incentive program is designed to reward demonstrated performance and leadership, motivate future performance, align the interests of the executives with those of shareholders, and retain the executives during the term of grants. The annual and long-term programs are designed to strike a balance between Eversource's short- and long-term objectives so that the programs work in tandem.

In addition to the specific performance goals, the Committee assesses other factors as well as the executives' roles and individual performance and then makes annual incentive program awards at the levels and amounts disclosed in this Item 11.

2017 ANNUAL INCENTIVE PROGRAM

In February 2017, the Committee established the terms of the 2017 Annual Incentive Program. As part of the overall program, and after consulting with Pay Governance, the Committee set target award levels for each of the Named Executive Officers that ranged from 65 percent to 115 percent of base salary.

At the February 2017 meeting, the Committee determined that for 2017 it would continue to base 70 percent of the annual incentive performance goals on Eversource's overall financial performance and 30 percent of the annual performance goals on Eversource's overall operational performance. The Committee also determined the specific goals that would be used to assess performance, with potential ratings on each goal ranging from 0 percent to 200 percent of target. The Committee assigned weightings to each of these specific goals. For the financial component, the following goals were used: earnings per share, weighted at 70 percent, dividend growth goal, weighted at 20 percent, and credit rating, weighted at 10 percent. For the operational component, the Committee used the following goals: combined service reliability and restoration goals, weighted at 60 percent; combined key strategic regional energy projects, success in regulatory outcomes and improvement of the customer experience goals, weighted at 25 percent; and combined safety ratings, gas service response and diversity promotions and hires of leadership employee positions goals, weighted at 15 percent.

2017 Performance Goals

At the December 2017 meeting of the Committee, management provided an initial review of Eversource's 2017 performance, followed in February 2018 by a full assessment of the performance goals, the additional accomplishments noted below under the caption "Additional Factors" and the overall performance of Eversource and the executives. In addition to these meetings, the Committee and the Eversource Board were continuously provided updates during 2017 on corporate performance. At the February 2018 meeting, the Committee determined, based on its assessment of the financial and operational performance goals, to set the level of achievement of combined financial and operational performance goals results at 160 percent of target, reflecting the overall strong performance of Eversource and the executive team. In arriving at this determination, the Committee determined that the financial performance goals result was 161 percent of target and the operational performance goals result was 155 percent of target. The individual financial and operational performance goals results are as set forth below. Eversource's Chief Executive Officer recommended to the Committee payout levels for the executives (other than himself) based on his assessment of each executive's individual performance towards achievement of the performance goals and the additional accomplishments of Eversource, together with each executive's contributions to the overall performance of Eversource. The awards determined by the Committee were also based on the same three-component criteria.

Financial Performance Goals Assessment

Eversource Energy's earnings per share in 2017 increased by 5.1 percent over 2016 and exceeded the established goal of \$3.10; 2017 earnings equaled \$3.11 per share. Eversource exceeded the earnings goal despite several significant challenges, including higher than anticipated storm costs and lower sales in 2017, which resulted in significantly lower than expected revenues of nearly \$40 million. In a demanding operating environment, Eversource reduced costs to mitigate these challenges. The Committee determined the earnings per share goal to have attained a 155 percent performance result.

Eversource Energy increased its dividend to \$1.90 per share, a 6.7 percent increase from the prior year, compared to the utility industry's median dividend growth of 4.8 percent. The Committee determined this goal to have attained a 160 percent performance.

S&P raised Eversource's credit rating in December 2017 to A+. This rating represents the highest S&P holding company credit rating in the utility industry, and continues to provide the foundation for favorable financing opportunities. The industry average credit rating at S&P is "BBB+." The Committee determined this goal to have attained a 200 percent performance result.

Operational Performance Goals Assessment

Eversource's total electric system reliability performance exceeded targeted performance and was its best ever. Average months between interruptions equaled 17.6 months, near the highest end of the performance zone established by the Committee of 15 to 18 months and in the first quartile of industry peers. System average restoration duration time equaled 73.2 minutes, well within the performance zone established by the Committee of 76 to 63 minutes and also in the first quartile of industry peers. The Committee determined these goals to have each attained a 175 percent performance result.

Eversource exceeded the safety performance goal of between 0.9 - 1.2 DART per 1,000 employees; DART equaled 0.6 in 2017, the best performance in Eversource's history and also industry first quartile performance. The Committee determined this goal to have attained a 200 percent performance result.

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On-time response to gas customer emergency calls was 99.6 percent, which exceeded the goal of 99.1 percent and was also first quartile versus industry peers. The Committee determined this goal to have attained a 125 percent performance result.

In 2017, 37.5 percent of new hires and promotions into leadership roles were women or people of color, slightly ahead of the goal of 37 percent. The Committee determined this goal to have attained a 100 percent performance result.

Eversource successfully expanded the functionality of its customer website and outage communication systems and strengthened media outreach efforts. The Committee determined this goal to have attained a 75 percent performance result.

Eversource achieved several constructive regulatory outcomes in each of the three states in which it provides service. These included the sale of the New Hampshire fossil generation assets, a constructive Massachusetts rate case approval, and a settlement agreement to for approval with the Connecticut Public Utility Authority in connection with a previous filed rate review. The Committee determined this goal to have attained a 200 percent performance result.

While Eversource made substantial progress on its major ongoing strategic projects in 2017, it encountered a significant setback on its Northern Pass Transmission project in early 2018, when the New Hampshire Site Evaluation Committee rejected the project. Eversource continues to work on a path forward. Bay State Wind received approval of a Site Assessment Plan from the U.S. government, the first off-shore wind project to do so. Eversource is awaiting a decision on Bay State Wind's off-shore wind proposal bid to the Massachusetts Clean Energy request for proposal. The Access Northeast gas pipeline project received an adverse court decision in 2017 relating to the ability to secure supply contracts. Eversource is reconfiguring the project in light of this decision. Eversource is the only electric utility in the country to add a water utility as an additional line of business through the purchase of Aquarion Water Company. Participating in a highly competitive auction process, Eversource negotiated a purchase agreement, received regulatory approvals in three states within five months, and completed the acquisition in December, adding a new, complementary and growth-oriented business line. The Committee determined this goal to have attained a 75 percent performance result.

Financial Performance Goals

Category	2017 Goal	Eversource Performance	Indicative Assessment
Earnings Per Share	\$3.10 per share	Exceeded: \$3.11 per share, a 5.1% increase over 2016, significantly outperforming industry average growth of 155% nearly 4%	
Dividend Growth	Increase dividend \$0.12 to \$1.90 per share	Achieved: Increased to \$1.90 per share, a \$0.12 increase and 6.7% growth, significantly exceeding the industry median of 4.8%	160%
Credit Rating	Maintain Eversource's top tier Standard & Poor's (S&P) "A" credit rating	Exceeded: S&P rating raised to "A+", the highest holding company credit rating in the utility industry by two notches	200%

Weightings = Earnings per share: 70%; Dividend growth: 20%; Credit rating: 10%

Operational Performance Goals

Category	2017 Goal	Eversource Performance	Indicative Assessment
Reliability - Avg. Months Between Interruptions ("MBI")	Achieve MBI of within 15 to 18 months	Exceeded: MBI = 17.6 months. At the top of targeted performance zone, and first quartile vs. industry peers and best ever performance	175%
Average Restoration Duration ("SAIDI")	Achieve SAIDI of 76 to 63 minutes	Achieved: SAIDI = 73.2 minutes. Within targeted performance and first quartile vs. industry peers	175%
Safety Rate	0.9 - 1.2 Days Away/Restricted Time	Exceeded: 0.6 DART Best year ever for safety; performance exceeded target range and was first quartile in industry	200%
Gas Service Response	99.1%	Exceeded: 99.6%; also achieved all regulatory mandated targets and response was at first quartile vs. industry peers' performance	125%
Diverse Leadership	37% hires or promotions of leadership level be women or people of color	Exceeded: 37.5%, 0.5 percentage points above target	100%
Improve the Customer Experience	Customer billing improvements, enhanced communications, improved digital experience and community support	Partially Achieved: Improvements made as planned in digital offerings and enhanced outage communications. Customer satisfaction scores below expectations	75%
Positive Regulatory Outcomes - Divestiture and State rate activity	Successfully complete the generation assets sale and constructive rate case results	Exceeded: Successfully completed N.H. Generation Divestiture and the MA Rate Case. CT Rate Case was filed and a settlement agreement was reached and filed with PURA for approval	200%
Positive Outcomes on Key Strategic Initiatives	Major strategic initiatives	Partially Achieved: Aquarion Water Company purchase completed. Bay State Wind making good progress. NPT was selected by Massachusetts in the State's clean energy RFP and progressed through several key siting approvals but was denied approval by New Hampshire Site Evaluation Committee. Access Northeast reconfiguring in light of adverse court decision.	75%

Weightings = Reliability and Restoration: 60%; Key corporate initiatives: 25%; Safety/Gas service/Diversity: 15%

Performance Goals Assessment

Financial Performance at 161% (weighted 70%)	113%
Operational Performance at 155% (weighted 30%)	47%
Overall Performance	160%

Additional Factors

The following key strategic, environmental and customer-focused results were also considered significant by the Committee in making an assessment of overall financial and operational performance, but were not given specific

weightings or assigned a specific performance assessment score:

• Eversource resolved a long-standing dispute with federal and state agencies regarding the location of a critical underwater electric transmission line providing service to the Massachusetts Water Resources Authority.

• Eversource continued to transform and grow the natural gas delivery business. Eversource added more than 10,000 new gas customers for the fifth consecutive year and achieved its highest-level rating of 93 percent from new customers.

• Eversource was recognized as being the number one energy efficiency provider in the industry.

• Eversource is proceeding with a planned development of 18 sites in Massachusetts that will provide 62MW of solar generation and an anticipated rate base investment of \$180 million.

• Eversource received approval in its Massachusetts rate filing of \$100 million to advance energy storage and electric vehicle charging infrastructure.

Individual Performance Factors Considered by the Committee

The goal of the Committee for 2017 was again to provide incentives for Eversource executives to work together as a highly effective, integrated team to achieve or exceed the financial, operational, safety, customer, strategic and diversity goals and objectives. The Committee based the annual incentive payments on team performance and also on the Committee's assessment of each executive's individual performance in supporting the performance goals, additional achievements and overall performance of Eversource. The Committee and all other independent Eversource Trustees assessed the performance of the Chief Executive Officer and, based on the recommendations of the Chief Executive Officer as to executives other than himself, the Committee assessed the performance of the other Named Executive Officers to determine the individual incentive payments as disclosed in the Summary Compensation Table. Based on the Committee's review, which included its assessment of the performance goals, the significant other accomplishments of Eversource and the Named Executive Officers, and the overall performance of Eversource and each of the Named Executive Officers, considered in its totality by the Committee to have been excellent, the Committee approved annual incentive program payments for the Named Executive Officers at levels that ranged from 148 percent to 199 percent of target. These payments reflected the individual and team contributions of the Named Executive Officers in achieving the goals and the additional accomplishments and the overall performance of Eversource.

In determining Mr. Judge's annual incentive payment of \$2,285,000, which was 160 percent of target and which reflects his and Eversource's continued strong performance, the Committee and the Board considered the totality of Eversource's success in accomplishing the goals set by the Committee, the additional accomplishments of Eversource, and the superior leadership of Mr. Judge in every part of the business, significantly advancing Eversource towards its goal of being recognized as the Best Energy Company in the country.

2017 Annual Incentive Program

Awards

Named Executive Officer Award

James J. Judge	\$2,285,000
Philip J. Lembo	700,000
Werner J. Schweiger	775,000
Gregory B. Butler	625,000
Joseph R. Nolan, Jr.	680,000

Long-Term Incentive Program

General

Eversource's long-term incentive program is intended to focus on Eversource's longer-term strategic goals and to help retain its executives. A new three-year program commences every year. For the 2017 - 2019 Long-Term Incentive Program, each executive's target long-term incentive opportunity consisted of 50 percent Eversource Energy Performance Shares and 50 percent RSUs. Performance Shares are designed to reward long-term achievements as measured against pre-established performance measures. RSUs are designed to provide executives with an incentive to increase the value of Eversource common shares in alignment with shareholder interests, while also serving as a retention component for executive talent. Eversource believes these compensation elements create a focus on continued Eversource and share price growth to further align the interests of Eversource's executives with the interests of Eversource's shareholders.

Mr. Judge was elected President and Chief Executive Officer of Eversource on April 6, 2016 upon the retirement of Thomas J. May. Mr. Judge had previously served as Executive Vice President and Chief Financial Officer of

Eversource until his election as President and Chief Executive Officer. Mr. Lembo was elected Executive Vice President and Chief Financial Officer of Eversource on May 4, 2016, having previously served as Vice President and Treasurer. Thus, 2017 was the first year during which the Committee made long term incentive program stock awards to Mr. Judge and Mr. Lembo in their new positions of President and Chief Executive Officer and Executive Vice President and Chief Financial Officer, respectively. The grant date fair values of Mr. Judge's and Mr. Lembo's 2017 stock awards under the 2017 long term incentive program were \$5,504,904 and \$1,314,086, respectively, compared to their 2016 awards of \$1,382,021 and \$212,300 respectively.

Performance Share Grants

General

Performance Shares are designed to reward future financial performance, measured by long-term earnings growth and shareholder returns over a three-year performance period, therefore aligning management compensation with performance. Performance Shares are granted as a target number of Eversource common shares. The number of Performance Shares granted are determined by dividing the target grant value in dollars by the average daily closing prices of Eversource common shares on the New York Stock Exchange for the ten business days preceding the grant date and rounding to the nearest whole share. Until the end of the Performance Period, the value of dividends that would have been paid with respect to the Performance Shares had the Performance Shares been actual common shares will be deemed to be invested in additional Performance Shares, which remain at risk until actual performance for the period is determined.

Performance Shares under the 2017 - 2019 Program

For the 2017 - 2019 Program, the Committee determined it would continue to measure performance using: (i) average diluted earnings per share growth ("EPSG"); and (ii) relative total shareholder return ("TSR") measured against the performance of companies that comprise the EEI Index. As in 2016 and 2015, the Committee selected EPSG and TSR as performance measures because the Committee continues to believe that they are generally recognized as the best indicators of overall corporate performance. Further, the Committee considers it a best practice to use a combination of relative and absolute metrics, with EPS growth serving as a key input to shareholder value and TSR serving as the output.

The number of Performance Shares awarded at the end of the three-year period ranges from 0 percent to 200 percent of target, depending on EPSG and relative TSR performance as set forth in the performance matrix below. Performance Share grants are based on a percentage of annualized base salary at the time of the grant and measured in dollars. The target number of shares under the 2017 - 2019 Program ranged from 35 percent to 213 percent of base salary. For the 2017 - 2019 Program, EPSG ranges from 0 percent to 9 percent, while TSR ranges from below the 10th percentile to above the 90th percentile. The Committee determined that payout at 100 percent of target should be challenging but achievable. As a result, vesting at 100 percent of target occurs at various combinations of EPSG and TSR performance. In addition, the value of any Performance Shares that actually vest may increase or decrease over the vesting period based on Eversource's share price performance. The number of performance shares granted at target were approved as set forth in the table below. The Committee and the independent Members of the Eversource Board determined the Performance Share grants for the Chief Executive Officer. Based on input from the Chief Executive Officer, the Committee determined the Performance Share grants for each of the other executive officers, including the other Named Executive Officers.

Performance Shares under the 2016 - 2018 Program

For the 2016 - 2018 Program, the Committee used the same performance measures of EPSG and TSR and the same criteria used in the 2017 - 2019 Program described above and the 2015 - 2017 Program described below. The performance matrix set forth below describes how the Performance Share payout will be determined under the 2016 - 2018 and 2017 - 2019 Long-Term Incentive Programs and how the Performance Share payout was determined under the 2015 - 2017 Program. Three-year average EPSG is cross-referenced with the actual three-year TSR percentile to determine actual performance share payout as a percentage of target:

2015 - 2017, 2016 - 2018 and 2017 - 2019 Long-Term Incentive Programs
Performance Share Potential Payout

Three-Year Average EPS Growth	Three-Year Relative Total Shareholder Return Percentiles									
	Below 10th	20th	30th	40th	50th	60th	70th	80th	90th	Above 90th
9%	110%	120%	130%	140%	150%	160%	170%	180%	190%	200%
8%	100%	110%	120%	130%	140%	150%	160%	170%	180%	190%
7%	90%	100%	110%	120%	130%	140%	150%	160%	170%	180%
6%	80%	90%	100%	110%	120%	130%	140%	150%	160%	170%
5%	70%	80%	90%	100%	110%	120%	130%	140%	150%	160%
4%	60%	70%	80%	90%	100%	110%	120%	130%	140%	150%
3%	40%	50%	70%	80%	90%	100%	110%	120%	130%	140%
2%	20%	40%	60%	70%	80%	90%	100%	110%	120%	130%
1%	—	10%	40%	60%	70%	80%	90%	100%	110%	120%
0%	—	—	20%	30%	50%	70%	80%	90%	100%	110%

Below 0% — — — — 10% 20% 30% 40% 50% 60%

Long-Term Incentive Program Performance Share Grants at Target

Named Executive Officer	2016 - 2018	2017 - 2019
	Performance Share Grant	Performance Share Grant
James J. Judge	12,004	48,259
Philip J. Lembo	1,844	11,520
Werner J. Schweiger	11,805	11,703
Gregory B. Butler	7,791	9,052
Joseph R. Nolan, Jr.	4,503	7,920

Results of the 2015 - 2017 Performance Share Program

The 2015 - 2017 Program ended on December 31, 2017. The actual performance level achieved under the Program was a three-year average adjusted EPS growth of 5.5 percent and a three-year total shareholder return at the 41st percentile, which when interpolated in accordance with the criteria established by the Committee in 2015, resulted in vesting performance shares units at 106 percent of target. This determination was made in accordance with the performance criteria approved by the Committee at the commencement of the performance period. At its February 7, 2018 meeting, the Committee confirmed that the actual results achieved were calculated in accordance with established performance criteria,

and it considered all non-recurring items in determining that the adjusted EPS was calculated in accordance with the plan documents. The number of Performance Shares awarded to the Named Executive Officers were approved as set forth in the table below.

2015 - 2017 Long-Term Incentive Program Performance Share Award

2015 – 2017 Long-Term Incentive Program

Performance Share Grants at Target

Named Executive Officer	Performance Share Grant
James J. Judge	11,436
Philip J. Lembo	1,984
Werner J. Schweiger	11,319
Gregory B. Butler	8,052
Joseph R. Nolan, Jr.	4,434

Restricted Share Units

General

Each RSU granted under the long-term incentive program entitles the holder to receive one Eversource common share at the time of vesting. All RSUs granted under the long-term incentive program vest in equal annual installments over three years. RSU holders are eligible to receive reinvested dividend units on outstanding RSUs held by them to the same extent that dividends are declared and paid on Eversource common shares. Reinvested dividend equivalents are accounted for as additional RSUs that accrue and are distributed with the common shares issued upon vesting of the underlying RSUs. Common shares, including any additional common shares in respect of reinvested dividend equivalents, are not issued for any RSUs that do not vest.

The Committee determined RSU grants for each executive officer participating in the long-term incentive program. RSU grants are based on a percentage of annualized base salary at the time of the grant and measured in dollars. In 2017, the percentage used for each executive officer was based on the executive officer's position in Eversource and ranged from 35 percent to 213 percent of base salary. The Committee reserves the right to increase or decrease the RSU grant from target for each officer under special circumstances. The Committee and all other independent members of the Eversource Board determined the RSU grants for Eversource's Chief Executive Officer. Based on input from the Chief Executive Officer, the Committee determined the RSU grants for each of the other executive officers, including the other Named Executive Officers.

All RSUs are granted on the date of the Committee meeting at which they are approved. RSU grants are subsequently converted from dollars into Eversource common share equivalents by dividing the value of each grant by the average closing price for Eversource common shares over the ten trading days prior to the date of the grant. RSU grants at 100 percent of target were approved as set forth in the table below.

Named Executive Officer	RSUs Awarded		
	2015	2016	2017
James J. Judge	9,800	12,004	48,259
Philip J. Lembo	1,700	1,844	11,520
Werner J. Schweiger	9,700	11,805	11,703

Gregory B. Butler	6,9007,791	9,052
Joseph R. Nolan, Jr.	3,8004,503	7,920

Clawbacks

If Eversource's earnings were to be restated as a result of noncompliance with accounting rules caused by fraud or misconduct or if a participant engages in a material violation of Eversource's Code of Business Conduct or breaches a material covenant in an employment agreement, as determined by the Eversource Board of Trustees, the participant would be required by the Eversource Incentive Plan to reimburse Eversource for certain incentive compensation received by him or her.

No Hedging and No Pledging Policy

Eversource has adopted a policy prohibiting the purchase of financial instruments or otherwise entering into transactions designed to have the effect of hedging or offsetting any decrease in the value of Eversource common shares by Eversource's Trustees and executives. This policy also prohibits all pledging, derivative transactions of short sales involving Eversource common shares or the holding of any Eversource common shares in a margin account.

Share Ownership Guidelines and Retention Requirements

The Committee has approved share ownership guidelines to further emphasize the importance of share ownership by Eversource officers. As indicated in the table below, the guidelines call for Eversource's Chief Executive Officer to own common shares equal to six times base salary, executive vice presidents to own a number of common shares equal to three times base salary, senior vice presidents to own common shares equal to two times base salary, and all other officers to own a number of common shares equal to one to one and one half times base salary.

Executive Officer	Base Salary Multiple
Chief Executive Officer	6
Executive Vice Presidents	3
Operating Company Presidents / Senior Vice Presidents	2
Vice Presidents	1 – 1.5

Eversource requires that its officers attain these ownership levels within five years. All Eversource officers, including Eversource's Named Executive Officers, have satisfied the share ownership guidelines or are expected to satisfy them within the applicable timeframe. Common shares, whether held of record, in street name, or in individual 401(k) accounts, and RSUs satisfy the guideline requirements to hold 100 percent of the net shares. Unexercised stock options and unvested performance shares do not count toward the ownership guidelines. In addition to the share ownership guidelines noted above, all officers must hold all the shares awarded under the Eversource's incentive compensation plan until the share ownership guidelines have been met.

Other

Retirement Benefits

Eversource provides a qualified defined benefit pension program for certain officers, which is a final average pay program subject to tax code limits. Because of such limits, Eversource also maintains a supplemental non-qualified pension program. Benefits are based on base salary and certain incentive payments, which is consistent with the goal of providing a retirement benefit that replaces a percentage of pre-retirement income. The supplemental program compensates for benefits barred by tax code limits, and generally provides (together with the qualified pension program) benefits equal to approximately 60 percent of pre-retirement compensation (subject to certain reductions) for Messrs. Judge, Lembo, Schweiger and Nolan, and approximately 50 percent of such compensation for Mr. Butler. The supplemental program has been discontinued for newly-elected officers.

As set forth in this CD&A, Mr. Judge and Mr. Lembo were elected to the positions of President and Chief Executive Officer and Executive Vice President and Chief Financial Officer respectively in 2016, such that 2017 was the first year that each served in his new position. Each had a resulting substantial increase in the actuarial, formula-based present values of his pension benefit due to the increase in their base pay and annual bonus. This increase is disclosed in the Change in Pension Value and Non-Qualified Deferred Earnings column of the Summary Compensation Table. These accounting-based increases, while representing for Mr. Judge and Mr. Lembo a substantial portion of their 2017 total compensation disclosed in the SEC Total column of the Summary Compensation Table, resulted in no actual 2017 W-2 earnings for either of them.

For certain participants, the benefits payable under the Supplemental Non-Qualified Pension Program (the "Program") differ from those described above. The Program benefit payable to Mr. Schweiger is fully vested and is further reduced by benefits he is entitled to receive under previous employers' retirement plans.

Also see the narrative accompanying the "Pension Benefits" table and accompanying notes for more detail on the above program.

401(k) Benefits

Eversource offers a qualified 401(k) program for all employees, including executives, subject to tax code limits. After applying these limits, the program provides a match of 50 percent of the first 8 percent of eligible base salary, up to a maximum of \$10,800 per year for Messrs. Judge, Lembo, Schweiger and Nolan. For Mr. Butler, the program provides a match of 100 percent of the first 3 percent of eligible base salary, up to a maximum of \$8,100 per year.

Deferred Compensation

Eversource offers a non-qualified deferred compensation program for its executives. In 2017, the program allowed deferral of up to 100 percent of base salary, annual incentives and long-term incentive awards. The program allows participants to select investment measures for deferrals based on an array of deemed investment options (including certain mutual funds and publicly traded securities).

See the Non-Qualified Deferred Compensation Table and accompanying notes for additional details on the above program.

Perquisites

Eversource provides executives with limited financial planning, vehicle leasing and access to tickets to sporting events. The current level of perquisites does not factor into decisions on total compensation.

Contractual Agreements

Eversource maintains contractual agreements with all of its Named Executive Officers that provide for potential compensation in the event of certain terminations, including termination following a Change in Control. Eversource believes these agreements are necessary to attract and retain high quality executives and to ensure executive focus on Eversource business during the period leading up to a potential Change in Control. The agreements are "double-trigger" agreements that provide executives with compensation in the event of a Change in Control followed by termination of employment due to one or more of the events set forth in the agreements, while still providing an incentive to remain employed with Eversource for the transition period that follows.

Under the agreements, certain compensation is generally payable if, during the applicable change in control period, the executive is involuntarily terminated (other than for cause) or terminates employment for "good reason." These agreements are described more fully in the tables following this CD&A under "Payments Upon Termination."

Tax and Accounting Considerations

Eversource's Incentive Plan permits annual incentive and performance share awards that were intended to qualify as performance-based compensation under the recently repealed Section 162(m) of the Internal Revenue Code. Eversource is aware of the changes in the Internal Revenue Code that impact tax deductibility of incentive compensation. Eversource believes that the availability of a tax deduction for forms of compensation is secondary to the goal of providing market-based compensation to attract and retain highly qualified executives. The Committee believes it is in Eversource's best interests to retain discretion to make compensation awards, whether or not deductible.

Eversource has adopted the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 718, Compensation-Stock Compensation. In general, Eversource and the Committee do not consider accounting considerations in structuring compensation arrangements.

Equity Grant Practices

Equity awards noted in the compensation tables are made annually at the February meeting of Eversource's Compensation Committee (subject to further approval by all of the independent members of Eversource's Board of Trustees of the Chief Executive Officer's award) when the Committee also determines base salary, annual and long-term incentive compensation targets and annual incentive awards. The date of this meeting is chosen at least a year in advance, and therefore awards are not coordinated with the release of material non-public information.

SUMMARY COMPENSATION TABLE

The table below summarizes the total compensation paid or earned by CL&P's principal executive officer (Mr. Judge), principal financial officer (Mr. Lembo) and the three other most highly compensated executive officers in 2017, determined in accordance with the applicable SEC disclosure rules (collectively, the Named Executive Officers). As explained in the footnotes below, the amounts reflect the economic benefit to each Named Executive Officer of the compensation item paid or accrued on behalf of the Named Executive Officers for the fiscal year ended December 31, 2017 in accordance with such rules. All salaries, annual incentive amounts and long-term incentive amounts shown for each Named Executive Officer were paid for all services rendered to Eversource Energy and its subsidiaries, including CL&P, in all capacities.

Name and Principal Position	Year	Salary	Stock Awards ⁽²⁾	Non-Equity Incentive Plan ⁽³⁾	Change in Pension Value and Non-Qualified Deferred Earnings ⁽⁴⁾	All Other Compensation ⁽⁵⁾	SEC Total	Adjusted SEC Total ⁽⁶⁾
James J. Judge President and Chief Executive Officer of Eversource Energy; Chairman of CL&P	2017	\$1,230,694	\$5,504,904	\$2,285,000	\$6,869,854	\$25,009	\$15,915,461	\$9,045,607
	2016	959,690	1,382,021	2,200,000	1,616,742	24,809	6,183,262	4,566,520
	2015	605,650	1,135,526	690,000	895,929	20,672	3,347,777	2,451,848
Philip J. Lembo ⁽¹⁾ Executive Vice President and Chief Financial Officer of Eversource Energy and CL&P	2017	613,847	1,314,086	700,000	1,246,325	21,485	3,895,743	2,649,418
	2016	439,208	212,300	600,000	543,133	21,285	1,815,926	1,272,793
	2015	634,078	1,334,961	775,000	1,225,581	21,418	3,991,038	2,765,457
Werner J. Schweiger Executive Vice President and Chief Operating Officer of Eversource Energy and CL&P	2017	592,108	1,359,110	700,000	1,156,328	21,135	3,828,681	2,672,353
	2016	600,000	1,123,939	680,000	746,734	21,135	3,171,808	2,425,074
	2015	597,886	1,032,562	625,000	1,670,745	15,361	3,941,554	2,270,809
Gregory B. Butler Executive Vice President and General Counsel of Eversource Energy and CL&P	2017	514,494	896,978	575,000	539,638	12,886	2,538,996	1,999,358
	2016	474,992	—	525,000	242,980	—	1,242,972	999,992
	2015	515,578	903,434	680,000	1,486,025	16,076	3,601,113	2,115,088
Joseph R. Nolan, Jr. ⁽¹⁾ Executive Vice President-Customer and Corporate Relations of Eversource Energy and CL&P	2017	419,364	518,430	550,000	826,729	15,876	2,330,399	1,503,670
	2016	419,364	518,430	550,000	826,729	15,876	2,330,399	1,503,670

⁽¹⁾ Messrs. Lembo and Nolan did not meet the requirements for inclusion in the Summary Compensation Table and were not Named Executive Officers for 2015.

⁽²⁾ Reflects the aggregate grant date fair value of RSUs and performance shares granted in each fiscal year, calculated in accordance with FASB ASC Topic 718.

RSUs were granted to each Named Executive Officer as long-term compensation, which vest in equal annual installments over three years.

In 2017, each of the Named Executive Officers was granted performance shares as long-term incentive compensation. These performance shares will vest based on the extent to which the two performance conditions described in the CD&A are achieved as of December 31, 2019. The grant date fair values for the performance shares, assuming achievement of the highest level of both performance conditions, are as follows: Mr. Judge: \$4,151,239; Mr. Lembo: \$990,950; Mr. Schweiger: \$1,006,692; Mr. Butler: \$778,653; and Mr. Nolan: \$681,278.

Holders of RSUs and performance shares are eligible to receive dividend equivalent units on outstanding awards to the same extent that dividends are declared and paid on Eversource common shares. Dividend equivalent units are accounted for as additional common shares that accrue and are distributed simultaneously with the common shares issued upon vesting of the underlying RSUs and performance shares.

Mr. Judge was elected President and Chief Executive Officer of the Company on April 6, 2016, upon the retirement of Thomas J. May. Mr. Judge had previously served as Executive Vice President and Chief Financial Officer of the Company until his election as President and Chief Executive Officer. Mr. Lembo was elected Executive Vice President and Chief Financial Officer of the Company on May 4, 2016, having previously served as Vice President and Treasurer. Thus, 2017 was the first year during which the Committee made long term incentive program stock awards to Mr. Judge and Mr. Lembo in their new positions of President and Chief Executive Officer and Executive Vice President and Chief Financial Officer, respectively.

(3) Includes payments to the Named Executive Officers under the 2017 Annual Incentive Program (Mr. Judge: \$2,285,000, Mr. Lembo: \$700,000; Mr. Schweiger: \$775,000; Mr. Butler: \$625,000; and Mr. Nolan: \$680,000).

Includes the actuarial increase in the present value from December 31, 2016 to December 31, 2017, of the Named Executive Officers' accumulated benefits under all of the Eversource defined benefit pension program and agreements, determined using interest rate and mortality rate assumptions consistent with those appearing in the footnotes to this Annual Report on Form 10-K for the fiscal year ended December 31, 2017. The substantial (4) actuarial increase in Mr. Judge's benefit in 2017 resulted from the increase in base pay and annual incentive following his promotion in 2016 to Chief Executive Officer of Eversource. The change in interest rates also impacted the amount of actuarial increase. The Named Executive Officer may not be fully vested in such amounts. More information on this topic is set forth in the Pension Benefits table. There were no above-market earnings in deferred

compensation value during 2017, as the terms of the Deferred Compensation Plan provide for market-based investments, including Eversource common shares.

Mr. Judge and Mr. Lembo were elected to the positions of President and Chief Executive Officer and Executive Vice President and Chief Financial Officer respectively, in 2016, such that 2017 was the first year that each served in his new position. Each had a resulting substantial increase in the actuarial, formula-based present values of his pension benefit due to the increase in their base pay and annual bonus. These accounting-based increases, while representing for Mr. Judge and Mr. Lembo a substantial portion of their 2017 total compensation disclosed in the SEC Total above, resulted in no actual 2017 W-2 earnings for either of them.

Includes matching contributions allocated by us to the accounts of Named Executive Officers under the 401k Plan as follows: \$10,800 for each of Messrs. Judge, Lembo, Schweiger and Nolan, and \$8,100 for Mr. Butler. For Mr. Judge, the value shown includes financial planning services valued at \$5,000 and \$9,209 paid by Eversource for a (5) company-leased vehicle. For Mr. Lembo, the value shown includes financial planning services valued at \$5,000 and \$5,685 paid by Eversource for a company-leased vehicle. For Mr. Schweiger, the value shown includes financial planning services valued at \$5,000 and \$5,618 paid by Eversource for a company-leased vehicle. None of the other Named Executive Officers received perquisites valued in the aggregate in excess of \$10,000.

The amounts in the Adjusted SEC Total column reflect an adjustment to the total compensation reported in the column marked SEC Total. The Adjusted SEC Total subtracts the actuarial change in pension value disclosed in the column titled "Change in Pension Value and Non-Qualified Deferred Earnings" as further described in Note (4) (6) above in order to reflect compensation earned during the year by the executive without consideration of pension benefit impacts. The amounts in this column differ substantially from, and are not a substitute for, the amounts noted in the SEC Total.

GRANTS OF PLAN-BASED AWARDS DURING 2017

The Grants of Plan-Based Awards Table provides information on the range of potential payouts under all incentive plan awards during the fiscal year ended December 31, 2017. The table also discloses the underlying equity awards and the grant date for equity-based awards. We have not granted any stock options since 2002.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards ⁽¹⁾		All Other Stock Awards: Number of Shares or Units ⁽²⁾	Grant Date Fair Value of Stock and Option Awards ⁽³⁾
		Threshold ⁽⁴⁾	Target	Maximum	Threshold ⁽⁴⁾	Maximum		
James J. Judge								
Annual Incentive ⁽⁴⁾	02/03/17	\$714,000	\$1,428,000	\$2,856,000	\$—	—	—	\$ —
Long-Term Incentive ⁽⁵⁾	02/03/17	—	—	—	—48,259	96,518	48,259	5,504,904
Philip J. Lembo								
Annual Incentive ⁽⁴⁾	02/03/17	236,500	473,000	946,000	—	—	—	—
Long-Term Incentive ⁽⁵⁾	02/03/17	—	—	—	—11,520	23,040	11,520	1,314,086
Werner J. Schweiger								
Annual Incentive ⁽⁴⁾	02/03/17	240,000	480,000	960,000	—	—	—	—
Long-Term Incentive ⁽⁵⁾	02/03/17	—	—	—	—11,703	23,406	11,703	1,334,961
Gregory B. Butler								

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Annual Incentive ⁽⁴⁾	02/03/17	195,000	390,000	780,000	—	—	—	—
Long-Term Incentive ⁽⁵⁾	02/03/17	—	—	—	-9,052	18,104	9,052	1,032,562
Joseph R. Nolan, Jr.								
Annual Incentive ⁽⁴⁾	02/03/17	170,500	341,000	682,000	—	—	—	—
Long-Term Incentive ⁽⁵⁾	02/03/17	—	—	—	-7,920	15,840	7,920	903,434

Reflects the number of performance shares granted to each of the Named Executive Officers on February 3, 2017 under the 2017 - 2019 Long-Term Incentive Program. Performance shares were granted subject to a three-year Performance Period that ends on December 31, 2019. At the end of the Performance Period, common shares will be awarded based on actual performance results as a percentage of target, subject to reduction for applicable (1) payroll withholding taxes. Holders of performance shares are eligible to receive dividend equivalent units on outstanding performance shares awarded to them to the same extent that dividends are declared and paid on Eversource common shares. Dividend equivalent units are accounted for as additional common shares that accrue and are distributed simultaneously with the common shares underlying the performance shares. The Annual Incentive Program does not include an equity component.

Reflects the number of RSUs granted to each of the Named Executive Officers on February 3, 2017 under the 2017 - 2019 Long-Term Incentive Program. RSUs vest in equal installments on February 2, 2018, 2019 and 2020. We will distribute common shares with respect to vested RSUs on a one-for-one basis following vesting, after (2) reduction for applicable payroll withholding taxes. Holders of RSUs are eligible to receive dividend equivalent units on outstanding RSUs awarded to them to the same extent that dividends are declared and paid on Eversource common shares. Dividend equivalent units are accounted for as additional common shares that accrue and are distributed simultaneously with the common shares distributed in respect of the underlying RSUs.

Reflects the grant date fair value, determined in accordance with FASB ASC Topic 718, of RSUs and performance (3) shares granted to the Named Executive Officers on February 3, 2017 under the 2017 - 2019 Long-Term Incentive Program.

The threshold payment under the Annual Incentive Program is 50 percent of target. The actual payments in 2018 (4) for performance in 2017 are set forth in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table.

(5) Reflects the range of potential payouts, if any, pursuant to performance share awards under the 2017 - 2019 Long-Term Incentive Program, as described in the CD&A.

OUTSTANDING EQUITY GRANTS AT DECEMBER 31, 2017

The following table sets forth RSU and performance share grants outstanding at the end of the fiscal year ended December 31, 2017 for each of the Named Executive Officers. There are no outstanding options.

Name	Stock Awards ⁽¹⁾		Equity Incentive Plan Awards: Number of Shares, Units or Other Rights That Have Not Vested ^(#) ⁽²⁾	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ^(#) ⁽⁴⁾	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ^(#) ⁽⁵⁾
	Number of Shares or Units of Stock That Have Not Vested ^(#) ⁽²⁾	Market Value of Shares or Units of Stock That Have Not Vested ^(#) ⁽³⁾	Equity Incentive Plan Awards: Number of Shares, Units or Other Rights That Have Not Vested ^(#) ⁽⁴⁾	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ^(#) ⁽⁴⁾	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ^(#) ⁽⁵⁾
James J. Judge	61,900	\$3,910,906	73,351	\$4,634,346	
Philip J. Lembo	13,818	\$873,019	15,719	993,112	
Werner J. Schweiger	24,010	\$1,516,957	35,317	2,231,300	
Gregory B. Butler	17,400	\$1,099,253	25,227	1,593,835	
Joseph R. Nolan, Jr.	12,761	\$806,219	17,147	1,083,333	

(1) Awards and market values of awards appearing in the table and the accompanying notes have been rounded to whole units.

A total of 55,588 unvested RSUs vested after January 1 and on or before February 2, 2018: Mr. Judge: 24,450; Mr. Lembo: 5,240; Mr. Schweiger: 11,773; Mr. Butler: 8,409; and Mr. Nolan: 5,716. A total of 43,882 unvested RSUs (2) will vest on February 2, 2019: Mr. Judge: 20,855; Mr. Lembo: 4,616; Mr. Schweiger: 8,213; Mr. Butler: 5,877; and Mr. Nolan: 4,321. A total of 30,419 unvested RSUs will vest on February 2, 2020: Mr. Judge: 16,595; Mr. Lembo: 3,962; Mr. Schweiger: 4,024; Mr. Butler: 3,114; and Mr. Nolan: 2,724.

(3) The market value of RSUs is determined by multiplying the number of RSUs by \$63.18, the closing price per share of common shares on December 29, 2017, the last trading day of the year.

(4) Reflects the target payout level for performance shares granted under the 2015 - 2017 Program, the 2016 - 2018 Program and the 2017 - 2019 Program.

The performance period for the 2015 - 2017 Program ended on December 31, 2017. Payouts under that program are set forth in the CD&A under the "Results of the 2015 - 2017 Performance Share Program."

The performance shares payout for 2016 - 2018 Program and the 2017 - 2019 Program will be based on actual performance results as a percentage of target, subject to reduction for applicable payroll withholding taxes. As described more fully under "Performance Shares" in the CD&A and Note (1) to the Grants of Plan-Based Awards table, performance shares will vest following a three-year performance period based on the extent to which the two performance conditions are achieved. Under the 2016 - 2018 Program, a total of 40,389 unearned performance shares (including accrued dividend equivalents) will vest based on the extent to which the two performance conditions described in the CD&A are achieved as of December 31, 2018. Assuming achievement of these conditions at a target level of performance, the amount of the awards would be as follows: Mr. Judge: 12,776; Mr. Lembo: 1,963; Mr. Schweiger: 12,565; Mr. Butler: 8,292; and Mr. Nolan: 4,793. Under the 2017 - 2019 Program, a total of 91,254 unearned performance shares (including accrued dividend equivalents) will vest based on the extent to which the two performance conditions described in the CD&A are achieved as of December 31, 2019, assuming achievement of these conditions at a target level of performance: Mr. Judge: 49,786; Mr. Lembo: 11,885; Mr. Schweiger: 12,073; Mr. Butler: 9,339; and Mr. Nolan: 8,171.

The market value is determined by multiplying the number of performance shares in the adjacent column by (5) \$63.18, the closing price of Eversource Energy common shares on December 29, 2017, the last trading day of the year.

OPTION EXERCISES AND STOCK VESTED IN 2017

The following table reports amounts realized on equity compensation during the fiscal year ended December 31, 2017. The Stock Awards columns report the vesting of RSU and performance share grants to the Named Executive Officers in 2017.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise ⁽¹⁾ (#)	Value Realized on Exercise	Number of Shares Acquired on Vesting ⁽²⁾ (#)	Value Realized on Vesting ⁽³⁾
James J. Judge	—	\$ —	24,892	\$1,395,241
Philip J. Lembo	—	—	4,164	233,432
Werner J. Schweiger	124,640	4,380,089	19,632	1,100,165
Gregory B. Butler	—	—	17,116	959,431
Joseph R. Nolan, Jr.	—	—	9,589	537,460

(1) Represents the amounts realized upon option exercises, which is the difference between the option exercise price and the market price at the time of exercise.

(2) Includes RSUs and performance shares granted to the Named Executive Officers under the long-term incentive programs, including dividend reinvestments, as follows:

Name	2014	2015	2016	2017
	Program	Program	Program	Program
James J. Judge	17,278	3,486	4,128	—
Philip J. Lembo	2,926	605	633	—
Werner J. Schweiger	12,122	3,450	4,060	—
Gregory B. Butler	11,983	2,454	2,679	—
Joseph R. Nolan, Jr.	6,688	1,352	1,549	—

In all cases, we reduce the distribution of common shares by that number of shares valued in an amount sufficient to satisfy tax withholding obligations.

(3) Values realized on vesting of RSUs granted under the 2014 - 2016, 2015 - 2017 and 2016 - 2018 Programs were based on \$55.95 per share, the closing price of Eversource common shares on February 14, 2017. Values realized on vesting of performance shares granted under the 2014 - 2016 Program were based on \$56.15 per share, the closing price of Eversource common shares on February 17, 2017.

PENSION BENEFITS IN 2017

The Pension Benefits Table shows the estimated present value of accumulated retirement benefits payable to each Named Executive Officer upon retirement based on the assumptions described below. The table distinguishes between benefits available under the qualified pension program, the supplemental pension program, and any additional benefits available under contractual agreements. See the narrative above in the CD&A under the caption "Other- Retirement Benefits" and "Contractual Agreements" for more detail on benefits under these plans and agreements.

The values shown in the Pension Benefits Table for Messrs. Judge, Lembo and Schweiger were calculated as of December 31, 2017, based on benefit payments in the form of a lump sum. For Mr. Butler, we assumed a payment of benefits in the form of a contingent annuitant option. Such earned pension program benefit value could otherwise have changed because of the reduction in mortality factors and potentially rising interest rates.

The values shown in this Table for the Named Executive Officers were based on benefit payments commencing at the earliest possible ages for retirement with unreduced benefits: Mr. Judge: age 60; Mr. Lembo: age 62; Mr. Schweiger: age 55; Mr. Butler: age 62; and Mr. Nolan: age 62.

In addition, we determined benefits under the qualified pension program using tax code limits in effect on December 31, 2017. For Messrs. Judge, Lembo, Schweiger and Nolan, the values shown reflect actual 2017 salary and annual incentives earned in 2016 but paid in 2017 (per applicable supplemental program rules). For Mr. Butler, the values shown reflect actual 2017 salary and annual incentives earned in 2016 but paid in 2017 (per applicable supplemental program rules).

We determined the present value of benefits at retirement age using the discount rate within a range of 3.56 percent to 3.68 percent under ACS 715-30 pension accounting for the 2018 fiscal year end measurement as of December 31, 2017. This present value assumes no pre-retirement mortality, turnover or disability. However, for the postretirement period beginning at retirement age, we used the RP2014 Employee Table Projected Generationally with Scale MP2015. This new mortality table (as published by the Society of Actuaries in 2014) and projection scale were used by the Eversource Pension Plan for year-end 2018 financial disclosure. Additional assumptions appear in the footnotes to this Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

Pension Benefits

Name	Plan Name	Number of Years Credited Service (#)	Present Value of Accumulation Benefit	During Last Fiscal Year
James J. Judge	Retirement Plan	40.33	\$ 2,718,021	\$ —
	Supplemental Plan	20.00	8,420,744	—
	Supplemental Plan	40.33	7,904,098	—
Philip J. Lembo	Retirement Plan	8.75	1,201,331	—
	Supplemental Plan	8.75	2,489,455	—
Werner J. Schweiger	Retirement Plan	15.83	500,881	—
	Supplemental Plan	15.83	1,902,091	—
	Supplemental Plan	15.00	6,082,675	—
Gregory B. Butler	Retirement Plan	21.00	1,115,793	—
	Supplemental Plan	21.00	3,972,477	—
	Target	21.00	2,988,076	—
Joseph R. Nolan, Jr.	Retirement Plan	18.33	894,997	—
	Supplemental Plan	18.33	2,156,155	—
	Supplemental Plan	18.00	2,441,589	—

NONQUALIFIED DEFERRED COMPENSATION IN 2017

See the narrative above in the CD&A under the caption "Elements of 2017 Compensation - Other - Deferred Compensation" for more detail on Eversource's non-qualified deferred compensation program.

Name	Executive Contributions in Last FY	Registrant Contributions in Last FY	Aggregate Earnings in Last FY	Aggregate Withdrawals/ Distributions	Aggregate Balance at Last FYE (1)
James J. Judge	\$ —	—\$	—\$ 868,753	\$ —	—\$ 5,693,348
Philip J. Lembo	—	—	195,092	—	1,370,466
Werner J. Schweiger	—	—	2,344,596	—	17,228,164
Gregory B. Butler	—	—	3,038	—	20,607
Joseph R. Nolan, Jr.	—	—	771,911	—	4,850,174

Includes the total market value of deferred compensation program balances at December 31, 2017, plus the value of vested RSUs or other awards for which the distribution of common shares is currently deferred, based on (1) \$63.18, the closing price of Eversource common shares on December 29, 2017, the last trading day of the year. The aggregate balances reflect a significant level of earnings on previously earned and deferred compensation.

POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL

The discussion and tables below show compensation payable to each Named Executive Officer who is still an employee of Eversource, in the event of: (i) voluntary termination; (ii) involuntary not-for-cause termination; (iii) termination in the event of death or disability; and (iv) termination following a change in control. No amounts are payable in the event of a termination for cause. The amounts shown assume that each termination was effective as of

December 31, 2017, the last business day of the fiscal year.

Generally, a "change in control" means a change in ownership or control effected through (i) the acquisition of 30 percent or more of the combined voting power of common shares or other voting securities (20 percent for Mr. Butler, excluding certain defined transactions), (ii) the acquisition of more than 50 percent of Eversource common shares, excluding certain defined transactions (for Messrs. Judge, Lembo; Schweiger and Nolan), (iii) a change in the majority of the Eversource Board of Trustees, unless approved by a majority of the incumbent Trustees, (iv) certain reorganizations, mergers or consolidations where substantially all of the persons who were the beneficial owners of the outstanding common shares immediately prior to such business combination do not beneficially own more than 50 percent of the voting power of the resulting business entity (excluding in certain cases defined transactions), and (v) complete liquidation or dissolution of Eversource, or a sale or disposition of all or substantially all of the assets of Eversource other than, for Mr. Butler, to an entity with respect to which following completion of the transaction more than 50 percent of common shares or other voting securities is then owned by all or substantially all of the persons who were the beneficial owners of common shares and other voting securities immediately prior to such transaction.

In the event of a change in control, the Named Executive Officers are generally entitled to receive compensation and benefits following either involuntary termination of employment without "cause" or voluntary termination of employment for "good reason" within the applicable period (generally two years following a change in control). The Committee believes that termination for good reason is conceptually the same as termination "without cause" and, in the absence of this provision, potential acquirers would have an incentive to constructively terminate executives to avoid paying severance. Termination for "cause" generally means termination due to a felony or certain other convictions; fraud, embezzlement, or theft in the course of employment; intentional, wrongful damage to Eversource property; gross misconduct or gross negligence in the course of employment or gross neglect of duties harmful to Eversource; or a material breach of obligations under the agreement. "Good reason" for termination generally exists after assignment of duties inconsistent with executive's position, a material reduction

in compensation or benefits, a transfer more than 50 miles from the executive's pre-change in control principal business location (or for Messrs. Judge, Lembo, Schweiger and Nolan, an involuntary transfer outside the Greater Boston Metropolitan Area), or requiring business travel to a substantially greater extent than required prior to the change in control.

The summaries above do not purport to be complete and are qualified in their entirety by the actual terms and provisions of the agreements and plans, copies of which have been filed as exhibits to this Annual Report on Form 10-K for the year ended December 31, 2017.

Payments Upon Termination

Regardless of the manner in which the employment of a Named Executive Officer terminates, the executive is entitled to receive certain amounts earned during the executive's term of employment. Such amounts include:

- Vested RSUs and certain other vested awards;
- Amounts contributed and any vested matching contributions under the deferred compensation program;
- Pay for unused vacation; and
- Amounts accrued and vested under the pension/supplemental and 401k programs (except in the event of a termination for cause under the supplemental program).

The following table describes additional compensation payable to the Named Executive Officers in the event of voluntary termination, involuntary termination not for cause, termination in the event of death or disability and termination following a change in control. No benefits are provided in the event of termination for cause. See the section above captioned "Pension Benefits in 2017" for information about the pension program, supplemental program and other benefits, and the section captioned "Nonqualified Deferred Compensation in 2017."

POST-EMPLOYMENT COMPENSATION PAYMENTS UPON TERMINATION

Name	Type of Payments	Voluntary Termination	Involuntary Termination Not for Cause	Termination or Disability	Termination Upon Death Following a Change in Control
James J. Judge	Annual Incentives ⁽¹⁾	\$—	\$—	\$—	\$1,428,000
	Performance Shares ⁽²⁾	2,260,474	2,260,474	2,260,474	4,634,346
	RSUs ⁽³⁾	1,421,180	1,421,180	1,421,180	3,910,906
	Special Retirement Benefit ⁽⁴⁾	—	—	—	12,618,115
	Health and Welfare Benefits ⁽⁵⁾	—	—	—	92,049
	Perquisites ⁽⁶⁾	—	—	—	15,000
	Excise Tax and Gross-ups ⁽⁷⁾	—	—	—	9,235,719
	Separation Payment for Liquidated Damages ⁽⁸⁾	—	—	—	10,326,000
	Total	\$ 3,681,654	\$ 3,681,654	\$ 3,681,654	\$42,260,135
Philip J. Lembo	Annual Incentives ⁽¹⁾	\$—	\$—	\$—	\$473,000
	Performance Shares ⁽²⁾	449,108	449,108	449,108	993,112
	RSUs ⁽³⁾	304,596	304,596	304,596	873,019
	Special Retirement Benefit ⁽⁴⁾	—	—	—	2,615,100
	Health and Welfare Benefits ⁽⁵⁾	—	—	—	40,296
	Perquisites ⁽⁶⁾	—	—	—	10,000
	Separation Payment for Liquidated Damages ⁽⁸⁾	—	—	—	2,460,000
	Total	\$ 753,704	\$ 753,704	\$ 753,704	\$ 7,464,527
Werner J. Schweiger	Annual Incentives ⁽¹⁾	\$—	\$—	\$—	\$480,000
	Performance Shares ⁽²⁾	1,458,259	1,458,259	1,458,259	2,231,300
	RSUs ⁽³⁾	684,308	684,308	684,308	1,516,957
	Special Retirement Benefit ⁽⁴⁾	—	—	—	2,180,720
	Health and Welfare Benefits ⁽⁵⁾	—	—	—	82,475
	Perquisites ⁽⁶⁾	—	—	—	15,000
	Separation Payment for Liquidated Damages ⁽⁸⁾	—	—	—	4,020,000
	Total	\$ 2,142,567	\$ 2,142,567	\$ 2,142,567	\$10,526,452
Gregory B. Butler	Annual Incentives ⁽¹⁾	\$—	\$—	\$—	\$390,000
	Performance Shares ⁽²⁾	1,025,640	1,025,640	1,025,640	1,593,835
	RSUs ⁽³⁾	488,756	488,756	488,756	1,099,253
	Special Retirement Benefit ⁽⁴⁾	—	4,803,710	—	5,236,764
	Health and Welfare Benefits ⁽⁵⁾	—	22,399	—	33,599
	Perquisites ⁽⁶⁾	—	10,000	—	15,000
	Excise Tax and Gross-Ups ⁽⁷⁾	—	—	—	2,188,796
	Separation Payment for Liquidated Damages ⁽⁸⁾	—	990,000	—	1,980,000
	Separation Payment for Non-Compete Agreement ⁽⁹⁾	—	990,000	—	990,000
	Total	\$ 1,514,396	\$ 8,330,505	\$ 1,514,396	\$13,527,247
Joseph R. Nolan, Jr.	Annual Incentives ⁽¹⁾	\$—	\$—	\$—	\$341,000

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Performance Shares ⁽²⁾	—	—	637,537	1,083,333
RSUs ⁽³⁾	—	—	332,244	806,219
Special Retirement Benefit ⁽⁴⁾	—	—	—	4,557,194
Health and Welfare Benefits ⁽⁵⁾	—	—	—	80,579
Perquisites ⁽⁶⁾	—	—	—	15,000
Excise Tax and Gross-ups ⁽⁷⁾	—	—	—	2,393,454
Separation Payment for Liquidated Damages ⁽⁸⁾	—	—	—	3,225,000
Total	\$—	\$—	\$969,781	\$12,501,779

(1) For Termination Following a Change in Control: Represents target 2017 annual incentive awards as described in the Grants of Plan Based Awards Table.

For Voluntary Termination and Termination Not For Cause (except for Mr. Nolan), and for Termination Upon Death or Disability: Represents 100 percent of the performance share awards under the 2015 - 2017 Long-Term Incentive Program, 67 percent of the performance share awards under the 2016 - 2018 Long-Term Incentive

(2) Program and 33 percent of the performance share awards under the 2017 - 2019 Long-Term Incentive Program.

The values were calculated by multiplying the number of RSUs by \$63.18, the closing price of Eversource common shares on December 29, 2017, the last trading day of the year. For Termination Following a Change in Control: Represents 100 percent of the performance share awards under each of the three Programs listed above.

For Voluntary Termination and Termination Not For Cause (except for Mr. Nolan), and for Termination Upon Death or Disability: Represents values of RSUs granted under Eversource long-term incentive programs that, at year-end 2017, were unvested under applicable vesting schedules. Under these programs, RSUs vest pro rata based on credited service years, age at termination, and time worked during the vesting period. The values were

(3) calculated by multiplying the number of RSUs by \$63.18, the closing price of Eversource common shares on December 29, 2017, the last trading day of the year. For Termination Following a Change in Control: Represents values of all RSUs granted under the long-term incentive programs that, at year-end 2017, were unvested under applicable vesting schedules, all of which vest in full.

The amount noted in the Involuntary Termination, Not for Cause column, represents for Mr. Butler actuarial present values at year-end 2017 of amounts payable (two years of service) solely under an employment agreement upon termination, which are in addition to amounts due under the pension plan. For Termination Following a Change in Control: Represents actuarial present values at year-end 2017 of amounts payable solely under (4) employment agreements upon termination (which are in addition to amounts due under the pension program). For Messrs. Judge, Schweiger, Butler and Nolan, pension benefits were calculated by adding three years of service (two years for Mr. Lembo). A lump sum of this benefit value is payable to Messrs. Judge, Lembo and Schweiger. Pension amounts shown in the table are present values at year-end 2017 of benefits payable upon termination as described with respect to the Pension Benefits Table above.

(5) The amount noted in the Involuntary Termination, Not for Cause column, represents for Mr. Butler the value of two years' employer contributions toward active health, long-term disability, and life insurance benefits, plus a payment to offset any taxes thereon. For Termination Following a Change in Control: Represents estimated cost to Eversource at year-end 2017 (estimated by consultants) of providing post-employment health and welfare benefits beyond those available to non-executives upon involuntary termination. The amounts shown in the table for Messrs. Judge, Schweiger and Nolan represent the value of three years (two years for Mr. Lembo) continued health and welfare plan participation. The amounts shown in the table for Mr. Butler represent the value of three years' employer contributions toward active health, long-term disability, and life insurance benefits, plus a payment to offset any taxes on the value of these benefits, less the value of one year of retiree health coverage at retiree rates.

(6) The amount noted in the Involuntary Termination, Not for Cause column, represents for Mr. Butler the cost of reimbursing Mr. Butler for two years financial planning and tax preparation fees. For Termination Following a Change in Control: Represents the cost to Eversource of reimbursing for financial planning and tax preparation fees for three years (two years for Mr. Lembo).

For Termination Following a Change in Control: Represents payments made to offset costs associated with certain excise taxes under Section 280G of the Internal Revenue Code. Executives may be subject to certain excise taxes under Section 280G if they receive payments and benefits related to a Termination Following a Change in Control (7) that exceed specified Internal Revenue Service limits. Contractual agreements with the above executives provide for a grossed-up reimbursement of these excise taxes. The amounts in the table are based on the Section 280G excise tax rate of 20 percent, the statutory federal income tax withholding rate of 35 percent, the applicable state income tax rate, and the Medicare tax rate of 1.45 percent.

(8) The amount noted in the Involuntary Termination, Not for Cause column, represents for Mr. Butler a severance payment (two-times the sum of base salary plus relevant annual incentive award) in addition to any non-compete agreement payment described above. For Termination Following a Change in Control: Represents severance payments in addition to any non-compete agreement payments described in the prior note. For Messrs. Judge, Schweiger and Nolan, this payment equals three-times the sum of base salary plus relevant annual incentive award (two-times the sum for Messrs. Lembo and Butler). These payments do not replace, offset or otherwise affect the calculation or payment of the annual incentive awards.

(9) For Involuntary Termination, Not For Cause and Termination Following a Change in Control: Represents a payment made under an agreement with Mr. Butler as consideration for agreement not to compete with Eversource following termination of employment, equal to the sum of base salary plus relevant annual incentive award. This payment does not replace, offset or otherwise affect the calculation or payment of the annual incentive awards.

PAY RATIO

Eversource's CEO to median employee pay ratio is calculated pursuant to the requirements of Item 402(u) of Regulation S-K. As described in the caption to the Summary Compensation Table, the salary, annual incentive amounts and long-term incentive amounts shown for the CEO were paid for all services rendered to Eversource Energy and its subsidiaries, including CL&P, in all capacities. Accordingly, the Pay Ratio calculation was performed using the CEO's compensation received for all services rendered to Eversource Energy and its subsidiaries, including

CL&P. Similarly, Eversource identified the median employee by reviewing the 2017 total cash compensation of all full-time employees, excluding the CEO, who were employed by Eversource and its subsidiaries on December 31, 2017. In the assessment of median employee compensation, pay for those employees who commenced work during 2017 was annualized. Otherwise, no assumptions, adjustments, or estimates were made with respect to total cash compensation, and the compensation for any full-time employees who were not employed by Eversource at the end of 2017 was not annualized. Eversource believes the use of total cash compensation for all employees is a consistently applied compensation measure, as Eversource does not widely distribute annual equity awards to employees.

After identifying the median employee based on total cash compensation, the annual total compensation for such employee was calculated using the same methodology used for the Named Executive Officers as set forth in the Summary Compensation Table. Mr. Judge had 2017 annual total compensation of \$15,915,461, as reflected in the Summary Compensation Table. Eversource's median employee's annual total compensation for 2017 was \$124,959. Eversource's 2017 CEO to median employee pay ratio is 127 to one.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Eversource Energy

In addition to the information below under "Securities Authorized for Issuance Under Equity Compensation Plans," incorporated herein by reference is the information contained in the sections "Common Share Ownership of Certain Beneficial Owners" and "Common Share Ownership of Trustees and Management" of Eversource Energy's definitive proxy statement for solicitation of proxies, expected to be filed with the SEC on or about March 23, 2018.

NSTAR ELECTRIC and PSNH

Certain information required by this Item 12 has been omitted for NSTAR Electric and PSNH pursuant to Instruction I(2)(c) to Form 10-K, Omission of Information by Certain Wholly-Owned Subsidiaries.

CL&P

COMMON SHARE OWNERSHIP OF DIRECTORS AND MANAGEMENT

Eversource Energy owns 100 percent of the outstanding common stock of CL&P. The table below shows the number of Eversource Energy common shares beneficially owned as of February 21, 2018, by each of CL&P's directors and each Named Executive Officer of CL&P, as well as the number of Eversource Energy common shares beneficially owned by all of CL&P's directors and executive officers as a group. The table also includes information about options, restricted share units and deferred shares credited to the accounts of CL&P's directors and executive officers under certain compensation and benefit plans. No equity securities of CL&P are owned by any of the Trustees, directors or executive officers of Eversource Energy or CL&P. The address for the shareholders listed below is c/o Eversource Energy, Prudential Center, 800 Boylston Street, Boston, Massachusetts 02199 for Messrs. Judge, Lembo, Nolan and Schweiger; c/o Eversource Energy, 56 Prospect Street, Hartford, Connecticut 06103-2818 for Mr. Butler.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership ⁽¹⁾⁽²⁾⁽³⁾	Percent of Class
James J. Judge, Chairman of CL&P	257,970	*
Philip J. Lembo, Executive Vice President and Chief Financial Officer, Director of CL&P	40,089	*
Werner J. Schweiger, Chief Executive Officer, Director of CL&P	252,314	*
Gregory B. Butler, Executive Vice President and General Counsel, Director of CL&P	86,388	*
Joseph R. Nolan, Jr., Executive Vice President-Customer and Corporate Relations of Eversource Service	95,135	*
All directors and executive officers as a group (7 persons)	817,106 ⁽⁴⁾	*

*Less than 1% of Eversource Energy common shares outstanding.

¹ The persons named in the table have sole voting and investment power with respect to all shares beneficially owned by each of them, except as noted below.

² Also includes restricted share units, deferred restricted share units and/or deferred shares, including dividend equivalents, as to which none of the individuals has voting or investment power, and phantom shares held by executive officers who participate in a deferred compensation plan as follows: Mr. Judge: 174,195 shares; Mr. Lembo: 23,150 shares; Mr. Schweiger: 185,767 shares; Mr. Butler: 17,625; and Mr. Nolan: 70,515 shares.

Includes Eversource Energy common shares held as units in the 401(k) Plan invested in the Eversource Energy

3. Common Shares Fund over which the holder has sole voting and investment power (Mr. Judge: 25,485 shares; Mr. Lembo: 2,811 shares; Mr. Schweiger: 262 shares; Mr. Butler: 5,769 shares; and Mr. Nolan: 18,115 shares).

4. Includes 492,651 unissued Eversource Energy common shares. See Note 2.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table sets forth the number of Eversource Energy common shares issuable under Eversource Energy equity compensation plans, as well as their weighted exercise price, as of December 31, 2017, in accordance with the rules of the SEC:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights ⁽¹⁾	Weighted-average exercise price of outstanding options, warrants and rights ⁽²⁾	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column ⁽¹⁾)
Equity compensation plans approved by security holders	1,227,604	\$—	2,445,110
Equity compensation plans not approved by security holders ⁽³⁾	—	—	—
Total	1,227,604	\$—	2,445,110

(1) Includes 717,039 common shares for distribution in respect of restricted share units, and 510,565 performance shares issuable at target, all pursuant to the terms of our Incentive Plan.

(2) The weighted-average exercise price does not take into account restricted share units or performance shares, which have no exercise price.

(3) Securities set forth in this table are authorized for issuance under compensation plans that have been approved by shareholders of Eversource Energy or the former shareholders of NSTAR.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Eversource Energy

Incorporated herein by reference is the information contained in the sections captioned "Trustee Independence" and "Related Person Transactions" of Eversource Energy's definitive proxy statement for solicitation of proxies, expected to be filed with the SEC on or about March 23, 2018.

NSTAR ELECTRIC and PSNH

Certain information required by this Item 13 has been omitted for NSTAR Electric and PSNH pursuant to Instruction I(2)(c) to Form 10-K, Omission of Information by Certain Wholly-Owned Subsidiaries.

CL&P

Eversource Energy's Code of Ethics for Senior Financial Officers applies to the Senior Financial Officers (Chief Executive Officer, Chief Financial Officer and Controller) of Eversource Energy, CL&P and certain other Eversource Energy subsidiaries. Under the Code, one's position as a Senior Financial Officer in the company may not be used to improperly benefit such officer or his or her family or friends. Under the Code, specific activities that may be considered conflicts of interest include, but are not limited to, directly or indirectly acquiring or retaining a significant financial interest in an organization that is a customer, vendor or competitor, or that seeks to do business with the company; serving, without proper safeguards, as an officer or director of, or working or rendering services for an

organization that is a customer, vendor or competitor, or that seeks to do business with the company. Waivers of the provisions of the Code of Ethics for Trustees, executive officers or directors must be approved by Eversource Energy's Board of Trustees. Any such waivers will be disclosed pursuant to legal requirements.

Eversource Energy's Code of Conduct, which applies to all Trustees, directors, officers and employees of Eversource Energy and its subsidiaries, including CL&P, contains a Conflict of Interest Policy that requires all such individuals to disclose any potential conflicts of interest. Such individuals are expected to discuss their particular situations with management to ensure appropriate steps are in place to avoid a conflict of interest. All disclosures must be reviewed and approved by management to ensure a particular situation does not adversely impact the individual's primary job and role.

Eversource Energy's Related Persons Transactions Policy is administered by the Corporate Governance Committee of Eversource Energy's Board of Trustees. The Policy generally defines a "Related Persons Transaction" as any transaction or series of transactions in which (i) Eversource Energy or a subsidiary is a participant, (ii) the aggregate amount involved exceeds \$120,000 and (iii) any "Related Persons" has a direct or indirect material interest. A "Related Persons" is defined as any Trustee or nominee for Trustee, any executive officer, any shareholder owning more than 5 percent of Eversource Energy's total outstanding shares, and any immediate family member of any such person. Management submits to the Corporate Governance Committee for consideration any Related Persons Transaction into which Eversource Energy or a subsidiary proposes to enter. The Corporate Governance Committee recommends to the Eversource Energy Board of Trustees for approval only those transactions that are in Eversource Energy's best interests. If management causes the company to enter into a Related Persons Transaction prior to approval by the Corporate Governance Committee, the transaction will be subject to ratification by the Eversource Energy Board of Trustees. If the Eversource Energy Board of Trustees determines not to ratify the transaction, then management will make all reasonable efforts to cancel or annul such transaction.

The directors of CL&P are employees of CL&P and/or other subsidiaries of Eversource Energy, and thus are not considered independent.

Item 14. Principal Accountant Fees and Services

Eversource Energy

Incorporated herein by reference is the information contained in the section "Relationship with Independent Auditors" of Eversource Energy's definitive proxy statement for solicitation of proxies, expected to be filed with the SEC on or about March 23, 2018.

CL&P, NSTAR ELECTRIC and PSNH

Pre-Approval of Services Provided by Principal Auditors

None of CL&P, NSTAR Electric and PSNH is subject to the audit committee requirements of the SEC, the national securities exchanges or the national securities associations. CL&P, NSTAR Electric and PSNH obtain audit services from the independent auditor engaged by the Audit Committee of Eversource Energy's Board of Trustees. Eversource Energy's Audit Committee has established policies and procedures regarding the pre-approval of services provided by the principal auditors. Those policies and procedures delegate pre-approval of services to the Eversource Energy Audit Committee Chair provided that such offices are held by Trustees who are "independent" within the meaning of the Sarbanes-Oxley Act of 2002 and that all such pre-approvals are presented to the Eversource Energy Audit Committee at the next regularly scheduled meeting of the Committee.

The following relates to fees and services for the entire Eversource Energy system, including Eversource Energy, CL&P, NSTAR Electric and PSNH.

Fees Billed By Principal Independent Registered Public Accounting Firm

The aggregate fees billed to the Company and its subsidiaries by Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates (collectively, the Deloitte Entities), for the years ended December 31, 2017 and 2016 totaled \$4,533,922 and \$4,336,626, respectively. In addition, affiliates of Deloitte & Touche LLP, as noted below, provide other accounting services to the Company. Fees consisted of the following:

1. Audit Fees

The aggregate fees billed to the Company and its subsidiaries by Deloitte & Touche LLP for audit services rendered for the years ended December 31, 2017 and 2016 totaled \$4,243,000 and \$3,988,000, respectively. The audit fees were incurred for audits of consolidated financial statements of Eversource Energy and its subsidiaries, reviews of financial statements included in the Combined Quarterly Reports on Form 10-Q of Eversource Energy and its subsidiaries and other costs. The fees also included audits of internal controls over financial reporting as of December 31, 2017 and 2016.

2. Audit-Related Fees

The aggregate fees billed to the Company and its subsidiaries by the Deloitte Entities for audit-related services rendered for the years ended December 31, 2017 and 2016 totaled \$283,000 and \$346,000, respectively. The audit-related fees were incurred for procedures performed in the ordinary course of business in support of certain regulatory filings, comfort letters, and consents and other costs related to registration statements and financings.

3. Tax Fees

There were no tax fees for the years ended December 31, 2017 and 2016.

4. All Other Fees

The aggregate fees billed to the Company and its subsidiaries by the Deloitte Entities for services, other than the services described above, for the years ended December 31, 2017 and 2016 totaled \$7,922 and \$2,626, respectively.

These fees were for the review of benefit payment calculations in 2017, and a license for access to an accounting standards research tool in both 2017 and 2016.

The Audit Committee pre-approves all auditing services and permitted audit-related or other services (including the fees and terms thereof) to be performed for us by our independent registered public accounting firm, subject to the de minimis exceptions for non-audit services described in Section 10A(i)(1)(B) of the Securities Exchange Act of 1934, which are approved by the Audit Committee prior to the completion of the audit. The Audit Committee may form and delegate its authority to subcommittees consisting of one or more members when appropriate, including the authority to grant pre-approvals of audit and permitted non-audit services, provided that decisions of such subcommittee to grant pre-approvals are presented to the full Audit Committee at its next scheduled meeting. During 2017, all services described above were pre-approved by the Audit Committee.

The Audit Committee has considered whether the provision by the Deloitte Entities of the non-audit services described above was allowed under Rule 2-01(c)(4) of Regulation S-X and was compatible with maintaining the independence of the registered public accountants and has concluded that the Deloitte Entities were and are independent of us in all respects.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) 1. Financial Statements:

The financial statements filed as part of this Annual Report on Form 10-K are set forth under Item 8, "Financial Statements and Supplementary Data."

2. Schedules

I. Financial Information of Registrant:

Eversource Energy (Parent) Balance Sheets as of December 31, 2017 and 2016 S-1

Eversource Energy (Parent) Statements of Income for the Years Ended December 31, 2017, 2016 and 2015 S-2

Eversource Energy (Parent) Statements of Comprehensive Income for the Years Ended December 31, 2017, 2016 and 2015 S-2

Eversource Energy (Parent) Statements of Cash Flows for the Years Ended December 31, 2017, 2016 and 2015 S-3

II. Valuation and Qualifying Accounts and Reserves for Eversource, CL&P, NSTAR Electric and PSNH for 2017, 2016 and 2015 S-4

All other schedules of the companies for which inclusion is required in the applicable regulations of the SEC are permitted to be omitted under the related instructions or are not applicable, and therefore have been omitted.

3. Exhibit Index E-1

Item 16. Form 10-K Summary

Not applicable.

EVERSOURCE ENERGY

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

EVERSOURCE ENERGY

February 23, 2018 By: /s/ Jay S. Buth

Jay S. Buth

Vice President, Controller and Chief Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

POWER OF ATTORNEY

Each person whose signature appears below constitutes and appoints Gregory B. Butler, Philip J. Lembo and Jay S. Buth and each of them, his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Signature	Title	Date
/s/James J. Judge James J. Judge	Chairman of the Board, President and Chief Executive Officer and a Trustee (Principal Executive Officer)	February 23, 2018
/s/Philip J. Lembo Philip J. Lembo	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 23, 2018
/s/Jay S. Buth Jay S. Buth	Vice President, Controller and Chief Accounting Officer	February 23, 2018
/s/John S. Clarkeson John S. Clarkeson	Trustee	February 23, 2018
/s/Cotton M. Cleveland Cotton M. Cleveland	Trustee	February 23, 2018
/s/Sanford Cloud, Jr. Sanford Cloud, Jr.	Trustee	February 23, 2018

Signature	Title	Date
/s/James S. DiStasio James S. DiStasio	Trustee	February 23, 2018
/s/Francis A. Doyle Francis A. Doyle	Trustee	February 23, 2018
/s/Charles K. Gifford Charles K. Gifford	Trustee	February 23, 2018
/s/John Y. Kim John Y. Kim	Trustee	February 23, 2018
/s/Paul A. La Camera Paul A. La Camera	Trustee	February 23, 2018
/s/Kenneth R. Leibler Kenneth R. Leibler	Trustee	February 23, 2018
/s/William C. Van Faasen William C. Van Faasen	Trustee	February 23, 2018
/s/Frederica M. Williams Frederica M. Williams	Trustee	February 23, 2018
/s/Dennis R. Wraase Dennis R. Wraase	Trustee	February 23, 2018

THE CONNECTICUT LIGHT AND POWER COMPANY

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE CONNECTICUT LIGHT AND POWER COMPANY

February 23, 2018 By: /s/ Jay S. Buth
 Jay S. Buth
 Vice President, Controller and Chief Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

POWER OF ATTORNEY

Each person whose signature appears below constitutes and appoints Gregory B. Butler, Philip J. Lembo and Jay S. Buth and each of them, his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Signature	Title	Date
/s/James J. Judge James J. Judge	Chairman and a Director (Principal Executive Officer)	February 23, 2018
/s/Werner J. Schweiger Werner J. Schweiger	Chief Executive Officer and a Director	February 23, 2018
/s/Philip J. Lembo Philip J. Lembo	Executive Vice President and Chief Financial Officer and a Director (Principal Financial Officer)	February 23, 2018
/s/Gregory B. Butler Gregory B. Butler	Executive Vice President and General Counsel and a Director	February 23, 2018
/s/Jay S. Buth Jay S. Buth	Vice President, Controller and Chief Accounting Officer	February 23, 2018

NSTAR ELECTRIC COMPANY

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NSTAR ELECTRIC COMPANY

February 23, 2018 By: /s/ Jay S. Buth

Jay S. Buth

Vice President, Controller and Chief Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

POWER OF ATTORNEY

Each person whose signature appears below constitutes and appoints Gregory B. Butler, Philip J. Lembo and Jay S. Buth and each of them, his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Signature	Title	Date
/s/James J. Judge James J. Judge	Chairman and a Director (Principal Executive Officer)	February 23, 2018
/s/Werner J. Schweiger Werner J. Schweiger	Chief Executive Officer and a Director	February 23, 2018
/s/Philip J. Lembo Philip J. Lembo	Executive Vice President and Chief Financial Officer and a Director (Principal Financial Officer)	February 23, 2018
/s/Gregory B. Butler Gregory B. Butler	Executive Vice President and General Counsel and a Director	February 23, 2018
/s/Jay S. Buth Jay S. Buth	Vice President, Controller and Chief Accounting Officer	February 23, 2018

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

February 23, 2018 By: /s/ Jay S. Buth

Jay S. Buth

Vice President, Controller and Chief Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

POWER OF ATTORNEY

Each person whose signature appears below constitutes and appoints Gregory B. Butler, Philip J. Lembo and Jay S. Buth and each of them, his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Signature	Title	Date
/s/James J. Judge James J. Judge	Chairman and a Director (Principal Executive Officer)	February 23, 2018
/s/Werner J. Schweiger Werner J. Schweiger	Chief Executive Officer and a Director	February 23, 2018
/s/Philip J. Lembo Philip J. Lembo	Executive Vice President and Chief Financial Officer and a Director (Principal Financial Officer)	February 23, 2018
/s/Gregory B. Butler Gregory B. Butler	Executive Vice President and General Counsel and a Director	February 23, 2018
/s/Jay S. Buth Jay S. Buth	Vice President, Controller and Chief Accounting Officer	February 23, 2018

SCHEDULE I
EVERSOURCE ENERGY (PARENT)
FINANCIAL INFORMATION OF REGISTRANT
BALANCE SHEETS
AS OF DECEMBER 31, 2017 AND 2016
(Thousands of Dollars)

	2017	2016
ASSETS		
Current Assets:		
Cash	\$521	\$93
Accounts Receivable from Subsidiaries	3,397	32,864
Dividend Receivable from Subsidiary	150,000	—
Notes Receivable from Subsidiaries	844,500	740,300
Prepayments and Other Current Assets	18,568	23,122
Total Current Assets	1,016,986	796,379
Deferred Debits and Other Assets:		
Investments in Subsidiary Companies, at Equity	10,945,986	9,703,287
Notes Receivable from Subsidiaries	312,190	224,290
Accumulated Deferred Income Taxes	47,940	126,091
Goodwill	3,231,811	3,231,811
Other Long-Term Assets	58,313	44,020
Total Deferred Debits and Other Assets	14,596,240	13,329,499
Total Assets	\$ 15,613,226	\$ 14,125,878
LIABILITIES AND CAPITALIZATION		
Current Liabilities:		
Notes Payable	\$778,087	\$1,022,000
Long-Term Debt - Current Portion	32,114	28,883
Accounts Payable	292	—
Accounts Payable to Subsidiaries	18,242	8,771
Other Current Liabilities	56,601	47,215
Total Current Liabilities	885,336	1,106,869
Deferred Credits and Other Liabilities	118,176	148,756
Capitalization:		
Long-Term Debt	3,523,472	2,158,519
Equity:		
Common Shareholders' Equity:		
Common Shares	1,669,392	1,669,392
Capital Surplus, Paid in	6,239,940	6,250,224
Retained Earnings	3,561,084	3,175,171
Accumulated Other Comprehensive Loss	(66,403)	(65,282)
Treasury Stock	(317,771)	(317,771)
Common Shareholders' Equity	11,086,242	10,711,734
Total Capitalization	14,609,714	12,870,253

Total Liabilities and Capitalization \$15,613,226 \$14,125,878

See the Combined Notes to Financial Statements in this Annual Report on Form 10-K for a description of significant accounting matters related to Eversource parent, including Eversource common shares information as described in Note 17, "Common Shares," material obligations and guarantees as described in Note 11, "Commitments and Contingencies," and debt agreements as described in Note 7, "Short-Term Debt," and Note 8, "Long-Term Debt."

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SCHEDULE I
EVERSOURCE ENERGY (PARENT)
FINANCIAL INFORMATION OF REGISTRANT
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(Thousands of Dollars, Except Share Information)

	2017	2016	2015
Operating Revenues	\$ —	\$ —	\$ —
Operating Expenses:			
Other	(32,189)	(39,453)	9,315
Operating Income/(Loss)	32,189	39,453	(9,315)
Interest Expense	80,700	59,420	45,130
Other Income, Net:			
Equity in Earnings of Subsidiaries	993,063	922,321	900,824
Other, Net	23,339	4,267	6,602
Other Income, Net	1,016,402	926,588	907,426
Income Before Income Tax Benefit	967,891	906,621	852,981
Income Tax Benefit	(20,105)	(35,681)	(25,504)
Net Income	\$ 987,996	\$ 942,302	\$ 878,485
Basic Earnings per Common Share	\$ 3.11	\$ 2.97	\$ 2.77
Diluted Earnings per Common Share	\$ 3.11	\$ 2.96	\$ 2.76
Weighted Average Common Shares Outstanding:			
Basic	317,411,097	317,650,180	317,336,881
Diluted	318,031,580	318,454,239	318,432,687

STATEMENTS OF COMPREHENSIVE INCOME

	2017	2016	2015
Net Income	\$987,996	\$942,302	\$878,485
Other Comprehensive (Loss)/Income, Net of Tax:			
Qualified Cash Flow Hedging Instruments	1,974	2,137	2,079
Changes in Unrealized (Losses)/Gains on Marketable Securities	(350)	2,294	(2,588)
Change in Funded Status of Pension, SERP and PBOP Benefit Plans	(2,745)	(2,869)	7,674
Other Comprehensive (Loss)/Income, Net of Tax	(1,121)	1,562	7,165
Comprehensive Income	\$986,875	\$943,864	\$885,650

See the Combined Notes to Financial Statements in this Annual Report on Form 10-K for a description of significant accounting matters related to Eversource parent, including Eversource common shares information as described in Note 17, "Common Shares," material obligations and guarantees as described in Note 11, "Commitments and Contingencies," and debt agreements as described in Note 7, "Short-Term Debt," and Note 8, "Long-Term Debt."

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SCHEDULE I
EVERSOURCE ENERGY (PARENT)
FINANCIAL INFORMATION OF REGISTRANT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 and 2015
(Thousands of Dollars)

	2017	2016	2015
Operating Activities:			
Net Income	\$987,996	\$942,302	\$878,485
Adjustments to Reconcile Net Income to Net Cash Flows Provided by Operating Activities:			
Equity in Earnings of Subsidiaries	(993,063)	(922,321)	(900,824)
Cash Dividends Received from Subsidiaries	753,300	724,877	602,300
Deferred Income Taxes	37,867	19,008	16,880
Other	(36,052)	(27,963)	(22,864)
Changes in Current Assets and Liabilities:			
Accounts Receivables from Subsidiaries	29,405	(9,173)	(16,980)
Taxes Receivable/Accrued, Net	1,555	8,050	(14,426)
Accounts Payable, Including Affiliate Payables	9,763	(6,908)	(134,730)
Other Current Assets and Liabilities, Net	7,536	(7,433)	6,832
Net Cash Flows Provided by Operating Activities	798,307	720,439	414,673
Investing Activities:			
Capital Contributions to Subsidiaries	(1,156,731)	(589,500)	(218,500)
(Increase)/Decrease in Notes Receivable from Subsidiaries	(192,100)	14,510	(131,650)
Other Investing Activities	1,484	—	12,000
Net Cash Flows Used in Investing Activities	(1,347,347)	(574,990)	(338,150)
Financing Activities:			
Cash Dividends on Common Shares	(602,083)	(564,486)	(529,791)
Issuance of Long-Term Debt	1,200,000	500,000	450,000
Decrease in Notes Payable	(42,690)	(76,453)	(2,622)
Other Financing Activities	(5,759)	(4,484)	5,819
Net Cash Flows Provided by/(Used in) Financing Activities	549,468	(145,423)	(76,594)
Net Increase/(Decrease) in Cash	428	26	(71)
Cash - Beginning of Year	93	67	138
Cash - End of Year	\$521	\$93	\$67
Supplemental Cash Flow Information:			
Cash Paid/(Received) During the Year for:			
Interest	\$73,868	\$58,018	\$43,024
Income Taxes	\$(59,526)	\$(65,531)	\$(34,680)

See the Combined Notes to Financial Statements in this Annual Report on Form 10-K for a description of significant accounting matters related to Eversource parent, including Eversource common shares information as described in Note 17, "Common Shares," material obligations and guarantees as described in Note 11, "Commitments and Contingencies," and debt agreements as described in Note 7, "Short-Term Debt," and Note 8, "Long-Term Debt."

SCHEDULE II
EVERSOURCE ENERGY AND SUBSIDIARIES
VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(Thousands of Dollars)

Column A	Column B	Column C	Column D	Column E	
Description of Beginning of Year	Balance as of Beginning of Year	Additions		Deductions	Balance as of End of Year
		(1) Charged to	(2) Charged to		
	and Expenses	Costs	Other Accounts Describe (b)		
Eversource:					
Reserves Deducted from Assets					
-					
Reserves for Uncollectible Accounts:					
2017	\$ 200,630	\$ 44,665	\$ 47,630	\$ 97,217	\$ 195,708
2016	190,680	69,466	45,452	104,968	200,630
2015	175,317	51,077	79,622	115,336	190,680
CL&P:					
Reserves Deducted from Assets					
-					
Reserves for Uncollectible Accounts:					
2017	\$ 86,391	\$ 5,312	\$ 25,533	\$ 38,364	\$ 78,872
2016	79,479	17,572	28,801	39,461	86,391
2015	84,287	10,105	30,592	45,505	79,479
NSTAR					
Electric:					
Reserves Deducted from					

Assets

-

Reserves

for

Uncollectible

Accounts:

2017	\$ 70,284	\$ 21,252	\$ 14,273	\$ 36,143	\$ 69,666
2016	66,676	31,728	11,253	39,373	70,284
2015	50,550	19,168	36,977	40,019	66,676

PSNH:

Reserves

Deducted

from

Assets

-

Reserves

for

Uncollectible

Accounts:

2017	\$ 9,941	\$ 6,917	\$ 464	\$ 6,841	\$ 10,481
2016	8,733	7,288	498	6,578	9,941
2015	7,663	8,889	841	8,660	8,733

Amounts relate to uncollectible accounts receivables reserved for that are not charged to bad debt expense. The PURA allows CL&P and Yankee Gas to accelerate the recovery of accounts receivable balances attributable to (a) qualified customers under financial or medical duress (uncollectible hardship accounts receivable) outstanding for greater than 180 days and 90 days, respectively. The DPU allows NSTAR Electric and NSTAR Gas to recover in rates, amounts associated with certain uncollectible hardship accounts receivable.

(b) Amounts written off, net of recoveries.

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EXHIBIT INDEX

Each document described below is incorporated by reference by the registrant(s) listed to the files identified, unless designated with a (*), which exhibits are filed herewith. Management contracts and compensation plans or arrangements are designated with a (+).

Exhibit

Number Description

3. Articles of Incorporation and By-Laws

(A) Eversource Energy

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3.1 Declaration of Trust of Eversource Energy, as amended through May 3, 2017 (Exhibit 3.1, Eversource Form 10-Q filed on May 5, 2017)

(B) The Connecticut Light and Power Company

3.1 Certificate of Incorporation of CL&P, restated to March 22, 1994 (Exhibit 3.2.1, 1993 CL&P Form 10-K, File No. 000-00404) (Exhibit 3.2.1, 1993 CL&P Form 10-K, File No. 000-00404)

3.1.1 Certificate of Amendment to Certificate of Incorporation of CL&P, dated December 26, 1996 (Exhibit 3.2.2, 1996 CL&P Form 10-K filed March 25, 1997, File No. 001-11419)

3.1.2 Certificate of Amendment to Certificate of Incorporation of CL&P, dated April 27, 1998 (Exhibit 3.2.3, 1998 CL&P Form 10-K filed March 23, 1999, File No. 000-00404)

3.1.3 Amended and Restated Certificate of Incorporation of CL&P, dated effective January 3, 2012 (Exhibit 3(i), CL&P Current Report on Form 8-K filed January 9, 2012, File No. 000-00404)

3.2 By-laws of CL&P, as amended and restated effective September 29, 2014 (Exhibit 3.1, CL&P Current Report on Form 8-K filed October 2, 2014, File No. 000-00404)

(C) NSTAR Electric Company

3.1 Restated Articles of Organization of NSTAR Electric Company, fka Boston Edison Company (Exhibit 3.1, NSTAR Electric Form 10-Q for the Quarter Ended June 30, 1994 filed August 12, 1994, File No. 001-02301)

3.2 Bylaws of NSTAR Electric Company, as amended and restated effective September 29, 2014 (Exhibit 3.1, NSTAR Electric Current Report on Form 8-K filed October 2, 2014, File No. 000-02301)

(D) Public Service Company of New Hampshire

3.1 Articles of Incorporation, as amended to May 16, 1991 (Exhibit 3.3.1, 1993 PSNH Form 10-K filed March 25, 1994, File No. 001-06392)

3.2 By-laws of PSNH, as in effect June 27, 2008 (Exhibit 3, PSNH Form 10-Q for the Quarter Ended June 30, 2008 filed August 7, 2008, File No. 001-06392)

4. Instruments defining the rights of security holders, including indentures

(A) Eversource Energy

4.1 Indenture between Eversource Energy and The Bank of New York as Trustee dated as of April 1, 2002 (Exhibit A-3, Eversource Energy 35-CERT filed April 16, 2002, File No. 070-09535)

4.1.1 Fifth Supplemental Indenture between Eversource Energy and The Bank of New York Trust Company N.A., as Trustee, dated as of May 1, 2013, relating to \$300 million of Senior Notes, Series E, due 2018 and \$4 million of Senior Notes, Series F, due 2023 (Exhibit 4.1, Eversource Energy Current Report on Form 8-K filed May 16, 2013, File No. 001-05324)

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4.1.2 Sixth Supplemental Indenture between Eversource Energy and The Bank of New York Trust Company N.A., as Trustee, dated as of January 1, 2015, relating to \$150 million of Senior Notes, Series G, due 2018 and \$300 million of Senior Notes, Series H, due 2025 (Exhibit 4.1, Eversource Energy Current Report on Form 8-K filed January 21, 2015, File No. 001-05324)

4.1.3 Seventh Supplemental Indenture between Eversource Energy and The Bank of New York Trust Company N.A., as Trustee, dated as of March 7, 2016, relating to \$250 million of Senior Notes, Series I, due 2021 and \$250 million of Senior Notes, Series J, due 2026 (Exhibit 4.1, Eversource Energy Current Report on Form 8-K filed March 15, 2016, File No. 001-05324)

4.1.4 Eighth Supplemental Indenture between Eversource Energy and The Bank of New York Trust Company N.A., as Trustee, dated as of March 10, 2017, relating to \$300 million of Senior Notes, Series K, Due 2022 (Exhibit 4.1, Eversource Energy Current Report on Form 8-K filed March 16, 2017, File No. 001-05324)

4.1.5 Ninth Supplemental Indenture between Eversource Energy and The Bank of New York Trust Company N.A., as Trustee, dated as of October 1, 2017, relating to \$450 million of Senior Notes, Series K, due 2022 and \$450 million of Senior Notes, Series L, due 2024 (Exhibit 4.1, Eversource Energy Current Report on Form 8-K filed October 12, 2017, File No. 001-05324)

4.2 Indenture dated as of January 12, 2000, between Eversource Energy, as successor to NSTAR LLC, as successor to NSTAR, and Bank One Trust Company N.A. (Exhibit 4.1 to NSTAR Registration Statement on Form S-3, filed January 14, 2000, on File No. 333-94735)

4.2.1 Form of 4.50% Debenture Due 2019 (Exhibit 99.2, NSTAR Form 8-K filed November 16, 2009, File No. 001-14768)

(B) The Connecticut Light and Power Company

* 4.1 Indenture of Mortgage and Deed of Trust between CL&P and Bankers Trust Company, Trustee, dated as of May 1, 1921 (Composite including all twenty-four amendments to May 1, 1967)

4.1.1 Series D Supplemental Indentures to the Composite May 1, 1921 Indenture of Mortgage and Deed of Trust between CL&P and Bankers Trust Company, dated as of October 1, 1994 (Exhibit 4.2.16, 1994 CL&P Form 10-K filed March 27, 1995, File No. 001-11419)

4.1.2 Series B Supplemental Indenture between CL&P and Deutsche Bank Trust Company Americas, as Trustee dated as of September 1, 2004 (Exhibit 99.5, CL&P Current Report on Form 8-K filed September 22, 2004, File No. 000-00404)

4.2 Composite Indenture of Mortgage and Deed of Trust between CL&P and Deutsche Bank Trust Company Americas f/k/a Bankers Trust Company, dated as of May 1, 1921, as amended and supplemented by seventy-three supplemental mortgages to and including Supplemental Mortgage dated as of April 1, 2005 (Exhibit 99.5, CL&P Current Report on Form 8-K filed April 13, 2005, File No. 000-00404)

4.2.1 Supplemental Indenture (2005 Series B Bonds) between CL&P and Deutsche Bank Trust Company Americas, as Trustee dated as of April 1, 2005 (Exhibit 99.2, CL&P Current Report on Form 8-K filed April 13, 2005, File No. 000-00404)

4.2.2 Supplemental Indenture (2006 Series A Bonds) between CL&P and Deutsche Bank Trust Company Americas, as Trustee dated as of June 1, 2006 (Exhibit 99.2, CL&P Current Report on Form 8-K filed June 7, 2006, File No. 000-00404)

4.2.3 Supplemental Indenture (2007 Series A Bonds and 2007 Series B Bonds) between CL&P and Deutsche Bank Trust Company Americas, as Trustee dated as of March 1, 2007 (Exhibit 99.2, CL&P Current Report on Form 8-K filed March 29, 2007, File No. 000-00404)

4.2.4 Supplemental Indenture (2007 Series C Bonds and 2007 Series D Bonds) between CL&P and Deutsche Bank Trust Company Americas, as Trustee dated as of September 1, 2007 (Exhibit 4, CL&P Current Report on Form 8-K filed September 19, 2007, File No. 000-00404)

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4.2.5 Supplemental Indenture (2008 Series A Bonds) between CL&P and Deutsche Bank Trust Company Americas, as Trustee dated as of May 1, 2008 (Exhibit 4, CL&P Current Report on Form 8-K filed May 29, 2008, File No. 000-00404)

4.2.6 Supplemental Indenture (2009 Series A Bonds) between CL&P and Deutsche Bank Trust Company Americas, as Trustee dated as of February 1, 2009 (Exhibit 4, CL&P Current Report on Form 8-K filed February 19, 2009, File No. 000-00404)

4.2.7 Supplemental Indenture (2013 Series A Bond) between CL&P and Deutsche Bank Trust Company Americas, as Trustee dated as of January 1, 2013 (Exhibit 4.1, CL&P Current Report on Form 8-K filed January 22, 2013, File No. 000-00404)

4.2.8 Supplemental Indenture (2014 Series A Bond) between CL&P and Deutsche Bank Trust Company Americas, as Trustee dated as of April 1, 2014 (Exhibit 4.1, CL&P Current Report on Form 8-K filed April 29, 2014, File No. 000-00404)

4.2.9 Supplemental Indenture (2015 Series A Bonds) between CL&P and Deutsche Bank Trust Company Americas, as Trustee dated as of May 1, 2015 (Exhibit 4.1, CL&P Current Report on Form 8-K filed May 26, 2015, File No. 000-00404)

4.2.10 Supplemental Indenture (2015 Series A Bonds) between CL&P and Deutsche Bank Trust Company Americas, as Trustee dated as of November 1, 2015 (Exhibit 4.1, CL&P Current Report on Form 8-K filed December 4, 2015, File No. 000-00404)

4.2.11 Supplemental Indenture (2017 Series A Bonds) between CL&P and Deutsche Bank Trust Company Americas, as Trustee dated as of March 1, 2017 (Exhibit 4.1, CL&P Current Report on Form 8-K filed on March 16, 2017, File No. 000-00404)

4.2.12 Supplemental Indenture (2014 Series A Bonds) between CL&P and Deutsche Bank Trust Company Americas, as Trustee dated as of August 1, 2017 (Exhibit 4.1, CL&P Current Report on Form 8-K filed August 23, 2017, File No. 000-00404)

4.3 Loan Agreement between Connecticut Development Authority and CL&P (Pollution Control Revenue Refunding Bonds - 2011A Series) dated as of October 1, 2011 (Exhibit 1.1, CL&P Current Report on Form 8-K filed October 28, 2011, File No. 000-00404)

(C)NSTAR Electric Company

* 4.1 Indenture between Boston Edison Company and the Bank of New York (as successor to Bank of Montreal Trust Company)

4.1.1 A Form of 5.75% Debenture Due March 15, 2036 (Exhibit 99.2, Boston Edison Company Current Report on Form 8 K filed March 17, 2006, File No. 001-02301)

4.1.2 A Form of 5.50% Debenture Due March 15, 2040 (Exhibit 99.2, NSTAR Electric Company Current Report on Form 8 K filed March 15, 2010, File No. 001-02301)

4.1.3 A Form of 2.375% Debenture Due 2022 (Exhibit 4, NSTAR Electric Company Current Report on Form 8-K filed October 18, 2012, File No. 001-02301)

4.1.4 A Form of 4.40% Debenture Due 2044 (Exhibit 4, NSTAR Electric Company Current Report on Form 8-K filed March 13, 2014, File No. 001-02301)

4.1.5 A Form of 3.25% Debenture due 2025 (Exhibit 4, NSTAR Electric Company Current Report on Form 8-K filed on November 20, 2015, File No. 001-02301)

4.1.6 A Form of 2.70% Debenture due 2026 (Exhibit 4, NSTAR Electric Company Current Report on Form 8-K filed on May, 31, 2016, File No. 001-02301)

4.1.7 Form of 3.20% Debenture due May 15, 2027 (Exhibit 4, NSTAR Electric Company Current Report on Form 8-K/A filed on October 12, 2017 File No. 001-02301)

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* 4.2 Amended and Restated Credit Agreement, dated December 8, 2017, by and between NSTAR Electric Company and the Banks named therein, pursuant to which Barclays Bank PLC serves as Administrative Agent and Swing Line Lender

4.3 Indenture between NSTAR Electric Company, as successor to Western Massachusetts Electric Company ("WMECO"), and The Bank of New York, as Trustee, dated as of September 1, 2003 (Exhibit 99.2, WMECO Current Report on Form 8-K filed October 8, 2003, File No. 000-07624)

4.3.1 Second Supplemental Indenture between NSTAR Electric Company, as successor to WMECO, and The Bank of New York, as Trustee dated as of September 1, 2004 (Exhibit 4.1, WMECO Current Report on Form 8-K filed September 27, 2004, File No. 000-07624)

4.3.2 Fourth Supplemental Indenture between NSTAR Electric Company, as successor to WMECO, and The Bank of New York Trust, as Trustee, dated as of August 1, 2007 (Exhibit 4.1, WMECO Current Report on Form 8-K filed August 20, 2007, File No. 000-07624)

4.3.3 Fifth Supplemental Indenture between NSTAR Electric Company, as successor to WMECO, and The Bank of New York Trust Company, N.A., as Trustee, dated as of March 1, 2010 (WMECO Current Report on Form 8-K filed March 10, 2010, File No. 000-07624)

4.3.4 Sixth Supplemental Indenture between NSTAR Electric Company, as successor to WMECO, and The Bank of New York Trust Company, N.A., as Trustee, dated as of September 15, 2011 (Exhibit 4.1, WMECO Current Report on Form 8-K filed September 19, 2011, File No. 000-07624)

4.3.5 Seventh Supplemental Indenture between NSTAR Electric Company, as successor to WMECO, and The Bank of New York Trust Company, N.A., as Trustee, dated as of November 1, 2013 (Exhibit 4.1, WMECO Current Report on Form 8-K filed November 21, 2013, File No. 000-07624)

4.3.6 Eighth Supplemental Indenture between NSTAR Electric Company, as successor to WMECO, and The Bank of New York Trust Company, N.A., as Trustee, dated as of June 1, 2016 (Exhibit 4.1, WMECO Current Report on Form 8-K filed June 29, 2016, File No. 000-07624)

(D) Public Service Company of New Hampshire

4.1 First Mortgage Indenture between PSNH and First Fidelity Bank, National Association, New Jersey, now First Union National Bank, Trustee, dated as of August 15, 1978 (Composite including all amendments effective June 1, 2011) (included as Exhibit C to the Eighteenth Supplemental Indenture filed as Exhibit 4.1 to PSNH Current Report on Form 8-K filed June 2, 2011, File No. 001-06392)

4.1.1 Fourteenth Supplemental Indenture between PSNH and Wachovia Bank, National Association successor to First Union National Bank, as successor to First Fidelity Bank, National Association, as Trustee dated as of October 1, 2005 (Exhibit 99.2, PSNH Current Report on Form 8-K filed October 6, 2005, File No. 001-06392)

4.1.2 Sixteenth Supplemental Indenture between PSNH and U.S. Bank National Association, Trustee, dated as of May 1, 2008 (Exhibit 4.1 to PSNH Current Report on Form 8-K filed May 29, 2008 (File No.001-06392))

4.1.3 Seventeenth Supplemental Indenture, between PSNH and U.S. Bank National Association, as Trustee dated as of December 1, 2009 (Exhibit 4.1, PSNH Current Report on Form 8-K filed December 15, 2009 (File No. 001-06392))

4.1.4 Eighteenth Supplemental Indenture, between PSNH and U.S. Bank National Association, as Trustee dated as of May 1, 2011 (Exhibit 4.1, PSNH Current Report on Form 8-K filed June 2, 2011 (File No. 001-06392))

4.1.5 Nineteenth Supplemental Indenture, between PSNH and U.S. Bank National Association, as Trustee dated as of September 1, 2011 (Exhibit 4.1, PSNH Current Report on Form 8-K filed September 16, 2011 (File No. 001-06392))

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4.1.6 Twentieth Supplemental Indenture, between PSNH and U.S. Bank National Association, as Trustee dated as of November 1, 2013 (Exhibit 4.1, PSNH Current Report on Form 8-K filed November 20, 2013 (File No. 001-06392))

4.1.7 Twenty-first Supplemental Indenture, between PSNH and U.S. Bank National Association, as Trustee dated as of October 1, 2014 (Exhibit 4.1, PSNH Current Report on Form 8-K filed October 17, 2014 (File No. 001-06392))

4.2 Series A Loan and Trust Agreement among Business Finance Authority of the State of New Hampshire and PSNH and State Street Bank and Trust Company, as Trustee (Tax Exempt Pollution Control Bonds) dated as of October 1, 2001 (Exhibit 4.3.4, 2001 Eversource Energy Form 10-K filed March 22, 2002, File No. 001-05324)

(F)Eversource Energy, The Connecticut Light and Power Company and Public Service Company of New Hampshire

* 4.1 Amended and Restated Credit Agreement, dated December 8, 2017, by and among Eversource Energy, CL&P, NSTAR Gas, PSNH and Yankee Gas Services Company and the Banks named therein, pursuant to which Bank of America, N.A. serves as Administrative Agent

10. Material Contracts

(A) Eversource Energy

* 10.1 Lease between The Rocky River Realty Company and Eversource Energy Service Company, dated as of July 1, 2008

+ 10.2 Eversource Energy Board of Trustees' Compensation Arrangement Summary (Exhibit 10.3, 2016 Eversource Energy Form 10-K filed February 23, 2017, File No. 001-05324)

+ 10.3 Amended and Restated Memorandum Agreement between Eversource Energy and Leon J. Olivier effective January 1, 2009 (Exhibit 10.9, 2008 Eversource Energy Form 10-K filed February 27, 2009, File No. 001-05324)

+ 10.4 Eversource Supplemental Executive Retirement Program effective as of January 1, 2015 (Exhibit 10.5, 2015 Eversource Energy Form 10-K filed February 26, 2016, File No. 001-05324)

+ 10.5 Eversource Energy Deferred Compensation Plan for Executives effective as of January 1, 2014 (Exhibit 10.6, 2015 Eversource Energy Form 10-K filed February 26, 2016, File No. 001-05324)

10.6 Composite Transmission Service Agreement, by and between Northern Pass Transmission LLC, as Owner and H.Q. Hydro Renewable Energy, Inc., as Purchaser dated October 4, 2010 and effective February 14, 2014 (Exhibit 10.5, 2013 Eversource Energy Form 10-K filed on February 25, 2014, File No. 001-05324)

+ 10.7 NSTAR Excess Benefit Plan, effective August 25, 1999 (Exhibit 10.1 1999 NSTAR Form 10-K/A filed September 29, 2000, File No. 001-14768)

+ 10.7.1 NSTAR Excess Benefit Plan, incorporating the NSTAR 409A Excess Benefit Plan, as amended and restated effective January 1, 2008, dated December 24, 2008 (Exhibit 10.1.1 2008 NSTAR Form 10-K filed February 9, 2009, File No. 001-14768)

+ 10.8 NSTAR 2007 Long Term Incentive Plan, effective May 3, 2007 (Exhibit 10.2, Eversource Energy Registration Statement on Form S-8 filed on May 8, 2012)

+ 10.8.1 Deferred Common Share/Dividend Equivalent Award, Stock Option Grant, Option Certificate and Performance Share Award/Dividend Equivalent Award Agreement Under the NSTAR 2007 Long Term Incentive Plan, by and between NSTAR and James J. Judge, dated January 24, 2008 (Exhibit 10.8.2, 2007 NSTAR Form 10-K filed February 11, 2008, File No. 001-14768)

+ 10.8.2 Deferred Common Share/Dividend Equivalent Award, Stock Option Grant, Option Certificate and Performance Share Award/Dividend Equivalent Award Agreement Under the NSTAR 2007 Long Term Incentive Plan, by and between NSTAR and Joseph R. Nolan, dated January 24, 2008 (Exhibit 10.8.4, 2007 NSTAR Form 10-K filed February 11, 2008, File No. 001-14768)

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+ 10.8.3 Deferred Common Share/Dividend Equivalent Award, Stock Option Grant, Option Certificate and Performance Share Award/Dividend Equivalent Award Agreement Under the NSTAR 2007 Long Term Incentive Plan, by and between NSTAR and Werner J. Schweiger, dated January 24, 2008 (Exhibit 10.8.5, 2007 NSTAR Form 10-K filed February 11, 2008, File No. 001-14768)

+ 10.8.4 Deferred Common Share/Dividend Equivalent Award, Stock Option Grant, Option Certificate and Performance Share Award/Dividend Equivalent Award Agreement Under the NSTAR 2007 Long Term Incentive Plan by and between NSTAR and NSTAR's other Senior Vice Presidents and Vice Presidents, dated January 24, 2008 (in form) (Exhibit 10.8.6, 2007 NSTAR Form 10-K filed February 11, 2008, File No. 001-14768)

+ 10.9 Amended and Restated Change in Control Agreement by and between James J. Judge and NSTAR, dated November 15, 2007 (Exhibit 10.9, 2007 NSTAR Form 10-K filed February 11, 2008, File No. 001-14768)

+ 10.10 Amended and Restated Change in Control Agreement by and between Joseph R. Nolan, Jr. and NSTAR, dated November 15, 2007 (Exhibit 10.13, 2007 NSTAR Form 10-K filed February 11, 2008, File No. 001-14768)

+ 10.11 Amended and Restated Change in Control Agreement by and between Werner J. Schweiger and NSTAR, dated November 15, 2007 (Exhibit 10.14, 2007 NSTAR Form 10-K filed February 11, 2008, File No. 001-14768)

+ 10.12 Amended and Restated Change in Control Agreement by and between Senior Vice President and NSTAR, dated November 15, 2007 (Exhibit 10.15, 2007 NSTAR Form 10-K filed February 11, 2008, File No. 001-14768)

+ 10.13 Master Trust Agreement between NSTAR and State Street Bank and Trust Company (Rabbi Trust), effective August 25, 1999 (Exhibit 10.5, NSTAR Form 10-Q for the Quarter Ended September 30, 2000 filed November 14, 2000, File No. 001-14768)

+ 10.14 Currently effective Change in Control Agreement between NSTAR's Vice Presidents and NSTAR (in form) (Exhibit 10.17, 2009 NSTAR Form 10-K filed February 25, 2010, File No. 001-14768)

(B) Eversource Energy, The Connecticut Light and Power Company, NSTAR Electric Company and Public Service Company of New Hampshire

10.1 Amended and Restated Form of Service Contract between each of Eversource Energy, CL&P, NSTAR Electric Company and Eversource Energy Service Company dated as of January 1, 2014. (Exhibit 10.1, Eversource Energy Form 10-K filed on February 25, 2014, File No. 001-05324)

10.2 Transmission Operating Agreement between the Initial Participating Transmission Owners, Additional Participating Transmission Owners and ISO New England, Inc. dated as of February 1, 2005 (Exhibit 10.29, 2004 Eversource Energy Form 10-K filed March 17, 2005, File No. 001-05324)

10.2.1 Rate Design and Funds Disbursement Agreement among the Initial Participating Transmission Owners, Additional Participating Transmission Owners and ISO New England, Inc., effective June 30, 2006 (Exhibit 10.22.1, 2006 Eversource Energy Form 10-K filed March 1, 2007, File No. 001-05324)

10.3 Eversource Energy's Third Amended and Restated Tax Allocation Agreement dated as of April 10, 2012, (Exhibit 10.1 Eversource Energy Form 10-Q for Quarter Ended June 30, 2012 filed August 7, 2012, File No. 001-05324)

+ 10.4 Amended and Restated Incentive Plan Effective January 1, 2009 (Exhibit 10.3, Eversource Energy Form 10-Q for the Quarter Ended September 30, 2008 filed November 10, 2008, File No. 001-05324)

+ 10.5 Trust under Supplemental Executive Retirement Plan dated May 2, 1994 (Exhibit 10.33, 2002 Eversource Energy Form 10-K filed March 21, 2003, File No. 001-05324)

+ 10.5.1 First Amendment to Trust Under Supplemental Executive Retirement Plan, effective as of December 10, 2002 (Exhibit 10 (B) 10.19.1, 2003 Eversource Energy Form 10-K filed March 12, 2004, File No. 001-05324)

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+ 10.5.2 Second Amendment to Trust Under Supplemental Executive Retirement Plan, effective as of November 12, 2008 (Exhibit 10.12.2, 2008 Eversource Energy Form 10-K filed February 27, 2009, File No. 001-05324)

+ 10.6 Special Severance Program for Officers of Eversource Energy Companies as of January 1, 2009 (Exhibit 10.2 Eversource Energy Form 10-Q for Quarter Ended September 30, 2008 filed November 10, 2008, File No. 001-05324)

+ 10.7 Amended and Restated Employment Agreement with Gregory B. Butler, effective January 1, 2009 (Exhibit 10.7, 2008 Eversource Energy 2010 Form 10-K filed February 27, 2009, File No. 001-05324)

(C) Eversource Energy, The Connecticut Light and Power Company, Public Service Company of New Hampshire and NSTAR Electric Company

10.1 Agreements among New England Utilities with respect to the Hydro-Quebec interconnection projects

* 10.1.1 Composite conformed copy of Equity Funding Agreement for New England Hydro-Transmission Electric Company, Inc., dated as of June 1, 1985 (Massachusetts)

* 10.1.2 Composite conformed copy of Equity Funding Agreement for New England Hydro-Transmission Electric Company, Inc., dated as of June 1, 1985 (New Hampshire)

* 10.1.3 Composite conformed copy of Phase II Massachusetts Transmission Facilities Support Agreement, dated as of June 1, 1985

* 10.1.4 Composite conformed copy of Phase II New England Power AC Facilities Support Agreement dated June 1, 1985

* 10.1.5 Composite conformed copy of Phase II New Hampshire Transmission Facilities Support Agreement dated as of June 1, 1985

10.2 Eversource Energy Service Company Transmission and Ancillary Service Wholesale Revenue Allocation Methodology among The Connecticut Light and Power Company, NSTAR Electric Company, Public Service Company of New Hampshire, Holyoke Water Power Company and Holyoke Power and Electric Company Trustee dated as of January 1, 2008 (Exhibit 10.1, Eversource Energy Form 10-Q for the Quarter Ended March 31, 2008 filed May 9, 2008, File No. 001-05324)

(D) Eversource Energy and The Connecticut Light and Power Company

10.1 CL&P Agreement Re: Connecticut NEEWS Projects by and between CL&P and The United Illuminating Company dated July 14, 2010 (Exhibit 10, CL&P Form 10-Q for the Quarter Ended June 30, 2010 filed August 6, 2010, File No. 000-00404)

(E) Eversource Energy and Public Service Company of New Hampshire

* 10.1 Purchase and Sale Agreement between Public Service Company of New Hampshire and Granite Shore Power LLC, dated as of October 11, 2017

* 10.2 Purchase and Sale Agreement between Public Service Company of New Hampshire and HSE Hydro NH AC, LLC dated as of October 11, 2017

* 12. Ratio of Earnings to Fixed Charges

(A) Eversource Energy

(B) The Connecticut Light and Power Company

(C) NSTAR Electric Company

(D) Public Service Company of New Hampshire

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- * 21. Subsidiaries of the Registrant
- * 23. Consents of Independent Registered Public Accounting Firm
- * 31. Rule 13a - 14(a)/15 d - 14(a) Certifications

(A)Eversource Energy

31 Certification by the Chief Executive Officer of Eversource Energy pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.1 Certification by the Chief Financial Officer of Eversource Energy pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

(B)The Connecticut Light and Power Company

31 Certification by the Chairman of CL&P pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.1 Certification by the Chief Financial Officer of CL&P pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

(C)NSTAR Electric Company

31 Certification by the Chairman of NSTAR Electric Company pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.1 Certification by the Chief Financial Officer of NSTAR Electric Company pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

(D)Public Service Company of New Hampshire

31 Certification by the Chairman of PSNH pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.1 Certification by the Chief Financial Officer of PSNH pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

*32 18 U.S.C. Section 1350 Certifications

(A)Eversource Energy

32 Certification by the Chief Executive Officer and Chief Financial Officer of Eversource Energy pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(B)The Connecticut Light and Power Company

32 Certification by the Chairman and the Chief Financial Officer of CL&P pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(C)NSTAR Electric Company

Certification by the Chairman and the Chief Financial Officer of NSTAR Electric Company pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(D)Public Service Company of New Hampshire

³²Certification by the Chairman and the Chief Financial Officer of PSNH pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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*101.INSXBRL Instance Document

*101.SCHXBRL Taxonomy Extension Schema

*101.CALXBRL Taxonomy Extension Calculation

*101.DEFBRL Taxonomy Extension Definition

*101.LABXBRL Taxonomy Extension Labels

*101.PREXBRL Taxonomy Extension Presentation

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